



# INTEGRATED REPORT 2021

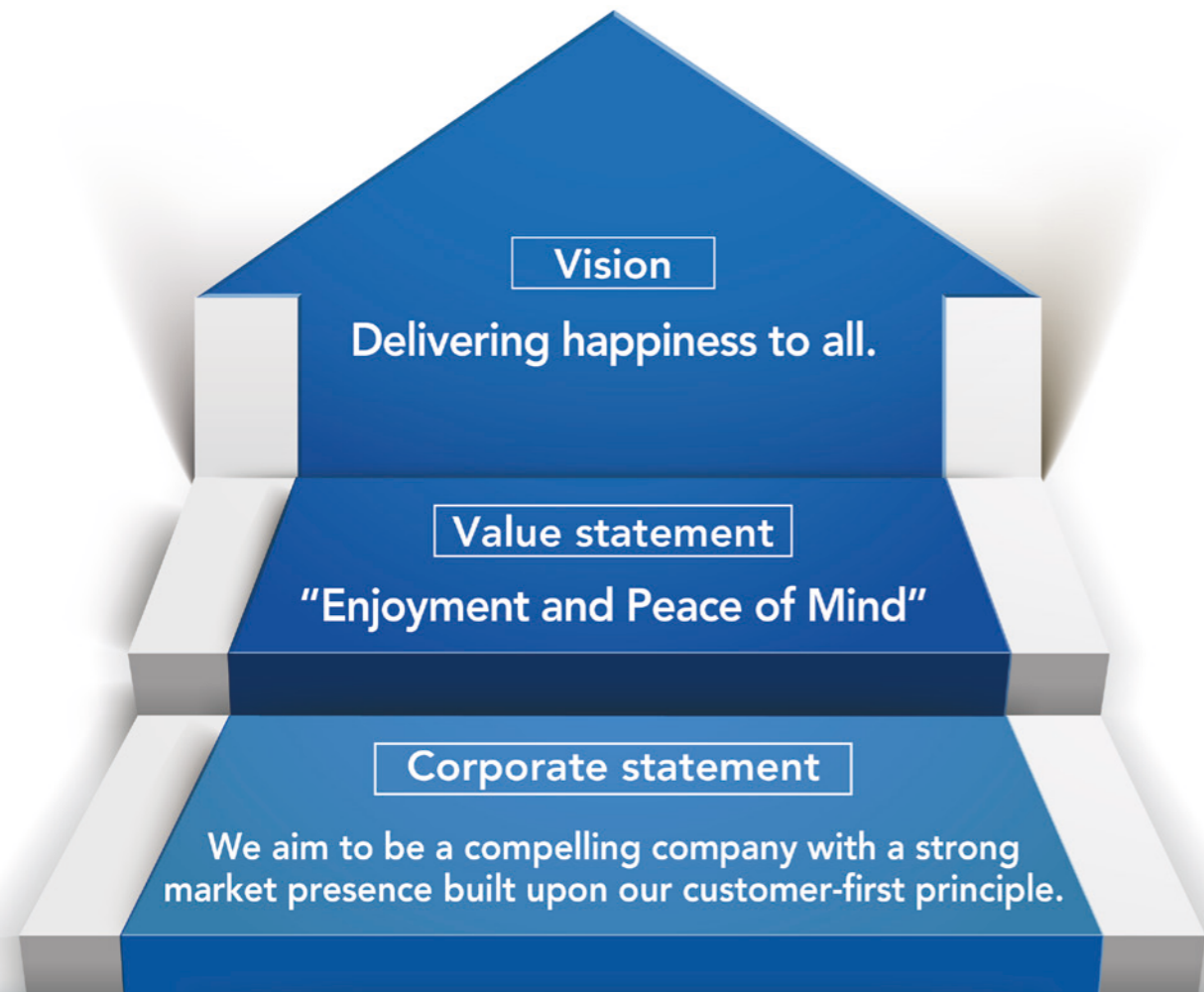


## INTRODUCTION

# Pursuing our Goal of “Delivering Happiness to All”

The Subaru Group, by no means a large automaker, is implementing a business model centered on selection and concentration of limited management resources, creating added value, and pursuing uncompromising differentiation. That has led our customers and dealers to say that Subaru is a “different kind of brand.” As we prioritize our customers, who have made Subaru a brand unlike any other, we are tasked with continuing to evolve the Subaru Difference, unwavering even as the eras and environments change. We are also tasked with offering our customers Enjoyment and Peace of Mind, and delivering happiness. Our goal of becoming a company “delivering happiness to all” is something that we have learned from the behavior of our customers. We will continue to pursue our goal of delivering happiness to people, society, and even Earth.





#### On Publication

The Subaru Group is striving to realize a sustainable society by evolving our delivered value of Enjoyment and Peace of Mind, in seeking to achieve our vision of becoming a company “delivering happiness to all.” In order for shareholders, investors, and other stakeholders to better understand our unchanging values, strengths, and business models that underlie these initiatives, we are working to enhance our integrated disclosure of financial and non-financial information.

In FYE March 2021, we re-organized our traditional structure of an Annual Report and CSR Report to create a new information disclosure system with the *Integrated Report 2021* at its core, plus the *Sustainability Report 2021* and the Sustainability website. In the *Integrated Report 2021*, we have summarized the progress and future direction of our initiatives, including our mid-term management vision “STEP” and the Six Priority Areas for CSR, with a focus on the value creation diagram that visualizes the initiatives above. We will utilize this report as one of our tools for communicating with stakeholders, further enhancing our disclosure going forward.

#### Disclaimer Regarding Forward-Looking Statements

Statements herein regarding plans, strategies, and other information that are not historical facts are assumptions, judgments and forecasts based on information available at the time of creation, and are subject to various risks and uncertainties. Actual results may differ materially from these statements due to changes in economic conditions surrounding the Company and its Group companies, fluctuations in demand and exchange rates, and other factors. Final investment decisions shall be made by investors themselves based on their own judgment and responsibility in light of the above factors. Please note that the parties providing the information in this document regarding the Company and its Group shall not be liable for any loss or damage incurred as a result of investment based on the information contained in this document.

#### Scope of Reporting

SUBARU CORPORATION

\* In this report, the “Subaru Group” and “the Group” refer to the Subaru Group; “Subaru” or “the Company” refers to Subaru Corporation; “affiliated companies (affiliates)” refers to Subaru’s subsidiaries in Japan and overseas, including dealerships in the Automotive Business; and “group companies” refers to Subaru’s subsidiaries in Japan, excluding dealerships in the Automotive Business.

#### Reporting Period

April 1, 2020–March 31, 2021

\* Some information provided may be from outside the reporting period.

\* The departments, titles, etc. of the people introduced in this report are as of the time of writing.

#### Guidelines Referenced

Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation, Ministry of Economy, Trade and Industry  
International Integrated Reporting Framework, The International Integrated Reporting Council (IIRC)

## Contents

### Value Creation Story

- 04 Subaru’s History of Value Creation
- 06 At a Glance
- 08 Message from the CEO  
Subaru’s Value Creation Story, Told by the President
- 14 Value Creation Process

### Commentary on Strategy

- 16 Our Evolving Mid-term Management Vision
- 18 Mid-term Management Vision “STEP”: Overview
- 20 Mid-term Management Vision “STEP”:  
Six Priority Areas for CSR

22 Activities in the Six Priority Areas for CSR in Relation to SDGs

24 The Subaru Difference

26 Corporate Culture Reforms

28 Quality Enhancement

30 Evolution of the Subaru Difference

34 Feature – Carrying on Subaru’s Unique Value and Total Innovation

36 Message from the CFO  
–Financial and Capital Strategies–

38 Risk Management

40 Business Overview

### Mechanisms Supporting Value Creation

- 46 Environment
- 50 Safe, Quality Cars
- 53 CSR Procurement
- 55 Human Resources
- 60 Health and Safety
- 62 Compliance
- 64 Information Security
- 65 Intellectual Property Protection Initiatives
- 66 Directors, Auditors, and Executive Officers
- 68 Corporate Governance
- 80 Messages from the Independent Outside Directors

### Corporate Data

- 82 Consolidated Ten-year Financial Summary
- 84 Five-year Unit Sales
- 86 Financial Review
- 88 Global Network
- 89 History of the Subaru Group
- 90 Subaru Models through the Years
- 91 Corporate Information

## Information Disclosure System

### Business and Financial Information

### Sustainability Information

#### Integrated Report

To provide consolidated key information on the Subaru Group and share our value creation story with a wide range of stakeholders, including shareholders and investors, we aim to communicate in an easy-to-understand manner for all of our stakeholders.

<https://www.subaru.co.jp/en/ir/library/annual-reports.html>

#### Annual Securities Report (Japanese version only)

<https://www.subaru.co.jp/en/ir/library/results.html>

#### Corporate Governance Guidelines/ Corporate Governance Reports (Japanese version only)

<https://www.subaru.co.jp/en/outline/governance.html>

#### Investor Relations Information Website Investor Relations Information

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

#### Sustainability Report

This is a comprehensive report on sustainability information from the aspects of the environment, society, and governance.

<https://www.subaru.co.jp/en/csr/report/>

#### Sustainability·CSR Website

<https://www.subaru.co.jp/en/csr/>

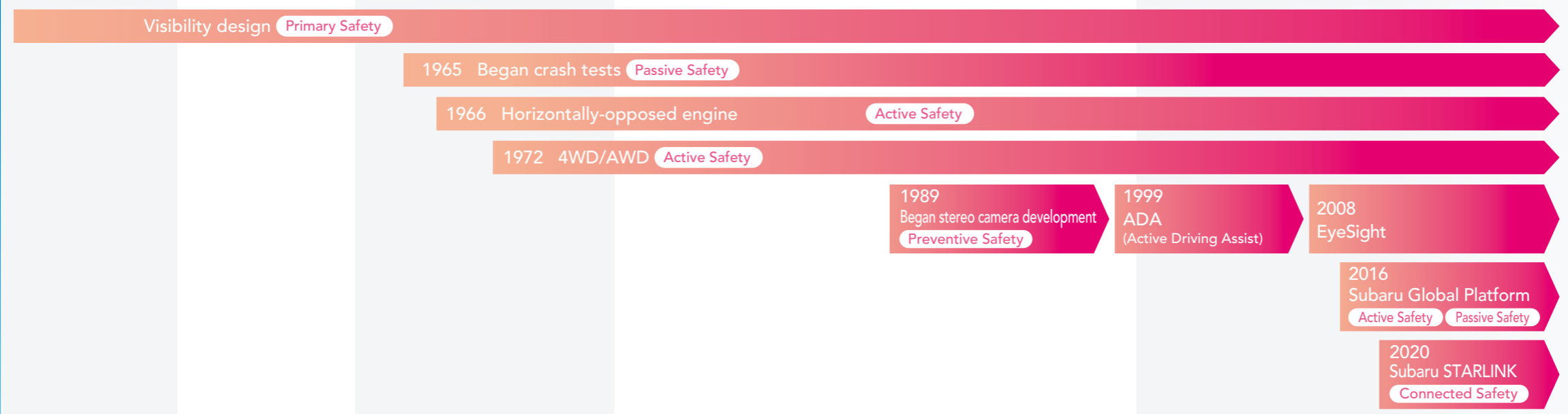
# Subaru's History of Value Creation

We have always been ahead of the curve in using products exemplifying the Subaru Difference to respond to customer needs based in the context of the times. This has created strong ties with our customers. In particular, we believe that the driver's universal value of safety is an unshakable strength felt by our customers in our continuous refinement of all kinds of technologies.

Period	To 1950	1950s	1960s and 1970s	1980s	and 1990s	Since 2000
Customer needs based in historical context		<ul style="list-style-type: none"> <li>• Postwar reconstruction</li> <li>• National Car Concept</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid economic growth</li> <li>• Motorization</li> </ul>	<ul style="list-style-type: none"> <li>• Leisure (skiing) boom</li> </ul>	<ul style="list-style-type: none"> <li>• Motorsports boom</li> </ul>	<ul style="list-style-type: none"> <li>• The 2008 'Lehman shock' economic downturn</li> <li>• Increasing safety awareness</li> <li>• Increasing environmental awareness</li> </ul>
Subaru's value provided through car manufacturing						
Technology embodying our safety concept						
Products						

Category	To 1950	1950s	1960s and 1970s	1980s	and 1990s	Since 2000
Mobility						
Safety performance						
Technology embodying our safety concept						
Products						



Note: The information above is mainly about the Japanese market.

<p><b>Pre-Subaru Aircraft</b></p>	<p><b>1958 Subaru 360</b></p>	<p><b>1966 Subaru 1000</b></p>	<p><b>1972 Leone 4WD Estate Van</b></p>	<p><b>1989 Legacy</b></p>	<p><b>1988 Established Subaru Tecnica International Inc.</b></p>	<p><b>1992 Impreza</b></p>	<p><b>1995 Grand Wagon</b></p>	<p><b>1997 Forester</b></p>	<p><b>1997 Three-time World Rally Championship (WRC) winner</b></p>	<p><b>2012 SUBARU XV</b></p>	<p><b>2012 SUBARU BRZ</b></p>	<p><b>2014 Levorg</b></p>	<p><b>From 2008 Participated in the Nürburgring 24-hour race</b></p>
-----------------------------------	-------------------------------	--------------------------------	---	---------------------------	--	----------------------------	--------------------------------	-----------------------------	---	------------------------------	-------------------------------	---------------------------	--



## At a Glance

## Basic Corporate Data

<b>Founded</b> Chikuhei Nakajima establishes Aircraft Research Laboratory <b>1917</b>	<b>Business Segments</b> <b>2 Segments</b> (Automotive and Aerospace)	<b>Consolidated Performance**</b> Unit sales <b>860 thousand units</b> <hr/> Revenue <b>2,830.2 billion yen</b> <hr/> Operating Profit <b>102.5 billion yen</b>
<b>Established</b> Establishment of Fuji Heavy Industries Ltd. <b>1953</b>	<b>Production Sites</b> <b>Automotive 2 operating locations</b> (Gunma (Japan), Indiana (U.S.)) <b>Aerospace 2 operating locations</b> (Tochigi, Aichi (Japan))	<b>Number of Employees (consolidated)**</b> <b>36,070</b>
<b>Company Name Change</b> Birth of Subaru Corporation <b>2017</b>	<b>Affiliated Companies**</b> <b>95</b>	<b>Industry Share**</b> Automotive Industry Share <b>Approx. 1%</b>
<b>Capital Stock**</b> <b>153.8 billion yen</b>	<b>Automobile Sales Network**</b> <b>442 locations in Japan</b> Plus locations in more than <b>90 countries and regions</b>	

\*1 Figures for FYE March 2021

\*2 As of April 1, 2021

\*3 For 2020 (calendar year)

\*4 Based on sales data from 2018 to 2020 (calendar years). Excludes OEM vehicles from other companies.

## Our Target Direction

<b>Solid Financial Base</b> Ratio of equity attributable to owners of parent <b>52.1%</b>	<b>Issuer Rating</b> <b>A-</b> (Rating and Investment Information, Inc.) As of October 8, 2020	<b>Industry-leading Profit Margin</b> Operating margin** <b>3.6%</b>
---	---	--

## The Subaru Group's Unique Business Model

Automotive Segment		
Selection and Concentration		
<b>Important Market**</b> U.S. Market Share <b>4.2%</b>	<b>Models on Market</b> <b>10 Models</b> (Excluding OEM vehicles)	<b>Automobile Category**</b> SUV sales ratio <b>Approx. 80%</b> Retail sales
Differentiation		
<b>Production and development of up to</b> <b>9 models from</b> <b>1 platform</b>	<b>98% AWD vehicles**</b> Cumulative production: <b>20 million units</b>	
Added Value		
<b>All-Around Safety</b> Primary Safety Active Safety Preventive Safety Passive Safety Connected Safety	<b>Core Technologies</b> Subaru Global Platform Symmetrical AWD Horizontally-Opposed Engine EyeSight Driver Assist System	

\* See Subaru's All-Around Safety on P. 42 for details.

\* See Subaru's Core Technologies on P. 43 for details.

## Market Evaluation of Subaru

<b>2020-2021 Car of the Year Japan Recipient</b> <b>Levorg</b>	<b>JNCAP Maximum Five Star Vehicle Safety Performance 2020 Award Recipient</b> <b>Levorg</b>
---	---

## Toward Realizing a Sustainable Society

Achieve a goal of zero fatal traffic accidents\*<sup>5</sup> by 2030

Make at least 40% of Subaru global sales electric vehicles (EVs) or hybrid electric vehicles (HEVs) by 2030

Apply electrification technologies to all Subaru vehicles\*<sup>6</sup> produced and sold worldwide by the first half of the 2030s

On a well-to-wheel\*<sup>7</sup> basis, we will pursue our goal of reducing the average CO<sub>2</sub> emissions from new passenger cars by at least 90%\*<sup>8</sup> by 2050, compared with 2010

Reduce direct emissions of CO<sub>2</sub> by 30% from FYE March 2017 levels by FYE March 2031 (aggregate amount basis)

Target carbon neutrality by FYE March 2051\*<sup>9</sup>

\*5 Zero fatal road accidents among occupants of Subaru vehicles and people who collided with Subaru vehicles including pedestrians and cyclists.

\*6 Excluding models supplied by OEMs.

\*7 Well-to-Wheel: Approach to calculating CO<sub>2</sub> emissions including the emissions produced by the generation of electricity to be used by EVs and other vehicles.\*8 Reduce total CO<sub>2</sub> emissions calculated based on the fuel efficiency (notified value) of all Subaru automobiles sold across the world by 90% or more relative to the 2010 levels in 2050. Changes in the sales quantity due to changes in the market environment shall be taken into consideration, while minor changes in running distance shall not.\*9 Direct CO<sub>2</sub> emissions from Subaru Group plants and offices (Scopes 1 and 2).

## Message from the CEO



### Profile

Joined Subaru in 1982. After working in Japan Sales & Marketing Division, Global Marketing Division, and other units, he served as Vice President, Senior General Manager of Strategy Development Division, and Chief General Manager of Corporate Planning Division from 2011; Senior Vice President, Chief General Manager of Overseas Sales & Marketing Division 1, and Chairman and CEO of Subaru of America, Inc (SOA) from 2014; as well as Executive Vice President, Chief General Manager of Overseas Sales & Marketing Division 1, and Chairman and CEO of SOA from 2016. He has served as Representative Director of the Board, President and CEO since June 2018.

We will further evolve the Subaru Difference toward the achievement of an enjoyable and sustainable society and the sustainable growth of the Subaru Group.

Tomomi Nakamura

Representative Director of the Board, President and CEO

### A Three-Year Review

We have made steady progress in the priority initiatives of corporate culture reforms, quality enhancement, and the launch of the “Make-a-Subaru” initiative.

When I first assumed the position of President in 2018, my first tasks were to handle quality issues such as final vehicle inspections and major recalls. The mid-term management vision “STEP” (FYE March 2019 to FYE March 2026) we decided to formulate then came at a time when I was strongly aware of the issue that we lacked qualitative growth in our work practices, organization, and, including in our human resources despite the rapid quantitative growth over the preceding 10 years—in sales and in vehicles sold. Considering the rectification of this imbalance to be an urgent task, we then set corporate culture reforms, quality enhancement, and the launch of “Make-a-Subaru” as our priority reform initiatives, and have been putting firm efforts into these since.

After the announcement of “STEP,” I visited each plant and office and held dialogues with the employees there. What stayed with me from those dialogues is that everyone was listening to me with serious intent with eyes wide open and penetrating stares. After that, we launched steady efforts toward our various reforms under the slogan of “change mindset, change behavior, change the company.” For corporate culture reform, we broke free from top-down management and dogged adherence to precedent, and improved compliance mindsets. For quality enhancement, we pursued the thorough implementation of a “Quality-First” mindset and reinforcement of organizational efforts and structure, as well as “Execution Quality” enhancement and “Innate Quality” enhancement. In addition, we evolved the “Make-a-Subaru” initiative, reforming development processes for improving quality from upstream development stages, thereby evolving the Subaru Difference. Looking back over the past three years, I feel that employee mindsets have changed and that we have been making steady progress.

Then, in May 2021, three years after the announcement of the mid-term management vision “STEP” we presented a summary of our progress and reported on our future initiatives. While there are no major changes to our basic policy, we believe that it is necessary to further accelerate reforms in order for the Subaru Group to grow sustainably amid so-called “the greatest change of the century” in the external environment.

For corporate culture reforms, we don’t just want to have an open culture; we also actively invest in our future leadership talent so that each employee can experience growth and a sense of reward in their work, building an environment where people who reach a little higher will grow and succeed.

Our quality enhancement initiatives, which we’ve positioned as our top priority in “STEP,” are a critical foundation underpinning the Subaru brand. From hereon, we will continue our steady move forward motion so that we can show concrete results from our quality enhancement, including adapting to new technologies. This reformed quality serves as added value we can deliver to our customers.

For evolving the Subaru Difference, we will further evolve the technology that supports Enjoyment and Peace of Mind, contributing to zero fatal traffic accidents<sup>3</sup> and a carbon-free society, and we will strengthen the Subaru Difference even in the era of electrification.

In addition, under the mid-term management vision “STEP,” I believe that our CSR initiatives focused on the Six Priority Areas for CSR<sup>1</sup> have seen the most advancement in these past three years, in concert with our efforts to strengthen our organizational structure. In the U.S., where

I was assigned just before I became President, despite the cultural differences, the country enjoys deeply rooted diversity and volunteerism, and my ability to the fact that I was able to experience these has served me well here today.

Of the Six Priority Areas for CSR, we are particularly focusing on the areas of People-oriented Car Culture, Resonance and Coexistence, and Peace of Mind, each of which is an area where we can leverage Subaru's unique strengths and where society faces issues that we can help resolve through our business activities. In FYE March 2021, we have made steady progress in these areas such as by clarifying links with the SDGs that each of the Six Priority Areas for CSR contributes to. We will continue to improve the Subaru Difference as we continue to grow together with society.

\*1 The six areas of People-oriented Car Culture, Resonance and Coexistence, Peace of Mind, Diversity, Environment, Compliance.

### Subaru's Core Competencies

## We will enhance brand value with a distinctly different presence for our customers.

Our mid-term management vision "STEP" includes a vision for 2025; to "Become a brand that is 'different' from others by enhancing distinctiveness." This "difference," or "distinctiveness," means that Subaru has an appeal distinct from other companies, and that is what we in fact hear from our customers and dealerships.

If you consider the very root of Subaru's strengths, it comes down to one word: "safety." This is the DNA we have inherited from our history in aircraft manufacturing. Since aircraft carry the danger of crashes even from slight malfunctions, we have been rigorous in the pursuit of safety. We have been dogged in our vehicle crash tests even since before the days of passive safety standards, and today we live and breathe the concept of "further enhancing driving performance brings greater safety."

Unfortunately, there are as many as 3,000 fatal accidents each year in Japan. However, the number of those involving EyeSight-equipped Subarus has been declining every year. In Japan, the number of traffic fatalities which involved Subarus of the latest 5 model years (excluding mini vehicles) was three<sup>2</sup> in 2019.

In the future, we plan to accelerate the fusion of sensing technology and AI, improving safety in all situations. With this steady evolution, we have set an ambitious goal of zero fatal traffic accidents caused by Subaru vehicles in 2030<sup>3</sup>, and we are working sincerely toward this goal.

In this way, the safety, longevity, and capability that Subaru has pursued and evolved have firmly reached the hearts of our customers as "Enjoyment and Peace of Mind." I've often been told about our customer's experiences and lives: "my Subaru offers more peace of mind when driving around with friends and the people I love and care about" in terms of safety, and "I have built a lot of treasured memories with my Subaru because of how many years it has lasted and how close I've become to my Subaru." Even in social media posts, in the priority market of the U.S., we see a lot of posts featuring images and videos of Subaru vehicles with family members, friends, and pets in front of gorgeous backdrops.

There is also data showing that Subaru customers in the U.S. generally maintain high awareness toward society and the environment. Generally, eco-friendly cars are judged on aspects like fuel efficiency, exhaust gas, and vehicle size. But, beyond these attributes Subaru

customers are particular in that they judge vehicles on other aspects, saying our Subaru offers "utility," meaning they can do anything with just one car; "safety," meaning they have fewer accidents and don't create problems for society; and "reliability," meaning they are useful over long periods of time and do not lead to wasted resources.

In this way, through the value statement Enjoyment and Peace of Mind, we thoroughly pursue product values embodying the Subaru Difference, such as safety and longevity. Also, by enhancing the lifestyle, experience, and emotional connection that Subaru offers, we would like to further strengthen and constantly deepen our relationships with the customers feeling these sensations.



\*2 Calculated by Subaru based on ITARDA data. Among Subarus (excl. mini vehicles) newly registered as new cars in the preceding five years (incl. reference year).

\*3 Zero fatal road accidents among occupants of Subaru vehicles and people who collided with Subaru vehicles including pedestrians and cyclists.

### Toward Future Growth

## Even amid accelerating CASE<sup>4</sup> trends, we will bring the Subaru Difference to even greater prominence.

The automobile industry is said to be in a once-in-a-century period of revolutionary change. While we believe it is important to address CASE, such as through environmental consideration-driven evolution in automobile electrification technology, I feel that the direction we should aim for going forward is bringing the Subaru Difference to greater prominence in the hearts of our customers.

Here, on a re-examination of the Subaru Difference, I feel that difference is our ability to brainstorm what our customers think is important and to create new value distinct from others that has a deep relationship with our customer's lives. Even in changing eras, our aim to achieve human-oriented car-making remains unchanged. Subaru has an approximately 1% global market share in the automobile industry, and is developing a business strategy centered on "selection and concentration" rather than the omnidirectional strategies of other automobile manufacturers. Amid advances in CASE, we would like to promote joint development and open innovation to create cars that show off our strengths, rather than developing all new technologies on our own.

Regarding electrification and other actions to address the environment, in January 2020 we announced a roadmap for achieving carbon neutrality by 2050. In this roadmap, we plan to increase the share of electric and hybrid vehicles (EVs and HEVs) to at least 40% of total sales by 2030, and to apply electric powertrain technology to all Subaru vehicles sold worldwide by the first half of the 2030s. Though electrification will continue to progress, the importance of safety performance will be unchanged. In fact, we believe that our all-wheel drive (AWD) control technology can fully bring out performance in motors with higher responsiveness and demonstrate driving stability and enjoyment on a higher level. Our first step in this direction is the SOLTERRA C-segment SUV, jointly developed with Toyota Motor Corporation, which will be

launched by the middle of 2022 in countries and regions including Japan, the U.S., Europe, and China. The joint development of the SOLTERRA represents an even stronger shared passion and belief for creating better cars between ourselves and Toyota Motor Corporation following a series of strong achievements in our partnership.

In addition, in order to respond to drastic changes and maintain market competitiveness in the future, we are reviewing our development system and evolving into an organizational structure that can flexibly adapt to future technologies. Going forward, we will continue to bring out the Subaru Difference by pursuing safety performance including accident avoidance and driver assistance, as well as AWD performance and handling stability that meet customer driving expectations.

\*4 CASE: Connected, Autonomous, Shared & Services, Electric

### Corporate Governance Supporting Growth

## We have strengthened our corporate governance and other ESG initiatives for sustainable growth.

We recognize that ESG initiatives, such as enhancing corporate governance and strengthening risk management, are important as a foundation to support value creation with the goals of achieving sustainable growth and increasing corporate value over the medium- to long-term.

So far, we have promoted stronger enforcement of our Group governance system and taken steady steps forward in complying with the Corporate Governance Code. As a result of these efforts, we have welcomed our first female independent outside director as of FYE March 2021, and are making appropriate management decisions and conducting appropriate supervision with sound advice from three independent outside directors.

In addition, since changes in top management and successor selection may have a critical influence on corporate value, we formulated the CEO Succession Plan in FYE March 2021, creating a system enabling execution of top management change to the right successor at the optimal timing. Furthermore, we have established two sets of criteria: "Abilities required of the Subaru Group's CEO" and "Five key qualities required of the Subaru Group's CEO." These criteria serve as a guide for evaluating candidates for CEO in light of quality, competency, experience, track record, specialized expertise, personality and other factors, all of which have been discussed and decided on by the Board of Directors and the Executive Nomination Meeting. In the past, more than half of the members of the Executive Nomination Meeting and Executive Compensation Meeting have been outside directors. However, in order to further enhance fairness, transparency, and objectivity, we changed to a system whereby, as of FYE March 2022, these organizations are chaired by a director without representative rights. Going forward, we will continue to devote ample time and resources to strengthening governance, taking into account changes in the business environment and the future direction of our Group strategy.

In addition, in order for Subaru to continue to create unique value, it is also important to respect the human rights and individuality of each employee and promote diversity. We are steadily working to build a workplace environment where Subaru employees, diverse in individuality and values, can fully apply their unique talents. In particular, we were able to achieve our target ahead of schedule for increasing the number of female managers in 2019, the fruits of our efforts in the priority area of empowering female employees. With this success,

Subaru is further strengthening its efforts in this area by setting a new target to increase the number of female managers to at least double the 2021 level by 2025. Regarding respect for human rights, we formulated the Human Rights Policy in April 2020, and in FYE March 2021 we carried out human rights due diligence in the areas of procurement and personnel.

For risk management, the Chief Risk Management Officer (CRMO) appointed by the Board of Directors chairs the Risk Management and Compliance Committee, leading our risk management efforts.

In FYE March 2021, in order to carry out more sound risk management, we drafted a Risk Map summarizing priority issues for addressing issues from a Group-wide perspective, in consideration of the size of losses that could occur when such risks materialize. In addition, we had each department formulate its own Risk Management Code of Conduct, pressing them forward in Group-wide optimized risk management. Despite unexpected situations like the worldwide spread of COVID-19 and shortages of semiconductors, we believe that our daily risk management precautions, such as for business continuity plans (BCPs), have been functioning well. Going forward, we will continue to promote strategic risk management as an important management priority.

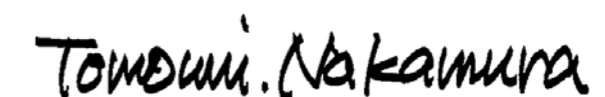
### Toward Our Vision

## Pursuing our Goal of "Delivering Happiness to All"

Through our "STEP" efforts, we've come to realize more clearly what we have to protect and keep developing further. While we have evolved the functional aspects of our vehicles, like safety and longevity, with "Enjoyment and Peace of Mind" as our value statement, we also believe that our customers are coming to recognize our emotional values in their hearts through the lifestyle, experience, and emotional connection that Subaru vehicles offer. This has led to the birth of a deep relationship between Subaru and our customers different from other brands, a relationship that has exceeded our expectations. This is something I recognize as truly our greatest asset, and something that we must strengthen further.

Our vision is "delivering happiness to all." Under our value statement "Enjoyment and Peace of Mind," we will continue our efforts to bring us closer to the lifestyles of our customers by having Subaru's functional value elevated to emotional value. Alongside our customers, we want to be a Subaru that delivers happiness to people, society, and even Earth by building an enjoyable, sustainable society.

We look forward to the continuing support of our stakeholders as we build the future of Subaru.



Tomomi Nakamura

Representative Director of the Board, President and CEO



# Value Creation Process

With its DNA as an aircraft manufacturer, SUBARU continues to practice human-oriented manufacturing, which places top priority on safety. By delivering Enjoyment and Peace of Mind, we seek to offer product value that embodies the Subaru difference, such as in safety and longevity. Our deep relationship with customers who appreciate that value is our greatest asset, as well as a competitive strength. To achieve our vision of becoming a company delivering happiness to all, every employee will be a growth driver as we further evolve Enjoyment and Peace of Mind to achieve both a sustainable society and our own sustainable growth.



Work style changes

Advancement of innovation in the auto industry

Climate change

Resource recycling

Social Issues

Traffic accidents

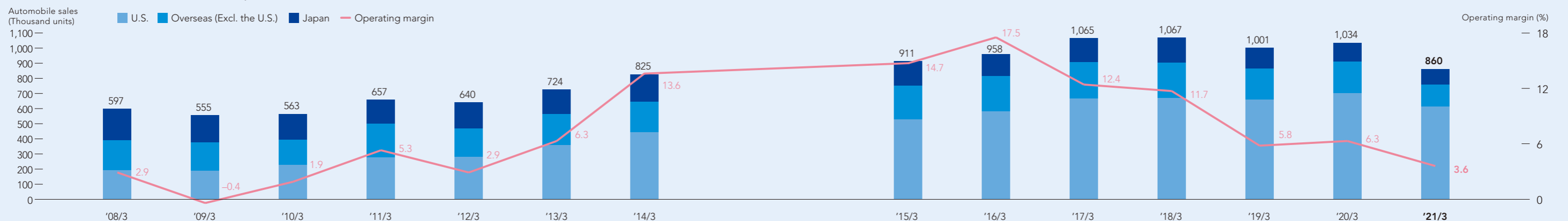
Respect for human rights

# Our Evolving Mid-term Management Vision

We aim to be a compelling company with a strong market presence built upon our customer-first principle. Under this corporate statement, we have worked to enhance the appeal of the Subaru brand by offering customers "Enjoyment and Peace of Mind." We will work to achieve our vision of "delivering happiness to all" by promoting our mid-term management vision "STEP."

<b>2007–2010</b> <b>Customer Satisfaction:</b> <b>Our Customers Are Everything</b> <small>At the time of announcement: Representative Director of the Board, President and CEO Ikuo Mori</small>	<b>2011–2013</b> <b>Motion-V</b> <small>At the time of announcement: Representative Director of the Board, President and CEO Yasuyuki Yoshinaga</small>	<b>2014–2017</b> <b>Prominence 2020</b> <small>At the time of announcement: Representative Director of the Board, President and CEO Yasuyuki Yoshinaga</small>	<b>2018–2025</b> <b>STEP</b> <small>Representative Director of the Board, President and CEO Tomomi Nakamura</small>
<p><b>Essential features</b></p> <p>With the philosophy of "customers come first" at its core, focusing on improving profitability and investing in growth areas with management resources</p> <p><b>Major challenges</b></p> <ol style="list-style-type: none"> <li>To provide a distinctive Subaru experience for drivers and passengers</li> <li>To increase sales globally (Most important market: U.S.)</li> <li>To strengthen competitiveness in quality and cost</li> <li>To also grow through the business alliance with Toyota</li> <li>To grow the level of employee competence and so enhance the organization</li> </ol> <p><b>Achievements</b></p> <ul style="list-style-type: none"> <li>Sharing the mindset of "customers come first" within the Group</li> <li>Globalization of products</li> <li>World's leading safety performance</li> <li>Expanding sales in U.S. (the most important market)</li> <li>Reform of profit structure by reducing costs</li> </ul> <p><b>Issues</b></p> <ul style="list-style-type: none"> <li>Lowering sensitivity to foreign currency fluctuations</li> <li>Increasing sale in emerging countries including China</li> <li>Developing environmental technology and products</li> <li>Autonomy of three internal companies*</li> <li>Flexibility to adapt to changes of business environment</li> </ul> <p><small>* Aerospace Company, Industrial Products Company, Eco Technologies Company</small></p>	<p><b>Management philosophy</b></p> <p>Aiming to be a compelling company with a strong market presence built upon its customer-first principle</p> <p><b>Five themes</b></p> <ol style="list-style-type: none"> <li>Guiding principle for all activities "Confidence in Motion" &lt;Promote the brand strategy&gt; "Provide value to customers and Enjoyment and Peace of Mind"</li> <li>With the basic philosophy of "customers come first," "Provide distinctive Subaru experience"</li> <li>Strengthen sales force and the availability of automotive supply, "Accelerate sales expansion"</li> <li>Overhaul of cost structure and promote alliance with Toyota, "Solidify operational foundation"</li> <li>Back up concrete approaches for business, "Improvement in Management"</li> </ol> <p><b>Achievements</b></p> <ul style="list-style-type: none"> <li>XUV/SUV strategy succeeded</li> <li>Boosted sales through U.S.-oriented product development</li> <li>Highly rated collision safety and EyeSight</li> <li>Cost reduction activities paid off</li> <li>Achieved low-incentive sales</li> <li>Achieved highly efficient production</li> </ul> <p><b>Issues</b></p> <ul style="list-style-type: none"> <li>Compliance with future environmental regulations</li> <li>Production capacity shortages</li> <li>Responding to the needs of new customers</li> <li>Sensitivity to currency fluctuations</li> </ul> <p><small>* The Motion-V mid-term management plan, originally intended to run from 2011 to 2015, was completed ahead of schedule in FYE March 2014. Prominence 2020, the new mid-term management vision, was launched in FYE March 2015.</small></p>	<p><b>Management philosophy</b></p> <p>Aiming to be a compelling company with a strong market presence built upon its customer-first principle</p> <p><b>Reason for formulation</b></p> <p>Pursue the goal of sustainable growth and development by boosting competitiveness and building a solid business platform at a new stage</p> <p><b>Vision for 2020</b></p> <p>Corporate vision Not big in size, but a high-quality company with distinctive strengths</p> <p>Specific goals</p> <ul style="list-style-type: none"> <li>No.1 for customer trust</li> <li>Strong brand</li> <li>Among the most profitable companies in the industry</li> <li>Vehicle sales of 1.1 million-plus units</li> </ul> <p><b>Direction for mid-term management vision</b></p> <p>Pursue added-value business → Enhancing the Subaru brand</p> <p>Increase tolerance to changes in the business environment → Building a strong business structure</p> <p><b>Achievement</b></p> <ul style="list-style-type: none"> <li>Among the most profitable companies in the industry</li> </ul> <p><b>Issues</b></p> <ul style="list-style-type: none"> <li>Strong brand</li> <li>Vehicle sales of 1.2 million-plus units</li> <li>No. 1 for customer trust</li> </ul>	<p><b>Corporate statement</b></p> <p>We aim to be a compelling company with a strong market presence built upon our customer-first principle</p> <p><b>STEP</b></p> <p>Speed Trust Engagement Peace of mind &amp; enjoyment</p> <p>Restoring trust by speedily advancing initiatives and by engaging and providing "Enjoyment and Peace of Mind" to customers</p> <p><b>Vision</b></p> <p>Delivering happiness to all</p> <p><b>Vision for 2025</b></p> <ol style="list-style-type: none"> <li>Become a brand that is "different" from others by enhancing distinctiveness.</li> <li>Engage in business activities that resonate with customers by putting them center-stage</li> <li>Fulfill corporate social responsibilities by contributing to diversifying social needs.</li> </ol> <p><b>Major challenges</b></p> <ul style="list-style-type: none"> <li>Corporate culture reforms</li> <li>Quality enhancement</li> <li>Evolution of the Subaru difference Revamp "Subaru-making" and respond to changes in the business environment</li> </ul> <p><small>* A progress report on "STEP" was made in May 2021, and content was partially updated.</small></p>

## Consolidated Automobile Unit Sales and Operating Margin



# Mid-term Management Vision "STEP": Overview

## Creating the Mid-Term Management Vision

In July of 2018, we formulated our mid-term management vision "STEP," with the goal of building trust and resonating with customers by providing "Enjoyment and Peace of Mind." Then, in May 2021, we reported on our progress so far.

<b>Background</b>	<ul style="list-style-type: none"> <li>Changes in the external environment</li> <li>Once-in-a-century changes in a mobility society</li> </ul>	<ul style="list-style-type: none"> <li>Strains from the company's rapid growth</li> <li>Lacking fundamental corporate strength</li> </ul>
<b>Intentions in developing the mid-term management vision</b>	<ul style="list-style-type: none"> <li>Restore trust by cultivating fundamental corporate strength as soon as possible.</li> <li>Stay true to the brand principle of providing "Enjoyment and Peace of Mind" to our customers.</li> <li>Make Subaru more than just a company that is trusted by, and resonates with, our customers.</li> </ul>	

## Concept and Timeline



"STEP" is an acronym formed from the initial letters of Speed, Trust, Engagement, and Peace of Mind and Enjoyment, which are four important elements of the vision. The letter "T" is emphasized in the logo as Subaru considers trust to be the most important element of all. The name also expresses the Company's determination to take "steady, strong steps" before a future jump over social changes.

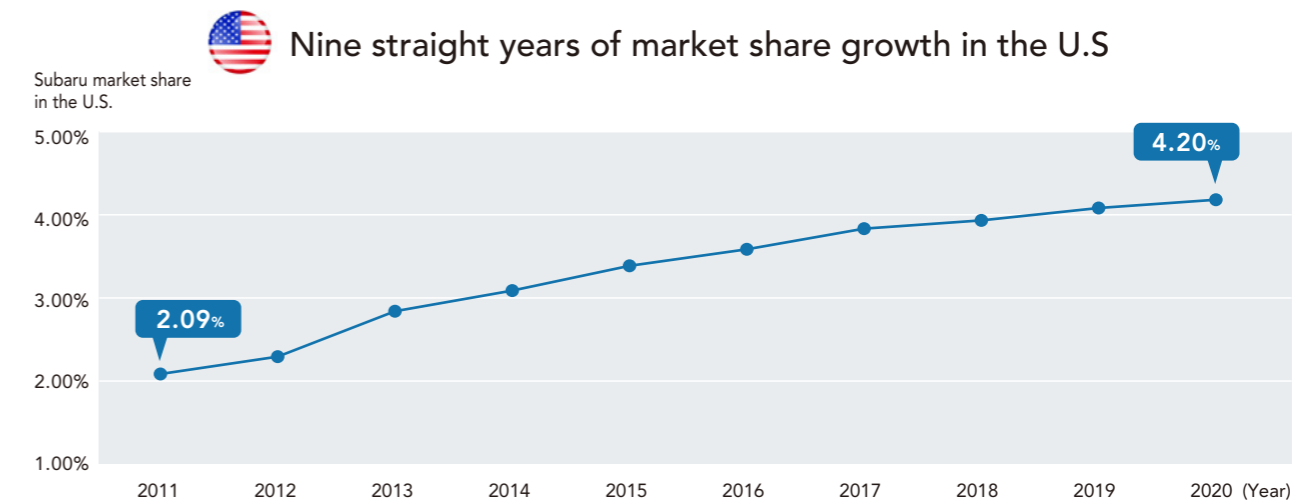
## Vision for 2025

- 1 Become a brand that is "different" from others by enhancing distinctiveness.
- 2 Engage in business activities that resonate with customers by putting them center-stage.
- 3 Fulfill corporate social responsibilities by contributing to diversifying social needs.

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

## Market Strategy

In 2020, our sales in each market declined due to the impact of the spread of COVID-19, but in the U.S., our key market, Subaru's market share reached a new record of 4.2%. We are making steady progress toward the "STEP" target of 5% market share in the U.S.



## Profit Direction and Capital Policy

- We aim to maintain and expand our market share by advancing our added-value business model. We will pursue a 5% market share in our key U.S. market.
- We aim for an industry-leading operating margin (8%).
- Capital expenditures and R&D expenditures will be steadily executed for initiatives aimed at enhancing the Subaru difference:
  - Next 3 years** Capital expenditures: 3.5%–4% of sales revenue (3.5%)\*
  - R&D expenditures: 120 billion yen level/year (107.7 billion yen/year)\*
  - \* Figures in parentheses show the average of results for FYE March 2019–FYE March 2021
- We aim for a ROE of at least 10% while ensuring net cash of two months' worth of revenue levels and a capital equity ratio of 50%.
- Our stance on shareholder returns remains unchanged.
  - Positioning dividends as the main form of return to shareholders with emphasis on stable, continuous returns. Based on the performance-linked approach, dividend payments will be determined considering the business performance of each fiscal year, investment plans, and the business environment. (Consolidated payout ratio: 30%–50%)
  - Conducting share repurchases flexibly in line with our cash flow.

### Capital Policy

ROE	At least 10% (target)	
Capital equity ratio	50% (minimum)	
Net cash	Two months' worth of revenue levels (minimum)	
Shareholder returns	Consolidated payout ratio	30%–50%
	Share repurchases	Conduct flexibly

# Mid-term Management Vision "STEP": Six Priority Areas for CSR

In mid-term management vision "STEP," which was developed in 2018, we at Subaru envision becoming a company "delivering happiness to all" To achieve this vision, we have adopted the "Six Priority Areas for CSR" and will promote initiatives based on the Subaru Global Sustainability Policy and to fulfill our corporate social responsibilities, thereby providing "Enjoyment and Peace of Mind" to our customers and other stakeholders. The Subaru Group aspires to be a truly global company with sustainable growth driven by each and every one of its employees, and to contribute to the realization of an enjoyable, sustainable society.

## Subaru Group's Six Priority Areas for CSR

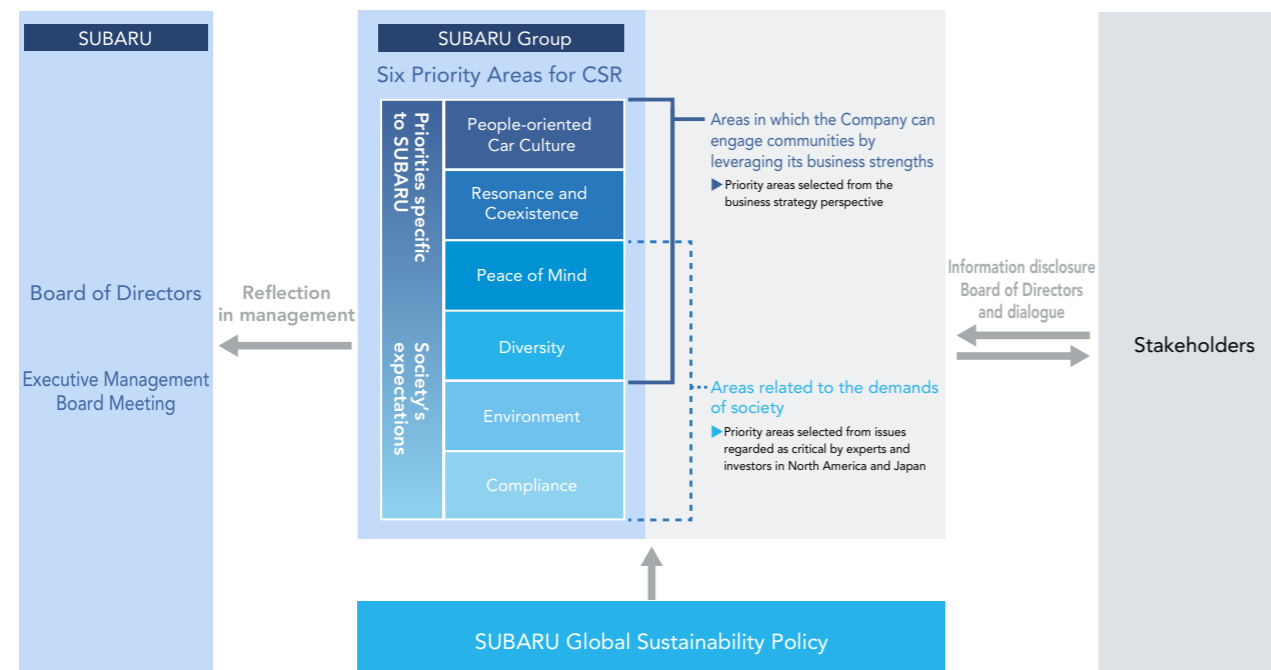
In accordance with Subaru's mid-term management vision "STEP," the Subaru Group established the Six Priority Areas for CSR: People-oriented Car Culture; Resonance and Coexistence; Peace of Mind; Diversity; Environment; and Compliance.

To select the priority areas, the Subaru Group first identified 41 CSR priority topics for which social needs were high and then conducted a questionnaire among experts and investors in North America and Japan. The responses and opinions we received were used in an assessment and exploration of these areas from two perspectives: areas in which we can engage the community by leveraging our business strengths, and areas related to the demands of society. As a result, the Subaru Group selected People-oriented Car Culture, Resonance and Coexistence, Peace of Mind, and Diversity as the four areas where Subaru could engage our communities by leveraging our business strengths, and Peace of Mind, Diversity, Environment, and Compliance as the four areas where the Subaru Group could work to meet the demands of society.

Peace of Mind and Diversity appear in both categories, because Peace of Mind is an area in which society's needs and the strengths of the Subaru Group's business coincide, while Diversity refers not only to diversity in the community, but also to diversity in a broad sense, including in the products that the SUBARU Group offers to customers.

In May 2021, Subaru announced its progress report for mid-term management vision "STEP." Its priority areas in this vision are fundamentally unchanged. Based on the SUBARU Global Sustainability Policy, Subaru will promote initiatives in the Six Priority Areas for CSR on a group-wide, global basis with the goal of becoming a company "delivering happiness to all."

### Reflecting Subaru Group's Six Priority Areas for CSR in Management



## SUBARU Global Sustainability Policy

Until recently, the Subaru Group promoted various initiatives in line with its CSR Policy, revised in June 2009. However, to cope with changes in the social environment and in relationships with our stakeholders, we established the "SUBARU Global Sustainability Policy" in April 2020 as a guideline to be shared by all Group employees on a global basis.

This Policy is applied to Subaru Corporation and all its subsidiaries.

### SUBARU Global Sustainability Policy

We, the Subaru Group, are committed to sustainable business practices designed to promote harmony between people, society and the environment in the following ways:

1. Through our business activities, we will contribute to the resolution of various social issues, including the protection of the global environment, and to the creation of a sustainable society.
2. Respecting the quality and originality of our products, we will continue to provide Subaru's unique value using advanced technologies, and enrich the lives of all those involved with the Subaru Group.
3. As a good corporate citizen in the international community, we respect human rights, diverse values and individuality, and treat all stakeholders with sincerity in every interaction.
4. We strive to maintain and advance the workplace environment so that employees can work safely in peace, and with a sense of satisfaction.
5. We respect international rules and the laws and regulations of each country and region, as well as local culture and customs, and pursue fair and transparent corporate governance.
6. We make use of dialogue with stakeholders to make management decisions, and disclose corporate information in a timely and proper manner.

## Activities in the Six Priority Areas for CSR in Relation to SDGs

The Sustainable Development Goals (SDGs) for 2030 are development goals for achieving a sustainable future, and the Subaru Group recognizes the importance of responding to these goals.

By clarifying visions for 2025 regarding the Group's Six Priority Areas for CSR, Subaru will reinforce its efforts in each priority area and make positive contributions toward achieving the SDGs. Specifically, we acknowledge that the Subaru Group's initiative to achieve a goal of zero fatal traffic accidents\* by 2030 contributes to Target 3.6 of the SDGs: "By 2020, halve the number of global deaths and injuries from road traffic accidents."

\* Reducing to zero the number of fatal accidents occurring while a driver or passenger in a Subaru vehicle and the number of fatalities among pedestrians, cyclists, and the like arising from collisions with a Subaru vehicle.

### Six Priority Areas for CSR Basic Concepts and Vision for 2025

Six Priority Areas for CSR	Basic Concepts	Visions for 2025
People-oriented Car Culture	Subaru believes that a car is more than just a means of transport. Subaru will foster a sustainable mobility culture by providing customers with added value in the form of products and services which make the car a partner that enriches people's lives and minds, while cherishing the human emotions of "Enjoyment and Peace of Mind."	Become a company that enriches people's lives and minds as a partner.
Resonance and Coexistence	Subaru will become a company that is trusted by, and resonates and coexists with both individual customers and society as a whole by engaging seriously with their voices through greater person-to-person communication.	Become a company that is widely trusted by, resonates and coexists with society.
Peace of Mind	Subaru will become a company that provides all stakeholders with the utmost peace of mind.	Become a company that provides the utmost peace of mind to all stakeholders.
Diversity	The Subaru Group's approach to promoting diversity has two key elements: offering products that respect diverse forms of market value, and respecting and reflecting the diverse values of all those who work for the Subaru Group.	Promote businesses that create diverse forms of market values while respecting the diverse values of all people.
Environment	In order to pass on "The earth, the sky and nature," Subaru's fields of business, to future generations, we provide utmost care to the environment with our company-wide activities.	Cherish and protect the global environment—The earth, the sky and nature—through Group-wide activities.
Compliance	Subaru will become a company that operates in accordance with laws, regulations, and societal norms, ensuring that our focus on compliance as a priority permeates throughout and is practiced by all those who work for the Subaru Group.	Act in good faith and become a company that is trusted by and resonates with society.

# Activities in the Six Priority Areas for CSR in Relation to SDGs

Six Priority Areas	Relevant stakeholders	Themes	Initiatives		Visions/KPIs (FYE March 2026-FYE March 2031)	Relevant SDGs		
			FYE March 2021	FYE March 2022-FYE March 2026				
People-oriented Car Culture	Customers	Enjoyment of driving a car	Evolution of Subaru Global Platform and Integration with Intelligent Technology (Achieving a safe and enjoyable driving with peace of mind like a skilled driver)		Become a company that enriches people's lives and minds as a partner.	 9.1		
		Providing enjoyment of customization	Development of high-quality accessories matched with new models					
		Enhancing the brand image	Expansion of the lineup of high-performance, value-added items					
	Local communities	Proposing new forms of mobility	Proposing new forms of mobility and researching technology unique to Subaru	Technology development toward realization				 11.2
		Disseminating car culture	Dissemination of Subaru's manufacturing practice and its endeavors for "Enjoyment and Peace of Mind"					
Resonance and Coexistence	Customers	Enhancement of new ways of connecting with customers through IoT			Become a company that is widely trusted by, resonates and coexists with society.	 11.2		
		Strengthening relationship with customers	Enhancement of customer loyalty					
		Continuation of customer interaction programs						
		Providing products and services contributing to prosperous lifestyles						
	Business partners	Establishing a new maintenance system	Development of a maintenance system for marketing EVs					
		Coexistence and mutual prosperity with business partners	Building of relationships with business partners with CSR surveys, awareness-raising, and from CSR perspectives					
		Employees	Creating a safe working environment	Enhancing and strengthening the Group's telecommuting environment				 17.16
			Reinforcement of efforts for occupational health and safety, improvement of plant environments	Creation of a safe and rewarding workplace environment, building of a brand that is loved by employees				
	Local communities	Revitalizing relationships with local communities	Continuation of production operations and maintenance of employment at each site					
			Utilization of athletic teams, boosting of employee morale					
		Contribution and relationship-building through sporting activities						
			Contributing to local communities through stronger cooperation with non-profit organizations					
Community support activities during disasters and pandemics								
Peace of Mind	Improving safety functions	Advancement of Advanced Driver Assistance System (ADAS)			Become a company that provides the utmost peace of mind to all stakeholders.	 3.6		
		Adoption of Advanced Automatic Collision Notification (AACN) system and expansion of its functions						
		Continuous enhancement of crash safety						
		Expanding enhanced safety functions since FYE March 2021						
		Developing autonomous flight control systems (collision avoidance technology, fault-tolerant system improvements)						
		Implementing of safe driving seminars for senior citizens on a continuous basis						
	Customers	Contributing to safe driving	Implementation of safe driving seminars for senior citizens on a continuous basis					
		Establishing and strengthening a reliable product supply system	Establishment of a timely and efficient supply system of spare parts and accessories					
		Strengthening product supply capacity (parts center capacity increase plans/parts supply system improvements)						
		Improving inspection and maintenance quality	Promotion of accurate, high-quality inspection and maintenance					
		Promotion of initiatives to produce vehicles of choice in terms also of quality						
		Promotion of the highest priority on quality by implementing quality caravans and providing education for fostering quality awareness						
	Employees	Creating a safe workplace	Improvement of the quality of operations in all processes, from product planning to production, sales, and service					
			Placing of the highest priority on quality by implementing quality caravans and providing education for fostering quality awareness					
			Optimization of the span of management in manufacturing departments					
		Secure and create employment	Continuation and reinforcement of activities of the health and safety committees					
			Maintenance and enhancement of workplace health and safety, and promote a more comfortable workplace environment					
			Formulation and implementation of plans for health promotion initiatives	Reinforcement of health promotion efforts				
Local communities	Contributing to safety of local communities	Promotion of plant environment improvement	Promotion of a sense of trust regarding stable operations					
		Protecting vulnerable groups in local transportation (town watcher activities)						
	Reduction of environmental impact and prevention of pollution							
Governments	Contributing to safe lives of people	Contribution to the creation of a society in which people's lives and property are protected and people can enjoy peace of mind						

Six Priority Areas	Relevant stakeholders	Themes	Initiatives		Visions/KPIs (FYE March 2026-FYE March 2031)	Relevant SDGs	
			FYE March 2021	FYE March 2022-FYE March 2026			
Diversity	Employees	Promoting active roles for female employees	Expanding the number of female managers (at least two times 2021 levels by 2025)		Promote businesses that create diverse forms of market values while respecting the diverse values of all people.	 5.5 5.5.2	
		Childcare support for female employees in direct departments					
		Respecting human rights and diversity for all					
	Utilizing diverse human resources	Review of the human resources system for senior employees	Operation of the human resources system for senior employees				 8.5
		Promotion of active roles for non-Japanese human resources					
		Examination and promotion of a workplace environment that pays due consideration to minorities in society					
Business partners	Efforts in cooperation with business partners	Compliance with the legally prescribed employment rate for persons with disabilities: 2.3% in and after FYE2021			Cherish and protect the global environment—the earth, the sky and nature—through Group-wide activities.	 13.1 13.2	
		Acquiring new knowledge through proactively recruiting external human resources					
		Diverse work styles: Support for labor management by introducing a new attendance management system and expansion of teleworking					
	Maintenance and expansion of diverse forms of employment						
		Building of relationships with business partners with CSR surveys, awareness-raising, and from CSR perspectives					
		Enhancement of the understanding of employees, promotion of cooperation with the National Association of Minority Automobile Dealers (NAMAD)					
Customers	Providing a wide range of products	Incorporation of feedback on diverse market needs			 12.2 12.5		
		Design parts that can be used in multiple vehicle models					
		Expansion of the sale of electric vehicles (HEVs and PHEVs)					
	Popularizing vehicles that reduce environmental impact	Development and marketing of electric vehicles (BEVs and SHEVs)					
		EV development	EV global rollout and sale				
		Environmental protection in cooperation with customers	Implementation of activities to protect outdoor fields on a continuous basis				
Governments	Business to help reduce environmental impact	Introduction of solar power generation for self-consumption			 16.5 16.5.2		
		Introduction of TEPCO's Aqua Premium					
		Energy conservation investment and effective utilization of facilities					
	Continuation of conservation efforts in cooperation with governments						
		Promotion of lighter, electric, and biofuel aircraft					
		Establishment and maintenance of an environmental management system					
Business partners	Environment activities in cooperation with business partners	Selection of business partner while considering transportation for overseas sites					
		Efficient parts storage and transportation, and reduction of transportation volume					
		Promotion of retailers' continuous efforts for energy saving, water quality conservation, and recycling					
	Optimization of logistics and CKD* costs						
Compliance	Governments	Ensuring comprehensive export control	Reinforcement of security and export control initiatives		Act in good faith and become a company that is trusted by and resonates with society.	 8.7 8.8	
		Continuation of compliance training and executive lectures					
		Promotion of compliance from the perspective of the Subaru Group					
	Employees	Prevention of harassment					 16.5 16.5.2
		Maintenance and improvement of the workplace environment by promoting work style reform and complying with the Labor Standards Act					
		Establishment and dissemination of our Human Rights Policy, implementation of due diligence	Promoting initiatives to respect human rights				
Business partners	CSR surveys, awareness-raising, and stronger CSR initiatives in the supply chain with business partners						
	Promotion of fair trade on a continuous basis						
	Appropriate management of software licenses						

\*CKD (complete knockdown) production is a production method in which individual parts are delivered for assembly at the destination.

Development of products (vehicles) is based on a premise that they are equipped with the latest technologies yet affordably priced at the same time.

## The Subaru Difference

All our work is for Enjoyment and Peace of Mind. Subaru continues to carry forward its DNA of making human-oriented cars, born of its history in aircraft manufacturing.

Since the birth of the Subaru 360, the first car to come out of the National Car Concept, Subaru has continued to pass on the philosophy of giving top priority to safety, because customers entrust their lives to their cars. With that concept in mind, we have conducted our own crash safety tests since the 1960s, taking action well ahead of national standards.

In addition, in order to respond to the customer desire to drive further and longer, we have taken rigorous action to pursue a pleasant driving experience, high visibility, and ease of use in a way that values people's senses. We believe that it is important for the driver to have easy, unhindered control in any environment, and for us to provide Enjoyment and Peace of Mind to passengers as well.

In addition, we are striving to create automobiles that can be a partner to the rich lives of our customers by pursuing essential vehicle functions that will extend people's freedoms, like a comfortable space making mobility fun, and a spacious luggage compartment.

### Customer attachment to and trust in our cars has built a Subaru brand that is 'different' from others.

At Subaru, we have identified one element of our 2025 Vision as "Become a brand that is 'different' from others by enhancing distinctiveness." in our mid-term management vision "STEP." We have evolved functionalities such as safety and longevity, with "Enjoyment and Peace of Mind" as the unchanging value we offer our customers. Many of our customers have expressed praise for this style of car manufacturing. In particular, customers in our major U.S. market are often more expressive about their affection for Subaru, saying they "love" it rather than simply "liking" it, and saying that it's a "different kind of brand."

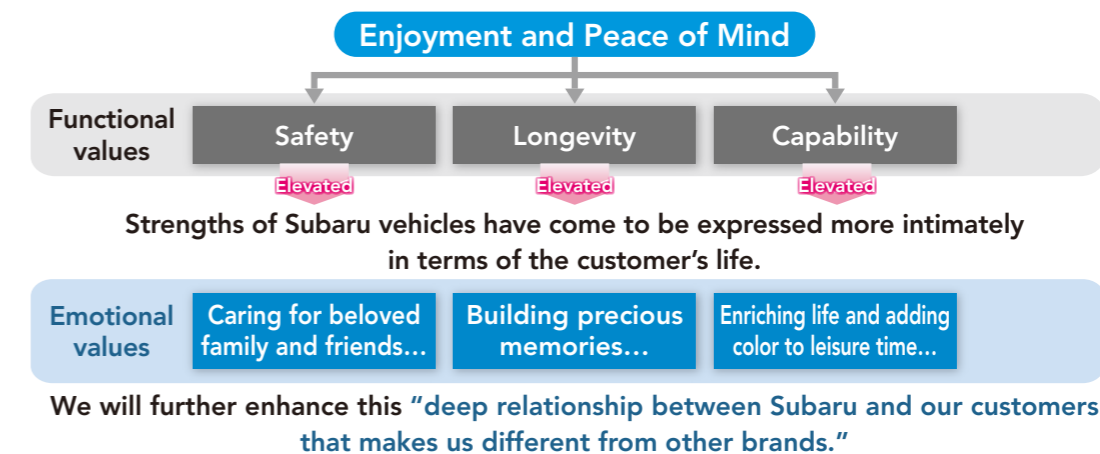
The value of the Subaru brand is rooted in the trust of our customers and their attachment to Subaru vehicles. We will continue to maintain that difference versus other automotive manufacturers, earning the love and the guidance of our customers.



### Subaru will further evolve its relationship with its customers through the pursuit of "Enjoyment and Peace of Mind."

In our value statement of "Enjoyment and Peace of Mind," which is the unchanging value we offer our customers, we have made unique refinements to functional value, like safety, longevity, and rough-road capability. However, thanks to Subaru's resonance with our customers and through the lifestyles and experiences they've gained with us, customers have come to express appreciation for their Subaru cars, showing that our cars are closely-bonded with their lives. For example, some have said that "Subaru cars offer more peace of mind when driving around the people I love and care about," while others have said things like "I've built a lot of treasured memories with my Subaru; their cars have good longevity, making them useful over long periods of time and avoiding resource waste."

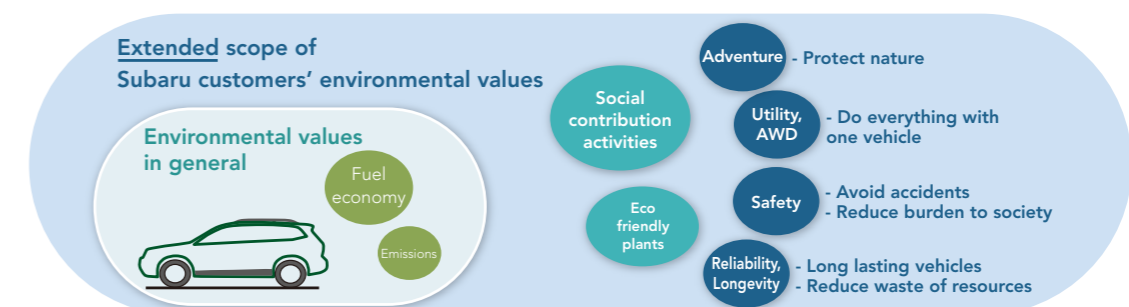
At Subaru, we believe that strong emotional praises like these that we have received from our customers show that our functional value has been sublimated into emotional value. Also, in order to further deepen the relationships we have with our customers, we believe it is important to thoroughly understand what they expect from and how they think of Subaru vehicles, while also taking into account their emotional value, and to reflect this in our vehicle manufacturing.



### We will work closely with our customers to become part of their lifestyles and to realize an enjoyable and sustainable society.

In the U.S., our key market for Subaru, we have found that along with interest in the safety and reliability of our vehicles there is a generally high level of environmental awareness and a large number of customers who actively participate in local engagement activities conducted by dealerships. This desire to go beyond just being good enough for the individual and be highly conscious of the global environment and society is another major characteristic of Subaru's customers.

We recognize that our customers' awareness of the environment and society creates another 'difference,' and we would like to work closely alongside them to realize an enjoyable and sustainable society.



Subaru customers do not believe in "looking out only for their own needs and interests." They are characterized by their high social and environmental awareness, which makes the Subaru brand "different" as well.

# Corporate Culture Reforms

We have been taking action toward corporate culture reforms as a priority initiative in our mid-term management vision “STEP.” As a result of pressing forward with a range of activities under the slogan of “change mindset, change behavior, change the company,” we have closed the gap between management and the front lines, and the gaps between levels of our organization, steadily evolving the environment into one that is more open.

Now that it is a widespread phenomenon that each employee think and act on their own, our next initiative will be to focus on the growth of the individual, moving into a phase of increasing engagement and jointly eradicating old authoritarian and top-down institutions.



As a result of our efforts in corporate culture reforms, our scores for workplace communication and workplace atmosphere have improved for two consecutive years in the Employee Survey.

Future efforts toward corporate culture reforms will focus on the growth of the individual, and we will actively promote investment in talent, in areas such as digital technology, upskilling, and relearning with the aim of developing the individual, as we flexibly respond to new work styles even under the pandemic-driven new normal.

## A Variety of Initiatives for Growth of the Organization, Workplace, and Individual

Subaru has been promoting various activities Group-wide under the slogan “Change mindset, change behavior, change the company.” We have held the Officer Speech Relay since FYE March 2020 and the General Manager Dialogue Relay since FYE March 2022. As an initiative to broaden our horizons, we also hold monthly “Cake Time” sessions to provide information on the latest automotive market trends and social conditions from a management perspective.

In April 2021, we launched the Subaru Communication Park on our intranet, providing a forum for free participation by employees as part of our efforts to expand circles of communication throughout the company. The Park offers the President’s Posts, Small Talk Plaza, and Idea Lab channels.



We will promote a number of specific measures in line with our personnel initiative policy for encouraging autonomy, enhancing individuality, and creating empathy, a policy formulated at the same time as our new personnel system and designed to achieve our desired outcomes in personnel, organization, and corporate culture.

For example, we will update our education systems to support on-demand content, implement open recruitment job rotation, use human resources data visualization for strategic talent development, and develop a program for corporate philosophy education. In addition, we will further accelerate our efforts by creating collaborative connections between each measure.



**Tatsuro Kobayashi**

Senior Vice President, General Manager of Human Resources Department

## We will accelerate our efforts toward revitalizing our human resources through introduction of a new personnel system aimed at growth for Subaru.

Amid a rapidly changing environment faced by the automobile industry, in order for Subaru, a relatively small-scale player in the industry, to survive and continue to demonstrate its individuality, we believe it is important to cultivate human resources who think and act of their own accord in response to various changes. Therefore, in April 2021, we launched a new personnel system supporting employees who reach a little higher and take on greater challenges. The organization we are trying to create under this new personnel system can be characterized broadly by the following three points. We will work to realize this organization and culture and to change the mindsets and behaviors of our employees.

1. Employees who take on greater challenges can grow and succeed
2. Evaluations and treatment are fair and commensurate with work
3. Human resources with a diverse set of abilities can succeed

In addition, along with the introduction of this new personnel system, we have set up a personnel initiative policy to achieve our desired outcomes in personnel, organization, and corporate culture. We have started new efforts to encourage autonomy, enhance individuality, and create empathy. In order to survive these turbulent times, it is important for each individual to carefully consider their situation and to act swiftly. We will harness this new personnel system as an opportunity to further promote the fostering of human resources who will lead Subaru in the future.

### Personnel Initiative Policy

- Encouraging autonomy
- Enhancing individuality
- Creating empathy

## Main Initiatives in the New Personnel System

We are promoting the following five main initiatives in our new personnel system.

- (1) Introduction of a personnel system that enables faster promotions and singles out talented personnel based on their performance in challenging situations, without regard to age or experience
- (2) Revision of wage system to one that limits purely seniority-based considerations, and strengthening pay grade jumps and performance-based bonuses
- (3) Introduction of a specialist system to strengthen technical capabilities and increase engineer motivation
- (4) Introduction of new re-employment programs to help diverse talent succeed, including senior citizens
- (5) Abolishment of the mandatory retirement age for managers and introduction of a system for performance and ability-based appointments

# Quality Enhancement

In our quality enhancement initiatives, we are striving toward 1) thorough implementation of a “Quality-First” mindset and reinforcement of organizational efforts and structure, 2) “Execution Quality” enhancement, and 3) “Innate Quality” enhancement.

(1) Within thorough implementation of a “Quality-First” mindset and reinforcement of organizational efforts and structure, we have revised our quality policy, completely revamped our quality manual, and are encouraging each and every one of our employees to alter their quality mindset through review activities such as the “Quality Caravan” and activities to maintain alertness. In addition, we have greatly increased the number of personnel involved in quality assurance over the past three years.

(2) Within “Execution Quality” enhancement, we will be launching operations at our new final vehicle inspection wing in a gradual rollout beginning in FYE March 2023. Here, our aim is to prevent defects reaching the public in domains after the production preparation stage. In addition, we are working to investigate defect trends and strengthen parts traceability using telematics and AI.

(3) Within “Innate Quality” enhancement, we have made changes to our development process itself, including comprehensive checks of past defects, strengthening the gate management of quality targets from initial development stages, and advancing development stages only when defects are cleared.

## Accelerating Quality Enhancement in Three Areas, with Quality Enhancement as the Top Priority

### 3 “Innate Quality” Enhancement

- **Ensure quality all the way from the very start of development down through component logistics and production.**
  - Fully check past issues in development, production, and suppliers
  - Grasp changes in new parts and systems and prevent issues before they occur.
- **Clarify the quality responsibilities of the Project General Managers in charge of product development and enhance their authority.**
- **Stricter development process where meeting criteria of each quality gate (checkpoint) is given top priority.**

### 2 “Execution Quality” Enhancement

- **New “final vehicle inspection” facility Start of operation scheduled for FYE March 2023**
- **Swift response to quality issues**
  - North American quality team “FAST” (Fast Action & Solution Team)
  - Early detection of defect trends based on analysis using AI.
  - Direct gathering of quality data via telematics systems.
  - Early determination of the scope of affected parts with traceability systems.
  - New “QALab” facility for enhancing capability to investigate defects.

### 1 Thorough Implementation of a “Quality-First” Mindset and Reinforcement of Organizational Efforts and Structure

- **Redefine goals.**
  - Quality Policy revised for the first time in 25 years.
  - The quality manual fully revised.
- **Quality awareness, look-back activities**
  - “Quality Caravan” events
  - Company-wide efforts aimed at “not letting past incidents fade away”
- **Increase in personnel**
  - Increase in Quality Assurance Div. personnel by 50% over 3 years



**Osamu Eriguchi**

Senior Vice President,  
Chief Quality Officer

## Our goal is to make Subaru preferred for its quality through implementation of a “Quality-First” mindset and steady quality improvement activities.

Over the last three years, we have taken great strides in our quality enhancement, one of the most important management issues in our mid-term management vision “STEP.” Although we are making steady progress, we recognize that there are still issues to be solved, and I feel that we have not been able to show concrete evidence of our quality enhancement to our customers and dealerships. Currently, we are striving toward quality enhancement under three activity pillars: (1) thorough implementation of a “Quality-First” mindset and reinforcement of organizational efforts and structure, (2) “Execution Quality” enhancement, and (3) “Innate Quality” enhancement. But, I am aware that we are only midway through these processes, and I would like for us to achieve more results in the coming year.

As control systems in today’s automobiles become larger and more complex, there is now a need for never-before-seen levels of advanced support even in the software domain. Here, it is important for the relevant divisions, including development, procurement, manufacturing, supplies, and after-sales, to cooperate closely with one another more than ever before to tackle issues taking the perspective of the customer. Going forward, we will be resolute in tackling these issues as an All Subaru team.

We also recognize the importance of speeding up our quality enhancement initiatives. In addition to launching FAST in January 2021 with the aim of strengthening our frameworks in the North American region, which is a core market for us, the Manufacturing Division is strengthening its practice of in-process quality assurance while upholding set rules. Above all, the foundation of our quality enhancement is fostering a thorough “Quality-First” mindset. We will continue to align the vectors of all employees and further deepen quality enhancement. Even during this revolutionary, once-in-a-century moment, we will seek to be a Subaru preferred for its quality.

### FAST: An “All Subaru” Team Improving Quality in the North American Market

In January 2021, Subaru launched a new quality improvement team, FAST, in the U.S. to strengthen its quality assurance system in its major market of North America. FAST is a team spanning countries and organizations, consisting of members from the U.S., Canada, and Subaru North America affiliates. In North America, an enormous market in terms of both sales volume and vehicle ownership, the most important task is to swiftly and correctly obtain accurate information and improve quality improvement response speed.



### Ongoing Activities to Maintain Alertness, Altering the Awareness of Each Employee

As a concrete measure to ensure awareness of the need to place the highest priority on quality and to strengthen the system, we are implementing activities to maintain alertness. These activities are for all employees to reflect on past improprieties relating to final vehicle inspections and for helping instill a sense that we will never betray our customers’ expectations again. Held once a year on October 26, the day the final vehicle inspections were finally resolved this program is designed to ensure that employees remain alert regarding the relevant issues by learning from past events and comparing them to present situations, and to help Subaru become a company “delivering happiness to all.”





## Evolution of the Subaru Difference

Direction announced at the Subaru Technology Briefing in January 2020

**Aim for  
zero fatal road accidents  
by 2030**

**Contribute to achieving  
a carbon-free society  
with Subaru strengths and  
technological innovation.**

Further advance our technologies to deliver "Enjoyment and Peace of Mind."

Maintain **the Subaru Difference** even in the age of vehicle electrification.

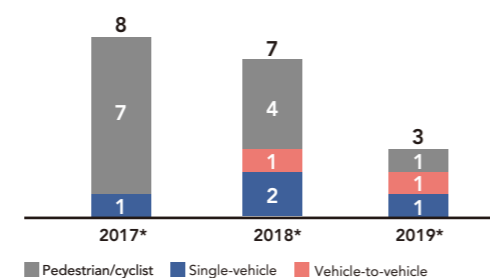
**We aim to achieve zero fatal traffic accidents by improving safety in all situations.**

In the mid-term management vision "STEP" announced in 2018, we declared our goal of working toward zero fatal traffic accidents\* by 2030, attaching particular importance to protecting lives. Up to now, Subaru has evolved its passive safety performance by adopting the Subaru Global Platform and the preventive safety performance of the EyeSight advanced driver assist system, strengths of the Subaru brand. However, we will make efforts to integrate intelligent technologies and pursue greater levels of Enjoyment and Peace of Mind.

The next-generation EyeSight X system is an advanced driver assist system for highways. We are also promoting the enhancement of connected safety, facilitating emergency rescue in the event of a serious accident through integration with Subaru STARLINK's connected services. Subaru will press forward with the combination of advanced sensing technologies and the judgment capability of AI, improving safety in all situations and thereby aiming for zero fatal accidents.

\* Reducing to zero the number of fatal accidents occurring while a driver or passenger in a Subaru vehicle and the number of fatalities among pedestrians, cyclists, and the like arising from collisions with a Subaru vehicle.

**Number of road accident fatalities involving Subaru passenger vehicles (excl. mini vehicles) newly registered as new cars in the preceding five years (incl. reference year) in Japan**



Calculated by Subaru based on ITARDA data  
Numbers are road accident fatalities (excl. those from secondary accidents) among occupants of Subaru vehicles and people who collided with Subaru vehicles including pedestrians and cyclists  
2017: Subaru vehicles newly registered between 2013 and 2017  
2018: Subaru vehicles newly registered between 2014 and 2018  
2019: Subaru vehicles newly registered between 2015 and 2019

### Established Subaru Lab, an AI Development Hub

Subaru is conducting research and development to combine the judgment capability of AI with its EyeSight advanced driver assist system, further improving safety with the goal of zero fatal traffic accidents by 2030.

We have opened Subaru Lab in Tokyo's Shibuya area, a place where many IT companies have congregated due to the recent redevelopment of the area. Here, we will work to develop AI more rapidly than ever before through seamless, well-targeted recruitment of human resources necessary for AI development, as well as collaboration with IT-related companies.



**We will continue to contribute to the realization of a carbon-free society by evolving the Subaru Difference.**

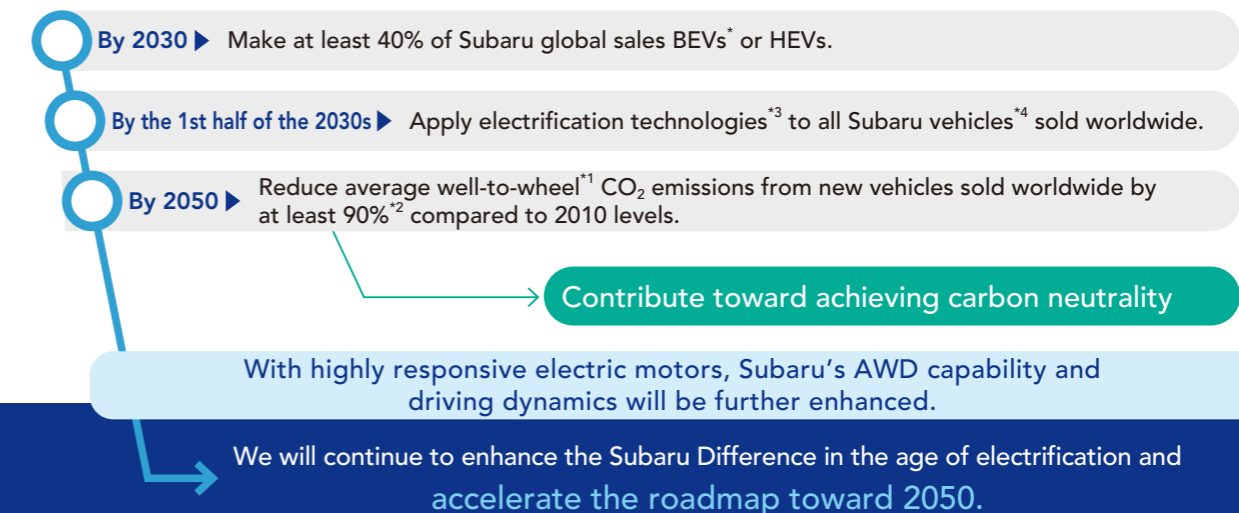
As the electrification of automobiles continues, Subaru will contribute to this carbon-free society by demonstrating the Subaru Difference through distinctiveness and technological innovation. Specifically, our plan is to make at least 40% of Subaru global sales be battery electric vehicles (BEVs) and hybrid electric vehicles (HEVs) by 2030. In addition, by the early 2030s, we aim to apply electric powertrain technology to all Subaru vehicles sold worldwide, and by 2050, we aim to reduce well-to-wheel<sup>1</sup> CO<sub>2</sub> emissions by 90% or more<sup>2</sup> compared to 2010 levels.

It is expected that traditional motors will be replaced by electric motors, but the importance of safety performance required for automobiles will not change even as electrification progresses. In addition to acceleration performance, we will utilize Subaru's AWD control knowledge more effectively in motors with higher precision and responsiveness, leading to an even stronger Subaru Difference of driving stability, dynamics, and enjoyment.

In light of the changing environment, Subaru will accelerate these efforts more than ever before.

Environmental efforts with commitment to enhancing the Subaru Difference

### CO<sub>2</sub> reduction roadmap



\* Battery electric vehicle

<sup>1</sup> Well-to-Wheel: Approach to calculating CO<sub>2</sub> emissions including the emissions produced by the generation of electricity to be used by EVs and other vehicles.

<sup>2</sup> Reduce total CO<sub>2</sub> emissions calculated based on the fuel efficiency (notified value) of all Subaru automobiles sold across the world by 90% or more relative to the 2010 levels in 2050. Changes in the sales quantity due to changes in the market environment shall be taken into consideration, while minor changes in running distance shall not.

<sup>3</sup> Refers to the technology used to foster the use of electricity for HEVs, HVs, and others.

<sup>4</sup> Excluding models supplied by OEMs.

### Global rollout of the SOLTERRA EV by Mid-2022

At Subaru, we plan to launch the SOLTERRA, our first global EV, by mid-2022 in markets like Japan, the U.S., Europe, and China. This is a C-segment-class SUV model developed jointly with Toyota Motor Corporation, utilizing our new, jointly developed e-Subaru GLOBAL PLATFORM for EVs. With the aim of creating ever-better cars, this SUV model represents the culmination of the unique appeal of EVs, utilizing the respective strengths of both companies.



## Evolution of the Subaru Difference



**Tetsuo Fujinuki**  
Senior Vice President,  
Chief Technology Officer

### Our Unified, Fundamental Reforms in Development Systems Will Build Subaru's Future.

In this revolutionary era for the automotive industry, seen in areas such as CASE, evolution is accelerating toward new technologies like electrification and ADAS<sup>\*1</sup>.

Under these circumstances, it is important that we continue to maintain our market competitiveness and to cultivate, enhance, and accumulate technologies that will create the future of Subaru. Therefore, we have decided to shift our Engineering Division toward a future-oriented development model that can address changes in the development domain. This dramatic organizational system change will help us efficiently utilize shared advanced technologies, such as ADAS and electrification.

Specifically, in April 2021, we created a unified Engineering Headquarters, evolving our structure so that it can flexibly address both technology management and organization management, and enable total development optimization. Furthermore, since July we have been transitioned away from our conventional development system where organizations are separated by function, such as the vehicle body and power unit, creating collaborative relationships within each vehicle model for development. This new system applies a fusion of two axes: "value," such as the environment, enjoyment, and peace of mind; and "function," such as our drivetrain-related technologies, our EyeSight system, and connected car technologies. This fusion allows us to deploy technologies generated in this process into our various models.

Prior to this, the CTO's Office was set up in January 2021 to discuss and decide the future direction of technical development to ensure that our new development system functions properly. The office is striving to speed up decision-making and strengthen our technology management capabilities.

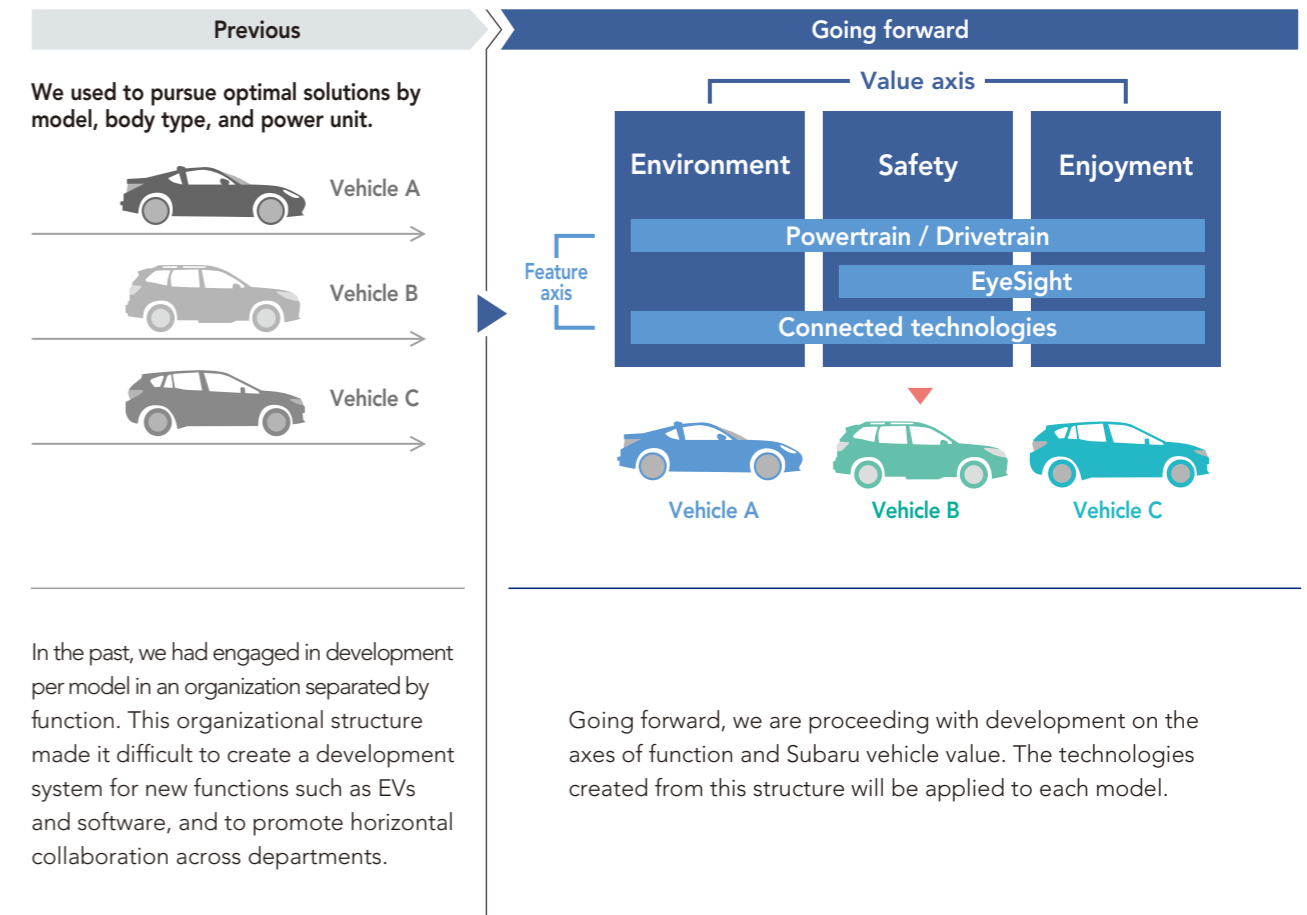
As the organization evolves, we will focus our efforts for information gathering for incorporating cutting-edge technologies, organization-building for commercialization, and review of our human resources management. I would like the engineers who are responsible for our future technologies to hone their skills beyond the scope of the work they have been doing so far, become more attuned to the world's technology trends, and as a result bring growth to Subaru through their own personal growth.

Going forward, we will deepen cooperation with not only our development teams, but also with procurement, manufacturing, and after-sales service, to promote a Company-wide unified manufacturing system, and build the future of Subaru.

\*1 Advanced Driver Assistance System

\*2 CTO: Chief Technology Officer

We cultivate, enhance, and accumulate future-generation core technologies that will underpin Subaru's future products and maintain our competitiveness.



### Established the CTO's Office

In January 2021, Subaru newly established the CTO's Office, an organization within the Engineering Management Division discussing and deciding the future direction of technical development. The automotive industry's environment is changing dramatically, with increasing diversification in the domains where automotive technology must be developed, such as electrification, software, and communications. The office will conduct technology strategy planning for product and service offerings embodying the Subaru Difference even amid these changes, set out the optimal allocation of management resources and the direction of technical development with a view to the medium- to long-term, and solve manufacturing challenges in a cross-divisional manner, in areas such as technical development and procurement.

### Subaru Driving Academy: Cultivating Talent Who Drive, Feel, Quantify, and Consider

Subaru puts great effort into developing human resources supporting "Enjoyment and Peace of Mind." There are no dedicated test drivers for evaluation on Subaru's payroll. Instead, engineers are tasked with work across the entire process, from data analysis, to mechanism analysis, to test driving and performance assessments. This system lends us greater strength in car manufacturing. In 2015, we established the Subaru Driving Academy to build even greater strengths and to lead to development of human resources capable of advancing systematic and consistent development. Team members come together from the various domains in our development-related departments to acquire top-class driving skills at the academy. This acquisition helps improve their assessment and management capabilities and creates a cohesive, single team transcending organizational barriers as we work to make cars offering customers a sense of "Enjoyment and Peace of Mind."



## Feature

## Carrying on Subaru's Unique Value and Total Innovation

### The new Levorg epitomizes the evolution of car manufacturing at Subaru.

The new Levorg is based on the Grand Touring Philosophy passed down at Subaru. Subaru embraced this philosophy in combining its latest technologies to develop a truly innovative performance wagon.

The new Levorg won the 2020-2021 Car of the Year Japan award in December 2020. The car uses 3D high-precision map data and is equipped with EyeSight X. This sophisticated driving support system features outstanding cost performance and uses information such as GPS and the Quasi-Zenith Satellite System known as Michibiki. The Levorg employs the Subaru Global Platform with full inner frame construction to achieve a high level of both maneuverability and comfort. Levorg's newly developed engine has received rave reviews for its performance in day-to-day driving. The Japan New Car Assessment Program (JNCAP),\* which compares and evaluates the safety performance of automobiles, also highly rated the car. Levorg earned the Automobile Safety Performance 2020 Five Star Award after receiving JNCAP's highest score in the comprehensive evaluation of collision safety and preventive safety performance in 2020.

\*Conducted by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and the National Agency for Automotive Safety and Victim's Aid (NASVA)



## Development Concept

We wanted to develop the new Levorg as a product that epitomizes the concept of a flagship vehicle in the Japanese market. The ideas of "carrying on Subaru's unique value" and "total innovation" formed the core concept. Levorg carries on the Subaru legacy of people-centered car manufacturing and the Grand Touring Philosophy of farther, faster, more comfortable, and safer. Its total innovation is on a much higher level, a level that far exceeds customer expectations. The three core values that we want to deliver to our customers are "advanced safety," "sporty," and "wagon value."

The first value is advanced safety. The next-generation EyeSight and the ultra-advanced driving support system EyeSight X put the focus on safety and security with innovation. Sporty is the second value. Levorg is an appealing choice because it satisfies customers who prefer the performance and superb steering stability unique to Subaru, as well as customers who want a high-quality ride. The third value is wagon value. Levorg features a luggage compartment with utility comparable to an SUV and a sophisticated, comfortable interior.



## Advanced Safety That Enables Total Comfort and Enjoyment

### ADVANCED SAFETY

Subaru's EyeSight driving support system uses two cameras (one each on the left and right sides), just like the two human eyes, to three-dimensionally recognize cars, pedestrians and other objects in front of the vehicle, and accurately determine the distance, shape, and movement speed of those objects. The result is preventive safety that encompasses accident avoidance, damage reduction and driving load reduction. Levorg's next-generation EyeSight enables 360-degree sensing that supports driving by constantly refreshing the wide-angle stereo cameras in combination with four front and rear radar devices, making it safer in a wider range of scenarios such as intersections. In addition, the advanced driving support system EyeSight X combines 3D high-precision map data with location information using GPS and the Quasi-Zenith Satellite System known as Michibiki to support lane changes, speed control going into curves, and hands-off driving in traffic jams. Subaru delivers leading-edge, cost-effective functions that enable safer, more comfortable driving. In addition, we are offering the Subaru STARLINK connected service for the first time for Subaru models in the Japanese market. Equipped with GPS, in-vehicle communication equipment, and connected to a call center 24 hours a day, 365 days a year, it provides access to support in the event of a traffic accident or other issue.



## The Inspiration to Drive Anywhere and Everywhere

### SPORTY



The newly developed 1.8L direct-injection turbo engine emphasizes performance in day-to-day driving and generates powerful torque from the low rpm range. It also features excellent environmental performance through the use of cutting-edge technology such as lean combustion.

The drive mode select function available in the STI SPORT trim level lets the driver transform the character of the car with a single button, providing an experience that ranges from the thrill of driving a sports car to the feel of riding in the comfort of a luxury car. This transformation is made possible by precision control of the power unit and various devices such as the AWD system, electronically controlled damper, power steering, EyeSight tracking acceleration and air conditioning.

In addition, the use of the Subaru Global Platform with full inner frame construction that enhances body rigidity and structural adhesives that suppress minute deformation delivers higher rigidity with less weight. The result is greater overall safety, handling faithful to the driver's intentions, and a comfortable ride that eliminates unpleasant vibration and noise.

Levorg is the first mass-produced Subaru to use the new BOLDER design concept. The front view has a distinctively Subaru appearance with a wide, three-dimensional hexagonal grille and sharply shaped headlamps. The design boldly gives Levorg a sporty emphasis, expressing the enjoyment of controlling the vehicle at will as well as the passion that inspires people to try something that has never been tried before.

## Wagon Value That Makes Time with Family and Friends Special

### WAGON VALUE

We have refined the wagon functions and interior for exceptionally comfortable touring and incorporated a practical cargo bay. The comfortable front sport seats make one feel a part of the vehicle. They help prevent fatigue even on long drives and keep passengers and the driver in place during sport-style driving. The cargo bay features a hands-free power rear gate. The rear gate opens automatically when a person with the key fob gets a part of the body, such as elbow, close to the rear six-star logo, which means outstanding convenience when hands are full of luggage or covered in mud in the great outdoors. Complementing the conventional large cargo bay, a large-capacity sub-trunk adds significant functionality to the luggage compartment.

Subaru has also enhanced the human-machine interface by installing a large central information display, and an advanced digital cockpit with full LCD instrumentation at the EyeSight X trim level. These features support drivers by providing them with access to the information they need, and the operability required to respond to the situation.



## Message from the CFO

We will build a financial base realizing “selection and concentration” and strive to increase corporate value.

### Katsuyuki Mizuma

Director of the Board, Executive Vice President,  
CFO (Chief Financial Officer) and CRMO (Chief Risk Management Officer)

#### Profile

Joined The Industrial Bank of Japan Ltd. in 1984. Became Managing Executive Officer of Mizuho Bank, Ltd. in 2014. Joined Subaru in 2016 as Senior Vice President and Senior General Manager of Subaru Overseas Sales & Marketing Division 2. In 2018, he became Executive Vice President and Chief General Manager of Overseas Sales & Marketing Division 1 and Chief General Manager of Overseas Sales & Marketing Division 2. He has served as Executive Vice President, CFO and CRMO since June 2021.

### As Subaru CFO

In April 2021, I was appointed to the positions of Subaru’s CFO (Chief Financial Officer) and CRMO (Chief Risk Management Officer).

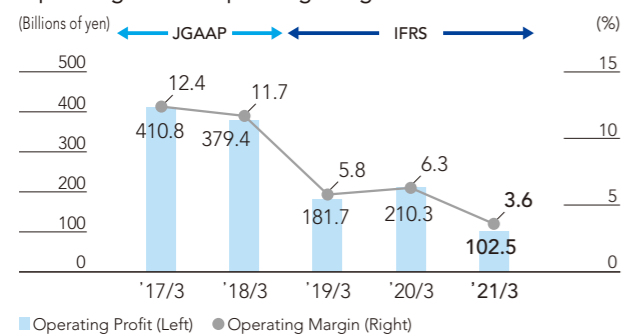
Originally, my career was at financial institutions, but since joining the Company in 2016, I have gained experience in all aspects of overseas sales in the automotive sector. Since we are not a particularly large company within the automobile industry, we have adopted thorough differentiation and added-value strategies so that we can achieve sustainable growth in a highly competitive environment. Instead of developing business across all markets with full product lineups, we are pushing a strategy of selection and concentration, focused on allocating limited management resources to markets and categories where we can demonstrate our strengths. Specifically, our product focus is in SUVs and primarily in the U.S. market and other developed countries where motorization has reached a mature state and where consumers see high safety and driving performance as added value. On the other hand, we face higher business risk, and therefore we have established a solid financial strategy that can withstand unforeseen circumstances. As CFO, I feel that it is important for me to communicate proactively so that stakeholders can have an accurate understanding of these issues. I wish to use the experience and insights I have gained in my career so far to contribute to enhancing corporate value at the Subaru Group.

### Subaru’s Financial and Capital Strategies

In order for the Group to continue to achieve sustainable growth as we press forward with selection and concentration, we must build and maintain a financial base that can withstand unforeseen events such as the COVID-19 pandemic.

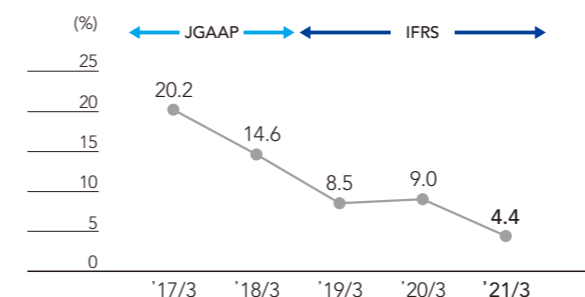
We have identified return on capital, financial soundness, and shareholder returns as the three key indicators for our financial and capital policy. Our basic policy is to provide appropriate shareholder returns while maintaining a balance between ROE and the shareholders’ equity ratio over the medium- to long-term. In the May 2021 progress report on our mid-term management vision “STEP,” we set KPIs of achieving an industry-leading operating margin of 8%, and ROE of 10% or higher. The prerequisites for achieving these targets are a net cash position equivalent to two months of sales revenue and a capital equity ratio of 50%.

#### Operating Profit / Operating Margin

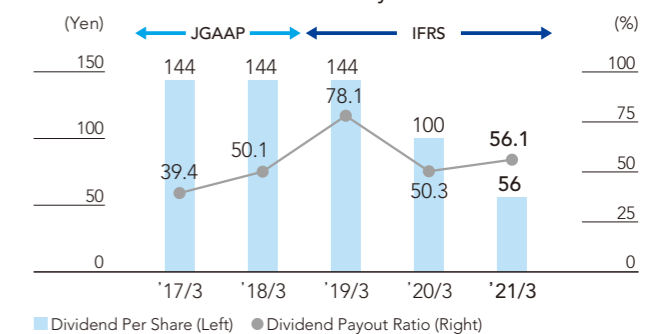


Capital Policy		
ROE	Targeting 10% or more	
Equity ratio	50% at minimum	
Net cash	Equivalent to two months of net sales (minimum)	
Shareholder returns	Dividend payout ratio	30-50%
	Share repurchases	Conduct flexibly

#### ROE



#### Dividend Per Share / Dividend Payout Ratio



In the five-year period through FYE March 2021, we secured the financial soundness needed to ensure our business continuity, including a capital equity ratio above 50%, a D/E ratio of 0.2 times or lower, and a credit rating of A– from Rating and Investment Information, Inc. (R&I).

We will steadily and effectively implement a program of capital and R&D expenditures aimed at further strengthening the Subaru brand. Specifically, we will commit capital expenditures of 3.5%–4% of sales revenue and R&D expenditures of around 120 billion yen/year, through which we will accelerate initiatives for achieving zero fatal traffic accidents, contributing to a carbon-free society and evolving the Subaru Difference.

Furthermore, the 150-billion-yen investment framework (over FYE March 2019–FYE March 2023) for quality enhancement under the mid-term management vision “STEP” has been fully earmarked for specific projects. We are steadily making capital expenditures to enhance quality at our plants in Japan and the U.S., establish R&D facilities, and allocate personnel and other resources. We have made quality enhancement initiatives our top priority, and we expect them to bear fruit in the near future.

### Review of FYE March 2021 and Outlook for FYE March 2022

In FYE March 2021, the first quarter forced production stoppages and adjustments at plants due to the significant impact from the global spread of COVID-19. Then, from the second quarter onward, sales in the key market of the U.S. began to recover, and although sales in the third quarter were higher year-on-year, production declined in the fourth quarter due to semiconductor shortages. Overseas vehicle sales were around 758,000 units, down 16.5% year-on-year, and vehicle sales in Japan were around 102,000 units, down 19.1% year-on-year, resulting in global vehicle sales of around 860,000 units, down 16.8% year-on-year. As a result, we posted consolidated financial results for FYE March 2021 as follows. Revenue was 2,830.2 billion yen, down 15.4% year on year. Operating profit was 102.5 billion yen, down 51.3%. Profit for the period attributable to owners of parent was 76.5 billion yen, down 49.9%. For FYE March 2022, although overall demand is trending toward recovery, mainly in the U.S., semiconductor supply is still very uncertain as of announcing the first quarter results, and market prices continue to soar, especially for precious metals, resulting in a harsh business environment. However, it is precisely under these circumstances that we need to increase the added value that we can offer to our customers and build up our core earning power. The operating profit of 200 billion yen in our plan takes into account our work to make improvements toward this end, and we will take on the challenge of achieving this goal by reviewing costs, mainly fixed costs, and making other efforts to improve profitability.

### On Shareholder Returns

Our basic policy on returns to Subaru shareholders is to provide consistent, stable returns, primarily through dividends, while taking into consideration each fiscal year’s performance, investment plan, and management environment under a performance-linked policy, with a target consolidated payout ratio range of 30%-50%. Note that we will conduct share repurchases flexibly in line with our cash flow.

In FYE March 2021, the global spread of COVID-19 and shortages of semiconductors had a major impact on our business activities, including production and sales. After a comprehensive assessment of the situation, including our funding requirements going forward, we set the yearly dividend at 56 yen (consolidated payout ratio: 56%). In FYE March 2022, we expect to pay a yearly dividend of 56 yen (consolidated payout ratio: 31%) based on a comprehensive assessment, including our future funding needs given a business environment that remains unpredictable.

We look forward to your continued understanding and support as we work to meet the expectations of our shareholders and other stakeholders.

# Risk Management

## Our Approach

Subaru is undertaking risk management as one of its key priority management issues, not only to address emergency situations when they arise but also to deal with various risks that have a serious impact on daily corporate activities, as well as to minimize damage when risks emerge.

The automotive industry is ushering in a major transformation, which only occurs once in a hundred years. The Subaru Group, which operates businesses globally, is aiming to enhance the resilience of its management infrastructure by ensuring the sustainability of its businesses by quickly tackling changes in world affairs. At the same time, the Group must boost its measures to minimize its human, social and economic losses. Amid this environment, it is essential to strategically conduct risk management throughout the group to conduct business activities. We therefore believe it is important to create a Subaru Group that has an infrastructure that is resilient to risk to enhance our corporate value.

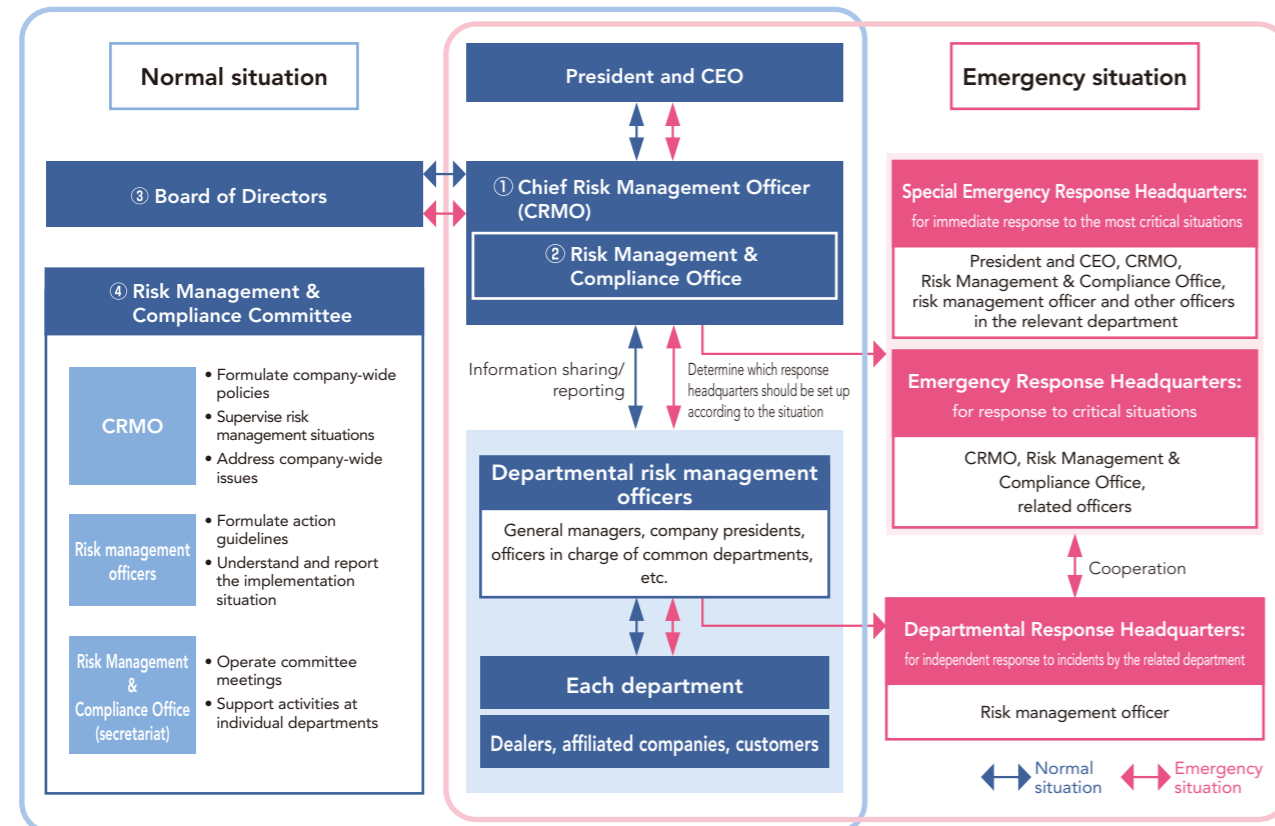
## Management System

To prevent the emergence and expansion of risks to the Subaru Group, the CRMO (Chief Risk Management Officer) appointed by the Board of Directors leads risk management and compliance activities, reporting their status to the Board of Directors.

As a system to promote risk management, Subaru has appointed risk management officers (job grade of Chief General Managers) for each department and established the Risk Management & Compliance Committee. This committee is chaired by the Chief Risk Management Officer (CRMO), and its vicechairperson is the Vice President in charge of the duties of the Risk Management Group, comprised of the Risk Management & Compliance Office and the Legal Department. At this committee, members deliberate, discuss, make decisions, and exchange/communicate information on important matters.

The CRMO leads corporate group-wide efforts to enhance risk management with professional support from experts in company-wide shared corporate operations departments, such as the Risk Management & Compliance Office and the Legal Department. In this leadership role, the CRMO works closely with the Corporate Planning Department, which performs division-encompassing functions, as well as different divisions and companies. Audit Department audits execution of tasks by each division and subsidiary in a planned manner.

### Risk Management System



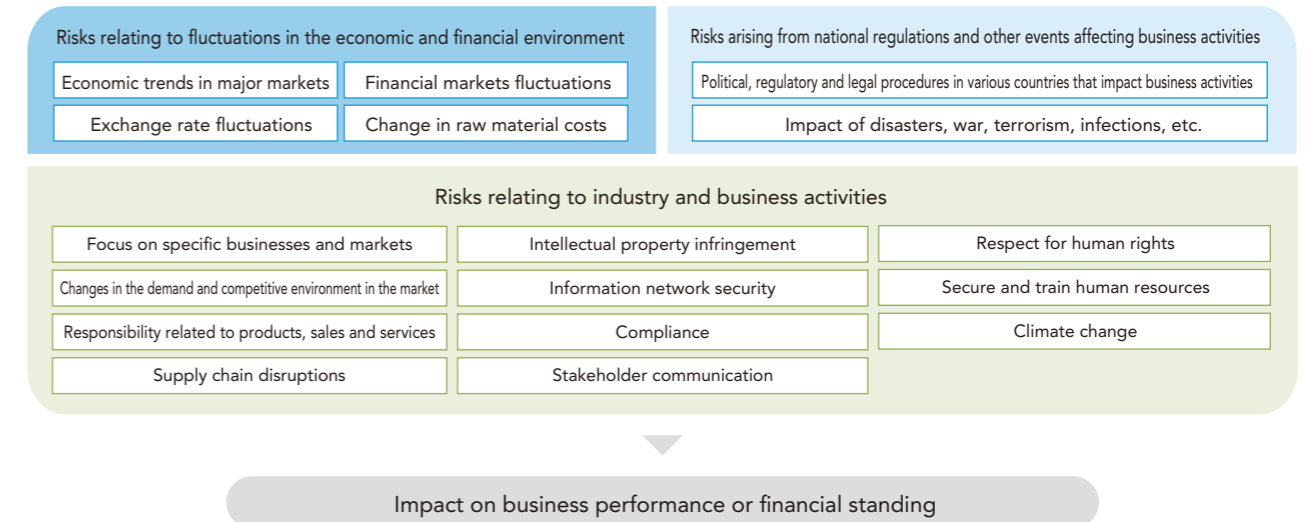
## Risks Associated with Business Activities

At the Subaru Group, we extract and identify key risks associated with our business activities and consider measures to combat them.

The major business risks are listed below.

Please note that this is not an exhaustive list of all risks relating to the Subaru Group.

### 17 Risks Affecting Business Activities



## Message from the CRMO

**We will accelerate our work to permeate ownership in conceptualizing risk management and compliance.**

For Subaru, an organization seeking sustainable growth and promoting “selection and concentration,” it is important that risk management and compliance activities are autonomous as we aim to increase corporate value. Therefore, starting two years ago, we have been working to build systems and mechanisms to instill autonomous thinking about risk management and compliance.

My evaluation is that, in the FYE March 2021, we have been successful in our activities here so far, and we were able to take swift and appropriate measures against the spread of COVID-19, minimizing its impact. In addition, our Compliance Hotline has enjoyed active use thanks to growing awareness, leading to improvements at an early stage.

In addition, we drafted a Risk Map in consideration of the size and impact of losses that could occur when risks materialize. This map summarizes priority issues to be addressed from a Group-wide perspective. We have identified disasters and pandemics as the most impactful risks, and have established and operate a business continuity plan (BCP) system accordingly. We would like to take steady action toward daily risk management so that we can proactively deal with the various risks related to reputation, including quality, compliance, and information network security. Climate change and the supply chain are also important challenges, and we are taking action in cooperation with the relevant business divisions, like the Engineering Division and the Purchasing Division.

Taking advantage of my dual role as CFO, I also focus on close coordination with corporate risk and finance. We believe that it is important to tackle risks that have a high priority in the risk map from a Group-wide perspective while maintaining alignment with financial treatment and management strategies. Going forward, we will further accelerate our work to permeate risk management and compliance where PDCA cycles can be run with autonomy.



Katsuyuki Mizuma CFO, CRMO

# Business Overview

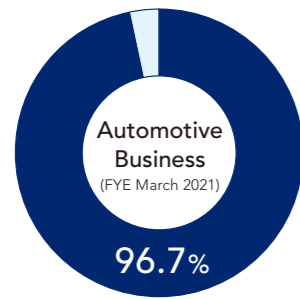
## Automotive Business Unit



Our history as an automaker began with the launch of the Subaru 360 in 1958. Since then we have worked continually to provide new value in automobiles by developing new categories based on our core technologies, such as the horizontally-opposed engine and symmetrical all-wheel drive (AWD), and by creating new technological value, including EyeSight\*, the world's first driver assist system. These actions have deepened our ties with customers. In recent years, we have positioned the U.S. as an important market, with a strategy of concentrating limited resources in fields in which we should extend our strengths and advantages, including product lineups focused on SUVs and sports models. We provide Enjoyment and Peace of Mind through high value-added products. In addition, we are working to create ever-better cars in our alliance with Toyota Motor Corporation, bringing together our mutual strengths.

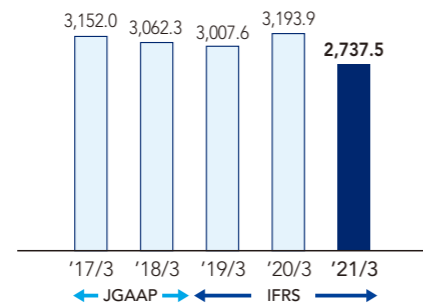
\* EyeSight is the first driver assist system to provide all functionality solely through the use of stereo cameras

### Consolidated Revenue Contribution Ratio



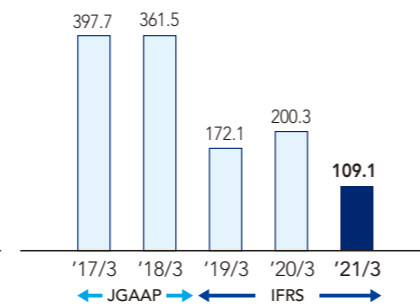
### Revenue

(Billions of yen)



### Operating Profit

(Billions of yen)



### Our Future Goals

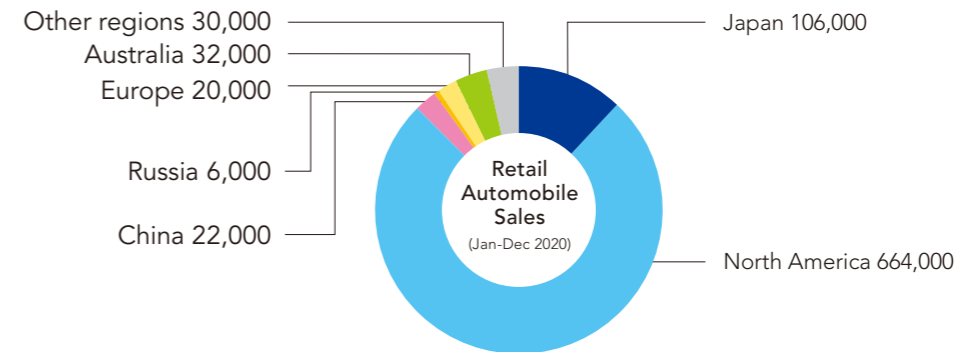
In pursuit of Subaru's goal of zero fatal traffic accidents by 2030\*, we will not only further evolve preventive, passive, and other safety performance areas, but also strengthen connected safety, building greater safety in all situations.

To contribute to a carbon-free society, we will promote the development of core technologies in areas such as electric and hybrid vehicles, while leveraging alliances to accelerate our roadmap toward achieving carbon neutrality by 2050.

Subaru will continue to evolve its unique existing core technologies, cultivate and enhance future technology, adapting to changes in the times, and continue to refine the Subaru Difference to provide Enjoyment and Peace of Mind to customers around the world.

\* Reducing to zero the number of fatal accidents occurring while a driver or passenger in a Subaru vehicle and the number of fatalities among pedestrians, cyclists, and the like arising from collisions with a Subaru vehicle.

### Automobile Sales by Region



### Product Lineup

#### ASCENT

(Exclusively for North America)  
SUV

Unit sales : 71,000

Sales region : North America



#### LEVORG

Sports / Wagon

Unit sales : 14,000

Sales regions : Japan, Europe, Australia, and other



#### OUTBACK

SUV

Unit sales : 180,000

Sales regions : Japan, North America, Russia, Europe, Australia, China, and other



Photo: North American model

#### WRX

Sports / Sedan

Unit sales : 32,000

Sales regions : Japan, North America, Russia, Australia, and other



#### FORESTER

SUV

Unit sales : 266,000

Sales regions : Japan, North America, Russia, Europe, Australia, China, and other



#### SUBARU BRZ

Sports / Coupe

Unit sales : 5,000

Sales regions : Japan, North America, Europe, Australia, China, and other



Photo: Prototype

#### SUBARU XV

(North America: CROSSTREK)  
SUV

Unit sales : 186,000

Sales regions : Japan, North America, Russia, Europe, Australia, China, and other



#### IMPREZA

Wagon / Sedan

Unit sales : 71,000

Sales regions : Japan, North America, Russia, Europe, Australia, and other



#### LEGACY

Sedan

Unit sales : 32,000

Sales regions : Japan, North America, Russia, Europe, Australia, China, and other



Photo: North American model

#### LEGACY

Sedan

Unit sales : 71,000

Sales regions : Japan, North America, Russia, Europe, Australia, and other



### OEM models

#### JUSTY



#### STELLA



#### SAMBAR VAN



#### CHIFFON



#### PLEO



#### SAMBAR TRUCK



Unit sales : 23,000

Sales region : Japan (OEM supply from Daihatsu Motor Co., Ltd.)

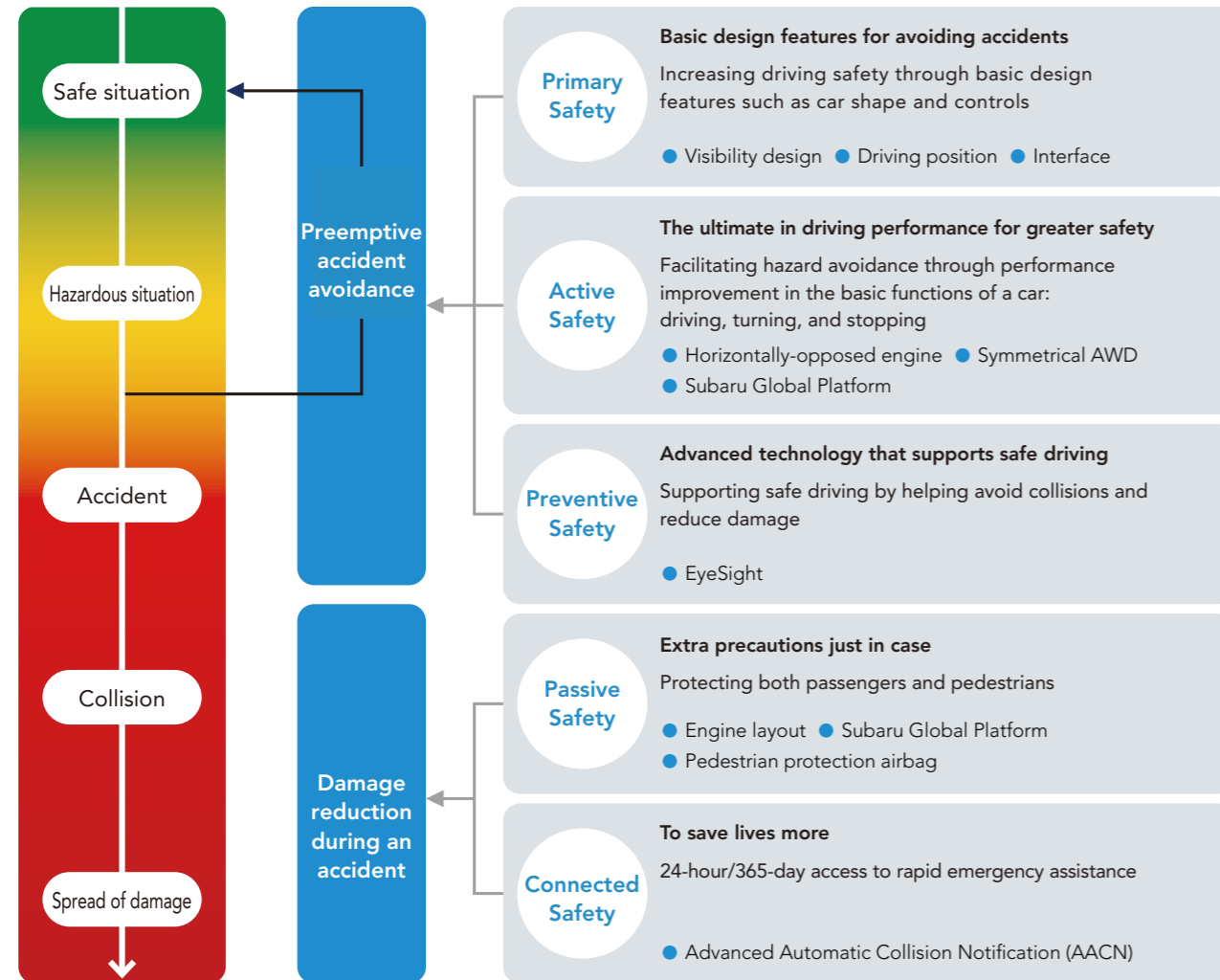
\* Retail unit sales in each region in the period from January 1, 2020 to December 31, 2020.

Subaru's All-Around Safety

We aim toward zero fatal accidents\*<sup>1</sup> in 2030

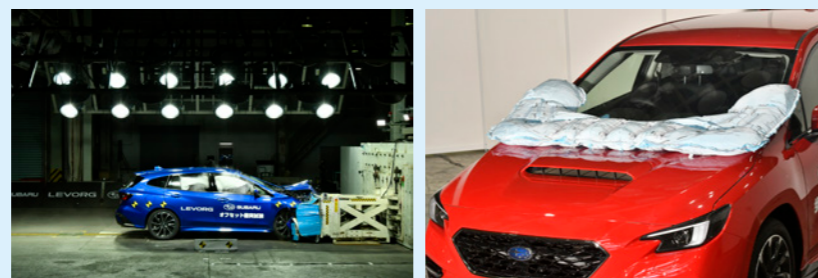
Subaru pursues automobile safety performance from every perspective. We aim to eliminate fatal accidents involving Subaru vehicles by 2030 by combining our existing four safety criteria of Primary Safety, Active Safety, Preventive Safety, and Passive Safety with the new concept of Connected Safety.

\*<sup>1</sup> Reducing to zero the number of fatal accidents occurring while a driver or passenger in a Subaru and the number of fatalities among pedestrians, cyclists, and the like arising from collisions with a Subaru vehicle.



Passive Safety Safety Performance Recognized Worldwide

Starting from the development of the Subaru 360 more than 60 years ago, Subaru has continued to inherit and pass on the philosophy of giving top priority to safety, because customers entrust their lives to their cars. Even since the 1960s, when the world had not yet come to consider safety a major concern, we have been conducting our own collision safety tests, and today our cars are consistently rated among the best in safety evaluations in Japan and overseas.



\* See page 51 for more about the assessment program.

Subaru Core Technologies

Subaru Global Platform

Balancing a high degree of both drive quality and passive safety performance

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



Subaru Global Platform

Symmetrical All-Wheel Drive (AWD)

Superior overall weight distribution

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

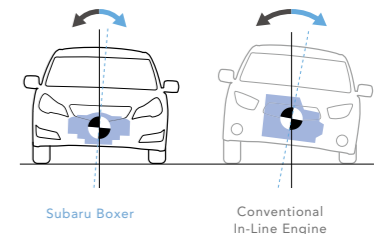


Symmetrical All-Wheel Drive

Horizontally-Opposed Engine (Boxer engine)

Compact, low center of gravity

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



Subaru Boxer

Conventional In-Line Engine

EyeSight Driver Assist System

Stereo cameras for advanced object recognition capabilities

By using two cameras positioned on the left and right like human eyes, the EyeSight driver assist system is able to detect vehicles and pedestrians ahead of the vehicle in three dimensions and to accurately determine the distance, shape, and velocity of each object. This preventive safety technology helps avoid accidents, minimizes damage, and reduces the burden on the driver. The next-generation EyeSight system installed in the 2020 Subaru Levorg features redesigned stereo cameras that allow for expanded visibility, as well as 360-degree sensor capabilities from the four radar units located at the front and rear of the vehicle. This system contributes to safe driving in an even wider range of situations, including intersections. In addition, EyeSight X advanced driver assist system adopted in the new Levorg in Japan combines information from sources such as the GPS and QZSS "Michibiki" satellite systems with high-precision 3D map data, which extends driving support functions including lane change assist, slowing the vehicle before going into a curb, and hands-off driving assist in traffic congestion.

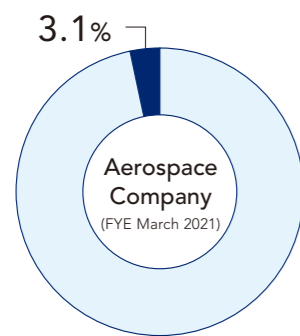


Stereo cameras

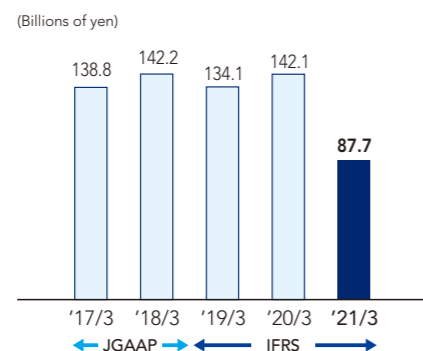
# Business Overview Aerospace Company

Subaru's roots trace to 1917 and Aircraft Research Laboratory, later to become Nakajima Aircraft. In the defense program, we develop, manufacture, maintain, repair, and provide technical support for products such as the UH-1J and UH-2 utility helicopters used by the Japan Ground Self-Defense Force (JGSDF) for disaster relief and other purposes, the T-5 and T-7 for supporting pilot training at the Japan Maritime Self-Defense Force and the Japan Air Self-Defense Force, more than 15 models of unmanned aerial vehicles, and flight simulators. In the commercial program, we participate in many international joint development projects for Boeing. For the 777X, Boeing's large passenger airliner, we are responsible for the Center Wing and its integration with the main landing gear (MLG) wheel well, as well as MLG doors, Wing-to-Body Fairings (forward), and side-of-body sections.

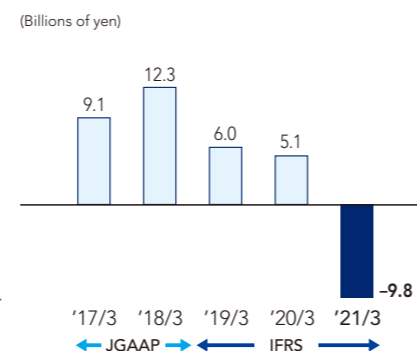
Consolidated Revenue Contribution Ratio



Revenue



Operating Profit



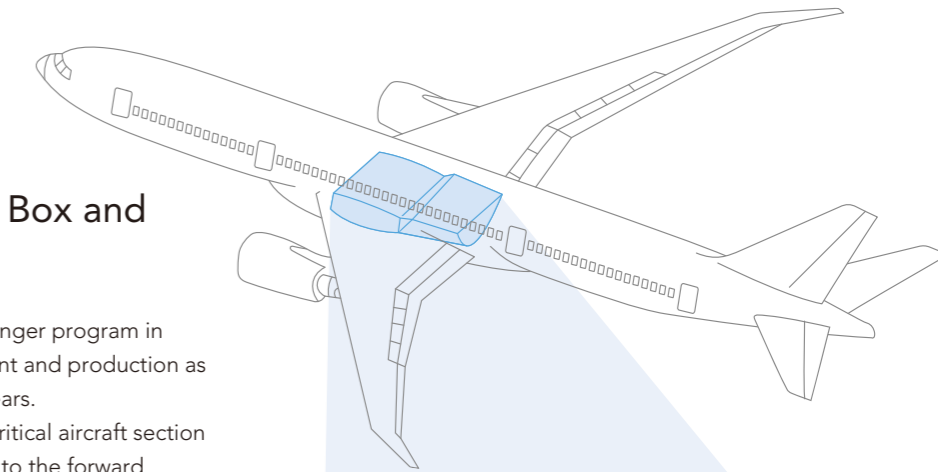
Primary Products and Services · SUBARU BELL 412EPX · UH-2 utility helicopter · AH-64D attack helicopter · T-5 and T-7 trainers · Flying Forward Reconnaissance System · The Center Wing Section of Boeing 787 · The Center Wing Section of Boeing 777 & 777X

## Our Future Goals

We will continue to refine our original, cutting-edge technologies cultivated over our corporate history by engaging in development and production of a wide variety of aircraft. Our latest helicopter, the SUBARU BELL 412EPX (the base model for the JGSDF UH-2), was jointly developed through our alliance with U.S.-based Bell Textron. Production and sales are already underway. In addition, toward the development of a mobility society, we will continue to take on greater challenges to develop into an aircraft manufacturer with a global presence, such as by participating in the New Energy and Industrial Technology Development Organization (NEDO)'s Drones and Robots for Ecologically Sustainable Societies project (DRESS project).

## Overview of Center Wing Box and Subaru's Technology

Since first participating in the Boeing passenger program in 1973, we have been involved in development and production as a key partner of Boeing for more than 40 years. We manufacture the center wing box, the critical aircraft section where the right and left wings are attached to the forward and aft fuselage sections. Since the center wing box contains the fuel, it must have high mechanical strength and high fluid tightness. For these reasons, great accuracy and advanced assembly technologies are required for its manufacture, and Subaru is one of the few companies capable of making it. The Handa Plant, where center wing boxes are manufactured, is a global-level production center that produces these parts for the new Boeing 777X as well as for the Boeing 777 large airliner, the Boeing 787 mid-size airliner, the Ministry of Defense's P-1 maritime patrol aircraft, and the C-2 transport aircraft.



A center wing box (Handa Plant)



**Shoichiro Tozuka**  
Senior Vice President, Company  
President of Aerospace Company

## The Aerospace Company will contribute to the enhancement of the Subaru brand.

We are integrating many aerospace systems for commercial transport components, military aircrafts, helicopter systems and UAV's, from R&D to manufacturing through operational support. Flight safety is critical factor for aircraft, and for many years we have fostered a culture in which quality and safety are recognized as inextricably linked and uncompromisingly pursued. This total safety concept is at the core of the Subaru Difference.

In the defense program, we have completed the development of the JGSDF UH-2 helicopter and are proceeding with mass production. Also, we have begun delivery of the SUBARU BELL 412EPX, the commercial version of the new utility helicopter.

The commercial transport programs have been facing difficulties for some time due to expanding impact from COVID-19, but we believe that the fundamental human desire to go faster and fly will lead the aircraft passenger demand to recovery. In preparation for this upcoming leap in growth, we are taking firm action to advance our defense and helicopter programs while working with our partner companies to strengthen our business resilience.



# Environment

## Society's Expectations

- Address climate change
- Develop and provide environmentally responsible cars
- Promote throughout the supply chain

## Subaru Initiatives

- Efforts to achieve carbon neutrality by 2050
- Popularizing vehicles that reduce environmental impact
- Environmental protection in cooperation with customers
- Business activities to help reduce environmental impact

## Approach to Environmental Management

In its Environmental Policies, Subaru states that our fields of business are “the earth, the sky and nature” and focuses on efforts aimed at coexistence with nature. In mid-term management vision “STEP,” we are committed to making environmental contributions by enhancing the environmental performance of our products. We include “Environment” in the Six Priority Areas for CSR and deem it important to conduct environmental activities as a precondition to continue our business activities.

In order to foster environmental activities across the Subaru Group, we have our Environment Committee as well as a cross-company integrated environmental management system, which covers all Group sites, domestic and overseas consolidated production companies and Subaru Corporation dealers in Japan and abroad.

Based on this system, we are fostering environmental management activities through an all-Subaru approach, including formulating medium- to long-term environmental targets, implementing measures to achieve the targets, complying with environmental laws and regulations, managing chemical substances, and compiling environmental performance data.

### Subaru Environmental Policies

<b>Subaru Sustainability Principles</b>	<p><b>“The earth, the sky and nature” are Subaru’s fields of business.</b></p> <p>With the automotive and aerospace businesses as the pillars of Subaru’s operations, our fields of business are the earth, the sky and nature. Preservation of the ecosystem of our planet, the earth, the sky and nature, is of utmost importance to ensure the future sustainability of both society and our organization. We align our business strategy to enhance these global goals in all of our operations.</p>
<p><b>1. We develop and deliver products to meet societal needs and contribute to the environment through advanced technologies.</b> By striving to create advanced technologies that put the environment and safety first, we will develop and deliver products that can contribute to protecting the earth’s environment.</p> <p><b>2. We focus on efforts aimed at coexistence with nature.</b> Together with efforts to reduce carbon-dioxide emissions in all of our operations, we will promote active engagement with nature by stressing forest conservation.</p> <p><b>3. We take on challenges as one through an all-Subaru approach.</b> Utilizing our unique organizational character that allows us to oversee the entire supply chain, all of us together will take on the challenges of environmental protection of our planet through an all-Subaru approach.</p>	

<b>Environmental Principles</b>	<p>Subaru’s fields of business are the earth, the sky and nature. Subaru understands that the health and preservation of biodiversity and controlling climate change are critical to ensuring a sustainable future for our planet earth, nature, communities, and businesses.</p>
<p><b>Products:</b> We develop our products and conduct R&amp;D in light of the lifecycle environmental impacts of our products.  <b>Purchasing:</b> Our purchasing activities reflect consideration for biodiversity and other aspects of environmental protection.  <b>Production:</b> We strive to minimize our environmental impact through improving energy efficiency and waste management.  <b>Logistics:</b> We strive to minimize our environmental impact through enhancing energy efficiency and promoting pollution prevention.  <b>Sales:</b> We endeavor to recycle resources efficiently and reduce waste.  <b>Management:</b> We will strive to improve our sustainability program through contributions that meet societal needs and by publicizing our activities as Team Subaru.</p>	

## Approach to Climate Change

Subaru recognizes that climate change is one of the most pressing global issues, and respects the goal of the Paris Agreement to hold the increase in the global average temperature to well below 2°C above pre-industrial levels. Subaru will contribute to this goal by reducing CO<sub>2</sub> emissions from its products, factories and offices to help decarbonize society. Subaru has set long-term and medium-term goals as milestones for its target of carbon neutrality in 2050.

## Risks and Opportunities Identified

Subaru defines and identifies risks and opportunities associated with climate change to achieve sustainable business activities.

We have identified a number of risks associated with climate change. Initiatives to address climate change may be inadequate or abnormal weather may cause delays in procurement, production and distribution. In addition, transition risks and physical risks may have impacts and outcomes that are currently extremely difficult to predict. Increased R&D expenses, lost sales opportunities due to reduced customer satisfaction and brand image, and delays in procurement, production and distribution due to abnormal weather are among the potential impacts of these risks. These risks could have a material impact on the operating results and financial position of the Subaru Group.

On the other hand, effective initiatives to address climate change could lead to opportunities to create new markets and employment and also use capital and energy more efficiently.

### Main Risks Identified

#### Business Management in General

- (1) If Subaru fails to implement adequate initiatives to achieve low-carbon/zero-carbon outcomes, its brand value could be harmed, which could affect the company’s sales and recruiting ability. Capital costs could also rise, due to increased difficulty in obtaining financing from medium- and long-term investors.
- (2) There is an argument that NDCs need to be expanded to be able to achieve the Paris Agreement’s “well below 2°C” target, and thus countries may revise their NDCs to set more stringent targets. Such revisions could have a significant impact on Subaru’s business activities.
- (3) As an impact of climate change, extreme torrential rain will frequently cause floods in various locations, which could pose risks of Subaru’s operations being affected by disrupted supply of raw materials and submerged factories.

#### Products

- (1) If Subaru fails to meet fuel economy regulations imposed in Japan, the U.S., Europe, and China, the company could incur additional costs or losses related to negative incentives, such as fines or non-penal fines for legal violation, and credit purchase for unmet standards. Also, some of our products could fail to satisfy certain fuel economy standards, resulting in restrained sales opportunities.
- (2) At present, it is difficult to predict technological progress and price optimization for electrification, which will likely cause a substantial gap with the real state of market needs. In such a situation, Subaru could incur unnecessary and excessive R&D costs while facing a decline in customer satisfaction, resulting in unexpected losses and reduced sales opportunities as well as hampered advancement of the company’s electrification efforts.
- (3) To promote electrification, it is crucial to ensure profitability for the entire product cycle ranging from procurement and use to disposal. Thus, it is essential to involve Subaru’s upstream and downstream partners in exerting efforts toward this end. Failure to do this could render the company unable to meet the profitability goal for the entire product life cycle.
- (4) Subaru views electrification as a steady medium-to-long-term trend, and also anticipates the possibility of its swift and sweeping penetration of the market at some stage. Subaru could be unprepared for such prospect in terms of technology and timely product lineups, and thus suffer from a resultant loss of product sales opportunities.
- (5) There is a possibility that Subaru might suffer from shortages of natural resources used for tires and metal resources for electrification technologies.

#### Production Phase

- (1) If Subaru continues to use energy derived from fossil fuels, it could incur rising costs, due not only to geopolitical factors associated with petroleum and the like, but also to carbon taxes, emission quotas, and other government policies and regulations.
- (2) If use of renewable energy does not grow as expected, Subaru could face slower progress in achieving its Scope 1 and 2 emissions reduction goals.

**Main Opportunities Identified**

- (1) If Subaru advances its efforts to make products more environmentally friendly as planned and global climate change mitigation/adaptation efforts progress adequately, the company will be able to maintain its key markets, This scenario also implies a possibility of the company creating new markets through receiving support for its safe and reliable products, a source of its strength, even in the face of intensifying extreme weather conditions that are to some extent unavoidable in certain parts of the world.
- (2) Through contributing to addressing climate change issues, Subaru could increase its brand value, thereby enhancing its sales and recruiting ability. This could make it easier for the company to obtain financing from investors, thereby lowering capital costs.
- (3) Regarding energy use during the production phase, by transitioning to renewable energy while at the same time giving due consideration to cost-effectiveness, Subaru could overcome the risk of being exposed to price fluctuations involved in energy derived from fossil fuels, thereby preventing future cost increases.

\* The risks and opportunities described above are based on past facts and currently available information, and may change significantly due to such factors as future economic trends and the business environment facing Subaru. The opportunities described represent those for Subaru's products to contribute to climate change adaptation and do not anticipate climate change-related deterioration.

**Contribution to the Creation of a Decarbonized Society through Products from Subaru's Point of View**

Even in the electric vehicle era, we will strengthen Subaru Difference and manufacture environmentally responsible automobiles in line with our medium- to long-term goals for 2030 and 2050.

We have also set the new target of proceeding with research and development with the goal of using recycled materials\*1 for more than 25% of the plastics used in new models\*2 released worldwide by 2030 to help address the global waste plastic problem.

\*1 Including material, chemical and plastic recycling.

\*2 Excluding models supplied by OEMs.

**Global Environment Preservation**

Companies are required to contribute to the achievement of a decarbonized society

2050	2030
<p>On the well-to-wheel basis, we will pursue our goal of reducing the average CO<sub>2</sub> emissions from new passenger cars by at least 90% by 2050, compared with 2010.</p>	<p>By 2030, we will pursue our goal of increasing the ratio of electric vehicles (EV) and hybrid cars to at least 40% of the gross number of vehicles sold globally.</p> <p>In the early 2030s, all commercial Subaru cars will be equipped with electric powertrain technology.</p>

Subaru will accelerate the development of fundamental technologies for EVs and hybrid cars with support from alliance partners and continue offering products accentuating Subaru's distinctions even in the emerging electric age.

Subaru will contribute to building a decarbonized society through our distinctive and technological innovations.

**Initiatives for Environmentally Friendly Automobiles**

"The earth, the sky and nature" are Subaru's fields of business, and we truly do value the benefits nature provides. The Subaru Group is committed to increasing the environmental performance of its products and also to protecting the global environment throughout the life cycle of its products, from the procurement of raw materials through to the manufacturing, transportation, use, and disposal of its products.

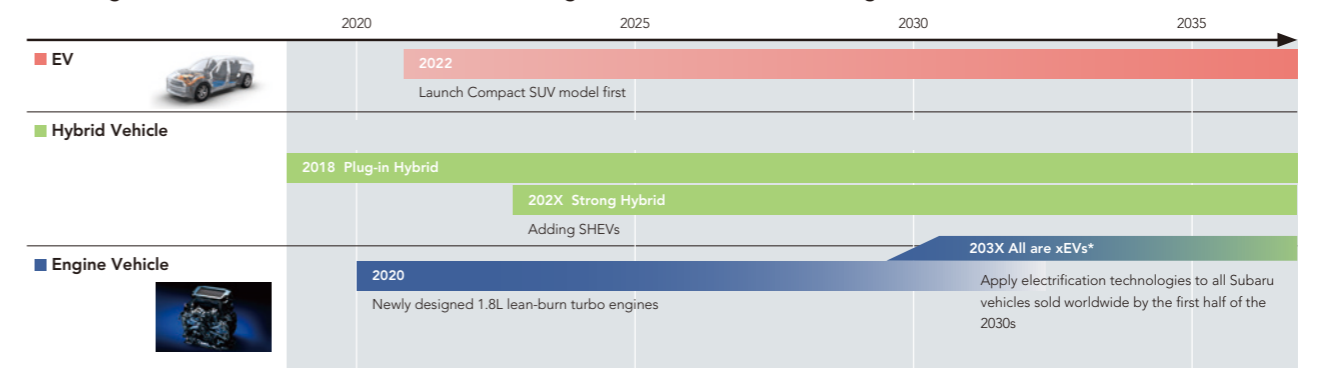
**Creating Better Cars Through Subaru's First Global EV**

The SOLTERRA C-segment SUV, jointly developed with Toyota Motor Corporation, will become Subaru's first electric vehicle launched globally on its release in mid-2022.

Subaru's customers, in the U.S. and beyond, expect not only safety performance, but AWD driving stability in poor weather, and an enjoyable drive, among others. In developing Subaru's first EV, Subaru utilized its proprietary driving force distribution, adaptable to changing road conditions and founded in Subaru's deep insights in AWD, and its highly responsive motor control to strengthen its handling stability even further, resulting in enjoyment and peace of mind commensurate with the Subaru Difference. By using the jointly developed e-Subaru Global Platform dedicated to electric vehicles, Subaru created a polished driving experience only found in its vehicles. The SOLTERRA will launch in the Japanese market, as well as in the U.S., Canada, Europe, China, and elsewhere. Going forward, Subaru will continue to strive to create better cars through the development of EVs combining the enjoyment of driving and environmental performance.



**Reducing CO<sub>2</sub> emissions with electrification technologies while further accentuating "Subaru-ness" in the environmental era**



\* Vehicles with electrification technology.

**Environment Action Plan 2030 and Other Key Environmental Initiatives**

Subaru initiated its new medium-term environmental plan in FYE March 2022. This plan is formulated around two timelines that are aligned with environmental issues.

**Environment Action Plan 2030:**

This is a group-wide plan with a medium-to-long-term perspective and initiatives that spiral upward to address future expectations.

**Other key environmental initiatives:**

These granular initiatives are from a short-to-medium-term perspective and are designed to meet current expectations.

The two main features of Environment Action Plan 2030 are milestone goals to achieve by 2050 and moving targets that change according to the expectations of society.

Through initiatives based on the new environmental plan, Subaru will sincerely address the expectations of current and future generations and further contribute to the realization of a sustainable society.

**Key Initiatives of Environment Action Plan 2030 (FYE March 2022)**

**Climate Change**

Field	Long-Term Vision	Environment Action Plan 2030			
		Primary Category	Subcategory	Components of Primary Initiatives	
Scope 1 and 2 (Plants and offices)	Target carbon neutrality by FYE March 2051.	Reduce CO <sub>2</sub> emissions by 30% in FYE March 2031 compared with FYE March 2017 (total volume basis).	Plants	• Reduce CO <sub>2</sub> emissions from Subaru plants <sup>1</sup> by 30% in FYE March 2031 compared with FYE March 2017 (total volume basis). • Reduce CO <sub>2</sub> emissions from Group plants in Japan <sup>2</sup> in FYE March 2031 by 10% compared with FYE March 2017 (total volume basis). • Reduce CO <sub>2</sub> emissions from overseas Group plants <sup>3</sup> in FYE March 2031 by 30% compared with FYE March 2017 (total volume basis).	• Upgrade cogeneration equipment. • Switch to LED lighting. • Expand solar power generation facilities. • Upgrade equipment. • Consolidate production lines. • Improve the energy efficiency of existing facilities. • Reduce standby power. • Purchase carbon-free electricity.
			Head Office	• Reduce CO <sub>2</sub> emissions from the head office building. <sup>4</sup> • Reduce CO <sub>2</sub> emissions to zero.	• Continue energy-saving activities. • Share best practices. • Initiate reduction strategy studies.
			Dealership	• Reduce CO <sub>2</sub> emissions from dealerships in Japan. • Aggregate information and upgrade systems to reduce CO <sub>2</sub> emissions.	• Switch to LED lighting. • Expand solar power generation facilities. • Improve the energy efficiency of existing facilities. • Initiate additional reduction strategy studies.
				• Continue energy-saving activities. • Purchase carbon-free electricity. • Use Green Heat Certificate and Green Power Certificate.	• Continue energy-saving activities. • Share best practices. • Initiate reduction strategy studies.

<sup>1</sup>1 Gunma Plant, Tokyo Office, Utsunomiya Plant

<sup>2</sup>2 Yusoki Kogyo K.K., Fuji Machinery Co., Ltd., Ichitan Co., Ltd., Kiryu Industrial Co., Ltd., Subaru Logistics Co., Ltd.

<sup>3</sup>3 Subaru of Indiana Automotive, Inc.

<sup>4</sup>4 Head office floors of the Ebisu Subaru Building (Shibuya-ku, Tokyo)

# Safe, Quality Cars

## Society's Expectations

- Improve car safety technology
- Provide high-quality products and services

## Subaru Initiatives

- Initiatives to achieve the goal of zero fatal traffic accidents by 2030
- Improve inspection and maintenance quality
- Secure and improve quality

## Approach for Safe Subaru Cars

Subaru Group believes that a car is more than just a means of transport, but rather a partner that enriches people's lives by understanding and meeting their expectations.

Subaru's DNA comes from our origin as an aircraft manufacturer, and has a focus on human. We think about what is important to people who use cars, and develop products with the necessary functions and performance.

"Focus on human. Think about what is important to people who use cars. And create new value with cars." We believe that this is what Subaru Difference means.

Having roots in the aircraft industry, we have, for more than half a century, consistently engaged in automotive manufacturing with maximum emphasis on safety performance, attaching particular importance to protecting lives in order to ensure that each and every one of our customers experiences "Enjoyment and Peace of Mind". In our pursuit of vehicle safety performance from all perspectives, we are honing our unique safety technologies in the four areas of Primary Safety, Active Safety, Preventive Safety, and Passive Safety, plus Connected Safety, based on Subaru's overall safety philosophy, which focuses on delivering the world's highest standard of safety and peace of mind for all passengers. In the future, we will further evolve this intelligence and combine advanced sensing technologies with the judgment capability of AI, improving safety in all situations.

Our mid-term management vision "STEP" describes our efforts to enhance safety and peace of mind by setting a target of achieving zero fatal traffic accidents by 2030.\*1 As such, we are engaged in the development of vehicles that will enable us to eliminate traffic accident deaths.

\*1 Reducing to zero the number of fatal accidents occurring while a driver or passenger in a Subaru vehicle and the number of fatalities among pedestrians, cyclists, and the like arising from collisions with a Subaru vehicle.

## Management System

We need to effectively invest resources in the development of strategic technologies and link technology and management more comprehensively. This will enable us to address new technologies, as symbolized by the electric vehicles that will be key to resolving environmental issues, autonomous driving and connected car services, which in turn will enable us to deliver appealing products.

Subaru has therefore transitioned to a development system that organically combines value and function from a development system based on functional units such as vehicle bodies and power units in order to accelerate the development of new technologies such as environmentally responsible electric vehicles. We have also created the CTO Office within the Engineering Division as an organization to discuss and decide the future direction of technology development, along with a system to incorporate its outcomes into group-wide strategies including procurement and manufacturing.

## Aiming for Zero Fatal Traffic Accidents by 2030

Subaru has four safety areas. Primary Safety involves design that allows for a good field of vision and does not make the driver or passengers feel tired. Active Safety is controllability that allows a driver to avoid an obstacle that is in front of them, and to continue driving after avoiding it. Preventive Safety refers to pre-crash breaking, as represented by EyeSight. And Passive Safety involves damage mitigation to protect the driver and passengers in the event that an accident does occur. By polishing these four safety areas, we intend to achieve a low rate of fatal traffic accidents in the real world.

Subaru is aiming to achieve zero fatal traffic accidents by 2030 by applying our intelligence technologies in the fields of Primary Safety, Active Safety, Preventive Safety, and Passive Safety, plus Connected Safety.

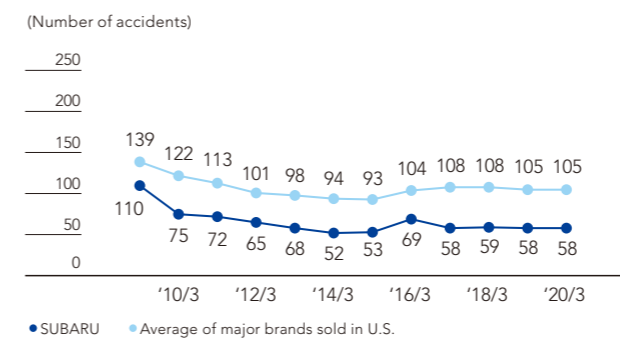
## Achieving a Low Rate of Fatal Traffic Accidents in the U.S. and Japan

From FYE March 2009 to FYE March 2020, we carried out an investigation on the number of fatal traffic accidents involving Subaru vehicles sold in the U.S. and domestically in Japan. In the U.S., Subaru vehicles have maintained a rate of fatal traffic accidents that is lower than the average for major selling brands in the U.S. for 12 consecutive years.\*2 Domestically in Japan, Subaru vehicles also show a rate of fatal traffic accidents that is lower than the average for domestic auto manufacturers for 12 consecutive years.

\*2 These calculations were made independently based on data from the Fatality Analysis Reporting System (FARS) of the U.S. and the Institute for Traffic Accident Research and Data Analysis (ITARDA) of Japan.

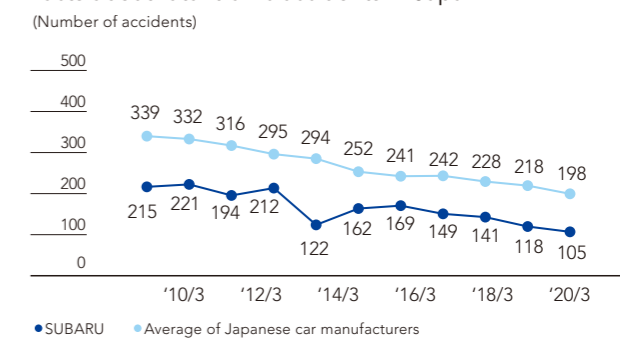
Please visit the Subaru website for details about EyeSight for 2030. (Japanese version only)  
<https://www.subaru.jp/safety/eyesight/>

### Facts about fatal traffic accidents in the U.S.



Calculated by Subaru based on FARS data  
 Fatal accident numbers per one million vehicles in last five years.  
 Average of 13 major brands sold in U.S., including Subaru (excluding trucks and large SUVs)

### Facts about fatal traffic accidents in Japan



Calculated by Subaru based on ITARDA data (including severe injuries)  
 Fatal accident and severe injuries\* per one million vehicles in last five years.  
 Average of 8 Japanese car manufacturers, including Subaru (including light vehicles but not trucks)  
 \* Fatal accidents: Incidences where the victim died within 24 hours of the initial event.  
 Severe injuries: Includes general cases of severe injury.

## Car Assessments

Subaru undergoes safety performance testing and assessment of public organizations in and out of Japan including JNCAP in Japan, IIHS\*1 in the U.S., Euro NCAP\*2 in Europe, and ANCAP\*3 in Australia, and has gained the highest rank of assessment in most of them.

In FYE March 2021, the new Levorg won the JNCAP Five Star Vehicle Safety Performance 2020 Award, the highest rating in the Japan New Car Assessment Program (JNCAP).

\*1 IIHS: The Insurance Institute for Highway Safety  
 \*2 Euro NCAP: European New Car Assessment Programme, a safety information disclosure program for automobiles in Europe  
 \*3 ANCAP: The Australasian New Car Assessment Program, a safety performance assessment program conducted since 1993 by an independent organization created by Australian and New Zealand transit authorities

### FYE2021 Commendations

Assessed Automobiles	Assessment Organization	Assessment
Levorg	JNCAP, Japan 	JNCAP Best Award 2020 JNCAP Five Star Award 2020
2021 models of the Crosstrek Hybrid, Forester, Legacy, Outback, and Ascent	IIHS, U.S. 	2021 TSP+ award* (U.S. models only)
2021 models of the Impreza (sedan and 5-door), Crosstrek, and WRX (all with optional EyeSight and specific headlights)	IIHS, U.S. 	2021 TSP award* (U.S. models only)

\* In the IIHS's publication of vehicle safety information, TOP SAFETY PICK (TSP) award is given to vehicles that earned the rating of "Good" in all test results including the Offset Frontal Test, the Driver-side Small Overlap Front Test, the Passenger-side Small Overlap Front Test, the Side Crash Test, the Rear Impact Test and the Rollover Test and the rating of "Acceptable" or higher in the Headlight Evaluation, as well as the rating of "Advanced" or higher in the vehicle-to-vehicle and vehicle-to-pedestrian tests. In addition to these ratings, vehicles which have been installed the headlights which earned the rating of "Acceptable" or higher in the Headlight Evaluation as a standard equipment are awarded the TOP SAFETY PICK+ (TSP+).

## CSR Procurement

### Society's Expectations

- Establish a supply chain that takes environmental and social issues into consideration
- Effectively use resources and promote recycling
- Address social issues such as human rights and trade

### Subaru Initiatives

- Promoting fair trade
- Responsible procurement initiatives
- Collaboration with our business partners

## Approach to Quality

Quality is the foundation of "Enjoyment and Peace of Mind," Subaru's core value, and delivering quality is one of our most fundamental responsibilities to our customers. Quality enhancement are the most important theme in mid-term management vision "STEP," and we are reviewing all business processes, from product planning and parts procurement by suppliers to production and shipping at our plants, and implementing reforms.

To ensure that we become a company that resonates with and inspires trust in our customers, under the banner of our new quality policy, all employees are making "quality-first" their slogan as they work hard to provide high-quality products and services that will impress customers. Subaru has also established quality policies at affiliated companies in Japan and overseas in accordance with the business content of each company and regional characteristics, and affiliated companies practice quality control based on these policies.

In FYE March 2021, we established the Quality Assurance Management Office to supervise quality assurance across the entire Subaru Group, including the Aerospace Company. The roles of this office will include developing and managing the Subaru Group's organizational structure and systems required to assure quality, maintaining their effectiveness, and continually improving them

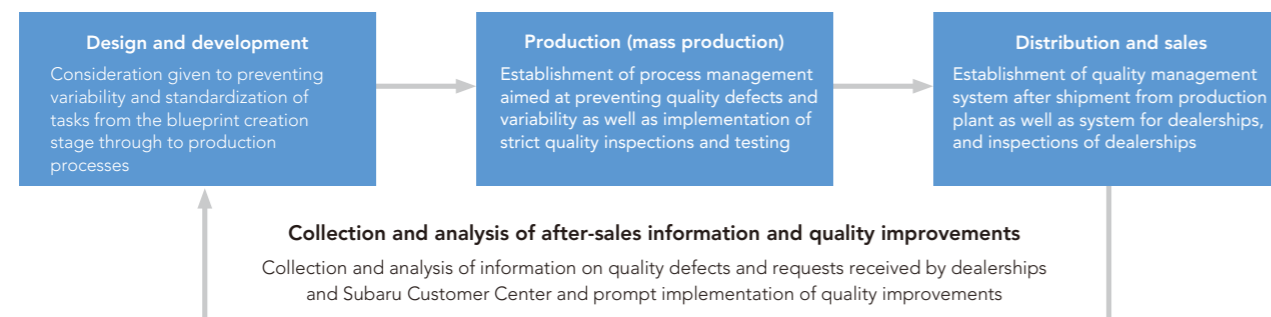
Please see page 83 of SUSTAINABILITY REPORT 2021 for details about our quality policies.

### Quality Management System

1. Establish Quality Management System (QMS) based on the Quality Policy and ISO9001 Standard and put it into practice for orderly and effective operations.
2. Aim to improve customer satisfaction by assuring that products will comply with both customer requirements and applicable statutory and regulatory requirements.
3. Strive to continually improve the QMS through operational improvements.

With its QMS, Subaru works to assure quality in each process from design and development to sales as well as creating a cycle to create even higher quality products. In addition, Subaru strives to work through this cycle swiftly in order to meet customer needs without any delay.

### Quality Management Cycle



## Management System

Subaru has established a quality improvement system with the Quality Assurance Division at the heart of efforts in order to analyze after-sales quality defects and customer requests to realize higher-quality development and production. Based on customer's opinions collected from around the world, Subaru works with the relevant in-house departments and suppliers in identifying quality issues, investigating their cause, and planning countermeasures.

In January 2021, we established FAST\*, a North American quality improvement team where quality assurance and development units at local affiliated companies in the U.S. work together with service units at dealerships in the U.S. and Canada. By cutting across divisional borders and strengthening collaboration, we have been able to more rapidly and accurately obtain market information, launching activities to use these in resolving issues.

\* Fast Action & Solution Team

## Our Approach

The modern global society faces a variety of environmental and social issues, including global warming and human rights violations. In order for companies to tackle issues like these, they must not only take action within their own organizations but also press for action in the entire supply chain, including their business partners.

To contribute to building a sustainable society, the Subaru Group strives to procure high quality, environmentally friendly parts, materials, and equipment that offer excellent 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

Subaru group has been promoting activities for sustainable procurement under the following basic policy.

#### 1. CSR Procurement

We engage in procurement activities in a way to harmonize people, society and the environment, and carry out our corporate social responsibility in such ways as conducting transactions paying due care to observe legal and societal rules and to protect human rights and the environment.

#### 2. Establish Best Partnership

We establish "WIN-WIN" relationships with suppliers through transactions based on mutual trust under the doctrine of good faith.

#### 3. 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 seven perspectives: quality, cost, delivery, technical development, management, environment and society (QCDDMES).

Revised in April 2020

## Management System

At Subaru the Procurement Departments of the Automotive Business and Aerospace Company participate in the Purchasing Committee, which promotes Subaru's CSR procurement initiatives.

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

## Initiatives

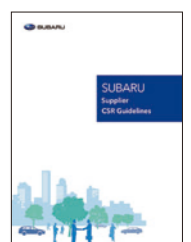
### SUBARU Supplier CSR Guidelines

To promote Subaru CSR procurement and help our suppliers conduct CSR activities, we created, and in FYE March 2012 began application of, the SUBARU Supplier CSR Guidelines. They are based on the CSR Guidelines for Suppliers of the Japan Automobile Manufacturers Association, Inc. (JAMA), and incorporate our CSR policy.

In FYE March 2014, these guidelines were made company-wide, including all suppliers of the Aerospace Company, and in FYE March 2016, Subaru revised the content to incorporate the non-use of raw materials that engender social problems, such as conflict minerals.\* In the same year in FYE March 2016, Subaru revised the guidelines in the form of a joint edition with Subaru of Indiana Automotive, Inc. (SIA), our local production plant in the U.S., confirming the integration of the procurement policy. We incorporated the SUBARU Global Sustainability Policy that was enacted in April 2020 as well as our Human Rights Policy.

At Subaru, compliance to these Guidelines is one of the criteria of our supplier selection. Subaru asks not only our suppliers but also their suppliers as well to develop and promote CSR.

\* Conflict minerals: Minerals for which there is concern regarding participation in unjust acts, such as support for non-governmental armed groups, human rights violations, or illegal acts. In Dodd-Frank Act of the U.S., tin, tantalum, tungsten, and gold are specified as minerals for which there is concern that they may be a source of funding for armed groups in the Democratic Republic of the Congo and surrounding countries.



SUBARU Supplier CSR Guidelines

Please visit the Subaru website for details about SUBARU Supplier CSR Guidelines.  
<https://www.subaru.co.jp/en/csr/pdf/sup2.pdf>

## Human Resources

### Business Partner CSR Briefing and CSR Survey

At the Business Partner CSR Briefing, we present corporate policies such as our SUBARU Supplier CSR Guidelines in keeping with OECD Due Diligence Guidance for Responsible Business Conduct. In our annual Business Partner CSR Survey, we assess negative impact on our business partners and work with them to correct any issues discovered.

In FYE March 2021, we took the following actions with a scope of approximately 550 automobile-related business partner companies (including approximately 360 in parts and raw materials, and approximately 190 in equipment and jig tools).

### Responsible Mineral Procurement

The Subaru Group has no intention of colluding in the infringement of human rights and environmental destruction by procuring and using conflict minerals. In FYE March 2021, upon request from our customers, Subaru continued to conduct a conflict mineral survey targeting about 210 suppliers of parts and materials.

In this survey, we referenced the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, using the Conflict Minerals Reporting Template (CMRT), a questionnaire provided by the Responsible Minerals Initiative (RMI). We used this to trace through the supply chain and identify smelters, checking whether or not we are colluding in the infringement of human rights or contributing to sources of funding for armed groups.

In FYE March 2022, we will expand the scope of our conflict mineral survey to all suppliers of automotive components and raw materials. We will also work to roll out surveys regarding minerals other than conflict minerals (tin, tantalum, tungsten and gold) such as cobalt.

Going forward, Subaru's policy is to work toward "No use of materials engendering social problems" in partnership with our customers and suppliers as our social responsibility in procurement activities.

### Green Procurement Guidelines

The Subaru environmental policies state that "Our purchasing activities reflect consideration for biodiversity and other aspects of environmental protection." We promote the procurement of parts, materials, and services from business partners who implement business activities that consider the environment. In addition, Subaru has expressed in the "SUBARU Green Procurement Guidelines" its expectations for business partners regarding environmental initiatives. The guidelines primarily request cooperation in the ten areas presented on the right.

Compliance to these guidelines is considered a necessary criterion for selecting business partners, and we recommend new business partners to formulate an environmental management system with the acquisition of ISO14001\*1 third-party certification at its base. Currently, all of our Tier 1\*2 business partners have already acquired ISO14001 certification. In case our new business partners have difficulty acquiring ISO14001, we review their compliance status by having them submit voluntary assessment reports based on our environmental management system, while supporting them with the acquisition of Eco Action 21.\*3

To those business partners who have passed our voluntary examination, Subaru makes inquiries or performs audits as necessary and requests them to continue efforts toward early acquisition of third-party certification for environmental management.

\*1 International standard for environmental management systems (EMS) established by the International Organization for Standardization (ISO). It is a management system standard to certify that an organization considers the environment and has built a system for continuously reducing environmental impact.

\*2 Companies that directly supply parts to car manufacturers. They are primary business partners. Tier 2 business partners are companies that supply Tier 1 with those parts that make up the Tier 1 company parts.

\*3 Environmental conservation activity promotion program for small- and medium-size enterprises formulated by the Ministry of the Environment, Japan. It is an environmental management system that addresses three areas: environmental management systems, environmental efforts, and environmental reporting, based on the guidelines.

#### Requirements for Suppliers

##### Requirements concerning Suppliers' Environmental Management

1. Compliance with environmental laws and regulations
2. Establishment of Environmental Management System (EMS)
3. Submission of Environment Manager registration forms
4. Improved environmental performance

##### Requirements for Activities Considering the Entire Lifecycle

5. Reduction of greenhouse gases
6. Utilization of recycled resource materials
7. Appropriate management of water resources
8. Addressing biodiversity

##### Requirements for Parts, Materials, and Services Supplied to Subaru

9. Management of substances of concern
10. Reduction of CO<sub>2</sub> emissions and packaging and wrapping materials in logistics

Please visit the Subaru website for details about SUBARU Green Procurement Guidelines\*4.

<https://www.subaru.co.jp/en/csr/pdf/gre2.pdf>

Please visit the Subaru website for details about Green Procurement Guidelines Aerospace Company Edition\*4.

<https://www.subaru.co.jp/en/csr/pdf/gre4.pdf>

\*4 The Subaru Green Procurement Guidelines and the Green Procurement Guidelines Aerospace Company Edition are concrete forms of the item "(3) Environment" in the SUBARU Supplier CSR Guidelines.

### Communication with Suppliers

In our Automotive Business Unit, we had been hosting Policy Briefings every spring to share policies on development, quality, procurement, and production with our business partners. The Policy Briefing to be held in the spring of FYE March 2021 was postponed due to the spread of COVID-19; in early autumn, when the situation had stabilized, this was integrated with and held alongside the Cooperation Meeting and business partner award events with thorough infection control measures in place. Going forward, we will bring new forms of information exchange in collaboration with the Cooperation Meeting, reconstructing forms of communication with our business partners with the premise of adapting to such environmental changes.

The Aerospace Company held the Subaru Status Report Meeting with business partners in November 2020 followed by the 77 Business Partner and Company President Web Dialogue in January 2021.

### Society's Expectations

- Promote diversity
- Reform work styles
- Enhance employee engagement
- Address human rights issues

### Subaru Initiatives

- Mid-term Management Vision "STEP": Six Priority Areas for CSR
- Promote active roles for female employees
- Utilize diverse human resources and promote diverse work styles
- Implement health management
- Protect the human rights of workers

## Our Approach to Human Resource Development

The people of the Subaru Group are a core resource for achieving our ideal of being a company "delivering happiness to all." Corporate culture reform is therefore a priority of our mid-term management vision "STEP." We encourage all employees to independently develop their own careers and take on challenges under their own initiative to create a culture that is open and rewarding. We will accelerate our initiatives by introducing a new personnel system in FYE March 2022. Focusing on individual growth, we develop our people by offering more opportunities for them to independently develop their own careers, opportunities to learn, and job rotation through a system of open recruiting. This enhances our competitiveness as a company and the appeal of the SUBARU brand, which contributes to sustainable growth in the Group's corporate value.

## Training and Education

### Our Approach

In order to achieve its mid-term management vision "STEP," Subaru focuses on the growth of the individual, utilizing the talent development tools of challenge-oriented personnel systems, personnel rotation, and educational programs.

In addition, Subaru's affiliated companies in Japan and overseas promote initiatives in accordance with the business domain of each company and regional characteristics.

### Regular Reviews and Career Development

Through the operation of the personnel system, each employee's job outcomes and performance levels for skills are objectively evaluated. In addition, under the goal management system, all Subaru employees have an interview four times a year (for goal setting, interim confirmation, outcome confirmation, and evaluation sharing) and the supervisors and subordinates agree on the challenges necessary for growth.

Both men and women are treated appropriately and there is no gender gap in the basic salary.

### Training Programs

Subaru offers a wide range of learning opportunities so that all employees can develop their skills in accordance with their career plans and levels. In order to support employee career development, we are introducing new programs in FYE March 2022, establishing a system and environment so that we, as a company, support the growth of the individual.

### Structure of Training Programs

	Sharing Philosophy*	Career Training* Career Support*	Business Skill Development Support*	Globally Focused Talent Development	Managerial Talent Development	Rank-specific Programs	Self-development Support
Manager Class	Philosophy sharing program	Career management training	Business skill development support programs	Mindset/Communication/ Language skills	Programs for selected staff	Newly appointed personnel training	Training at each business site/ Official certification support
Mid-level/ Regular Employee		Age-specific career training					
New hires	New employee training (after starting official employment)						
	New employee training (before starting official employment)						

\* New

### Philosophy Sharing Program

This program helps individual employees gain a deeper understanding of Subaru's vision and the value it offers, helping them share a sense of togetherness with Subaru through mutual dialogue between employees. It is designed to enable employees to independently be mindful of and act toward achievement of Subaru's vision.

### Career Training and Career Support

Career training is offered to employees as an opportunity for them to come face-to-face with their potential career paths so that they can develop their own careers independently. We also offer career management training and career consultations for managers so that employees' workplaces and superiors can support their career development.

### Business Skill Development Support Programs

All employees, from managers to general staff, are offered a choice of various business skills development support programs in accordance with their level and goals. In skills development, we encourage employee independence and their voluntary selection of programs in accordance with their career plans and their own strengths and weaknesses. In addition, by actively utilizing public courses held at external institutions, employees gain more contact points outside the company and gain new awareness, providing opportunities to learn more about the outside.

### Globally Focused Talent Development

In addition to improving language skills, we encourage employees to develop a wide range of capabilities with the goal of acquiring cross-cultural collaboration and leadership skills with a view to playing an active role on the global stage.

### Managerial Talent Development

Subaru offers training for selected mid-level and manager class employees with the aim of continually fostering the next generation of managerial talent.

### Initiatives to Transfer Skills

The purpose of transferring skills at Subaru is to create talent who have comprehensive abilities to adapt to change, standardize and sustain that standardization, and envision continuous improvement, and who can create high-quality products with safety and efficiency.

At the Gunma Plant, we are systematically cultivating technicians based on a program of skills education. In April 2021, we introduced a new basic training program that condenses the vocational training school and STS education\* programs previously available to employees. 294 employees attended courses in this program.

\* At Subaru Technical School, employees engage in specialized practical training and courses according to their occupation.

### National Skills Competition

The National Skills Competition is designed to cultivate talent with advanced technical skills and who can lead in the workplace.

Each year, Subaru employees compete to be the best in Japan in three categories—lathes, plastic molding, and automobile sheet metal. For about three years from when they join the company, competitors strive to hone their skills, concentration, and endurance in daily training so that they can do their best at this national competition.

## Diversity

### Our Approach

For the Subaru Group to continue offering customers the unique value of the Subaru brand, Subaru employees need to be able to exert their unique talents informed by their own personal values and characteristics. This is why Subaru values the differences in gender, nationality, culture, and lifestyle among its employees and strives to create workplace environments where everyone can make a meaningful contribution.

In addition, Subaru's affiliated companies in Japan and overseas promote initiatives in accordance with the business domain of each company and regional characteristics.

### Management System

The Diversity Promotion Office of Subaru's Human Resources Department leads the efforts of the Subaru Group in relation to diversity. The office has designated "supporting female employees to take on more active roles," "promoting the employment of people with disabilities," "promoting the reemployment of post-retirement age workers," and "promoting the recruitment of non-

Japanese workers" as priority themes. Among them, Subaru has placed particular emphasis on efforts to support and empower female employees.

### Initiatives

#### Empowerment of Female Employees

Subaru is promoting initiatives for the empowerment of female employees, mainly by supporting employees in their efforts to balance work and childcare and in their pursuit of career development. Subaru set itself the target of increasing the number of female managers by five times the 2014 level in 2020, and achieved this goal in 2019, a year ahead of schedule. Subaru is further strengthening its efforts aimed at developing female managers by setting a new target to increase the number of female managers to 2 times or more the 2021 level by 2025.

To support career development, Subaru has conducted a wide range of initiatives, including the mentor system and the career development training for female team leaders. We believe that sharing development plans with supervisors of female employees is indispensable for the career development of female employees, and we provide opportunities for the supervisors to discuss such plans with human resources personnel. Recently in FYE March 2020, sessions to share development plans were held for general managers in all development-related departments, where the participants confirmed the promotion of a training-based development policy. In FYE March 2021, we introduced a new career vision training program for female employees in their 20s to foster career awareness among women at an early stage of their careers. Going forward, we will continue to further strengthen our efforts to create a workplace environment in which they can plan their own career paths and make a meaningful contribution on a level playing field.

#### Status of Female Employees (Non-consolidated)

	FYE March 2021
Proportion of female employees	7.2%
Proportion of female managers	1.9%
(Breakdown)	
General managers and equivalent positions	1.3%
Managers and equivalent positions	2.1%

#### Employment of People with Disabilities

Subaru strives to create workplace environments in which people with disabilities can truly shine. To achieve this goal, Subaru leverages the ideas and opinions of our employees with disabilities and their family members.

As of April 2021, Subaru has 306 employees with disabilities, mainly engaged in manufacturing work, and the percentage of employees with disabilities is 2.36%.\*1

In FYE March 2021, we also held training programs for supervisors in departments where people with disabilities are employed, and for personnel in charge of hiring people with disabilities at our affiliates in Japan. These programs helped instill a better understanding of the importance of hiring people with disabilities and their particular characteristics, as well as key points on labor management and other information.

\*1 Including the number of employees with disabilities at Subaru's specified subsidiary company.

#### Employment of People with Disabilities

	April 2017	April 2018	April 2019	April 2020	April 2021
Number of employees with disabilities (person)*	261	269	280	291	306
Employment rate of people with disabilities (%)	2.17	2.28	2.30	2.30	2.36

\* According to the method of calculation specified in Act on Employment Promotion etc. of Persons with Disabilities, one person with severe disabilities is counted as two persons with disabilities.

#### Reemployment of Retirees

Subaru has implemented its Subaru Business Staff Program and Subaru Partner Program after revising its re-employment programs for employees after retiring at the mandatory age of 60. This revision and these programs are designed to not only help energize employees and senior citizens with valuable skills, but to also be tailored to individuals with a variety of capabilities and support their active participation. We operate our programs so that all those who want to be reemployed can work for Subaru and other Group companies.

The number of rehired employees (aged 60 or older) in FYE March 2021 was 447.

#### Employment of Non-Japanese Employees

Subaru employs non-Japanese new graduates and mid-career workers as regular and temporary employees regardless of their nationality.

In order to help non-Japanese employees to deepen their understanding of their work, we prepare our safety and quality policy-related documents, work manuals, and other documents in multiple languages. At the Gunma Plant, where we employ a particularly large number of non-Japanese employees, we have stationed interpreters in English, Portuguese, Tagalog, Spanish, Chinese and

other languages at each of the facilities to foster communication between Japanese and non-Japanese employees.

Moreover, we provide Japanese employees with opportunities to receive language training and engage in overseas training, thereby helping them to enhance their ability to communicate with people from other countries and understand cultural differences. These initiatives contribute to revitalizing the company and securing human resources in a stable manner.

As for foreign trainee workers, we basically provide them with education on safety and quality under the Technical Intern Training Program and also implement other measures to develop them into human resources who can utilize their abilities for their own countries after returning home.

Our overseas subsidiaries and affiliated companies independently employ human resources and work to secure human resources in line with their own policies and business details.

## Work-Life Balance

### Our Approach

As a precondition to making our customers happy, the Subaru Group believes it is vital to provide employees with workplaces where they can work with vigor and peace of mind and demonstrate their abilities to the fullest. In order to help diverse employees to maintain their work-life balance, we are diversifying work style options and expanding the relevant systems.

Moreover, our affiliated companies in Japan and overseas are fostering initiatives suitable for local business conditions and regional characteristics.

### Initiatives

#### Work Style Reforms

Subaru's response to the Act on the Arrangement of Related Acts to Promote Work Style Reform\*

Item	Details
Accurate calculation of employees' working hours	In July 2018, introduced a company-wide attendance management system for the central management of all electromagnetic records (computer logs and clock-in and clock-out records) for the accurate calculation of employees' working hours.
Encouraging employees to take at least five paid days off per year	In FYE March 2020, began implementing measures for all employees, including an initiative to encourage employees who are newly entitled to take 10 or more paid days off to take at least five days off within seven months after the entitlement. Also established operational rules to ensure that all employees can take at least five paid days off per year.
Imposing an upper limit on overtime working hours	Has been limiting the number of overtime work hours to 590 hours and below annually and to 79 hours and below monthly, setting the criteria stricter than those stipulated by law.
Raising the premium pay rate for overtime work exceeding 60 hours per month	Has been implementing necessary measures since FYE March 2011.
Equal pay for equal work	Began reviewing the amount of allowances granted to non-regular employees in FYE March 2021.
Work-from-home system	Conducted a test implementation starting in FYE March 2021, with full rollout to all sites beginning in FYE March 2022.
Abolishing mandatory core hours in the flex-time system	Full rollout to all sites beginning in FYE March 2022.

\* This law was enacted in June 2018 to revise the labor-related laws to foster work style reforms

#### Support for the Maintenance of Balance between Work and Elderly Care

At Subaru, we believe that for employees to continue working with peace of mind, it is important to help mitigate the concerns and burdens of employees and their families concerning the care of the elderly family members. Based on this belief, Subaru has distributed the copies of the Elderly Care Support Handbook to all employees of Subaru to inform them of the related systems available internally and externally and of the contacts through which they can ask for advice. We have also established a specific long-term care support system to help reduce the burdens imposed on employees.

Number of employees who took long-term care leave (Non-consolidated)

(FYE March)

	2017	2018	2019	2020	2021
System for employees to take leave to take care of the family member in need of long-term care	4	5	9	30	3

#### Support for the Maintenance of Balance between Work and Childcare

It is also important to provide employees with an environment that allows them to continue developing their careers while raising their children. Accordingly, we formulated a voluntary action plan in line with the Act on Advancement of Measures to Support Raising Next-Generation Children.\* At present, Subaru has received three stars in the "Kurumin" certification from the Japanese Minister of Health, Labour and Welfare, and is taking action based on our 7th Action Plan.

\* This law was enacted for the provision of an environment where people can have and raise children, who are the next generation of leaders, in a sound manner.



"Kurumin" mark

#### Childcare leave system

Subaru's employees can extend the period of childcare leave to the end of the first April after the child becomes two years old.

Number of Employees who Took Childcare Leave (Non-consolidated)

(FYE March)

		2017	2018	2019	2020	2021	
Number of employees who took leave	Male	8	10	21	42	65	
	Female	88	88	80	80	93	
	Total	96	98	101	122	158	
System for employees to take leave for childcare	Rate of employees who returned to work (%)	Male	100	100	100	100	
		Female	100	100	97.5	95	100
		Rate of employees who remained at the company one year after returning to work (%)	Male	87.5	83.3	100	85
	Female	100	97.2	90	95	93	

#### Employee Attitudes Survey

Subaru conducts the Employee Attitudes Survey with an eye to increasing employees' motivation and revitalizing the organization. The survey results are reported to the management team and are also utilized to identify problems and formulate the countermeasures at each of our workplaces.

In the FYE March 2021 survey, 15,853 employees or about 93% of the total number of regular employees replied to the questionnaire, and 67% of the respondents answered, "Feeling proud of being a Subaru employee."

Results of the Employee Attitudes Survey  
Rate of respondents who gave positive answers (%)  
to the questions

(FYE March)

Question	2020	2021
Communication and openness	56	59
Work-life balance	59	64
Sympathy with the corporate philosophy	70	73
Work satisfaction	56	58
Pride in the company	63	67

## Labor-Management Communication

### Our Approach

Subaru and its labor union have been on good terms with each other based on mutual understanding and trust. The company acknowledges that the union has the right to unite and engage in collective bargaining and other collective actions, while the union recognizes that the company has the right to manage the business, and the two parties respect the legitimate use of their mutual rights.

The Labor and Management Council regularly holds meetings for smooth corporate management and mutual communication. Specifically, participants exchange opinions regarding the management policies, outline of the business results, and production and sales, and also discuss issues such as labor conditions, challenges concerning work styles, and the occupational health and safety policies. In the labor-management negotiations on the revision of wages (salaries and bonuses) and other labor conditions, the two parties work to reach an agreement for revision or the establishment of new rules. For issues that might have a significant impact on employees, the parties discuss them fully before informing employees of the results.

#### Number of Employees Belonging to the Labor Union (as of October 1, 2020)

The following shows the data for FYE March 2021.

- Members of the Subaru Labor Union: 15,610 persons  
(Total number of employees: 16,853 persons, excluding managers)
- Confederation of Subaru Affiliated Labor Unions Number of members: 28,056 persons

# Health and Safety

## Occupational Health and Safety

### Our Approach

Subaru regards occupational health and safety as a critical management issue, and our Health and Safety Philosophy is “Subaru makes health and safety the first priority in all our work.” Further, in addition to our Basic Health and Safety Policy, each of the Subaru Group companies in Japan and overseas establishes their own occupational health and safety policies in line with their business details, regional characteristics, and local laws and regulations, and implements initiatives based on the policies.

### Management System

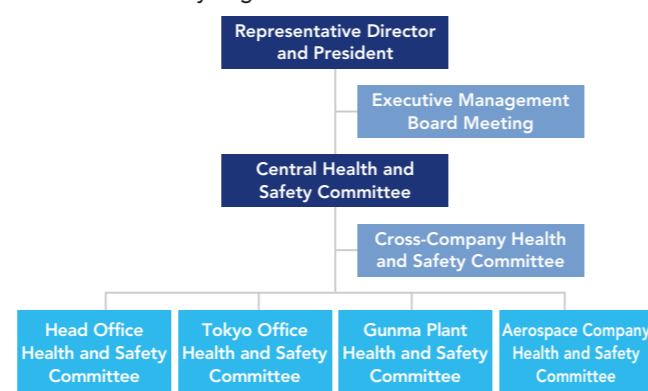
Subaru established the Central Health and Safety Committee, which is composed of members from management (executive officer in charge of health and safety and the manager in charge of onsite health and safety) and from the labor union, with a view to protecting employees (including non-regular employees) and our affiliates from industrial accidents and illness and improving the working environment. The committee, which meets for deliberations three times a year, is chaired by an executive officer, and its vice-chairperson is elected from the Company’s labor union’s membership. Its deliberations primarily include occupational safety, occupational health, traffic safety, and fire and disaster prevention.

As for affiliated companies under the control of the Site Health and Safety Committee, we provide them with related information, as necessary for the promotion of their occupational health and safety activities.

**Basic Health and Safety Policy**  
 With the aim of reducing industrial accidents, traffic accidents, diseases, and fires and other disasters to zero, every individual will strive to create a safe, comfortable workplace through efforts to improve facilities, environments, and work methods, and to enhance management and awareness, based on a shared recognition of the importance of health and safety.  
 Central Health and Safety Committee

Established April 2002

Health and Safety Organization Chart



### Initiatives

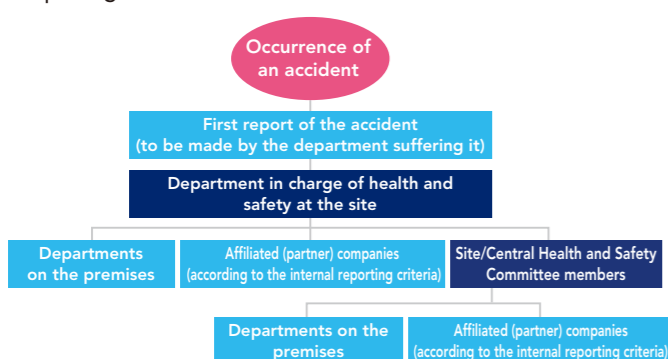
At the start of every fiscal year, each of our sites holds the Health and Safety Kickoff Meeting, where the head of the site communicates the health and safety policies for the fiscal year to workplace leaders so that all employees can share the health and safety activity targets and plans as a unified team and raise their awareness about the prevention of industrial accidents, road safety and health management.

### Industrial Accidents

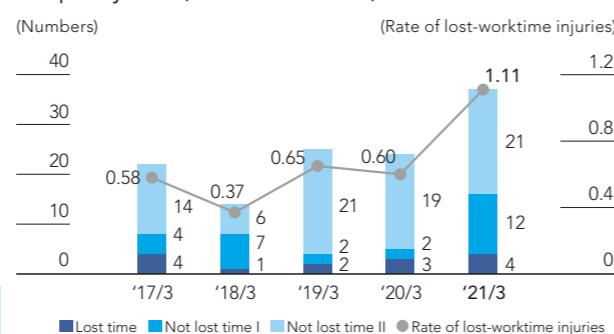
As for industrial accidents and close calls that happened at our sites and affiliated companies, we comply with the following rule for the prevention of similar incidents at the sites: the department that has faced the incident shall disclose related information to other departments on the premises and affiliated companies via the department in charge of health and safety at the site.

For FYE March 2021, we had 37 industrial accidents, of which four were lost time accidents and none were fatal accidents. The accident frequency rate was 1.11. These figures were significantly greater than those from FYE March 2020, and given this, we are taking action toward stronger daily prevention. Our policy here is to use analyses of accidents per site to enforce more rigorous rule compliance to standardized work across the Group, have workers wear appropriate protective gear, ensure appropriate signaling and callouts, and other “rigorous compliance to basic matters (back to basics).”

### Reporting Line for Industrial Accidents



Occurrence of Work-Related Accidents and Accident Frequency Rate (Non-consolidated)



## Health Management

### Our Approach

Subaru is fostering health management measures along with occupational health and safety activities so that all employees can work healthily, soundly and vigorously, take on challenges and achieve growth. Subaru takes these actions in the belief that the health of employees and their families is essential for all its business operations. Subaru works with the relevant units within the Human Resources Department to support the physical and mental health of its employees as well as to build a healthy organization and promote flexible working styles, and more. By doing this, it creates the underpinnings of a more comfortable working environment necessary for greater employee engagement.

### Health Declaration

To build happiness for our employees and their families, we need a foundation of mental and physical health. Subaru works with its employees to promote health and preventive care, taking on the challenge of building workplaces full of smiles and enabling growth.

Tomomi Nakamura  
 Representative Director of the Board,  
 President and CEO, Subaru Corporation  
 Minoru Yamagishi  
 Executive Chairman, Subaru Labor Union  
 Tatsuro Kobayashi  
 President, Subaru Health Insurance Association

Established October 2020

### Subaru Health Declaration

#### Purpose

In pursuit of becoming a company “delivering happiness to all” and based on our Global Sustainability Policy of “striving to maintain and advance the workplace environment so that employees can work safely in peace, and with a sense of satisfaction,” Subaru Corporation, the Subaru Labor Union, and the Subaru Health Insurance Association jointly released the Health Declaration in October 2020 with the intent that the three parties work in unison toward health.

### Management System

Subaru considers health promotion activities to be a management issue, and as of FYE March 2021, Subaru has discussed and operated a PDCA cycle regarding its health management issues and measures at the Executive Meeting. Subaru has also established the Health Steering Committee to serve as a promotion framework, advancing collaborative health with partnership from Subaru, its labor union, and its health association. On the operational side, the Health Promotion Group has served as a core driver of our company-wide, unified health promotion measures since 2021. This dedicated organization within the Human Resources Department coordinates weekly regular meetings with stakeholders such as health promotion managers at our sites, industrial physicians, and other staff in charge of industrial health.

### Initiatives

Subaru is engaged in activities to visualize and improve health issues, divided into the two categories of physical health and mental health.

#### Physical Health

By encouraging employees to undergo regular health checkups, we are striving to promote early detection of lifestyle-related diseases among employees and help those suffering from the diseases to recover. We also collect data about employees with some signs of these diseases, including numerical data, to help them improve their lifestyles and prevent the outset of the diseases.

#### Mental Health (Prevention of Mental Illness)

We are implementing “self-care ” and “line care” measures for the prevention and early detection of mental illness among employees. We have also set up a consultation service so that employees can receive follow-ups from industrial health staff. For employees who took leave due to mental illness, we proactively support them when they return to their workplaces.

#### Certified as a Health & Productivity Management Outstanding Organization for 2021

Subaru has been recognized as a Certified Health & Productivity Management Outstanding Organization for 2021 (large enterprise category) by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi (Japan Health Council).

Going forward, we will continue to accelerate a variety of health promotion activities with the purpose of improving the health of our employees—the people who bring happiness to our customers—and their families.



2021 Certified Health & Productivity Management Outstanding Organization (large enterprise category)



# Compliance

## Our Approach

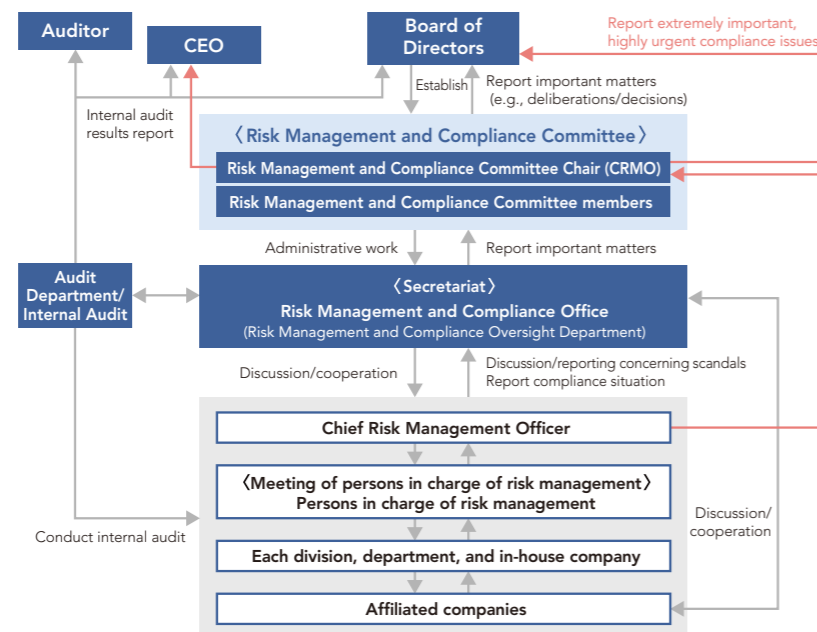
At Subaru, compliance is positioned as one of our most important management issues in our Corporate Governance Guidelines. We instill in each employee a strong awareness that thorough group-wide compliance forms the foundation of Subaru's management, that we must observe all laws and internal regulations relevant to our business activities, that our corporate activities must be executed in manner that is fair and just and in conformance with general social ethics, common sense and standards, and that these principles should be reflected in their actions, create and operate a compliance system/organization, and carry out activities such as providing all kinds of training for these purposes.

## Management System

Subaru has established the Risk Management and Compliance Committee, a company-wide organization designed to promote compliance. This committee deliberates, discusses, decides, and exchanges information on important matters related to risk management. Also, each department formulates their own implementation plan (compliance program) to promote compliance every fiscal year, and moves forward with continuous, systematic independent activities.

In FYE March 2021, the Chief Risk Management Officer (CRMO), Director, and Executive Vice President served as chair of this committee, with the Risk Management and Compliance Office serving as its secretariat. Under the chair's direction, the committee executed global and group-wide compliance initiatives, with these activities regularly reported to the Board of Directors.

### Compliance System



## Compliance Hotline

When regular and temporary employees of the Subaru Group detect a problem related to compliance in the group, they can consult with the Hotline Desk by using the Compliance Hotline.

There were 236 consultations in FYE March 2021, the details of which are outlined in table to the right. Through initiatives to raise awareness of this system, Subaru has worked to foster mindsets for its proactive use and to improve awareness of compliance. This has led to more openness to consulting even about trivial matters, and more transparency about the system's operation, leading to an increase in the number of consultations.

### Breakdown of Compliance Hotline Consultations and Trend Over Time

(FYE March)

	2017	2018	2019	2020	2021
Workplace environment	2	10	13	14	7
Labor related	14	49	78	68	65
Interpersonal relationships, harassment	26	58	75	84	107
Other compliance-related issues (Work violations, suspicion of wrongdoing, etc.)	18	46	33	50	57
Total	60	163	199	216	236

## Training

In enforcing thorough compliance, we believe that initiatives in which the entire Subaru Group acts in concert are necessary. We conduct compliance training, training for legal affairs in practical business, and other programs for all Group employees organized by our Legal Department, Risk Management and Compliance Office, and human resource and education departments.

Also, each department and affiliated company creates their own unique education plan based on their compliance program, supplemented with study groups on important laws related to their work and compliance enlightenment training.

In FYE March 2021, Subaru explored and promoted the introduction of new training content and methods, such as moving to online-based compliance training, in light of work environment changes due to COVID-19. In FYE March 2022, it will continue to strive toward building more effective training content and methods.

## Bribery Prevention

Subaru considers the prevention of bribery related to its businesses to be an important issue, and has established the Company-wide Bribery Prevention rules, as well as rolled out the Bribery Prevention Guidelines (Japanese and English) to the entire Subaru Group. The guidelines clarify the conduct required of employees and executives by explaining prohibited and non-prohibited acts particularly when coming in contact with government workers. In China, taking into consideration unique social conditions, we created the Bribery Prevention Guidelines (with a Chinese translation included). It is distributed throughout our Chinese subsidiaries and forms the official rules of the relevant companies.

Under the monitoring system for bribery prevention, Subaru collects information to ascertain the presence of cases that may constitute compliance violations through company-wide compliance activities, its whistleblowing system, and other channels. It also strives to use actions like internal audit departments' business audits to detect cases early. Furthermore, Subaru has established a system to report high-risk cases to the Risk Management and Compliance Committee and the Board of Directors, in an effort to strengthen oversight.

## Tax Policy

The Subaru Group is able to conduct its business operations thanks to support from society, and it strongly recognizes the importance of returning profits to society. The Subaru Group considers fulfilling its tax obligations to be an essential element of this.

The Subaru Group strives to ensure compliance with the tax laws and regulations of each country and jurisdiction, pursuant to the international rules and standards set out by international organizations, thereby fulfilling its societal obligations through appropriate tax payment, while aiming for sustainable growth through sound business activities.



Please refer to our website for details about Corporate Governance Guidelines.

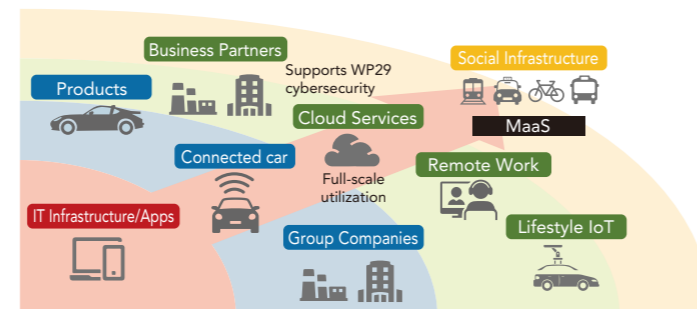
<https://www.subaru.co.jp/en/outline/governance.html>

## Information Security

### Our Approach

The use of digital data is essential for Subaru in the course of its business activities. The use of digital data is not limited to traditional information systems but covers diverse realms, including facilities, products, and a whole range of services offered by Subaru. Being aware of our social responsibility to handle digital data in these realms safely, we have established the Basic Cybersecurity Policy, undertaking information security protection activities group-wide.

#### Scope of Information Security for the Subaru Group



Please see page 147 of SUSTAINABILITY REPORT 2021 for details about our basic policies for cybersecurity.

### Initiatives

In FYE March 2021, Subaru conducted e-learning and video training programs based on cybersecurity management system documents drafted in the previous fiscal year in the three domains of In-Car (interior systems), Out-Car (exterior systems) and information systems.

Objective: Promote understanding of cybersecurity and mitigate practical security risks

Program Details: Education on internal rules requiring compliance in each of three domains

Course Participants: For In-Car system developers: Approx. 700

For general employees related to information systems: Approx. 3,100

Subaru also conducted targeted attack email drills and security incident scenario training for incident response teams.

Internal audits based on this management system are now regularly carried out and will continue to be in the future.

### Personal Information Protection Initiatives

Subaru, in conjunction with the enactment of the Act on the Protection of Personal Information, undertook various initiatives, including establishing internal systems and rules, and publicly disclosing its privacy policy. Moreover, Group companies in Japan and overseas have begun to build a management system to properly use personal information.

In FYE March 2021, Subaru implemented the following key initiatives in response to the Act on the Protection of Personal Information.

- Training for all departmental and office managers concerning the Act on the Protection of Personal Information (138 employees took part via e-learning)
- Identification of management issues by taking stock of personal information held by all departments
- Confirmation of a check sheet on the status of compliance with related internal rules at all departments and the implementation of a continuous PDCA cycle
- Revision of relevant internal rules with the aim of improving company-wide governance
- Formulation of privacy policy for telematics services for the Japanese market
- Cookie policy revisions based on the 2020 revisions of the Act on the Protection of Personal Information

In addition, we are working to ensure compliance with laws and regulations by having Subaru dealerships in Japan that handle large amounts of customer personal information take similar initiatives and report cases on an ad-hoc basis to Subaru.

Furthermore, in compliance with Japan's Act on the Protection of Personal Information, the Subaru Group has built a system to conform with the EU's General Data Protection Regulation (GDPR).

## Intellectual Property Protection Initiatives

### Our Approach

Subaru, after identifying its strengths and weaknesses, has put together a vision for Subaru's intellectual property activities with aims to achieve the brand management outlined in its mid-term management vision "STEP." Following is the three-point basic policy being carried out.

### Basic Intellectual Property Policy

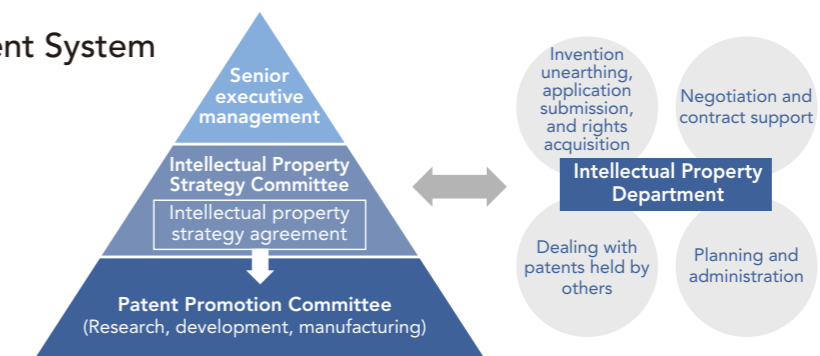
1. Function as a compass for business and R&D strategies using the IP landscape\*
2. Throughout Subaru, Subaru will dedicate ourselves to creating intellectual properties that originate from the market and appropriately manage its intellectual property portfolio to protect and enhance its brand
3. Subaru will respect the intellectual property rights of others and work thoroughly for patent clearance in product development

\* In combination with market information on intellectual properties, analyzes the business environment and support strategic plans

In addition, to aid in minimizing intellectual property risk through business activities that respect the Group's intellectual property, protecting, expanding and securing an advantage in business, and protecting the Subaru brand and maximizing its value, we have established the Subaru Group Intellectual Property Policy to set guidelines for the following activities.

1. Business activities that respect intellectual property
2. Management and effective utilization of intellectual property
3. Handling lawsuits
4. The Subaru corporate brand logo

### Management System



### Initiatives

At Subaru, the Intellectual Property Department manages, protects, and utilizes intellectual property rights belonging to Subaru and also implements internal activities that aim to avoid infringing on the intellectual property rights of others. The following are specific activities being undertaken.

1. Support the proposal of strategies using the IP landscape
2. Acquire rights for intellectual properties, including technologies, trademarks, naming and design, and adequately manage the IP portfolio
3. Conduct a comprehensive survey on the existence of intellectual property rights which may hinder business operations and take measures to prevent and resolve such issues
4. Crack down on counterfeit goods globally, including protection measures at borders for oversight and taxation of online sales, toward achievement of the SDGs
5. Secure intellectual properties, ownership of data and user rights in technology and business contracts
6. Support the management, protection and utilization of intellectual property by each Subaru Group company based on the Subaru Group's Basic Intellectual Property Policy

## Directors, Auditors, and Executive Officers (As of June 23, 2021)

### Directors of the Board

(Number of years in office as a director/number of shares owned)



**Tomomi Nakamura**  
Representative Director,  
President and CEO  
3 years / 27,093 shares



**Kazuo Hosoya**  
Director, Chairman  
2 years / 17,699 shares



**Katsuyuki Mizuma**  
Director, Executive Vice President,  
CFO and CRMO  
Newly appointed / 8,533 shares



**Tetsuo Onuki**  
Director, Executive Vice President  
3 years / 16,371 shares



**Atsushi Osaki**  
Director, Executive Vice President  
Newly appointed / 16,161 shares



**Fumiaki Hayata**  
Director, Executive Vice President  
Newly appointed / 9,156 shares



**Yasuyuki Abe**  
Independent Outside Director  
2 years / 3,700 shares



**Natsunosuke Yago**  
Independent Outside Director  
2 years / 2,500 shares



**Miwako Doi**  
Independent Outside Director  
1 year / 100 shares

### Corporate Auditors

(Number of years in office as an auditor/number of shares owned)



**Yoichi Kato**  
Standing Corporate Auditor  
Newly appointed / 11,129 shares



**Hiromi Tsutsumi**  
Standing Corporate Auditor  
1 year / 19,056 shares



**Shigeru Nosaka**  
Independent  
Outside Corporate Auditor  
2 years / 700 shares



**Kyoko Okada**  
Independent  
Outside Corporate Auditor  
2 years / 800 shares

Please visit the Subaru website for details on profiles.  
<https://www.subaru.co.jp/en/outline/profile.html>

### Executive Officers

\* Concurrently serve as a Director

Chairman	Kazuo Hosoya*	Secretarial Office, Human Resources Department
President	Tomomi Nakamura*	CEO (Chief Executive Officer) Aerospace Company, Quality
Executive Vice President	Katsuyuki Mizuma*	CFO (Chief Financial Officer), CRMO (Chief Risk Management Officer) Finance & Accounting Department
Executive Vice President	Tetsuo Onuki*	Chief General Manager of Purchasing Division, Product & Portfolio Planning Division
Executive Vice President	Atsushi Osaki*	Chief General Manager of Manufacturing Division, China Project Office
Executive Vice President	Fumiaki Hayata*	Chief General Manager of Overseas Sales & Marketing Division 1, Chairman and CEO of SIA* <sup>1</sup>
Executive Vice President	Takuji Dai	CIO (Chief Information Officer), Chief General Manager of IT Strategy Division, Senior General Manager of Corporate Planning Division
Senior Vice President	Shoichiro Tozuka	Company President of Aerospace Company
Senior Vice President	Tatsuro Kobayashi	General Manager of Human Resources Department
Senior Vice President	Eiji Ogino	Senior General Manager of Manufacturing Division, Chief General Manager of Gunma Plant
Senior Vice President	Jinya Shoji	Chief General Manager of Overseas Sales & Marketing Division 2
Senior Vice President	Yoichi Sato	Chief General Manager of Japan Sales & Marketing Division
Senior Vice President	Osamu Eriguchi	CQO (Chief Quality Officer) Chief General Manager of Quality Assurance Division, General Manager of Quality Assurance Management Office
Senior Vice President	Tomoaki Emori	Chief General Manager of Corporate Planning Division
Senior Vice President	Tetsuo Fujinuki	CTO (Chief Technology Officer) Chief General Manager of Engineering Management Division and Technical Research Center
Vice President	Yasushi Nagae	General Manager of Investor Relations Department and General Administration Department, Corporate Communications Department and Sustainability Promotion Department
Vice President	Takeshi Seiyama	Chief General Manager of Parts & Accessories Division
Vice President	Tatsuya Okuno	Chief General Manager of Customer Service Division
Vice President	Tamotsu Inui	Chief General Manager of Cost Planning & Management Division, Senior General Manager of Corporate Planning Division
Vice President	Hiroshi Wakai	Company Vice President of Aerospace Company, Senior General Manager of Engineering & Development Center
Vice President	Kazuhiro Abe	Chief General Manager of Product & Portfolio Planning Division
Vice President	Hiroshi Watahiki	Senior General Manager of Engineering Division
Vice President	Tadashi Yoshida	Senior General Manager of Overseas Sales & Marketing Division 1, Executive Vice President of SOA,* <sup>2</sup> SCI,* <sup>3</sup> NASI* <sup>4</sup>
Vice President	Ryota Fukumizu	President and COO of SIA* <sup>1</sup>
Vice President	Shinichi Murata	General Manager of External Relations Department, Risk Management Group and Intellectual Property Department
Vice President	Kazuki Uejima	Senior General Manager of Engineering Division and General Manager of CTO's Office

\*1 Subaru of Indiana Automotive, Inc.

\*2 Subaru of America, Inc.

\*3 Subaru Canada, Inc.

\*4 North American Subaru, Inc.

# Corporate Governance

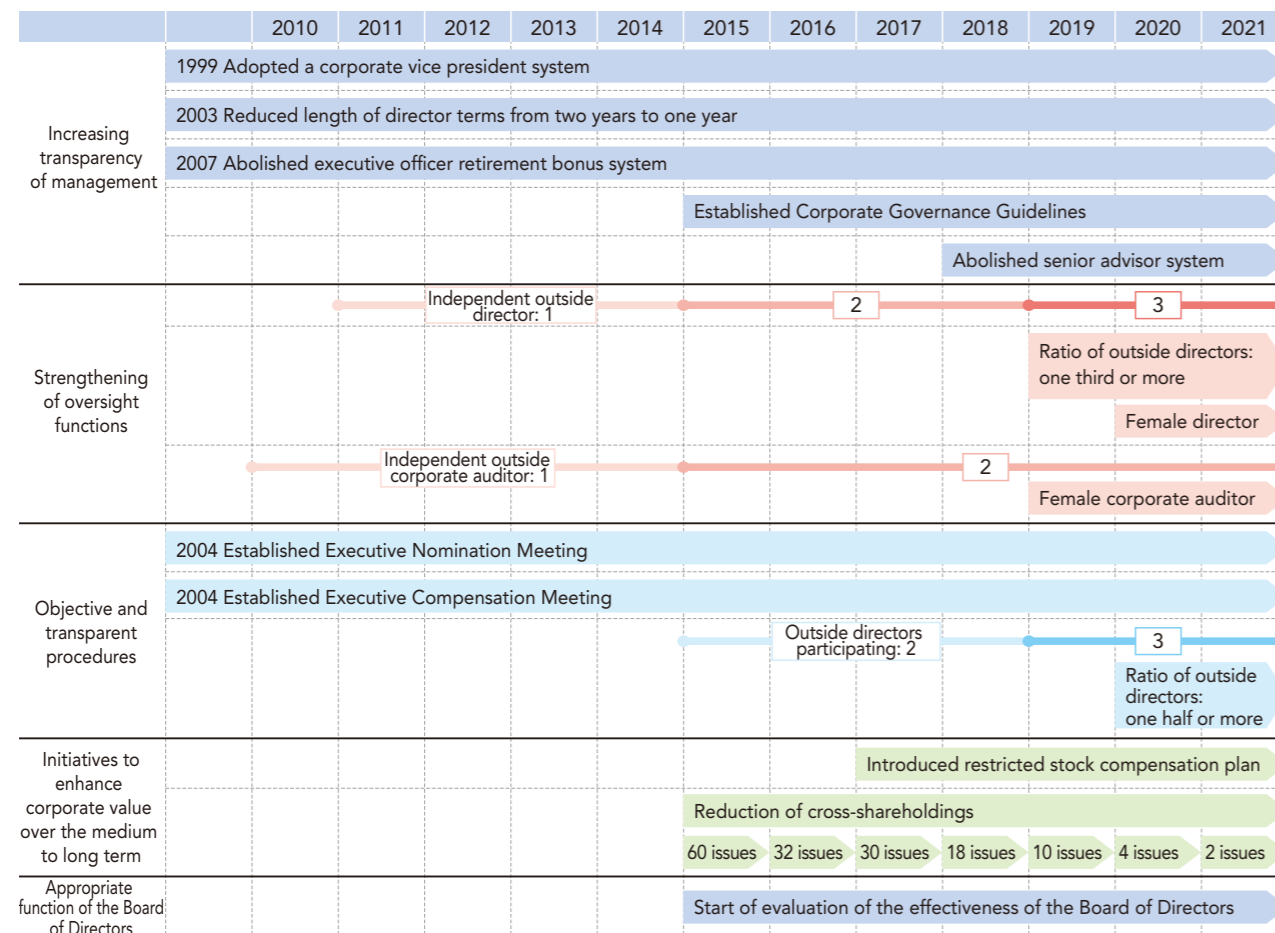
## Basic Policy

Subaru has articulated the vision “Delivering happiness to all” and works on the enhancement of corporate governance as one of the top priorities of management in order to gain the satisfaction and trust of all its stakeholders by achieving sustainable growth and improving its corporate value in the medium and long term based on the Corporate Statement outlined below.

- <Vision> Delivering happiness to all
- <Value statement> “Enjoyment and Peace of Mind”
- <Corporate statement> We aim to be a compelling company with a strong market presence built upon our customer-first principle.

Subaru clearly separates the function of decision making and the oversight of corporate management from that of the execution of business operations, and aims to realize effective corporate management by expediting decision making. In addition, Subaru seeks to ensure proper decision making and the oversight of corporate management and the execution of business operations as well as enhance its risk management system and compliance system through the monitoring of its management and operations and advice provided by outside officers. We also implement proper and timely disclosure of information in order to improve the transparency of management.

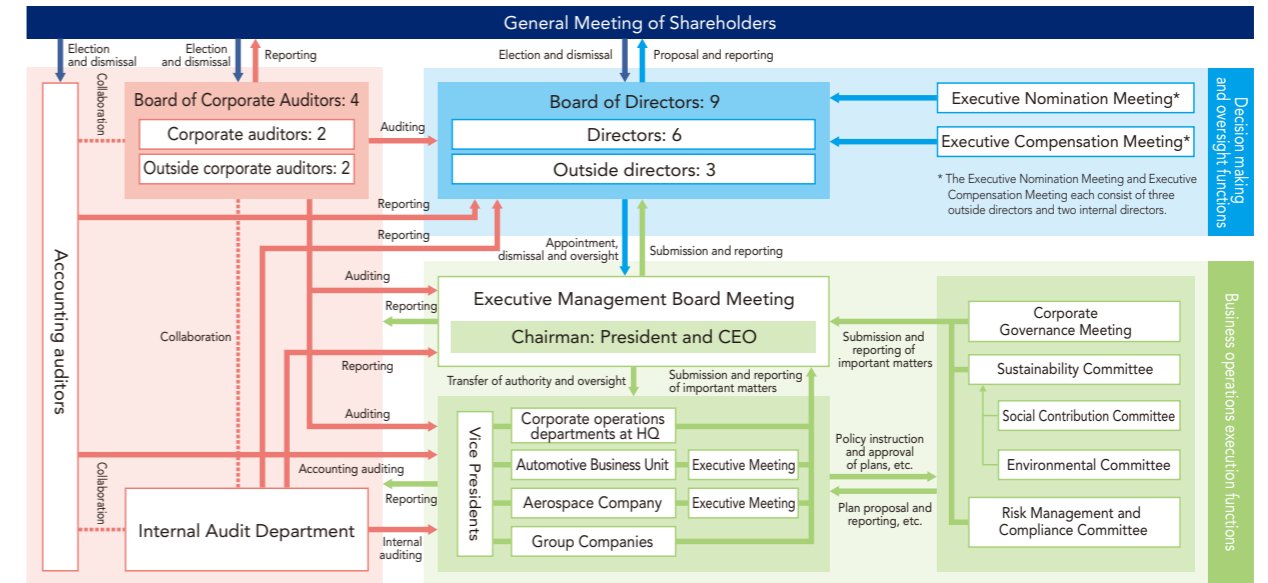
### History of Initiatives to Strengthen Governance



### Corporate Governance Structure

Subaru has chosen a company with a board of corporate auditors as its corporate governance structure. The Board of Directors decides and supervises the execution of important business, and the Board of Corporate Auditors audits the execution of duties by directors. The structure enables us to achieve sounder, more efficient business operations through increased effectiveness of management monitoring by involving independent outside directors and outside corporate auditors. In addition, in order to enhance the practical governance structure based on the ongoing organizational design, we have established two voluntary meetings: the Executive Nomination Meeting and Executive Compensation Meeting.

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



### Board of Directors and Board of Corporate Auditors

Organization	Board of Directors	Board of Corporate Auditors
Chair	Chairman of Board of Directors	Standing Corporate Auditor
Composition	Directors: 6 Outside directors: 3	Standing Corporate Auditors: 2 Outside Corporate Auditors: 2
Role/responsibility	The Board of Directors ensures fairness and transparency by performing the oversight function for overall management and makes the best decisions possible for the Company through appointment, evaluation and resolution regarding the compensation of its CEO and other management team members, the assessment of material risks faced by the Company and the development of measures to deal with such risks, and decisions on the execution of important business of the Company.	The Board of Corporate Auditors, as an independent organization entrusted by shareholders, is responsible for ensuring the sound and sustainable growth of the Company and establishing a high-quality corporate governance system that can be trusted by society by performing audits of the execution of duties by directors, passing resolutions on the contents of proposal items regarding the appointment and dismissal, or non-reappointment, of accounting auditors that are to be submitted to the General Meeting of Shareholders, and performing business audits, accounting audits and other matters prescribed by laws and regulations.
Meetings held in FYE March 2021	12 times	12 times

\* In addition to the number of Board of Directors' meetings shown in the above table, there was one written resolution passed that has been deemed equivalent to a Board of Directors' meeting, pursuant to Article 370 of the Companies Act and the Articles of Incorporation.

### Executive Nomination and Executive Compensation Meetings

Organization	Executive Nomination Meeting	Executive Compensation Meeting
Chair	Chairman of Board of Directors	Chairman of Board of Directors
Composition	Independent Outside Directors: 3 Directors: 2	Independent Outside Directors: 3 Directors: 2
Role/responsibility	To ensure the fairness and transparency of decisions on executive appointment, the Executive Nomination Meeting submits to the Board of Directors proposals of nomination of candidates for directors and corporate auditors and the appointment/dismissal of the CEO or corporate vice presidents approved following full deliberation by committee members. The Board of Directors then deliberates and resolves these proposals. Approval of the Board of Corporate Auditors is obtained for nominations of candidates for corporate auditors.	To ensure fairness and transparency in decisions on compensation for directors, the Executive Compensation Meeting, on the basis of delegation by the Board of Directors, determines compensation amounts, etc. for individual directors. With regard to revisions of the compensation system and other matters pertaining to compensation overall, proposals approved by the Executive Compensation Meeting are deliberated and decided on by the Board of Directors.
Meetings held in FYE March 2021	1 time	5 times
Items deliberated in FYE March 2021	The Executive Nomination Meeting discussed matters concerning the submission of reports on the executive structure and appointments, the division of duties of executives, and the appointment of representatives of major subsidiaries.	The Executive Compensation Meeting discussed the compensation structure, formulated a methodology for deciding the content of compensation, etc. for individual directors, decided performance-linked compensation for directors (except for outside directors) and corporate vice presidents, and determined individual compensation amounts for restricted stock compensation.

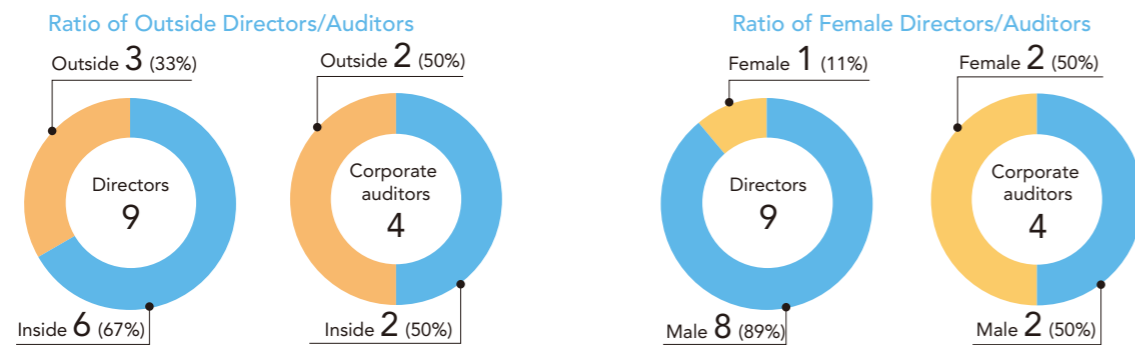
## Directors/Auditors

(As of June 23, 2021)

	Name	Position	Female	Term	Total Years of Service	Board of Directors* <sup>1</sup>	Board of Corporate Auditors* <sup>1</sup>		Executive Nomination Meeting <sup>1</sup>	Executive Compensation Meeting <sup>1</sup>	Main areas						
											Management (executive experience)	Technology development	Manufacturing procurement	Sales/marketing	Global	Finance (CFO experience)	Corporate ESG
Directors	Tomomi Nakamura	Representative Director, President and CEO			3 years	○			○	○	●		●	●		●	
	Kazuo Hosoya	Director, Chairman			2 years	◎			◎	◎		●	●			●	
	Katsuyuki Mizuma <small>Newly appointed</small>	Director, Executive Vice President, CFO and CRMO			Newly appointed	○						●	●				
	Tetsuo Onuki	Director, Executive Vice President			3 years	○						●	●		●		
	Atsushi Osaki <small>Newly appointed</small>	Director, Executive Vice President		1 year	Newly appointed	○						●	●				
	Fumiaki Hayata <small>Newly appointed</small>	Director, Executive Vice President			Newly appointed	○						●	●		●		
	Yasuyuki Abe	Independent Outside Director			2 years	○			○	○	●				●		●
	Natsunosuke Yago	Independent Outside Director			2 years	○			○	○	●	●	●		●		●
	Miwako Doi	Independent Outside Director	☆		1 year	○			○	○		●					●
Corporate Auditors	Yoichi Kato <small>Newly appointed</small>	Standing Corporate Auditor			Newly appointed	○	◎							●		●	●
	Hiromi Tsutsumi	Standing Corporate Auditor	☆		1 year	○	○							●		●	
	Shigeru Nosaka	Independent Outside Corporate Auditor		4 years	2 years	○	○							●	●		
	Kyoko Okada	Independent Outside Corporate Auditor	☆		2 years	○	○							●		●	

\*1 ◎ and ○ indicate attendance of the chairman and other members, respectively

Note: The list above does not cover the entire scope of knowledge held by the Directors and Corporate Auditors.



## Board of Directors' Meeting Participation Rate

(FYE March)

Category	2017	2018	2019	2020	2021
Number of meetings held	15 times	17 times	16 times	13 times	12 times
Attendance rate	96.3%	99.0%	98.4%	100.0%	100.0%

\* In addition to the number of Board of Directors' meetings shown in the above table, there was one written resolution passed in FYE March 2019, two in FYE March 2020 and one in FYE March 2021 that have been deemed equivalent to a Board of Directors' meeting, pursuant to Article 370 of the Companies Act and the Articles of Incorporation. Attendance rates for newly appointed directors are calculated based on the number of Board of Directors' meetings held after their appointment.

## Approach to the CEO Succession Plan

Subaru recognizes that decision making regarding top management changes and successor selection may have a critical influence on corporate value. Therefore, in order to ensure a successful succession at the right timing, we invest substantial time and

resources to carefully develop and implement succession plans.

In order to hand over the business to the right person, the Board of Directors, as part of its essential duties, develops succession plans that can convince all stakeholder groups. To ensure objectivity and transparency in the process for deciding on the replacement and selection of the CEO, the Board of Directors appropriately supervises the preparation of proposals by the current CEO through discussions at the Executive Nomination Meeting. To be able to implement succession plans appropriately, the CEO begins to prepare for selection and development of his/her successor candidates independently, upon assuming office. Key processes for this purpose include providing information on candidates to outside directors on an ongoing basis, particularly by enabling the directors to monitor the candidates in person continuously in day-to-day business settings, as a measure to ensure appropriate and timely evaluation and selection down the road. The Board of Directors and Executive Nomination Meeting meet on a regular basis to review the list of essential qualities and skills required of the CEO, which may include removing and adding items, in consideration of perception of current trends, changes in the business environment surrounding the company, and the future direction of the Group's business strategies.

To ensure the objectivity of the successor selection process and increase the effectiveness of its supervision by the Board of Directors and Executive Nomination Meeting, it is important to have effective selection criteria in place, particularly for use by outside directors. Based on this view, Subaru has established two sets of criteria: "Abilities required of the Subaru Group's CEO" and "Five key qualities required of the Subaru Group's CEO." These criteria serve as a guide for evaluating candidates in light of quality, competency, experience, track record, specialized expertise, personality and other factors, which have been discussed and decided on by the Board of Directors and Executive Nomination Meeting.

## Abilities required of the CEO

The Subaru Group's CEO must be able to: properly understand the business environment surrounding Subaru, its corporate culture and philosophy, business growth stages, and medium to long-term management strategies and challenges; facilitate collaboration appropriately with various stakeholders; and lead all executives and employees to work together to maximize corporate value.

## Five key qualities required of the CEO

1. Integrity 2. Broad perspective 3. Character 4. Tireless spirit or revolutionary leadership skills 5. Person of action

## Outside Directors/Outside Corporate Auditors

### Nomination Criteria

- The outside directors are expected to perform a monitoring function independent from the management team and provide appropriate advice on the management of Subaru on the basis of wide range of sophisticated knowledge.
- The outside corporate auditors are expected to perform a management oversight function independent from the management team and undertake their role of auditing from the viewpoint of legality and appropriateness on the basis of broad and advanced knowledge.
- Subaru has established criteria for independence of outside officers in addition to the criteria for independence established by the Tokyo Stock Exchange, and appoints outside directors and outside corporate auditors who meet those criteria.

### Reasons for Appointing the Outside Officers and Major Activities

	Name	Independent Officer Status	Reasons for Appointing	Meeting Attendance (FYE2021)		Significant Concurrent Positions (As of June 30, 2021)
				Board of Directors	Board of Corporate Auditors	
	Yasuyuki Abe	○	As representative director and senior managing executive officer of Sumitomo Corporation, Mr. Yasuyuki Abe has been involved in management in both a supervisory and executional capacity, possesses extensive experience and knowledge in business management, and has an advanced understanding of the IT field. Mr. Abe has served three years as an independent outside corporate auditor for the Company since June 2016. During his tenure, he has supervised the execution of duties conducted by directors, as well as understood the true nature of the problems facing the Company and offered his frank opinions to senior management in a timely and appropriate manner. In June 2019, Mr. Abe was appointed to the position of independent outside director and has been providing beneficial advice to the Company's management. In light of this, the Company has appointed Mr. Abe with the expectation that he will provide sufficient advice and oversight of all aspects of the Company's management from an independent perspective when he assumes office as an outside director of the Company.	Attended 12 of 12 meetings	—	Advisor, ORANGE AND PARTNERS CO., LTD. Outside Director, HOYA Corporation
Outside Directors	Natsunosuke Yago	○	Mr. Natsunosuke Yago served successively as president and representative executive officer and chairman at Ebara Corporation, and has extensive experience and knowledge in business management. Mr. Yago is especially knowledgeable in the areas of internal control and governance. In June 2019, the Company has appointed him to the position of independent outside director. Given that he has been providing beneficial advice to the Company's management based on his rich experience and wide range of knowledge, and high level of insight into the Company's social responsibilities, we appointed Mr. Yago with the expectation that he will provide sufficient advice and oversight of all aspects of the Company's management from an independent perspective when he assumes office as an outside director of the Company.	Attended 12 of 12 meetings	—	President, Ebara Hatakeyama Memorial Foundation Outside Director, J. FRONT RETAILING Co., Ltd. Outside Director, PARCO CO., LTD.
	Miwako Doi	○	As a researcher and supervisor in the field of information technology at Toshiba Corporation, Ms. Miwako Doi has accumulated vast experience and made many achievements in this field over many years. In addition, she has held successive positions, mainly in government committees, owing to her high level of expertise and extensive experience and knowledge. In June 2020, the Company appointed her to the position of independent outside director. Given that she has been providing beneficial advice to the Company's management for the generation of new innovation, we appointed Ms. Doi with the expectation that she will provide sufficient advice and oversight of all aspects of the Company's management from an independent perspective when she assumes office as an outside director of the Company.	Attended 10 of 10 meetings	—	Auditor, National Institute of Information and Communications Technology (NICT) (part-time) Executive Vice President, Tohoku University (part-time) Executive Director, Nara Institute of Science and Technology (part-time) Visiting Professor, Osaka University of Arts Outside Director, Isetan Mitsukoshi Holdings Ltd. Outside Director, NGK Spark Plug Co., Ltd.
Outside Corporate Auditors	Shigeru Nosaka	○	Mr. Shigeru Nosaka has been involved in management in both a supervisory and executional capacity as a director, executive deputy president and deputy chairman and CFO at Oracle Corporation Japan and possesses extensive experience and knowledge in business management. In June 2019, Mr. Nosaka was appointed to the position of independent outside corporate auditor and has been providing beneficial advice to the Company's management based on his wide range of insights into finance and accounting in corporate activities. In light of this, the Company has appointed Mr. Nosaka with the expectation that he will appropriately perform the duties when he assumes office as of an outside corporate auditor of the Company.	Attended 12 of 12 meetings	Attended 12 of 12 meetings	Corporate Auditor, dotD, Inc. Advisor, AI Dynamics Inc. Japan
	Kyoko Okada	○	Ms. Kyoko Okada has accumulated extensive experience and knowledge in areas such as CSR and corporate culture at Shiseido Co., Ltd. and has a career in management auditing as a corporate auditor at Shiseido. In June 2019, Ms. Okada was appointed to the position of independent outside corporate auditor and has been providing beneficial advice to the Company's management based on her wide range of insights into CSR and corporate culture in corporate activities. In light of this, the Company has once again appointed Ms. Okada with the expectation that she will appropriately perform the duties when she assumes office as an outside corporate auditor of the Company.	Attended 12 of 12 meetings	Attended 12 of 12 meetings	Outside Audit & Supervisory Board Member, Daio Paper Corporation Outside Director, JACCS Co., Ltd.

<sup>1</sup> Outside directors and outside corporate auditors with no risk of a conflict of interest with general shareholders as stipulated by the stock exchange

### Executive Officer Training

Category	Training Policy/ Major Ongoing Programs
Directors	<p><b>Policy</b> Subaru provides its directors and corporate auditors on an ongoing basis with information and knowledge regarding its business activities that is necessary for them to fulfill their responsibilities to oversee and audit the management.</p> <ul style="list-style-type: none"> <li>• Refresher courses focusing on information regarding the Companies Act and other laws and regulations related to corporate governance</li> </ul>
Corporate auditors	<p><b>Policy</b> Subaru provides its outside officers on an ongoing basis with information relating to the company's corporate statement, corporate culture, business environment and other matters, mainly through arranging appropriate opportunities, such as operations briefings from business divisions and factory tours, as well as creating an environment for officers to share information and exchange opinions more easily.</p> <ul style="list-style-type: none"> <li>• The following programs are provided to outside Board members at the time of appointment and subsequently to keep them updated. <ul style="list-style-type: none"> <li>- Opportunities for discussions with and briefings from responsible vice presidents about the corporate statement, corporate culture, business environment, and the performance, situation and issues of each business division/department</li> <li>- Inspection tours at manufacturing/R&amp;D/distribution sites</li> <li>- Discussions with directors and corporate auditors on management issues</li> <li>- Social gatherings with directors and corporate auditors</li> <li>- Participation in company-wide business events, such as improvement activity debriefing sessions</li> </ul> </li> </ul>
Outside directors	<p><b>Policy</b> Subaru gives vice presidents similar opportunities as those given to directors and auditors, for the purpose of developing human resources to lead its management in the future.</p> <ul style="list-style-type: none"> <li>• Participation in external programs aimed at fostering the mindset required for executive management and motivating self-improvement actions</li> <li>• Lectures by invited experts in specified topics to share and increase literacy in the related field (legal affairs, compliance, IT, the SDGs, media response, etc.)</li> <li>• Strategy building camps for all vice presidents</li> <li>• Recommendation and support for participation in appropriate external seminars and programs</li> </ul>
Outside corporate auditors	<p><b>Policy</b> Subaru gives vice presidents similar opportunities as those given to directors and auditors, for the purpose of developing human resources to lead its management in the future.</p> <ul style="list-style-type: none"> <li>• Participation in external programs aimed at fostering the mindset required for executive management and motivating self-improvement actions</li> <li>• Lectures by invited experts in specified topics to share and increase literacy in the related field (legal affairs, compliance, IT, the SDGs, media response, etc.)</li> <li>• Strategy building camps for all vice presidents</li> <li>• Recommendation and support for participation in appropriate external seminars and programs</li> </ul>

\* Expenses to be incurred for offering the above training to directors and corporate auditors, including outside officers and vice presidents are borne by the company.

Category	Programs Provided in FYE March 2021
All executives (including outside officers)	<ul style="list-style-type: none"> <li>• Newly appointed vice presidents participated in different three-day external seminar programs</li> <li>• Classroom lectures by invited experts were held for all executives to discuss management issues</li> <li>• Seminars by invited experts in specified topics, including about the Companies Act, were offered via on-demand streaming</li> <li>• In-house presentations and exhibits were held to present information to all executives about future technologies and quality solutions</li> <li>• e-Learning programs about the SDGs were held in lesson and test formats using our website</li> </ul>
Outside directors	<ul style="list-style-type: none"> <li>• Operations briefings offered by vice presidents and others, and related discussions were held 21 sessions in total, with participation from newly appointed outside directors</li> <li>• Newly appointed outside directors visited three different manufacturing sites (plants, offices) for inspection tours</li> </ul>
Outside corporate auditors	<ul style="list-style-type: none"> <li>• Two outside corporate auditors visited five Group companies in Japan for inspection tours</li> <li>• The entire Board membership (nine directors and four corporate auditors) attended two semi-annual management discussion and social gathering events</li> <li>• Outside directors and corporate auditors participated in external exhibitions</li> </ul>

## Effectiveness Evaluation of the Board of Directors

In order to achieve sustainable growth and enhance the medium- to long-term corporate value of the Subaru Group, Subaru has determined and published Corporate Governance Guidelines (“Guidelines”) for the purpose of communicating to all its stakeholders Subaru’s fundamental ideas, frameworks, and management policies relating to corporate governance.

Subaru Board of Directors (“BoD”) periodically analyzes and evaluates BoD effectiveness in accordance with Article 23 of these Guidelines and considers and implements improvements to address any issues identified.

In FYE March 2021, the BoD confirmed efforts to address issues recognized in the previous year, based on monitoring of points raised in the previous year’s evaluation. It also gathered, analyzed, and evaluated views on issues for investigation based on changes in the business environment due to the COVID-19 pandemic. The results of this process are reported below.

### ◆ Methods of evaluation and analysis

- |  |   |
|--|---|
| (1) Timing: January 2021   | (2) Respondents: Directors and auditors (13 in total) |
| (3) Process: Self-evaluation using a questionnaire prepared by a third-party body        | (4) Questions: I. BoD management structure            |
| (a) Third-party body conducts anonymous self-evaluation survey of directors and auditors | II. BoD oversight function                            |
| (b) Third-party body aggregates and analyzes responses                                   | III. Shareholder dialogue                             |
| (c) BoD verifies and discusses report received from third-party body                     | IV. Views on key efforts undertaken this year         |
|  | V. Issues for next year onward                        |
|  | VI. Views on other matters                            |

Respondents evaluated themselves on a four-point scale. They were also free to add their own thoughts on points of excellence relating to the BoD and points requiring enhanced BoD effectiveness, before submitting the questionnaire directly to the third-party body.

### ◆ Evaluation Results

Based on the report received from the third-party body aggregating and analyzing results, the Subaru BoD discussed and confirmed the following points:

- As in previous fiscal years, the results confirmed that BoD management entails the conduct of free, open, and sound discussion.
- Points confirmed as strengths in previous evaluations (chairman’s leadership, responses to cross-shareholding, and size of BoD) continued to be evaluated highly, confirming that BoD strengths are ongoing.
- Improvements were apparent in overall evaluation of BoD management structure, BoD oversight function, and shareholder dialogue, and decision-making processes and shareholder dialogue were evaluated especially highly across the board.
- However, the report also confirmed expectations that BoD functions could be further improved through deeper discussion of executive compensation system design, including incentive-based compensation, as well as discussion of ways to improve group governance and enhancement of report content. While acknowledging certain improvements in the evaluation of discussion relating to medium- to long-term management strategy, the report also confirmed the need for qualitative improvements in the future.

Areas previously recognized as problematic where significant progress was acknowledged this year:

- **CEO succession plan**  
Developed and announced abilities required of the Subaru Group’s CEO and five key qualities required of the CEO.
- **Reinforcing risk identification/management systems**  
Established mechanisms ensuring effectiveness by preparing risk maps, identifying risks in each business department, developing codes of conduct, etc., and shared information with the BoD in a timely and appropriate manner.

Issues recognized in the previous fiscal year’s evaluation:

#### (1) Enhancing discussion of medium- to long-term management strategy

The BoD added depth to its discussion of medium- to long-term management strategy by setting agendas for medium- to

long-term strategy, including production strategy, IT strategy, and Aerospace Company initiatives, and through reporting on progress towards mid-term management plan goals. With regard to upcoming rapid changes in the operating environment for the automotive business, last year’s evaluation pointed out that continuing efforts to bridge the information gap between outside directors and internal directors were required to improve the quality of discussion, and ongoing efforts are being made to address this issue.

#### (2) Enhancing discussion of information security systems and sustainability

With regard to IT strategy including information security systems, the BoD created opportunities for reporting, shared views on issues faced, and conducted ongoing discussion. Last year’s evaluation expressed the view that the BoD should exercise leadership and stimulate discussion aimed at utilization of IT and advancement of digital transformation, and the BoD will continue to create opportunities for such discussion in its meetings.

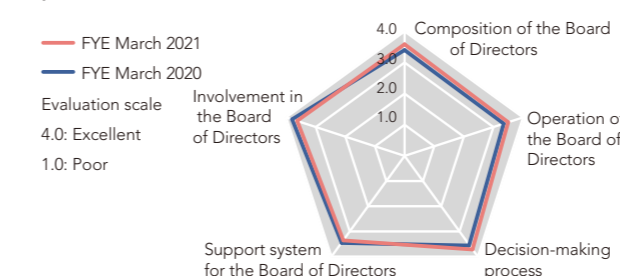
The report recognized steady progress on sustainability, including the establishment and announcement of policies such as the Subaru Global Sustainability Policy and Human Rights Policy, as well as timely reporting of the efforts of the CSR Committee, which meets twice a year.

### ◆ Future Initiatives

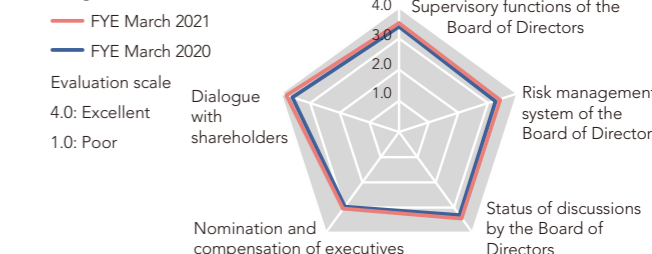
The Subaru BoD will continue to deepen discussion of medium- to long-term management strategy and make efforts to improve the quality of such discussion. It will also create opportunities for discussion of executive compensation system design, including incentive-based compensation, and enhancement of group governance. In doing so, it will strive to maintain and improve BoD effectiveness in the aim of continuing to enhance medium- to long-term corporate value and achieving sustainable growth.

### Results of the Questionnaire

#### Operational Structure of the Board of Directors



#### Supervisory Function of the Board of Directors and Dialogue with Shareholders



### Evaluation Items

	Category	Diagnostic Item		
1. Operational structure of the Board of Directors	(1) Composition of the Board of Directors	Size of the Board of Directors	Composition of the Board of Directors (ratio of inside to outside directors)	Composition of the Board of Directors (diversity and expertise)
	(2) Operation of the Board of Directors	Frequency, length, and time allocation of meetings	Relevance of agenda items	Quality and quantity of documents
		Timing of document distribution	Prior explanation	Content of explanations and reports
	(3) Decision-making process	Leadership by the Chair	Adequate discussion	—
	(4) Support system for the Board of Directors	Environment and systems for the provision of information	Provision of information to outside directors	Training of outside directors
Training of inside directors		—	—	
(5) Involvement in the Board of Directors	Attitude to initiatives	Company-wide perspective	Mutual respect	
	Diverse values	Stakeholder perspectives	—	
2. Supervisory functions of the Board of Directors	(1) Supervisory functions of the Board of Directors	Reporting system	Supervision of corporate management	—
	(2) Risk management system of the Board of Directors	Risk management system	Subsidiary management system	Provision of information and measures to combat risk
		System for managing progress of response measures	Penetration of compliance awareness	—
	(3) Status of discussions by the Board of Directors	Discussion of management strategy	Discussion of capital policy	Discussion of cross-shareholding for policy purpose
Discussion of strengthening governance		Response to social and environmental problems	—	
(4) Nomination and compensation of executives	Composition of the Executive Appointment Committee and Executive Compensation Committee	Cultivating successors	Incentive compensation	
	Dialogue with shareholders	Sharing the views of shareholders and investors	Enhancing dialogue with shareholders and investors	
3. Dialogue with shareholders	Dialogue with shareholders	—	—	

## Executive Compensation

### Matters Concerning the Policy for Determining Details of Compensation for Individual Directors

Subaru deliberated and decided on the proposal of the Policy for Determining Details of Compensation for Individual Directors approved by the Executive Compensation Meeting at the Board of Directors meeting held on May 17, 2021. Below is the summary of the policy.

The Policy for Determining Details of Compensation for Individual Directors	
<p><b>1. Basic policy</b></p> <p>As a basic policy, compensation for directors of the Company is determined in view of the following items:</p> <p>(1) Compensation is at a level commensurate with the roles and responsibilities of directors and is appropriate, fair, and balanced.</p> <p>(2) The compensation structure is determined by giving consideration to providing motivation for sustained improvement in corporate performance and corporate value and securing excellent human resources.</p> <p>Specifically, compensation for directors is composed of basic compensation, short-term performance-linked compensation, and restricted stock compensation (for non-resident officers, phantom stock, instead of restricted stock). For outside directors, the Company pays only basic compensation in view of their roles of fulfilling monitoring and oversight functions of corporate management from an independent position. The total amount of compensation for individual directors and the levels of each compensation item are set for every position depending on difference in responsibility by utilizing the research data compiled by outside specialized agencies.</p>	<p>factors, and directors make in-kind contributions of such monetary compensation claims to receive shares of the Company's common stock. The maximum number of shares of the Company's common stock to be granted as restricted stock compensation is 100,000 per year (including those issued to executive officers). In addition, the Company and eligible officers shall enter into a restricted stock allotment agreement that includes an overview and provisions that state (1) eligible directors shall not, for a set period of time, transfer, create a security interest on, or otherwise dispose of the shares of the Company's common stock that have been allotted to them, and (2) the Company may acquire the said shares of its common stock without compensation if certain events occur.</p> <p>For non-resident officers, the Company grants, instead of issuing restricted stock compensation phantom stock equivalent to such units, and the stock shall also be treated in accordance with the restricted stock allotment agreement.</p>
<p><b>2. Policy for determining the amount of monetary compensation excluding performance-linked compensation (hereinafter, the "Fixed Monetary Compensation"), performance-linked compensation, and non-monetary compensation (including the policy for determining the timing or conditions for granting such compensation)</b></p> <p>(1) Policy for the Fixed Monetary Compensation</p> <p>Directors receive the Fixed Monetary Compensation monthly as basic compensation. The amount for individual directors is determined based on their positions, taking into consideration elements such as the business environment.</p> <p>(2) Policy for performance-linked compensation</p> <p>Directors receive short-term performance-linked compensation by cash at a certain time of the year. The specific amount is determined according to a compensation table by position prepared based on the consolidated ordinary income for the current fiscal year* as a key performance indicator (KPI), adjusted according to the matrix of combined ROE and improved shareholders' equity ratio, which are both performance indicators aligned with the Company's capital policy, and for non-director executive officers, taking into consideration personnel development and the business environment. The Company will review the KPI as needed based on changes in the environment and reports from the Executive Compensation Meeting.</p> <p>(3) Policy for non-monetary compensation</p> <p>The Company grants restricted stock compensation to directors for the purpose of providing them an incentive for sustained improvement of the Company's corporate value and further value sharing with the shareholders. Specifically, the Company grants monetary compensation claims to directors in consideration of the Company's business performance, responsibilities of each director, and other</p>	<p><b>3. Policy for determining the proportion of the Fixed Monetary Compensation, performance-linked compensation, and non-monetary compensation to the total amount of compensation, etc. for individual directors</b></p> <p>The Company shall appropriately determine the proportion of compensation by type of directors excluding outside directors in reference to the compensation levels and compensation mix of companies of a similar scale to the Company or industry peers obtained through an external research company, and in consideration of factors such as the Company's overall salary level and social situations. The Company shall also prepare compensation tables for short-term performance-linked compensation and restricted stock compensation by officer position. With regard to revisions of the compensation table, proposals approved by the Executive Compensation Meeting are deliberated and decided on by the Board of Directors.</p>
<p><b>4. Matters concerning the determination of details of compensation, etc. for individual directors</b></p> <p>The Executive Compensation Meeting, by a resolution of and upon delegation by the Board of Directors, determines specific amounts of compensation, etc. of individual directors, following sufficient deliberation by its members including outside directors.</p> <p>Its authorities include the determination of specific amounts of basic compensation, short-term performance-linked compensation, and restricted stock compensation (for non-resident officers, phantom stock, instead of restricted stock) and their payment schedule. For restricted stock compensation, the number of shares allotted to individual directors is determined by the resolution of the Board of Directors based on decisions of the Executive Compensation Meeting.</p> <p>With regard to revisions of the compensation system and other matters pertaining to compensation overall, proposals approved by the Executive Compensation Meeting are deliberated and decided on by the Board of Directors.</p> <p>To ensure transparency and effectiveness of the executive compensation determination process, the Executive Compensation Meeting shall, by a resolution of the Board of Directors, be structured so that the majority of its members are outside directors, and its chairman shall be appointed by a resolution of the Board of Directors.</p>	

\* As the Group started to voluntarily apply the IFRS, this is a figure converted to consolidated ordinary income under the Japanese standards.

### Matters concerning the resolutions of the General Meetings of Shareholders on compensation, etc. for directors and corporate auditors

By a resolution passed at the 85th Ordinary General Meeting of Shareholders, held in June 2016, the maximum total amount of annual compensation, etc., for directors is 1.2 billion yen (including a maximum 200 million yen for outside directors). The maximum total amount of monetary compensation related to long-term incentives is 200 million yen per year, within the abovementioned limitation, by a resolution passed at the 86th Ordinary General Meeting of Shareholders, held in June 2017.

By a resolution passed at the 75th Ordinary General Meeting of Shareholders, held in June 2006, the maximum total amount of annual compensation, etc., for corporate auditors is 100 million yen.

### Matters concerning the delegation relating to the details of compensation, etc. for individual directors

Subaru has voluntarily set up an Executive Compensation Meeting in order to enhance the effective governance structure based on the existing organizational design. By the delegation resolution of the Board of Directors, the Executive Compensation Meeting determines specific compensation amounts, etc. of individual directors, following sufficient deliberation by its members including

outside directors. Its authorities include the determination of specific amounts of basic compensation, short-term performance-linked compensation, and restricted stock compensation as well as their payment schedule. For restricted stock compensation, the number of shares allotted to individual directors is determined by the resolution of the Board of Directors based on decisions of the Executive Compensation Meeting. With regard to revisions of the compensation system and other matters pertaining to compensation overall, proposals approved by the Executive Compensation Meeting are deliberated and decided on by the Board of Directors.

The Executive Compensation Meeting in FYE March 2021 was comprised of two representative directors and three outside directors. Its chairman was Representative Director and President. To ensure transparency and effectiveness of the executive compensation determination process, the Executive Compensation Meeting shall, by a resolution of the Board of Directors, be structured so that the majority of its members are outside directors. Executive Compensation Meetings were held five times in FYE March 2021. The body debated the compensation structure and established a policy for determining details of compensation, etc. for individual directors. It also decided on matters such as performance-linked compensation levels for directors (except for outside directors) and executive officers based on performance evaluation, and the amount of monetary compensation claims for individuals regarding restricted stock compensation.

### Matters concerning performance-linked compensation, etc.

In addition to the "Profit Plan for FYE March 2019-FYE March 2021 (3 years)," Subaru announced it aims to achieve a ratio of shareholders' equity to total assets of 50% and to maintain a minimum ROE of 10% while aiming for ROE of 15% or higher in the mid-term management vision "STEP" announced in July 2018. In accordance with these goals, the Executive Compensation Meeting, upon authorization by the Board of Directors, decided short-term performance-linked compensation levels for directors, using the consolidated ordinary income\* for FYE March 2021 as the basis, making adjustment using the matrix of ROE and degrees of improvement in shareholders' equity ratio. Short-term performance-linked compensation is not given to outside directors in view of their roles of fulfilling monitoring and oversight functions of corporate management from an independent position.

\* Since the Subaru Group started to voluntarily apply the IFRS to the accounts from FYE March 2020, this figure was converted to consolidated ordinary income under the Japanese standards

Performance indicators used to calculate the amount of performance-linked compensation, etc. for the fiscal period under review are as follows.

Performance Indicators	Results
Consolidated ordinary income	116.5 billion yen
ROE	4.4%
Equity ratio	52.1% (up 0.1% from the previous period)

### Details of non-monetary compensation

Subaru grants restricted stock compensation to directors for the purpose of providing them with an incentive for sustained improvement of the Company's corporate value and promoting further value sharing with the shareholders, and pays monetary compensation for the acquisition of these. Directors shall wholly contribute the monetary compensation claim paid as above in the form of properties contributed in kind, and shall, in return, receive shares of Subaru's common stock through issuance or disposal. In addition, for the issuance or disposal of shares of the Subaru's common stock, Subaru and eligible directors shall enter into a restricted stock allotment agreement that includes provisions such as the one to restrict the transfer of the shares for three years after the date of allotment.

Restricted stock compensation is not given to outside directors in view of their roles of fulfilling monitoring and oversight functions of corporate management from an independent position.

### Compensation System for Directors (excluding outside directors)





## Total Compensation for Directors and Corporate Auditors for FYE March 2021

Classification	Number	Total Compensation (Millions of yen)			
		Basic Compensation (Paid in fixed monthly installments)	Short-term Performance-linked Compensation	Restricted Stock Compensation	
Directors (excluding outside directors)	6	312	40	53	405
Corporate auditors (excluding outside corporate auditors)	3	56	—	—	56
Outside directors and outside corporate auditors	6	59	—	—	59
Total	15	427	40	53	520

Notes: Figures in the above table include an outside director and an internal corporate auditor who resigned before the last day of the fiscal year under review. At the end of the year, there were nine directors, including three outside directors, and four corporate auditors, including two outside corporate auditors.

## Auditing

### Auditing by Corporate Auditors

Subaru has formulated internal rules to ensure the effectiveness of corporate auditors' audits (e.g., Standards for Corporate Auditor's Audit) and developed a whistle blowing system. In this way, the Company established a framework where the corporate auditors can gather information from directors and employees as needed in case of matters that may cause significant damages to the Company, significant violation of laws/Articles of Incorporation, or other significant compliance matters. In addition, the framework ensures smooth performance of corporate auditors' duties by assigning employees independent from directors to support duties of corporate auditors and making them known to all employees.

The Company's corporate auditors attend important meetings including the Board of Directors Meeting, Executive Management Board Meeting, and Risk Management and Compliance Committee meetings, state their opinions as necessary to secure effectiveness of the audit, and take the following measures.

- Check the state of the development and operation of internal control systems by holding regular meetings with the directors and executive officers, and making site visits to major business establishments and affiliated companies.
- Receive monthly reports from the internal audit departments, the legal departments, and the risk management and compliance departments on the state of operation of the whistle blowing system and other matters, as well as receiving reports as needed from departments in charge of managing subsidiaries concerning the state of those subsidiaries.
- Hold meetings with the corporate auditors of major group subsidiaries.
- Meet the accounting auditors quarterly to exchange information and opinions, thereby facilitating their efforts to work together, and hold discussions concerning the appointment of accounting auditors.

The Company has also established a framework that can smoothly process invoices from the Corporate Auditors for expenses arising from performance of their duties.

### Internal Auditing

Subaru has established the Internal Audit Department (13 members) that reports directly to the President as an internal auditing organization and conducts internal audits of business execution at Subaru and its group companies in and outside Japan from an independent and objective standpoint. At the beginning of the fiscal year, the Internal Audit Department prepares an internal audit plan for the fiscal year that takes into consideration the risks and internal control status of the Group as a whole and systematically implements the plan. The department prepares and distributes to the directors, corporate auditors, and concerned parties audit reports on the results of internal audits. It also reports the results semi-annually at a Board of Directors meeting and quarterly at the joint meeting.

The Internal Audit Department and corporate auditors work to deepen collaboration through monthly internal audit report meetings held by the department and dialogues about internal control. They also share information on a quarterly basis with the accounting auditors. Through this, they endeavor to strengthen the auditing function. In addition, the Internal Audit Department periodically undergoes an evaluation by external experts to confirm that the audit operations are being performed appropriately.

## Internal Control System Related to Financial Reporting

Regarding internal control reporting systems pursuant to the Financial Instruments and Exchange Act, the evaluation of the internal control system related to financial reporting is dated the final day of the consolidated accounting period and is conducted in accordance with generally accepted assessment standards for internal control over financial reporting.

The President & Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluated the status of the development of the internal control system related to financial reporting as of March 31, 2021 and affirmed that it has been established properly and functions effectively, and issued an internal control report audited by the accounting auditors to that effect.

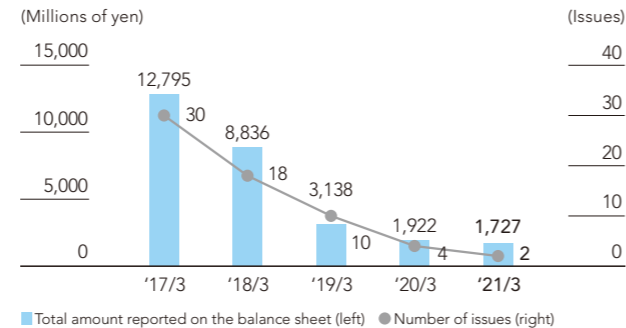
## Policies for Cross-Shareholding

Regarding listed stocks held by Subaru as cross-shareholdings, each year Subaru shall have the Board of Directors examine each cross-shareholding to determine whether the purpose of holding contributes to management and business strategies in the medium and long term, and whether the benefits derived from it justify the associated capital cost to decide on whether to continue the cross-shareholding. Based on the above policy, Subaru has steadily reduced the number of listed stocks held as cross-shareholding. As a result, 60 issues held at the end of March 2015 decreased to 2 issues at the end of March 2021. Subaru will continue the evaluation and examination of cross-shareholdings by the Board of Directors, but in consideration of the business environment for Subaru, we concluded that the holding of the two issues is indispensable at this point and will continue the shareholding in principle.

### Number of Issues of Cross-Shareholdings and Total Amount Reported on the Balance Sheet

Category	'17/3	'18/3	'19/3	'20/3	'21/3	
Number of issues (Issues)	Listed	30	18	10	4	2
	Unlisted	32	31	31	32	31
	Total	62	49	41	36	33
Value Listed on Balance Sheet (million yen)	Listed	12,795	8,836	3,138	1,922	1,727
	Unlisted	544	535	535	581	569
	Total	13,339	9,371	3,673	2,503	2,296

### Number of Listed Stocks and Total Amount Reported on the Balance Sheet



## Internal Control

### Management System

With the aim of increasing the effectiveness of internal controls and risk management, the Internal Audit Department was made independent of the Risk Management Group (overseen by the Chief Risk Management Officer (CRMO)) to ensure a higher level of independence of internal audit departments in the organization and to enhance the effectiveness of internal controls.

### Internal Control System

In accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act, Subaru's Board of Directors has adopted a basic policy on putting in place systems that ensure that the performance of duties by directors is in conformity with laws and regulations and with the Articles of Incorporation, and other systems prescribed in the ordinance of the Ministry of Justice as being necessary to ensure the appropriate operations of the company and the corporate group consisting of the company and its subsidiaries. The Board of Directors maintains and operates this basic policy, reviewing it as needed.

## Messages from the Independent Outside Directors



**Yasuyuki Abe**  
Independent Outside Director  
Served as Independent Outside Corporate Auditor from June 2016 to June 2019  
Appointed as outside director in June 2019

It is important that each individual understands the Six Priority Areas for CSR and takes action in order to achieve sustainability management aimed at realizing a sustainable society.

As an independent outside director, I believe it is important to be able to efficiently understand the internal situation within a limited amount of time. I do my best to find daily opportunities to communicate with our team members within Subaru in a variety of fields and gain a stronger understanding of the situation. My sense is that I have gained greater sensitivity to internal conditions as a result. There have been lively back-and-forth discussions for some time at the Board of Directors and other meetings, communication and syncing up has been well-facilitated, and reporting content has been appropriate. I feel the overall level of discussions has been improving.

As the state of the world changes rapidly, we should remain cautious that the optimal solution for today may not be the optimal solution for tomorrow. From a risk management perspective, it is important to carry forward a mindset of constantly re-examining whether we should be continuing our business activities as-is, and to make revisions as necessary.

In the May 2021 progress report on the mid-term management vision "STEP," we checked on what was actually happening over the last three years. What is important here is to correctly ascertain progress toward achieving targets and to review plans flexibly on an ad hoc basis in accordance with major changes in the world during that time. In particular, I engaged in deep discussions on the status of quality-related expense cuts, an area that has not been generating sufficient results, and the future outlook thereof. While quality enhancement initiatives may not see immediate results, we did reaffirm that there are in fact a variety of efforts underway. These quality issues are an unavoidable obstacle that must be handled in order for Subaru to become "a company delivering happiness to all." I hope to see results of these activities very promptly. So, in order to meet the expectations of stakeholders who have supported Subaru for many years, we will regularly check the status of the priority initiatives of corporate culture reforms, quality enhancement, and evolving the Subaru Difference, with greater awareness of the mid-term management vision "STEP."

In recent years, companies have come into question about their attitudes toward tackling social issues, like global warming and human rights, and there are strong demands on sustainability management aimed at realizing a sustainable society. I think it is important for everyone within the Subaru Group to understand the Six Priority Areas for CSR set forth in its plans, and for each individual to take action.

My hope is that Subaru will earn the empathy of its stakeholders and all its employees in particular for its *raison d'être*, and to sublimate this into the corporate culture, leading to greater corporate value.

In this past year amid the COVID-19 pandemic, some of the most significant changes have been the changing values and styles about working, as illustrated by the widespread adoption of telecommuting. Taking the method of attending a meeting as an example, while it has been a foregone conclusion in Japan for everyone to get together for a meeting, team members at locations around the U.S. have been joining phone conferences for more than 30 years. These delayed environmental improvements took a great leap forward with the strange fortune of COVID-19.

As part of work style reforms at Subaru, there have been a variety of ideas applied to

**Natsunosuke Yago**  
Independent Outside Director  
Appointed as outside director in June 2019



**Miwako Doi**  
Independent Outside Director  
Appointed as outside director in June 2020

meeting methods, and telecommuting is now widely in use outside of the Manufacturing Division; even Board of Directors meetings now offer online attendance. Amid post-COVID new normal lifestyles, working from home has become commonplace. There should therefore be company-wide efforts made in this area, such as efficient meeting operation and updating communication methods to realize this.

In the progress report for the mid-term management vision "STEP," Subaru defines its vision for itself as a company "delivering happiness to all," declaring the goal of becoming a compelling company with a strong market presence for customers by providing "Enjoyment and Peace of Mind." Analyses show that customers' feelings about Subaru are not limited to the functional value offered by its vehicles but are also sublimated into the emotional value bringing it closer to the lifestyles of its customers. Based on these things we have assessed that an easy-to-define, simple vision for Subaru is its ability to effectively market a Subaru unlike others to all stakeholders, including shareholders. In addition, I believe that Subaru has been able to clearly express its approach and goals as a company regarding safety and the environment, and that this has earned stakeholder empathy. While there is the perspective that Subaru's view on its future earnings may be a bit conservative, I believe that sharing this vision will lead to results greater than expectations. I have hope for Subaru thanks to its many examples of great growth in corporate value stemming from a simple definition of its *raison d'être*, earning the empathy of stakeholders and all its employees, and sublating this into its corporate culture.

I evaluated Subaru's commitment to organizational culture reform focusing on the growth of the individual, with an emphasis on the five perspectives of management, employees, shareholders, customers, and the environment.

It has been a year since I became an outside director. In 2020, I was able to learn about the breadth and depth of Subaru's technology through tours and meetings at almost all of its production and development locations in its automotive and aerospace businesses, located in the prefectures of Gunma, Tochigi, and Aichi.

With the knowledge gained in these tours as context, I consider whether or not there are any unaddressed issues from the five perspectives of management, employees, shareholders, customers, and the environment, making statements regarding these at Board of Directors meetings. I realize that the automobile industry is unique compared to other industries in that it is governed by many laws, regulations, and safety standards requiring compliance, and that it requires efficient tracking of the revisions to each of these, and that ensuring recall parts based on cost performance is a challenge. I also use my position as a technically minded person to ask some detailed questions, particularly in the areas of DX progress and procurement problems originating from the shortage of semiconductors.

I feel that the progress report of the mid-term management vision "STEP" clearly conveys thoughts regarding organizational culture reform focusing on the growth of the individual, an area of focus for President Nakamura. In the decision-making process, I have participated in discussions not only via meetings of the Board of Directors, but also through the separate presentations I have received. What I have remained aware of is the question of whether or not Subaru's vision is a convincing one if observed from another viewpoint—one that is not full of love for Subaru. I have had sincere exchanges of opinion regarding areas that are not convincing, going so far as to correct Subaru's expressions. It is difficult to practice carbon neutrality while maintaining the Subaru Difference, and I think I may have been able to help even slightly here, molding Subaru's language into more straightforward expression.

One special thing about Subaru is that its employees are full of friendliness when looking at pictures in our in-house magazines. I feel that this 3 trillion yen company has a sense of togetherness with its valued field sites.

## Corporate Data

## Consolidated Ten-year Financial Summary

Subaru Corporation and its consolidated subsidiaries  
Years ended March 31

J-GAAP								IFRS							
		'11/3	'12/3	'13/3	'14/3	'15/3	'16/3	'17/3	'18/3	'19/3	'19/3	'20/3	'21/3		
<b>Operating results (for the year)</b>								<b>Operating results (for the year)</b>							
Net sales <sup>*1</sup>	Millions of yen	¥1,580,563	¥1,517,105	¥1,912,968	¥2,408,129	¥2,877,913	¥3,232,258	¥3,325,992	¥3,232,695	¥3,160,514	Revenue	Millions of yen	¥3,156,150	¥3,344,109	¥2,830,210
Cost of sales	Millions of yen	1,241,427	1,222,419	1,501,809	1,728,271	2,017,490	2,187,136	2,386,266	2,442,706	2,561,753	Cost of sales	Millions of yen	2,558,262	2,728,605	2,337,614
Gross profit	Millions of yen	339,136	294,686	411,159	679,858	860,423	1,045,122	939,726	789,989	598,761	Gross profit	Millions of yen	597,888	615,504	492,596
Selling, general and administrative expenses <sup>*1</sup>	Millions of yen	255,001	250,727	290,748	353,369	437,378	479,533	528,916	410,542	403,232	Selling, general and administrative expenses	Millions of yen	298,875	308,227	279,867
Operating income	Millions of yen	84,135	43,959	120,411	326,489	423,045	565,589	410,810	379,447	195,529	Operating profit	Millions of yen	181,724	210,319	102,468
Income before income taxes	Millions of yen	63,214	52,879	93,082	328,865	392,206	619,003	394,695	297,340	195,838	Profit before tax	Millions of yen	186,026	207,656	113,954
Net income attributable to owners of parent	Millions of yen	50,326	38,453	119,588	206,616	261,873	436,654	282,354	220,354	147,812	Profit for the period attributable to owners of parent	Millions of yen	141,418	152,587	76,510
Depreciation/amortization <sup>*2, *3</sup>	Millions of yen	56,062	58,611	61,544	61,486	71,821	72,938	85,653	102,102	102,749	Depreciation/amortization <sup>3</sup>	Millions of yen	187,077	192,742	206,317
Capital expenditures <sup>*3</sup>	Millions of yen	67,378	67,035	94,986	98,537	135,346	168,338	196,616	193,789	169,960	Capital expenditures <sup>3</sup>	Millions of yen	274,281	284,669	258,229
R&D expenses	Millions of yen	42,907	48,115	49,141	60,092	83,535	102,373	114,215	121,084	102,719	R&D expenditures	Millions of yen	102,719	118,735	101,626
<b>Financial position (at year-end)</b>								<b>Financial position (at year-end)</b>							
Net assets	Millions of yen	413,963	451,607	596,813	770,071	1,030,719	1,349,411	1,464,888	1,561,023	1,612,825	Total equity	Millions of yen	1,689,899	1,720,123	1,786,383
Shareholders' equity	Millions of yen	412,661	450,302	595,365	765,544	1,022,417	1,343,732	1,458,664	1,552,844	1,605,291	Equity attributable to owners of parent	Millions of yen	1,682,248	1,712,881	1,777,735
Total assets <sup>*4</sup>	Millions of yen	1,188,324	1,352,532	1,577,454	1,888,363	2,199,714	2,592,410	2,762,321	2,866,474	2,982,725	Total assets	Millions of yen	3,180,597	3,293,908	3,411,712
Ratio of shareholders' equity to total assets <sup>*4</sup>	%	34.7	33.3	37.7	40.5	46.5	51.8	52.8	54.2	53.8	Ratio of equity attributable to owners of parent to total assets	%	52.9	52.0	52.1
<b>Cash flows</b>								<b>Cash flows</b>							
Net cash provided by (used in) operating activities	Millions of yen	138,208	54,865	166,715	313,024	311,543	614,256	345,442	366,298	174,006	Net cash provided by (used in) operating activities	Millions of yen	250,732	210,134	289,376
Net cash provided by (used in) investing activities	Millions of yen	(51,109)	(26,602)	(71,370)	(33,903)	(172,780)	(255,676)	(254,252)	(150,711)	(158,327)	Net cash provided by (used in) investing activities	Millions of yen	(190,119)	(25,844)	(272,174)
Free cash flow	Millions of yen	87,099	28,263	95,345	279,121	138,763	358,580	91,190	215,587	15,679	Free cash flows	Millions of yen	60,613	184,290	17,202
Net cash provided by (used in) financing activities	Millions of yen	(39,408)	2,586	(60,766)	(63,011)	(110,546)	(126,190)	(189,044)	(170,937)	(96,617)	Net cash provided by (used in) financing activities	Millions of yen	(141,551)	(15,818)	13,966
<b>Per share</b>								<b>Per share</b>							
Net income (EPS)	Yen	64.56	49.27	153.23	264.76	335.57	559.54	365.77	287.40	192.78	Profit for the period attributable to owners of parent (EPS)	Yen	184.44	198.99	99.77
Net assets (BPS)	Yen	528.88	576.97	762.87	980.98	1,310.15	1,721.90	1,902.56	2,025.31	2,093.60	Equity attributable to owners of parent (BPS)	Yen	2,193.97	2,233.76	2,318.17
Dividends	Yen	9	9	15	53	68	144	144	144	144	Dividends	Yen	144	100	56
<b>Other information</b>								<b>Other information</b>							
Non-consolidated exchange rate	Yen to the U.S. dollar	86	79	82	100	108	121	108	111	111	Non-consolidated exchange rate	Yen to the U.S. dollar	111	109	106
Number of shares issued	Thousands of shares	782,865	782,865	782,865	782,865	782,865	782,865	769,175	769,175	769,175	Number of shares issued	Thousands of shares	769,175	769,175	769,175
Number of shareholders <sup>*5</sup>	Persons	34,240	33,139	28,890	51,386	70,942	79,594	76,471	132,570	133,879	Number of shareholders <sup>5</sup>	Persons	133,879	145,289	142,890
Number of employees (parent only)	Persons	12,429	12,359	12,717	13,034	13,883	14,234	14,708	14,879	15,274	Number of employees (parent only)	Persons	15,274	15,806	16,478
Number of employees (consolidated)	Persons	27,296	27,123	27,509	28,545	29,774	31,151	32,599	33,544	34,200	Number of employees (consolidated)	Persons	34,200	35,034	36,070
<b>Number of units</b>								<b>Number of units</b>							
Consolidated automobile unit sales <sup>*6</sup>	Thousand units	657	640	724	825	911	958	1,065	1,067	1,000	Consolidated automobile unit sales <sup>6</sup>	Thousand units	1,001	1,034	860
Subaru vehicle unit production	Thousand units	624	635	692	772	887	929	1,033	1,036	977	Subaru vehicle unit production	Thousand units	977	1,022	803
Domestic	Thousand units	459	465	511	609	681	693	698	687	605	Domestic	Thousand units	605	654	518
Overseas <sup>*7</sup>	Thousand units	165	171	181	164	207	236	335	349	372	Overseas <sup>7</sup>	Thousand units	372	367	285

\* The Subaru Group has voluntarily applied International Financial Reporting Standards (IFRS) since the first quarter of FYE March 2020

\*1 Change of accounting policy effective from FYE March 2019 (deduction of sales incentives from net sales); retroactively applied to the figures for FYE March 2018

\*2 Accompanying a change in accounting policy effective from the FYE March 2019, change of depreciation method for certain tangible fixed assets of the Company and its major domestic consolidated subsidiaries from the declining-balance method to the straight-line method

\*3 Total amount of property, plant and equipment and intangible assets

\*4 Partial Amendments to Accounting Standard for Tax Effect Accounting have been applied from FYE March 2019, and retrospectively applied to the figures for FYE March 2018.

\*5 Number of shares per trading unit: 100 shares

\*6 Automobile unit sales of Subaru Corporation and its consolidated subsidiaries

\*7 U.S. production base Subaru of Indiana Automotive, Inc.

## Corporate Data

## Five-year Unit Sales

Years ended March 31

## Consolidated Automobile Sales by Region

(Thousand units)

	'17/3	'18/3	'19/3	'20/3	'21/3
<b>Japan</b>					
Legacy	11.1	9.3	6.1	4.7	2.6
Impreza	51.6	66.7	47.4	42.9	30.7
Forester	24.2	18.1	32.1	30.1	22.9
Levorg	23.8	21.3	13.2	11.8	20.1
WRX	6.6	8.3	7.1	8.5	2.8
Exiga	4.3	3.5	0.2	—	—
SUBARU BRZ	2.3	1.9	1.3	1.2	0.8
OEM	2.1	2.9	2.7	2.7	1.9
Others	0.6	0.5	0.1	—	—
Passenger cars	126.4	132.6	110.2	101.9	81.9
Minicars	32.5	30.9	26.0	23.9	19.9
Japan total	158.9	163.4	136.2	125.8	101.8
<b>U.S.</b>					
Legacy	275.3	234.4	213.9	197.2	186.3
Impreza	168.6	213.7	197.0	196.5	173.6
Forester	182.6	186.2	155.6	200.5	176.2
WRX	37.0	32.5	26.5	21.0	18.7
Ascent	—	—	63.1	84.6	54.9
Tribeca	0.0	0.0	—	—	—
SUBARU BRZ	4.0	4.2	3.7	1.8	2.0
U.S. total	667.6	670.9	659.7	701.6	611.6
<b>Canada</b>					
Legacy	15.2	14.2	13.3	13.0	9.7
Impreza	18.0	23.1	22.1	25.7	24.0
Forester	14.2	14.3	12.5	14.8	10.4
WRX	4.9	4.5	4.1	2.5	2.6
Ascent	—	—	4.1	4.0	2.7
SUBARU BRZ	0.7	0.7	0.7	0.4	0.3
Canada total	53.1	56.8	56.8	60.4	49.7
<b>Europe</b>					
Legacy	8.1	6.9	6.5	8.8	3.2
Impreza	12.6	16.6	14.9	13.2	5.9
Forester	15.2	13.2	9.1	12.7	4.3
Levorg	3.6	1.9	0.8	1.9	0.1
WRX	0.9	1.2	0.3	—	0.0
SUBARU BRZ	0.6	0.4	0.5	0.4	0.2
Europe total	40.9	40.2	32.1	37.0	13.7
<b>Russia</b>					
Legacy	1.0	1.5	1.4	0.8	0.3
Impreza	0.2	1.6	1.4	1.0	0.3
Forester	4.2	4.6	5.3	6.8	3.9
WRX	0.0	0.1	0.0	0.0	0.0
SUBARU BRZ	—	—	—	—	—
Russia total	5.3	7.7	8.1	8.7	4.5
<b>Australia</b>					
Legacy	15.4	13.3	10.6	8.0	7.2
Impreza	15.2	25.1	16.7	16.1	9.8
Forester	13.1	12.4	12.2	16.9	12.3
Levorg	2.1	1.1	0.3	0.3	0.2
WRX	2.8	2.8	1.5	1.3	1.5
SUBARU BRZ	0.4	0.9	0.4	0.5	0.4
Australia total	49.1	55.7	41.7	43.1	31.4

(Thousand units)

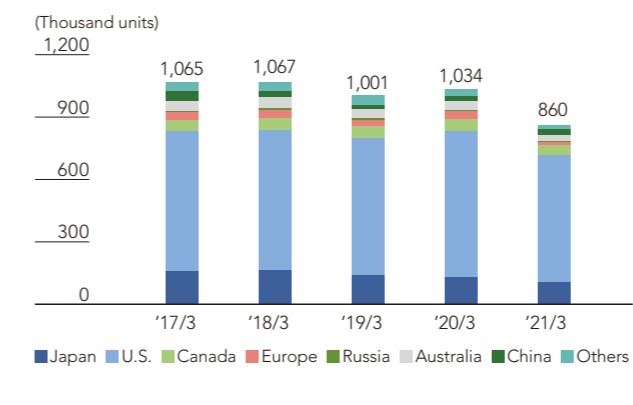
	'17/3	'18/3	'19/3	'20/3	'21/3
<b>China</b>					
Legacy	11.3	5.5	3.8	2.7	4.9
Impreza	5.6	4.6	3.8	1.6	2.2
Forester	26.6	15.7	15.2	15.6	17.4
SUBARU BRZ	0.6	1.0	—	0.8	0.0
China total	44.0	26.9	22.8	20.6	24.5
<b>Other regions</b>					
Legacy	7.0	6.0	4.3	2.6	1.9
Impreza	18.7	22.0	19.2	15.0	9.6
Forester	16.9	14.5	16.9	16.7	10.1
Levorg	1.1	0.9	1.1	0.9	0.2
WRX	1.6	1.6	1.4	1.1	0.4
Ascent	—	—	—	0.0	0.7
SUBARU BRZ	0.3	0.2	0.3	0.3	0.1
Other regions total	45.6	45.2	43.3	36.7	22.9
Overseas total	905.6	903.5	864.6	908.0	758.4
Global total	1,064.5	1,066.9	1,000.8	1,033.9	860.2

## Consolidated Automobile Sales by Model

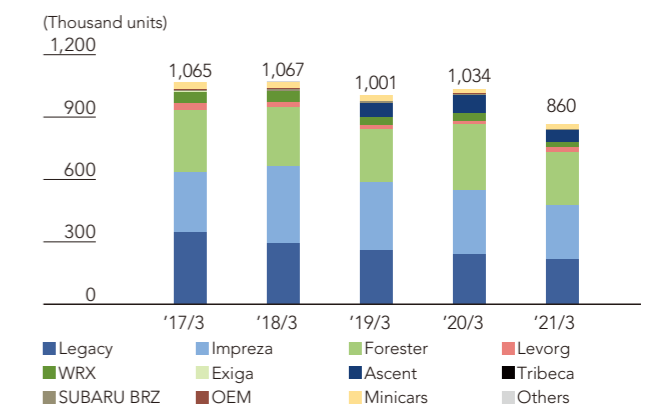
(Thousand units)

	'17/3	'18/3	'19/3	'20/3	'21/3
Legacy	344.4	291.2	259.9	237.8	216.1
Impreza	290.5	373.4	322.5	312.0	256.1
Forester	297.0	279.0	258.8	314.1	257.5
Levorg	30.6	25.3	15.4	15.0	20.5
WRX	53.7	51.0	41.0	34.4	26.1
Exiga	4.3	3.5	0.2	—	—
Ascent	—	—	67.2	88.6	58.3
Tribeca	0.0	0.0	—	—	—
SUBARU BRZ	8.9	9.3	6.9	5.4	3.9
OEM	2.1	2.9	2.7	2.7	1.9
Minicars	32.5	30.9	26.0	23.9	19.9
Others	0.6	0.5	0.1	—	—
Global total	1,064.5	1,066.9	1,000.8	1,033.9	860.2

## Consolidated Automobile Sales by Region



## Consolidated Automobile Sales by Model



\*Automobile sales of Subaru Corporation and its consolidated subsidiaries

\*Automobile sales of Subaru Corporation and its consolidated subsidiaries

## Financial Review

### Business Segments and Scope of Consolidation

The Subaru Group ("the Group") consists of three business segments: the core Automotive Business Unit, the Aerospace Company; and Other Businesses, which consists of businesses that do not belong to either of the other two segments. In the fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021; the "fiscal year under review"), Subaru Corporation ("the Company"), 73 subsidiaries, and 10 equity-method affiliated companies were included in the scope of consolidation.

### Overview of Business Performance

Revenue for the fiscal year under review decreased 513.9 billion yen, or 15.4%, year on year to 2,830.2 billion yen. Results were higher year on year through the third quarter primarily because sales in the key North American market began recovering from the effects of COVID-19 from the second quarter onward. However, unit sales decreased in the fourth quarter due to production cutbacks resulting from a shortage of semiconductors.

The decline in unit sales more than offset lower SG&A and warranty expenses. Consequently, operating profit decreased 107.9 billion yen, or 51.3%, year on year to 102.5 billion yen, profit before tax decreased 93.7 billion yen, or 45.1%, to 114.0 billion yen, and profit for the period attributable to owners of parent decreased 76.1 billion yen, or 49.9%, to 76.5 billion yen.

(Amounts in billions of yen, ratios in %)

	Revenue	Operating Profit [Ratio to revenue]	Profit before Tax [Ratio to revenue]	Profit for the Period Attributable to Owners of Parent [Ratio to revenue]	Foreign Exchange Rates
FYE March 2021	2,830.2	102.5 (3.6)	114.0 (4.0)	76.5 (2.7)	¥106/USD ¥123/EUR
FYE March 2020	3,344.1	210.3 (6.3)	207.7 (6.2)	152.6 (4.6)	¥109/USD ¥121/EUR
Change	△513.8	△107.9	△93.7	△76.1	
Percentage change	△15.4	△51.3	△45.1	△49.9	

### Segment Information

#### Automotive Business Unit

The pandemic had a significant negative impact on performance in the first quarter, but overseas retail sales remained strong. This was mainly attributable to the brisk sales of Crosstrek (Japanese name: "SUBARU XV") in the mainstay North American market. In the domestic market, the all-new Subaru Levorg, which was named 2020-2021 Car of the Year Japan, contributed to sales.

Consequently, overseas sales decreased by 150,000 units, or 16.5%, year on year to 758,000 units and domestic unit sales decreased 24,000 units, or 19.1%, to 102,000 units, resulting in an overall decrease of 174,000 units, or 16.8%, to 860,000 units. Revenue decreased by 456.4 billion yen, or 14.3%, to 2,737.5 billion yen. Segment profit decreased by 91.2 billion yen, or 45.5%, to 109.1 billion yen.

#### Aerospace Company

Revenue fell by 54.4 billion yen, or 38.3%, to 87.7 billion yen, because of reduced deliveries of Boeing 787 and 777 components in the midst of the COVID-19 pandemic. Segment loss was 9.8 billion yen, compared with segment profit of 5.1 billion yen for the previous fiscal year.

#### Other Businesses

Revenue from Other Businesses decreased 3.0 billion yen, or 37.5%, year on year to 5.0 billion yen, and segment profit decreased 0.5 billion yen, or 14.2%, to 3.1 billion yen.

(Amounts in billions of yen, ratios in %)

	Revenue				Operating profit			
	FYE March 2020	FYE March 2021	Change	Percentage change	FYE March 2020	FYE March 2021	Change	Percentage change
Automotive	3,193.9	2,737.5	(456.4)	(14.3)	200.3	109.1	(91.2)	(45.5)
Aerospace	142.1	87.7	(54.4)	(38.3)	5.1	(9.8)	(14.9)	—
Others	8.0	5.0	(3.0)	(37.5)	3.6	3.1	(0.5)	(14.2)
Adjustment	—	—	—	—	1.4	0.1	(1.3)	(90.0)
Total	3,344.1	2,830.2	(513.9)	(15.4)	210.3	102.5	(107.9)	(51.3)

### R&D Expenditures, Capital Expenditures, and Depreciation Expenses

R&D expenditures in the fiscal year under review decreased 17.1 billion yen, or 14.4%, year on year to 101.6 billion yen. Of that amount, 100.3 billion yen was related to the Automotive Business Unit. Since IFRS requires a certain portion of R&D expenditures that meets the set criteria to be capitalized as an intangible asset and depreciated over its estimated useful life, the amount of R&D expenditures does not match the amount of R&D expenses on the consolidated statement of income.

In the fiscal year under review, Group capital expenditures decreased 39.8 billion yen, or 31.6%, year on year to 86.2 billion yen. Of the total, 80.2 billion yen was related to the Automotive Business Unit. The Company invested 47.8 billion yen, mainly for the improvement and maintenance of production and inspection lines, production facilities for new products, R&D facilities, and improvement of quality and the working environment. Subaru of Indiana Automotive, Inc. (SIA), our production base in the U.S., also invested 14.2 billion yen, for production facilities to handle new products and expand capacity.

Depreciation expenses in the fiscal year under review decreased 1.1 billion yen, or 1.1%, year on year to 95.0 billion yen.

The figures in this section do not include leases, capital expenditures and amortization for intangible assets.

### Liquidity and Source of Funds

#### Financial Position

Total assets as of March 31, 2021 stood at 3,411.7 billion yen, an increase of 117.8 billion yen. The key factors include: 1) an increase of 81.7 billion yen in non-current assets as a result of the acquisition of other financial assets; 2) an increase of 48.4 billion yen in cash and cash equivalents; and 3) a decrease of 40.9 billion yen in inventories due to production adjustments resulting from the semiconductor shortage, which occurred in parallel with the recovery of automobile sales.

Total liabilities increased 51.5 billion yen to 1,625.3 billion yen. The key factors include: 1) an increase of 94.7 billion yen in financing liabilities under current and non-current liabilities due to the issuance of corporate bonds and an increase in long-term borrowings; and 2) a decrease of 68.4 billion yen in trade and other payables as a result of production adjustments caused by the semiconductor shortage.

Total equity increased 66.3 billion yen to 1,786.4 billion yen. The key factors include: 1) an increase of 38.1 billion yen in retained earnings; and 2) an increase of 26.6 billion yen in other components of equity due to exchange rate effects and the like.

#### Cash Flows

Cash and cash equivalents (hereinafter "cash") at the end of March 2021 totaled 907.3 billion yen.

In the fiscal year under review, net cash provided by operating activities was 289.4 billion yen, up from 210.1 billion yen in the previous fiscal year. Major sources of cash included profit before tax of 114.0 billion yen and a decrease in inventories of 39.6 billion yen. Depreciation and amortization totaled 206.3 billion yen. Major uses of cash included a decrease in trade and other payables of 62.0 billion yen and a decrease of 39.6 billion yen in inventories. Net cash used in investing activities was 272.2 billion yen, up from 25.8 billion yen in the previous fiscal year. Uses of cash included purchase of other financial assets totaling 328.7 billion yen and purchase of property, plant and equipment totaling 124.7 billion yen. Sources of cash included proceeds from sale and collection of other financial assets totaling 247.5 billion yen. Net cash provided by financing activities was 14.0 billion yen, compared with net cash used in financing activities of 15.8 billion yen in the previous fiscal year. Major sources of cash included net proceeds from long-term borrowings totaling 65.5 billion yen. Major uses of cash included dividends paid to owners of parent of 42.9 billion yen.

### Other Financial Information

The summary of consolidated financial results and presentation materials for results briefings are published in the Investor Relations section of the Company's website.

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

# Global Network

## Global Network

### Main Overseas Business Sites



### Main Domestic Business Sites

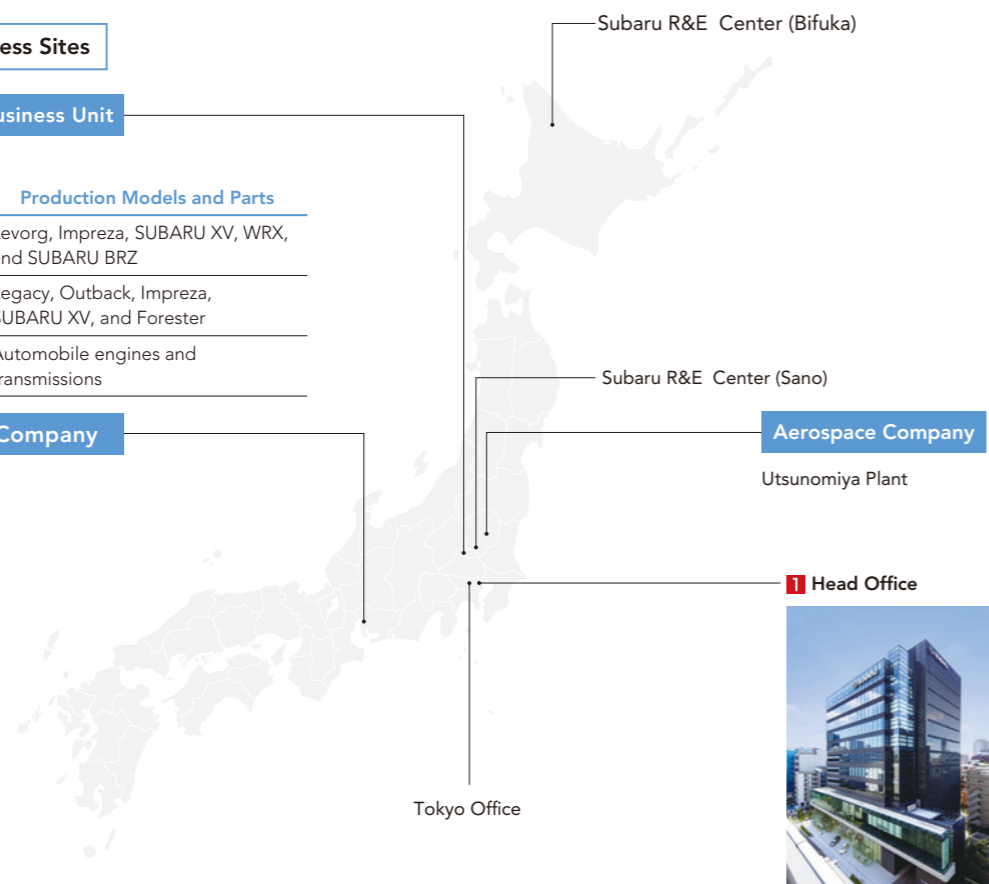
#### Automotive Business Unit

Gunma Plant

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

#### Aerospace Company

Handa Plant  
Handa West Plant



# History of the Subaru Group

The Subaru group which can trace some of its roots to Aircraft Research Laboratory, has continuously nurtured highly creative technologies and increased corporate value by enhancing the Subaru brand to respond to major changes in the times.

1917	Establishment of Aircraft Research Laboratory	
1931	Establishment of Nakajima Aircraft Co., Ltd.	
1945	Change of company name from Nakajima Aircraft to Fuji Sangyo	
		1946 Production of the first Rabbit Scooter
1953	Establishment of Fuji Heavy Industries Ltd. Start of aircraft production and automobile development	
1960	Opening of the Gunma Main Plant	
1960	Listing of shares on the Tokyo Stock Exchange	
1966	Signing of a business alliance agreement with Isuzu Motors Ltd.	
1968	Establishment of Subaru of America, Inc. (SOA)	
1968	Dissolution of the business alliance with Isuzu Motors Ltd.	
1968	Signing of a business alliance agreement with Nissan Motor Co., Ltd.	
1968	Start of exports of Robin engines for snowmobiles to Polaris (U.S.)	
1969	Start of operation of the Yajima Plant	
1972	Release of the Leone 4WD Estate Van, the world's first mass-production 4WD passenger vehicle	
1978	Conclusion of a 767 business agreement with Boeing	
1983	Start of full-scale operation of the Oizumi Plant	
1987	Release of the Justy model equipped with the world's first electro-continuously variable transmission (ECVT)	
1987	Establishment of Subaru-Isuzu Automotive, Inc. (SIA) in the U.S. in a joint venture with Isuzu Motors Ltd.	
1989	Establishment of Subaru Canada, Inc. (SCI)	
1989	Completion of Subaru Research & Testing Center (SKC)	
1990	Subaru of America (SOA) made a wholly owned subsidiary	
1991	Participation in the Boeing 777 program	
1993	Start of operation of the Handa Plant	
1999	Capital and business alliance with General Motors Corporation (GM) (U.S.)	
1999	Business alliance with Suzuki Motor Corporation	
2000	Dissolution of the business alliance with Nissan Motor Co., Ltd.	
2002	Dissolution of the SIA joint venture with Isuzu Motors Ltd. and formal signing of a contract production agreement	
2003	The Legacy wins the 2003-2004 Car of the Year Japan award	
2003	Subaru of Indiana Automotive, Inc. (SIA) made a wholly owned subsidiary	
2005	Participation in the Boeing 787 program Delivery of main wings for next-generation transport aircraft and next-generation fixed-wing patrol aircraft	
2005	Dissolution of the alliance with GM, agreement to enter into a business alliance with Toyota Motor Corporation	
2007	Start of production of Toyota cars (Camry) at SIA	
2012	Start of knockdown production of the SUBARU XV in Malaysia	
2012	Termination of production of mini-vehicles and shift to marketing on an OEM basis	
2014	Signing of an agreement to participate in a project to develop and mass produce the Boeing 777X	
2016	Termination of contract production of the Toyota Camry at SIA Transfer of production of Impreza vehicles for North America to SIA	
2016	All-new Impreza Sport/G4 wins the 2016-2017 Car of the Year Japan award	
2017	Change of company name to Subaru Corporation	
2017	Termination of production and sales of Subaru general-purpose engines and generators	
2018	Introduction of the SUBARU BELL 412EPX helicopter	
2019	Agreement on the further developing and strengthening of Subaru's long-term partnership with Toyota Motor Corporation under a new business and capital alliance	
2020	The new Levorg wins the 2020-2021 Car of the Year Japan award	

# Subaru Models through the Years

Note: our production models



## Corporate Information

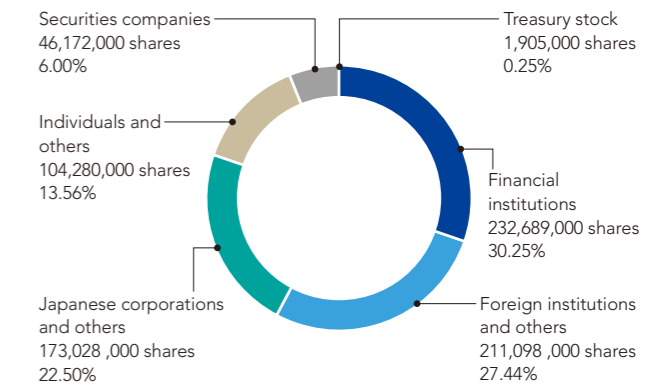
### Corporate Data (As of March 31, 2021)

<b>Company Name</b>	SUBARU CORPORATION	<b>Head Office</b>	Ebisu Subaru Bldg. 1-20-8, Ebisu, Shibuya-ku, Tokyo 150-8554
<b>Established</b>	July 15, 1953	<b>Number of Affiliates</b>	95 (87 subsidiaries, 7 affiliated companies, and 1 other affiliated company)
<b>Paid-In Capital</b>	¥153,795 million	<b>Number of Employees</b>	16,478 (consolidated: 36,070) (excluding executive officers, advisors and dispatches)
<b>Fiscal Year-End</b>	March 31	<b>Website</b>	Corporate website: <a href="https://www.subaru.co.jp/en/">https://www.subaru.co.jp/en/</a>
<b>Accounting Auditors</b>	KPMG AZSA LLC	<b>Addresses</b>	Investor information website: <a href="https://www.subaru.co.jp/en/ir/">https://www.subaru.co.jp/en/ir/</a>
<b>Main Businesses</b>	<b>Automotive:</b> The manufacture, sale, and repair of passenger cars and their components <b>Aerospace:</b> The manufacture, sale, and repair of airplanes, aerospace-related machinery, and their components		

### Stock Information (As of March 31, 2021)

<b>Common Stock Authorized</b>	1,500,000,000 shares
<b>Common Stock Issued</b>	769,175,873 shares
<b>Number of Shareholders</b>	151,367
<b>Number of Shares per Trading Unit</b>	100 shares
<b>Stock Exchange Listing</b>	Tokyo Stock Exchange (1st Section)
<b>Securities Code</b>	7270
<b>Transfer Agent and Account Management Institution of Special Accounts</b>	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan Tel: 0120-288-324 (toll free) Scheduled to move to the following address after November 22, 2021 3-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

### Breakdown of Shareholders



\* Number of shares held are rounded down to the nearest thousand shares

### Major Shareholders

Name	Address	Number of Shares Held (in thousands)	Percentage of Total Shares Held
Toyota Motor Corporation	1 Toyota-Cho, Toyota City, Aichi Prefecture 471-8571, Japan	153,600	20.02
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo 105-8579, Japan	70,978	9.25
Custody Bank of Japan, Ltd. (trust account)	1-8-12 Harumi, Chuo-ku, Tokyo 104-6228, Japan	37,175	4.85
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-8127, Japan	13,959	1.82
BNYM TREATY DTT 15 (Standing Proxy: Mitsubishi UFJ Bank, Ltd.)	240 GREENWICH STREET, NEW YORK, NEW YORK 10286 U.S.A. (Transaction Services Division: 2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	11,200	1.46
MIZUHO SECURITIES ASIA LIMITED-CLIENT A/C (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	12TH FLOOR, CHATER HOUSE, 8 CONNAUGHT ROAD, CENTRAL, HONG KONG (Shinagawa Intercity Tower A, 2-15-1 Konan, Minato-ku, Tokyo)	10,165	1.32
Mizuho Bank, Ltd.	1-5-5 Otemachi, Chiyoda-ku, Tokyo	10,078	1.31
Nippon Life Insurance Company	1-6-6 Otemachi, Chiyoda-ku, Tokyo Securities Management Department, Nippon Life Insurance Company	9,511	1.24
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 2-15-1 Konan, Minato-ku, Tokyo)	9,174	1.20
Subaru Business Partners Shareholding Association	1-20-8 Ebisu, Shibuya-ku, Tokyo	9,010	1.17

\*1 Number of shares held are rounded down to the nearest thousand shares

\*2 The percentage of total shares held is calculated based on the number of shares excluding treasury stock of 1,905,130 shares



## SUBARU CORPORATION

Ebisu Subaru Bldg., 1-20-8, Ebisu, Shibuya-ku,

Tokyo 150-8554, Japan

Phone & Fax: +81-3-6447-8000

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



**1 [Consolidated Financial Statements and Notes]**  
**[Consolidated Financial Statements]**  
**(1) Consolidated Statement of Financial Position**

		(Unit: Millions of yen)	
	Note	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	7	858,966	907,326
Trade and other receivables	8,21	364,839	341,907
Inventories	9	459,940	419,053
Income taxes receivable		15,648	19,820
Other financial assets	10	204,373	228,279
Other current assets		74,748	66,378
Subtotal		1,978,514	1,982,763
Assets held for sale		251	69
<b>Total current assets</b>		<b>1,978,765</b>	<b>1,982,832</b>
Non-current assets			
Property, plant and equipment	11	820,491	839,648
Intangible assets and goodwill	12	209,775	216,652
Investment property	13	23,986	24,282
Investments accounted for using equity method	14	9,831	10,177
Other financial assets	10	19,730	101,389
Other non-current assets		112,843	127,826
Deferred tax assets	25	118,487	108,906
<b>Total non-current assets</b>		<b>1,315,143</b>	<b>1,428,880</b>
<b>Total assets</b>		<b>3,293,908</b>	<b>3,411,712</b>

		(Unit: Millions of yen)	
	Note	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	15	336,223	267,824
Financing liabilities	16,28	12,173	26,334
Other financial liabilities	17,28	44,126	61,282
Income taxes payable		2,642	2,908
Provisions	18	261,312	194,497
Other current liabilities	21	326,820	322,295
<b>Total current liabilities</b>		<b>983,296</b>	<b>875,140</b>
Non-current liabilities			
Financing liabilities	16,28	227,037	307,549
Other financial liabilities	17,28	67,855	78,528
Employee benefits	19	56,525	55,817
Provisions	18	47,509	89,954
Other non-current liabilities	21	179,849	210,491
Deferred tax liabilities	25	11,714	7,850
<b>Total non-current liabilities</b>		<b>590,489</b>	<b>750,189</b>
<b>Total Liabilities</b>		<b>1,573,785</b>	<b>1,625,329</b>
<b>Equity</b>			
Equity attributable to owners of parent			
Capital stock	20	153,795	153,795
Capital surplus	20	160,178	160,178
Treasury shares	20	(6,722)	(6,524)
Retained earnings	20	1,397,239	1,435,291
Other components of equity	20	8,391	34,995
<b>Total equity attributable to owners of parent</b>		<b>1,712,881</b>	<b>1,777,735</b>
Non-controlling interests		7,242	8,648
<b>Total equity</b>		<b>1,720,123</b>	<b>1,786,383</b>
<b>Total liabilities and equity</b>		<b>3,293,908</b>	<b>3,411,712</b>

**(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income**  
**Consolidated Statement of Income**

		(Unit: Millions of yen)	
	Note	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Revenue	6,21	3,344,109	2,830,210
Cost of sales		(2,728,605)	(2,337,614)
Gross profit		615,504	492,596
Selling, general and administrative expenses	22	(308,227)	(279,867)
Research and development expenses		(92,460)	(104,157)
Other income	23	7,751	5,073
Other expenses	23	(12,026)	(11,057)
Share of profit (loss) of investments accounted for using equity method	14	(223)	(120)
Operating profit		210,319	102,468
Finance income	24	15,844	21,003
Finance costs	24	(18,507)	(9,517)
Profit before tax		207,656	113,954
Income tax expense	25	(55,065)	(36,634)
Profit for the period		152,591	77,320
Profit for the period attributable to			
Owners of parent		152,587	76,510
Non-controlling interests		4	810
Profit for the period		152,591	77,320
Profit for the period per share attributable to owners of parent			
Basic (yen)	26	198.99	99.77

## Consolidated Statement of Comprehensive Income

		(Unit: Millions of yen)	
	Note	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Profit for the period		152,591	77,320
Other comprehensive income (after deduction of tax)			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		(475)	4,467
Net changes in revaluation of capital financial assets measured at fair value through other comprehensive income	30	(763)	6,527
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(12,581)	20,031
Share of other comprehensive income of investments accounted for using equity method	14	(182)	6
Net changes in revaluation of liability financial assets measured at fair value through other comprehensive income	30	1,966	745
Other comprehensive income (after deduction of tax) total	20	(12,035)	31,776
Comprehensive income		140,556	109,096
Comprehensive income attributable to			
Owners of parent		140,965	107,690
Non-controlling interests		(409)	1,406
Comprehensive income		140,556	109,096

**(3) Consolidated Statement of Changes in Equity**  
**FYE 2020 (April 1, 2019 to March 31, 2020)**

(Unit: Millions of yen)

	Note	Equity attributable to owners of parent					Total	Non-controlling interests	Total capital
		Capital stock	Capital surplus	Treasury shares	Retained earnings	Other components of equity			
Balance at the beginning of the year		153,795	160,192	(6,910)	1,350,639	24,532	1,682,248	7,651	1,689,899
Comprehensive income									
Profit for the period		—	—	—	152,587	—	152,587	4	152,591
Other comprehensive income (after deduction of tax)	20	—	—	—	—	(11,622)	(11,622)	(413)	(12,035)
Comprehensive income total		—	—	—	152,587	(11,622)	140,965	(409)	140,556
Transfer to retained earnings	20	—	—	—	4,519	(4,519)	—	—	—
Transactions with owners									
Dividends paid	27	—	—	—	(110,475)	—	(110,475)	—	(110,475)
Purchase of treasury shares		—	—	(7)	—	—	(7)	—	(7)
Disposal of treasury shares		—	(45)	195	—	—	150	—	150
Transfer from retained earnings to capital surplus		—	31	—	(31)	—	—	—	—
Total transactions with owners		—	(14)	188	(110,506)	—	(110,332)	—	(110,332)
Balance at the end of the year		153,795	160,178	(6,722)	1,397,239	8,391	1,712,881	7,242	1,720,123

**FYE 2021 (April 1, 2020 to March 31, 2021)**

(Unit: Millions of yen)

	Equity attributable to owners of parent						Total	Non-controlling interests	Total capital
	Note	Capital stock	Capital surplus	Treasury shares	Retained earnings	Other components of equity			
Balance at the beginning of the year		153,795	160,178	(6,722)	1,397,239	8,391	1,712,881	7,242	1,720,123
Comprehensive income									
Profit for the period		—	—	—	76,510	—	76,510	810	77,320
Other comprehensive income (after deduction of tax)	20	—	—	—	—	31,180	31,180	596	31,776
Comprehensive income total		—	—	—	76,510	31,180	107,690	1,406	109,096
Transfer to retained earnings	20	—	—	—	4,576	(4,576)	—	—	—
Transactions with owners									
Dividends paid	27	—	—	—	(42,966)	—	(42,966)	—	(42,966)
Purchase of treasury shares		—	—	(14)	—	—	(14)	—	(14)
Disposal of treasury shares		—	(68)	212	—	—	144	—	144
Transfer from retained earnings to capital surplus		—	68	—	(68)	—	—	—	—
Total transactions with owners		—	—	198	(43,034)	—	(42,836)	—	(42,836)
Balance at the end of the year		153,795	160,178	(6,524)	1,435,291	34,995	1,777,735	8,648	1,786,383

**(4) Consolidated Statement of Cash Flows**

		(Unit: Millions of yen)	
	Note	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2020 (April 1, 2020 to March 31, 2021)
Net cash provided by (used in) operating activities			
Profit before tax		207,656	113,954
Depreciation and amortization		192,742	206,317
Share of loss (profit) of investments accounted for using equity method		223	120
Finance income		(15,844)	(21,003)
Finance costs		18,507	9,517
Decrease (increase) in trade and other receivables		(23,916)	24,459
Decrease (increase) in inventories		(70,173)	39,564
Increase (decrease) in trade and other payables		(67,939)	(62,046)
Increase (decrease) in provisions and employee benefits		(23,832)	(22,404)
Others		27,900	35,553
Subtotal		<u>245,324</u>	<u>324,031</u>
Interest received		12,838	4,229
Dividends received		1,258	896
Interest paid		(1,800)	(2,013)
Income taxes paid		(47,486)	(37,767)
Net cash provided by (used in) operating activities		<u>210,134</u>	<u>289,376</u>
Net cash provided by (used in) investing activities			
Net decrease (increase) in time deposits		127,404	3,039
Purchase of property, plant and equipment		(131,690)	(124,725)
Proceeds from sale of property, plant and equipment		5,387	568
Purchase of intangible assets and expenditure on internally generated intangible assets		(82,379)	(67,798)
Purchase of other financial assets		(259,956)	(328,675)
Proceeds from sale and collection of other financial assets		319,652	247,496
Others		(4,262)	(2,079)
Net cash provided by (used in) investing activities		<u>(25,844)</u>	<u>(272,174)</u>
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term borrowings	28	(2,400)	(540)
Repayments of long-term borrowings	28	(7,592)	(7,421)
Proceeds from long-term borrowings	28	106,000	65,500
Proceeds from issuance of bonds	28	40,000	40,000
Repayments of lease liabilities	28	(41,230)	(40,425)
Dividends paid to owners of parent		(110,375)	(42,947)
Others		(221)	(201)
Net cash provided by (used in) financing activities		<u>(15,818)</u>	<u>13,966</u>
Effect of exchange rate changes on cash and cash equivalents		(11,834)	17,192
Net increase (decrease) in cash and cash equivalents		<u>156,638</u>	<u>48,360</u>
Cash and cash equivalents at beginning of period		702,328	858,966
Cash and cash equivalents at end of period	7	<u>858,966</u>	<u>907,326</u>

## **【Notes to Consolidated Financial Statements】**

### SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

#### **1. Reporting Entity**

SUBARU CORPORATION (“the Company”) is a public company domiciled in Japan.

The Company’s consolidated financial statements comprise the Company and its consolidated subsidiaries (“the Group”) and the Group’s interests in affiliates.

Principal manufacturing facilities are located in Japan and the United States of America.

In automobile business, the group manufactures, sells, and repairs passenger cars and related products.

In aerospace business, the group manufactures, sells, and repairs aircrafts, space-related devices, and the parts.

#### **2. Basis of Preparation**

(1) Compliance of consolidated financial statements with International Financial Reporting Standards (“IFRS”)

The Group’s consolidated financial statements have been prepared in accordance with IFRS as prescribed in Article 93 of Ordinance on Consolidated Financial Statements as they satisfy the requirement of a “Specified Company” set forth in Article 1-2 of Ordinance on Consolidated Financial Statements.”

The public announcement of the consolidated financial statements for the consolidated fiscal year ended March 31, 2021 have been approved by Tomomi Nakamura, the Representative Director of the Board, President and Chief Executive Officer, and Katsuyuki Mizuma, Chief Financial Officer, on June 24, 2021.

(2) Functional currency and presentation currency

The Group’s consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency. Amounts presented in Japanese yen are rounded to the nearest million yen, except when otherwise indicated.

(3) Basis of measurement

The Group’s consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities separately stated in "3. Significant Accounting Policies".

(4) Change in presentation

Consolidated Statements of Financial Position

“Provision for environmental measures” was included in “Other current liabilities” under “Current liabilities” in the previous fiscal year. It is included in “Provisions” under current and non-current liabilities from the current fiscal year in order to enhance the clarity.

Among the 1,261 million yen included in "Other current liabilities" in the previous fiscal year, 150 million yen was reclassified into "Provisions" under “Current liabilities”, and 1,111 million yen was reclassified into "Provisions" under “Non-current liabilities”.

Consolidated Statement of Cash Flows

“Increase (decrease) in Provision for environmental measures”, which was included in “Other” under “Net cash provided by (used in) operating activities” in the previous fiscal year, is included in “Increase (decrease) in provisions and employee benefits” in the current fiscal year in order to enhance the clarity.

(24,797) million yen of “Increase (decrease) in provisions and employee benefits”, 28,865 million yen of “Other” under “Net cash provided by (used in) operating activities” in the previous fiscal year, has been reclassified into (23,832) million yen of “Increase (decrease) in provisions and employee benefits”, 27,900 million yen of “Other”.



### 3. Significant Accounting Policies

The following accounting policies applied in the preparation of the consolidated financial statements have been consistently applied to all the reporting periods presented.

#### (1) Basis of consolidation

##### 1. Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Financial statements of subsidiaries are included in the consolidated financial statements from the date when the control is obtained until the date when the control is lost.

The financial statements of subsidiaries have been adjusted in order to ensure consistency with the accounting policies adopted by the Company as necessary. Intragroup balances and transactions, and any unrealized gain or loss arising from intragroup transactions are eliminated in preparation of the consolidated financial statements. Changes in the Company's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The difference between adjustment of non-controlling interests and fair value of any consideration paid is recognized directly in equity as the interest attributed to the owners of the parent.

Non-controlling interests of consolidated subsidiaries are recognized separately from the interests of the Group. Comprehensive income of a subsidiary is attributed to the owners of the parent and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When control over a subsidiary is lost, any gain or loss on disposal of the interest sold is recognized in profit or loss.

##### 2. Affiliates

Affiliates are entities over which the Group has a significant influence over the decisions on financial and operating policies, but does not have control.

Investment in an affiliate is initially recognized at cost and then is accounted for using the equity method of accounting.

The financial statements of affiliates have been adjusted, if necessary, when their accounting policies differ from those of the Group.

#### (2) Foreign currency translation

##### 1. Foreign currency transactions

Each company in the Group specifies its own functional currency, the currency of the primary economic environment in which the entity operates, and measures transactions based on the functional currency.

When the entity prepares non-consolidated financial statements, the foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the fiscal year end date.

Exchange differences arising from the translation and settlement are usually recognized in profit or loss. However, exchange differences arising from the translation of equity financial instruments specified as measuring fair value through other comprehensive income are recognized in other comprehensive income.

## 2. Financial statements of foreign operations

All the assets and liabilities of foreign operations are translated at the exchange rates at the end of the reporting period. Revenue and expenses of foreign operations are translated into Japanese yen at the average exchange rates for the period, unless exchange rates significantly fluctuate during the period. If the exchange rates significantly fluctuate, revenue and expenses of foreign operations are translated at the foreign exchange rates at the date of the transaction.

Exchange differences arising from translation of foreign operations' financial statements are recognized in other comprehensive income. When a foreign operations are disposed of, the cumulative amount of exchange differences relating to the foreign operations are recognized in profit or loss.

### (3) Financial instruments

#### 1. Financial assets

##### (i) Initial recognition and measurement

The Group classifies financial assets as financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, or financial assets subsequently measured at amortized cost.

The Group initially recognizes trade receivables on the date when they arise. All other financial instruments are initially recognized when the Group becomes a party to the contractual provision of a financial instrument.

Financial assets are initially measured at their fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, unless they are classified as measured at fair value through profit or loss. Trade receivables that do not contain a significant financing component are initially measured at the transaction price.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

- A financial asset is held within a business model whose objective is to hold the asset in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instrument are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within the Group's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

When any of the above-mentioned conditions is not met for financial assets except for equity instruments, the financial assets are classified as financial assets measured at fair value through profit or loss.

Equity instruments may be designated as financial assets measured at fair value through other comprehensive income on an individual basis, except for equity instruments held for trading purposes. The designation has been applied continuously. Equity instruments that are not designated as such are classified as measured at fair value through profit or loss.

##### (ii) Subsequent measurement

Financial assets are subsequently measured based on the classification of the asset as follows.

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method. Changes in the fair value of financial assets measured at fair value through profit or loss are recognized in profit or loss.

Changes in the fair value of debt instruments measured at fair value through other comprehensive income are recognized in other comprehensive income, except for interest income, exchange gain and loss, and impairment loss recognized in net profit and loss. Profit or loss is recognized at derecognition.

Meanwhile, changes in the fair value of equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income. The dividends from relevant financial assets are recognized in profit or loss as part of the financial income. The cumulative amount recognized in other comprehensive income is reclassified not to profit or loss but to retained earnings when the financial asset is derecognized or the fair value of the asset declines significantly.

#### (iii) Impairment of financial assets

For impairment of financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and contract assets, expected credit losses are recognized as a loss allowance.

The Group determines, at the end of each reporting period, whether credit risk on the asset has increased significantly since initial recognition. When the credit risk has not increased significantly since initial recognition, an amount equal to 12-month expected credit losses is measured as the loss allowance. When the credit risk has increased significantly since initial recognition, an amount equal to lifetime expected credit losses is measured as the loss allowance.

However, for trade receivables, lease receivables and contract assets, the loss allowance is measured at an amount equal to the lifetime expected credit losses.

Expected credit losses of financial instruments are estimated using the following methods:

- An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost or effort at the reporting date.

The amounts of these measurements are recognized in profit or loss.

If the amount measured as expected credit losses decreases after recognition of impairment loss, the decreased amount is reversed and recognized in profit or loss.

#### (iv) Derecognition of financial assets

The Group derecognizes its financial assets only if the contractual rights to receive the cash flows from the financial assets expire, or if the Group transfers substantially all the risks and rewards of ownership of the financial asset.

## 2. Financial liabilities

### (i) Initial recognition and measurement

The Group classifies financial liabilities as financial assets measured at fair value through profit or loss, or financial assets measured at amortized cost. The Group determines the classification at initial recognition. The Group recognizes financial liabilities when the Group becomes a party to the contractual provisions of the instruments. All the financial liabilities are initially measured at fair value. However, financial liabilities measured at amortized cost are measured at their fair value less transaction costs that are directly attributable to the acquisition.

(ii) Subsequent measurement

Financial liabilities are subsequently measured according to the classification as follows.

Financial liabilities held for trading and derivatives are included in financial liabilities measured at fair value through profit or loss. They are subsequently measured at fair value, and changes in the fair value are recognized in profit or loss for the period.

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method.

Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period as part of the financial income or costs.

(iii) Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished, i.e. when the obligation specified in the contract is discharged or canceled, or expires.

3. Presentation of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legal right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

4. Derivatives and hedge accounting

The Group enters into forward exchange contracts in order to fix cash flows related to the recognized financial assets and liabilities and future transaction. Interest rate swaps are used in order to fix cash flows of interest paid related to the borrowings.

There are no derivatives stated above to which hedge accounting is applied.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less that is readily convertible to cash and subject to insignificant risk of change in value.

(5) Inventories

Inventories are measured at the lower of acquisition cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated selling expenses. The acquisition cost is generally calculated using the cost method based on the moving average method and comprises all the costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(6) Property, plant and equipment

Property, plant, and equipment is measured based on the cost model and stated at acquisition cost less accumulated depreciation and impairment losses.

The acquisition cost includes costs directly attributable to the acquisition of the asset, costs related to disassembly, retirement and site restoration, as well as borrowing costs to be capitalized.

Depreciation of assets other than land and construction in progress is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives of major assets are as follows;

- Buildings and structures: 2 to 60 years
- Machinery and vehicles: 2 to 20 years
- Tools, furniture and fixtures: 2 to 20 years

The estimated useful lives, residual value, and amortization methods are reviewed at the end of each fiscal year, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

## (7) Intangible assets and goodwill

### 1. Goodwill

The Group measures goodwill as the fair value of consideration transferred including the recognized amount of any non-controlling interests in the acquiree at the acquisition date, less the net recognized amount (usually fair value) of the identifiable assets acquired and liabilities assumed at the acquisition date. Goodwill is not amortized. Instead, it is tested for impairment annually and if any indication of potential impairment exists. Any impairment loss for goodwill is recognized in profit or loss and is not reversed in subsequent periods. Goodwill is recorded at acquisition cost less any accumulated impairment losses.

### 2. Capitalized development costs

Expenditures related to research activities in order to gain new scientific and technical knowledge are recognized as expenses as incurred. Development expenditure is capitalized as intangible assets only when the cost can be measured reliably, there is a technical and commercial feasibility of completing the development, it is probable that the outcome will generate a future economic benefit, and the Group has intention, ability and sufficient resources to use or sell the outcome of the development and to complete the development.

The estimated useful lives of capitalized development costs that are amortized using the straight-line method are as follows.

- Capitalized development costs: 2 to 5 years

### 3. Other intangible assets

The Group applies the cost method in measuring separately acquired intangible assets, which are recorded at acquisition cost at initial recognition. After initial recognition, intangible assets excluding goodwill are amortized using the straight-line method over their estimated useful lives, and are recorded at acquisition cost less accumulated amortization and impairment losses. Estimated useful lives of major intangible assets are as follows. The Group has no intangible assets with indefinite useful lives.

- Software: 2 to 10 years

The estimated useful lives and amortization methods are reviewed at the end of each fiscal year, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

## (8) Lease

At the inception of the lease contract, the Group assesses whether an arrangement is a lease or contains a lease. When the right to control the use of specific assets transfers in exchange for consideration for a certain period due to a contract, it means lease or includes lease. When the Group determines if the right to control the use of specific assets transfers or not, the Group uses the definition of lease in IFRS 16.

#### <Lease as a lessee>

The Group recognizes right-of-use assets and lease liabilities at the inception of the lease.

Right-of-use assets are measured at acquisition cost at the inception of the lease. After the commencement date, right-of-use assets are measured by using the cost model at acquisition cost less accumulated depreciation and impairment losses. Right-of-use assets are amortized from the date of inception to the end of estimated useful life of the underlying leased asset if the right to use is transferred to lessee until the end of the lease term or if acquisition cost of right-of-use assets reflects the exercise of a purchase option. Otherwise right-of-use assets are amortized from the date of inception to the earlier of the end of the estimated useful life of the right-of-use assets or the end of the lease term.

Lease liabilities are measured at the present value of the lease payments that are not paid at the date of inception. After the commencement date, the carrying amount of the lease liabilities are increased to reflect interest on the lease liabilities and decreased the lease payments made. Lease liabilities are re-measured and carrying amounts of right-of-use assets are revised or the change is recognized in profit or loss if the Group reviews lease liabilities or if the modification is not accounted for as a separate lease.

As for short-term leases or leases for which the underlying asset is of low value, the Group applies IFRS 16.5, 6, and recognizes lease payments as an expense using the straight-line method over the lease term.

#### <Lease as a lessor>

Lease transactions are classified as finance leases if all the risks and rewards incidental to ownership of underlying assets are substantially transferred, and all other leases are classified as operating leases.

A receivable from customer held under a finance lease is initially recognized at the amount of the gross investment in the lease discounted at the interest rate implicit in the lease and included in Trade and other receivables in the consolidated statements of financial position.

An underlying asset subject to an operating lease is recognized in the consolidated statements of financial position, and lease payments from operating leases are recognized as revenue over the lease term.

#### (9) Investment property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured by using the cost model and is recorded at acquisition cost less accumulated depreciation and impairment losses. Depreciation of an investment property other than land and construction in progress is recognized on a straight-line basis over the estimated useful lives of the asset. The estimated useful lives of major assets are as follows:

- Buildings and structures: 2 to 50 years

## (10) Impairment

At the end of each fiscal year, the Group assesses the carrying amounts of non-financial assets other than inventory and deferred tax assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Recoverable amounts of goodwill and intangible assets that are not yet ready for use are estimated at the same time every year.

The recoverable amount of an individual asset or cash-generating units is the higher of value in use or fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset. Assets not assessed individually in test of impairment are integrated into the smallest cash-generating unit that generates cash inflows which are largely independent of cash inflows from other assets or a group of assets. Cash-generating units of goodwill are determined on the basis of the units managed for the purpose of internal reporting and are within the scope of business segments before aggregation. The goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination.

Corporate assets in the Group do not generate cash inflows independently. If there is any indication that corporate assets may be impaired, the Group determines the recoverable amount of the cash-generating unit to which corporate asset belongs.

When the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in profit or loss. An impairment loss for a cash-generating unit is recognized by first reducing the carrying amount of any goodwill allocated to the cash-generating unit, and then reducing proportionally the carrying amount of other assets in the unit.

An impairment loss for goodwill is not reversed. The Group assesses whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased at the end of each fiscal year. An impairment loss is reversed when there has been a change in the estimates used to determine an asset's recoverable amount. Impairment losses are reversed up to the amount not exceeding the carrying amount (net of depreciation) that would have been determined if no impairment losses had been recognized in prior years.

## (11) Employee benefits

### 1. Short-term employee benefits

For short-term employee benefits including salaries, bonuses and paid annual leave, when the employees render related services, the amounts expected to be paid in exchange for those services are recognized as expenses.

### 2. Retirement benefit plans

The Group sponsors a defined benefit plan and a defined contribution plan as retirement benefit plans for employees.

#### (a) Defined contribution plans

For defined contribution plans, when the employees render related services, the contribution payables to the defined contribution plan are recognized as expenses.

(b) Defined benefit plans

The Group has adopted lump-sum payment on retirement and defined benefit pension plans as defined benefit plans.

The present value of defined benefit obligations, related current service costs and past service costs are determined using the projected unit credit method.

The discount rates are determined by reference to market yields at the end of the reporting period on high-quality corporate bonds which have maturities corresponding to the future settlements of benefits in each year.

The net defined benefit liability (asset) is determined as the present value of the defined benefit obligation less the fair value of the plan assets. Net interest on the net defined benefit liability (asset) is recognized in profit or loss as financial expenses.

The Group recognizes the difference arising from remeasurement of present value of the defined benefit obligation and the fair value of the plan asset in other comprehensive income when it is incurred, and reclassifies it immediately to retained earnings from other components of equity.

The Group recognizes any past service cost as an expense at the earlier of the following dates.

- (i) when the plan amendment or curtailment occurs; and
- (ii) when related restructuring costs are recognized

(12) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of the obligations. Where the effect of the time value of money is material, the amount of a provision is measured at the discounted present value of the estimated future cash flow using a pre-tax rate that reflects the time value of money and the risks specific to the liability. The unwinding of the discount due to the passage of time is recognized as finance costs.

1. Asset retirement obligations

Provisions for asset retirement obligations are recognized mainly for the estimated cost of restoring the leased site at the end of the lease term.

2. Provision for product warranties

The Group provides product warranties based on the terms and conditions of warranties granted at the time of product sales, as well as free repair services on an individual basis in accordance with the notification to the competent authority. The coverage of product warranties based on the terms and conditions of warranties is determined by the duration, mileage, cause of defects, and other factors in accordance with the terms and conditions of warranties in each country.

The Group recognizes estimated warranty costs for the product warranties when products are sold to customers based on the terms and conditions of warranties. The estimated warranty costs are recorded based on the best estimates of future occurrences, which are based on the past repair experience and past sales volume for the total cost of repairing or replacing parts due to defects occurring within the warranty period.

The estimated expenses related to the warranty items in accordance with notifications to the competent authority are recognized as provision for product warranties when it is probable that outflows of resources embodying economic benefits will be required, and reliable estimates can be made of the amount of the obligations. The estimated expenses are recorded based on the best estimate of the warranty expenses that will be incurred in the future per vehicle and the number of units subject to repair, which is calculated based on historical experience of warranty services provided in the past.



### 3. Provision for loss on construction contracts

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

### 4. Provision for environmental measures

The provision for environmental measures is recorded for the amount of the estimated expenses for complying with environmental regulations at the end of the fiscal year.

## (13) Revenue

### 1. Revenue from contracts with customer

The Group identifies a performance obligation in a contract with a customer, and recognizes as revenue the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to the customer. Amounts collected on behalf of taxation authorities such as consumption taxes and value added taxes are not included into the amount. If variable consideration is included in the consideration promised in a contract with a customer, some or all of an amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Revenue is recognized at a point in time or over a certain period of time in accordance with satisfaction of a performance obligation in a contract with a customer.

With regard to revenue from the sale of cars, performance obligations are principally considered to be fulfilled at the time of delivery of the cars, at which point customers obtain control of the cars and revenue is recognized.

In automobile business, fare-paying extended warranty service is provided for the products as an option in addition to normal warranty. The revenue from the extended warranty service is recognized over a certain period of time in accordance with the progress of the performance obligation.

### 2. Revenue from financial lease

When the Group is lessor as the manufacturer or dealer, cost of sales and selling profit or loss corresponding to revenue for a portion identified as sale of products are recognized in profit or loss at the inception of the leases.

Finance income from financial leases is recognized based on a pattern reflecting a constant rate of return on the net investment in the lease of the Group.

### 3. Revenue from operating leases

Revenue from operating leases is recognized on a straight-line basis over the lease term.

### 4. Interest income

Interest income is recognized using the effective interest method.

### 5. Dividend income

Dividend income is recognized when the right to receive the payment is established.

#### (14) Government grants

Government grants are recognized at fair value when there is a reasonable assurance that the Group complies with the conditions attached to them and the grants will be received. Government grants are recognized in profit or loss over the periods in which the related costs for which the grants are intended to compensate are recognized as expenses. With regard to government grants that are compensation for acquisition of assets, the amount of the grants is deducted from the acquisition cost of the assets.

#### (15) Income taxes

Income taxes are composed of current and deferred taxes. Income taxes are recognized in profit or loss, except for items that are recognized in other comprehensive income or directly in equity and those arising from business combinations.

Current income taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. The amount of these taxes is calculated based on tax rates and tax laws that are enacted or substantively enacted by the end of the consolidated reporting period in the countries where the Group conducts business activities and gains net taxable profit or loss.

Deferred income taxes are recognized based on the temporary differences between the tax base for assets and liabilities and the carrying amounts at the end of the consolidated reporting period, and the carryforward of unused tax losses and unused tax credits.

Deferred tax assets are recognized for all the deductible temporary differences etc. to the extent that it is probable that taxable profit will be available against which the deductible temporary differences etc. can be utilized. Deferred tax liabilities are recognized for all the taxable temporary differences in principle.

However, no deferred tax assets and liabilities are recognized on following temporary differences:

- Taxable temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the transaction, affects neither accounting profit nor taxable profit; and
- Taxable temporary differences associated with investments in subsidiaries and affiliates, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilize all or part of the benefit of the deferred tax assets. Unrecognized deferred tax assets are reassessed at the end of each reporting period and recognized only to the extent that it is probable that the deferred tax assets can be recovered by future taxable profits.

Deferred tax assets and liabilities are measured at the tax rates and tax laws that are expected to apply to the fiscal year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted at the end of the consolidated reporting period.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax liabilities against current tax assets, and income taxes are levied by the same taxation authority on the same taxable entity.

#### (16) Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to owners of the parent by the weighted average number of common stocks outstanding during the reporting period, adjusted for the number of treasury stocks acquired.

(17) Operating segment

An operating segment is a component of the Group that engages in business activities where revenues are earned and expenses are incurred, including inter-segment transactions. The Board of Directors regularly reviews the operating results of all the operating segments for which discrete financial information is available, in order to make decisions about resources to be allocated to the segments and assess their performance.

(18) Non-current assets held for sale

An asset or asset group of which the carrying amount is expected to be recovered through a sale transaction rather than through continuous use is classified as non-current assets held for sale or disposal group if the following conditions are met: it is highly probable that the asset or asset group will be sold within one year; the asset or asset group is available for immediate sale in its present condition; and the Group management is committed to a sale plan. In such cases, the non-current asset is not depreciated or amortized and is measured at the lower of its carrying amount and fair value less costs to sell.

(19) Equity

1. Common stock and capital surplus

The common shares issued by the Company are classified as equity, and the proceeds from issuance of common shares are included in common stock and capital surplus.

2. Treasury stock

Treasury stock is measured at acquisition cost, and deducted from equity. No gain or loss is recognized on the purchase, sale or retirement of the Group's treasury stock. Any difference between the carrying amount and consideration received on the sale of treasury stocks is recognized directly in capital surplus.

(20) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of that asset, until the asset is substantially ready for its intended use or sale.

All other borrowing costs are recognized in profit or loss in the consolidated reporting period in which they are incurred.

#### **4. Significant accounting estimates and judgments**

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized in the period of the change and future periods.

Judgments made by management that have significant effects on the amounts reported in the consolidated financial statements are as follows:

- Recognition of intangible assets arising from development (note “3. Significant Accounting Policies, (7) Intangible assets and goodwill”); and
- Accounting for contracts including lease (note “3. Significant Accounting Policies, (8) Lease”).

Significant accounting estimates made by management are as follows. Please refer each note for recorded amount, the method of calculation, major assumptions, and uncertainty of estimation.

- Accounting treatments of provisions for product warranties.(note “3. Significant Accounting Policies, (12) Provisions”, note “18. Provisions”); and
- Recoverability of deferred tax assets (note “3. Significant Accounting Policies, (15) Income taxes”, note “25. Notes on Income Taxes”)

#### **5. New accounting standards not yet adopted by the Group**

None of the new or revised major standards and interpretations that have been issued by the date of approval of the public announcement of the consolidated financial statement but are not yet adopted early by the Group significantly affects the Group's consolidated financial statements.

## 6. Segment information

The operating segments are the components of the Company for which separate financial information is available that is evaluated regularly by the Board of Directors in deciding allocation of management resources and in assessing performance.

The Company recognizes Automobile as its main business, and introduces an internal company system in Aerospace division. This framework makes clearer the responsibility of each division and accelerates business execution. The Company manages the subsidiaries on the basis of this classification. Therefore, the business segments consist of "Automobile", "Aerospace", and "Others" which neither belongs to Automobile nor Aerospace. The reporting segments are "Automobile" and "Aerospace" segments.

Accounting method for business segment reported is almost the same as the description in "3. Significant Accounting Policies".

Reported segment profit or loss is based on the operating profit.

Intersegment sales and transfers are based on the current market prices.

Principal products and services of each segment are as follows:

Segment	Principal products and services
Automobile	Automobiles and relevant products
Aerospace	Aircrafts, parts of space-related devices, and relevant products
Others	Real estate lease, etc.

(1) Information about the amount of revenue, profit or loss and other material items for each segment  
Business segment information of the Group as of and for the consolidated fiscal years ended March 31, 2020 and 2021 is as follows:

FYE 2020 (April 1, 2019 to March 31, 2020)

	(Unit: Millions of yen)					
	Automobile	Aerospace	Subtotal	Others	Eliminations or Corporate	Consolidated
Revenue						
(1) External customers	3,193,949	142,141	3,336,090	8,019	—	3,344,109
(2) Intersegment	2,985	—	2,985	27,461	(30,446)	—
Total revenue	3,196,934	142,141	3,339,075	35,480	(30,446)	3,344,109
Operating profit	200,263	5,065	205,328	3,577	1,414	210,319
Finance Income						15,844
Finance Costs						(18,507)
Profit before tax						207,656
Segment assets	2,977,628	273,378	3,251,006	67,710	(24,808)	3,293,908
Other items						
Depreciation and amortization	186,254	4,991	191,245	1,497	—	192,742
Share of profit (loss) of investments accounted for using the equity method	329	—	329	(552)	—	(223)
Investments accounted for using the equity method	7,264	—	7,264	2,567	—	9,831
Additional non-current assets	276,003	5,407	281,410	3,259	—	284,669

Note: 1. The method to calculate the operating profit of each segment is correspondent to the method to calculate the operating profit in the consolidated statements of income, and Finance income, Finance costs, and Income tax expense are not included. Operating costs which are not allocated to each segment directly are allocated on the basis of the most reasonable standard to allocate.

- Total amount of each segment and Eliminations or Corporate is correspondent to the amount of total assets in the consolidated statements of financial position, and Investments accounted for using the equity method, derivative assets, and deferred tax assets are included. Assets which are not allocated to each segment directly less the amount included in Eliminations or Corporate are allocated into each segment on the basis of the most reasonable standard to allocate.
- Eliminations or Corporate includes elimination of intersegment transactions and corporate assets. Corporate assets primarily consist of cash and cash equivalents and financial assets measured at fair value through other comprehensive income.

FYE 2021 (April 1, 2020 to March 31, 2021)

	(Unit: Millions of yen)					
	Automobile	Aerospace	Subtotal	Others	Eliminations or Corporate	Consolidated
Revenue						
(1) External customers	2,737,503	87,693	2,825,196	5,014	—	2,830,210
(2) Intersegment	2,277	3	2,280	29,497	(31,777)	—
Total revenue	2,739,780	87,696	2,827,476	34,511	(31,777)	2,830,210
Operating profit	109,067	(9,811)	99,256	3,070	142	102,468
Finance Income						21,003
Finance Costs						(9,517)
Profit before tax						113,954
Segment assets	3,103,212	265,857	3,369,069	67,329	(24,686)	3,411,712
Other items						
Depreciation and amortization	200,003	4,771	204,774	1,543	—	206,317
Share of profit (loss) of investments accounted for using the equity method	329	—	329	(449)	—	(120)
Investments accounted for using the equity method	7,605	—	7,605	2,572	—	10,177
Additional non-current assets	249,715	7,671	257,386	843	—	258,229

- Note: 1. The method to calculate the operating profit (loss) of each segment is correspondent to the method to calculate the operating profit (loss) in the consolidated statements of income, and Finance income, Finance costs, and Income tax expense are not included. Operating costs which are not allocated to each segment directly are allocated on the basis of the most reasonable standard to allocate.
- Total amount of each segment and Eliminations or Corporate is correspondent to the amount of total assets in the consolidated statements of financial position, and Investments accounted for using the equity method, derivative assets, and deferred tax assets are included. Assets which are not allocated to each segment directly less the amount included in Eliminations or Corporate are allocated into each segment on the basis of the most reasonable standard to allocate.

3. Eliminations or Corporate includes elimination of intersegment transactions and corporate assets. Corporate assets primarily consist of cash and cash equivalents and financial assets measured at fair value through other comprehensive income.

(2) Information about products and services

Information about products and services is omitted since the classifications of products and services are the same as reporting segments.

(3) Information about geographic areas

The revenue and carrying amounts of non-current assets other than financial instruments and deferred tax assets based on the location of the Group as of and for the consolidated fiscal years ended March 31, 2020 and 2021 are as follows:

FYE 2020 (April 1, 2019 to March 31, 2020)

	(Unit: Millions of yen)						
	Japan	North America (US)		Europe	Asia	Others	Total
Revenue	572,668	2,413,127	2,267,912	116,242	106,365	135,707	3,344,109
Non-current assets (other than financial instruments and deferred tax assets)	838,263	327,851	323,887	538	443	—	1,167,095

Note: Revenue is based on the location of customers and classified by countries or areas.

FYE 2021 (April 1, 2020 to March 31, 2021)

	(Unit: Millions of yen)						
	Japan	North America (US)		Europe	Asia	Others	Total
Revenue	498,336	2,083,039	1,962,964	53,586	94,024	101,225	2,830,210
Non-current assets (other than financial instruments and deferred tax assets)	890,893	316,677	312,082	501	337	—	1,208,408

Note: Revenue is based on the location of customers and classified by countries or areas.

(4) Information about major customers

Information about major customers is omitted because there was no specific customer whose revenue is equal to or more than 10% of the revenue on the consolidated statements of income.

## 7. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Cash and deposits	853,244	901,141
Short-term investments	5,722	6,185
<b>Total</b>	<b>858,966</b>	<b>907,326</b>

Cash and cash equivalents are classified as financial assets measured at amortized cost.

Short-term investments held by the Group are mainly money market funds.

There are no cash and cash equivalents which is subject to the limitation of use as of March 31, 2021.

## 8. Trade and other receivables

Trade and other receivables consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Notes receivable and Accounts receivable-trade	105,522	107,756
Accounts receivable-other	38,381	36,548
Trade loans	178,492	177,039
Others	42,444	20,564
<b>Total</b>	<b>364,839</b>	<b>341,907</b>
Receivables expected to be collected within 12 months	202,761	187,797
Receivables expected to be collected beyond 12 months	162,078	154,110
<b>Total</b>	<b>364,839</b>	<b>341,907</b>

Trade and other receivables other than lease receivables and contract assets are classified as financial assets measured at amortized cost.

## 9. Inventories

Inventories consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Finished goods and merchandise	294,148	237,312
Work in process	75,350	82,197
Raw materials and supplies	90,442	99,544
<b>Total</b>	<b>459,940</b>	<b>419,053</b>

The amounts of write-down of inventories recognized as an expense for the consolidated fiscal years ended March 31, 2020 and 2021 were 1,461 million yen and 5,772 million yen respectively.



## 10. Other financial assets

Other financial assets consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Financial assets measured at amortized cost		
Debt instruments	59,736	57,356
Financial assets measured at fair value through profit or loss		
Derivatives	1,131	—
Debt securities	21,485	30,701
Financial assets measured at fair value through other comprehensive income		
Equity securities	8,922	97,510
Debt securities	132,829	144,101
<b>Total</b>	<b>224,103</b>	<b>329,668</b>
Financial assets expected to be collected within 12 months	204,373	228,279
Financial assets expected to be collected beyond 12 months	19,730	101,389
<b>Total</b>	<b>224,103</b>	<b>329,668</b>

Equity securities including stocks held to maintain or strengthen the business relationship with investees are, at initial recognition, designated as financial assets measured at fair value through other comprehensive income.

Major securities included in the equity securities designated as financial assets measured at fair value through other comprehensive income for the consolidated fiscal years ended March 31, 2020 and 2021 consist of the following:

FYE 2020 (as of March 31, 2020)

	(Unit: Millions of yen)
	Fair value
TOKYO LIGHT ALLOY CO., LTD.	995
The Gunma Bank, Ltd.	935
The Kyoritsu Co., Ltd.	847
Sakamoto Research & Development Holdings Ltd.	709
Shigeru Co., Ltd.	625
Mizuho Financial Group, Inc.	460
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	439
OSHIMA ELECTRIC WORKS CO., LTD.	330
Mitsui O.S.K. Lines, Ltd.	294

FYE 2021 (as of March 31, 2021)

	(Unit: Millions of yen)
	Fair value
TOYOTA MOTOR CORPORATION	77,317
The Gunma Bank, Ltd.	1,132
The Kyoritsu Co., Ltd.	1,028
TOKYO LIGHT ALLOY CO., LTD.	1,012
Sakamoto Research & Development Holdings Ltd.	713
Shigeru Co., Ltd.	650
Mizuho Financial Group, Inc.	595
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	483
OSHIMA ELECTRIC WORKS CO., LTD.	349

(Derecognition of equity securities designated as financial assets measured at fair value through other comprehensive income)

A part of the financial assets measured at fair value through other comprehensive income are sold based on the assessment of business relationship, etc. The fair value of equity securities designated as financial assets measured at fair value through other comprehensive income that are derecognized upon sale and cumulative gains and losses that have been previously recognized in equity as other comprehensive income for the consolidated fiscal years ended March 31, 2020 and 2021 consist of the following:

	(Unit: Millions of yen)	
	FYE 2020	FYE 2021
	(April 1, 2019 to March 31, 2020)	(April 1, 2020 to March 31, 2021)
Fair value	27,924	811
Cumulative gains (losses)	8,306	171

There are no equity securities designated as financial assets measured at fair value through other comprehensive income for which cumulative gain or loss is transferred to retained earnings due to significant decrease of fair value.

Most of dividend received from equity securities designated as financial assets measured at fair value through other comprehensive income arise from the investment held as of the end of reporting period.

## 11. Property, plant and equipment

(1) The movement of carrying amount, acquisition cost, accumulated depreciation and accumulated impairment losses of "Property, plant and equipment" are the follows:

FYE 2020 (April 1, 2019 to March 31, 2020)

Carrying amount

(Unit: Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Vehicles used for operating lease*1	Land	Tools, furniture and fixtures	Construction in progress *2	Right-of-use assets	Others	Total
Beginning balance	218,188	209,433	15,809	171,844	64,889	31,334	112,592	430	808,710
Acquisition	22,303	82,244	43,516	1,333	53,107	74,083	32,767	—	265,837
Depreciation *3	(13,684)	(50,146)	(4,991)	—	(36,221)	—	(44,764)	(430)	(145,245)
Disposals	(890)	(7,653)	(2,242)	(676)	(272)	(389)	(24)	—	(9,904)
Reclassification to assets held for sale	(33)	(11)	—	(207)	—	—	—	—	(251)
Foreign exchange differences	(957)	(1,235)	(282)	(120)	(999)	(370)	(168)	—	(3,849)
Others*4	(262)	(30,183)	(32,797)	256	14	(64,047)	(585)	—	(94,807)
Ending balance	224,665	202,449	19,013	172,430	80,518	40,611	99,818	—	820,491

Note: 1. Amounts of "Vehicles used for operating lease" are included in "Machinery, equipment and vehicles".

2. Construction in progress includes the expenditures related to the property, plant and equipment under construction.

3. Depreciation is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of income.

4. Others include transfers from vehicles to inventory, construction in progress to each item, amount of government grants reduced, etc.

FYE 2021 (April 1, 2020 to March 31, 2021)

Carrying amount

(Unit: Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Vehicles used for operating lease*1	Land	Tools, furniture and fixtures	Construction in progress *2	Right-of- use assets	Others	Total
Beginning balance	224,665	202,449	19,013	172,430	80,518	40,611	99,818	—	820,491
Acquisition	31,169	50,221	11,360	2,190	18,430	72,981	94,438	—	269,429
Depreciation *3	(14,635)	(47,009)	(2,035)	—	(34,849)	—	(56,808)	—	(153,301)
Disposals	(1,310)	(3,959)	(2,283)	(544)	(1,127)	(56)	(3)	—	(6,999)
Reclassification to assets held for sale	(33)	(2)	—	(34)	—	—	—	—	(69)
Foreign exchange differences	958	604	127	147	250	143	775	—	2,877
Others*4	(144)	(7,161)	(11,789)	(648)	5	(78,183)	(6,649)	—	(92,780)
Ending balance	240,670	195,143	14,393	173,541	63,227	35,496	131,571	—	839,648

Note: 1. Amounts of "Vehicles used for operating lease" are included in "Machinery, equipment and vehicles".

2. Construction in progress includes the expenditures related to the property, plant and equipment under construction.

3. Depreciation is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of income.

4. Others include transfers from vehicles to inventory, construction in progress to each item, etc.

Acquisition costs

(Unit: Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Vehicles used for operating lease*1	Land	Tools, furniture and fixtures	Construction in progress*2	Right-of-use assets	Others	Total
FYE 2020 (as of April 1, 2019)	451,964	662,176	19,282	183,981	374,897	31,334	172,683	1,038	1,878,073
FYE 2020 (as of March 31, 2020)	466,314	673,572	22,605	184,281	405,041	40,611	184,697	1,036	1,955,552
FYE 2021 (as of March 31, 2021)	493,061	695,669	17,192	185,347	407,100	35,496	209,873	155	2,026,701

Note: 1. Amounts of "Vehicles used for operating lease" are included in "Machinery, equipment and vehicles".

2. Construction in progress includes the expenditures related to the property, plant and equipment under construction.

Accumulated depreciation and accumulated impairment loss

(Unit: Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Vehicles used for operating lease*1	Land	Tools, furniture and fixtures	Right-of-use assets	Others	Total
FYE 2020 (as of April 1, 2019)	233,776	452,743	3,473	12,137	310,008	60,091	608	1,069,363
FYE 2020 (as of March 31, 2020)	241,649	471,123	3,592	11,851	324,523	84,879	1,036	1,135,061
FYE 2021 (as of March 31, 2021)	252,391	500,526	2,799	11,806	343,873	78,302	155	1,187,053

Note: Amounts of "Vehicles used for operating lease" are included in "Machinery, equipment and vehicles".

(2) The carrying amount of property, plant and equipment pledged as collateral for liabilities

For the amount of property, plant and equipment pledged as collateral for liabilities, please refer to "16. Financing liabilities".

(3) Commitment

For a discussion of our commitments to acquire property, plant and equipment, please refer to "33. Commitments".

## 12. Intangible assets and goodwill

The movement of carrying amount, acquisition cost, accumulated amortization and accumulated impairment losses of Intangible assets and goodwill are as follows:

FYE 2020 (April 1, 2019 to March 31, 2020)

Carrying amount

(Unit: Millions of yen)

	Software	Capitalized development costs	Others*1	Total
Beginning balance	30,226	114,918	10,366	155,510
Separate acquisitions	12,544	—	18,772	31,316
Internally generated	—	61,187	—	61,187
Amortization *2	(12,419)	(33,842)	(795)	(47,056)
Disposals	(6)	—	(9)	(15)
Foreign exchange differences	(97)	—	(106)	(203)
Others	352	(499)	9,183	9,036
Ending balance	30,600	141,764	37,411	209,775

Note: 1. Others include Goodwill.

2. Amortization of "Intangible assets and goodwill" is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of income.

FYE 2021 (April 1, 2020 to March 31, 2021)

Carrying amount

(Unit: Millions of yen)

	Software	Capitalized development costs	Others	Total
Beginning balance	30,600	141,764	37,411	209,775
Separate acquisitions	15,994	—	19,376	35,370
Internally generated	—	44,347	—	44,347
Amortization *1	(10,834)	(40,502)	(1,284)	(52,620)
Disposals	(681)	—	—	(681)
Foreign exchange differences	132	—	143	275
Others	(93)	(7,307)	(12,414)	(19,814)
Ending balance	35,118	138,302	43,232	216,652

Note: 1. Amortization of "Intangible assets" is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of income.

Acquisition costs

	(Unit: Millions of yen)			
	Software	Capitalized development costs	Others	Total
FYE 2020 (as of April 1, 2019)	94,949	203,729	18,088	316,766
FYE 2020 (as of March 31, 2020)	104,143	229,585	45,694	379,422
FYE 2021 (as of March 31, 2021)	103,629	241,532	44,690	389,851

Accumulated depreciation and Accumulated impairment losses

	(Unit: Millions of yen)			
	Software	Capitalized development costs	Others	Total
FYE 2020 (as of April 1, 2019)	64,723	88,811	7,722	161,256
FYE 2020 (as of March 31, 2020)	73,543	87,821	8,283	169,647
FYE 2021 (as of March 31, 2021)	68,510	103,230	1,459	173,199

### 13. Investment property

The movement of carrying amount, acquisition cost, accumulated depreciation and accumulated impairment losses of Investment property are as follows:

(1) The movement of carrying amount of Investment property

Carrying amount

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Beginning balance	25,414	23,986
Acquisition	56	77
Depreciation	(441)	(396)
Disposals	(291)	(21)
Others	(752)	636
Ending balance	23,986	24,282

(2) Acquisition costs, accumulated depreciation, accumulated impairment losses, and fair value

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Acquisition costs	35,636	36,256
Accumulated depreciation	(10,927)	(11,251)
Accumulated impairment losses	(723)	(723)
Carrying amount	23,986	24,282
Fair value	40,949	39,191

The fair value of major investment property is based on the assessment by the independent appraiser certified as adequate professional in the area in which the property is located.

The assessment is based on the appraised value by discounted cash flow method or transaction prices in market of observable similar assets, etc.

The level of the fair value hierarchy of investment property is level 3.

For fair value hierarchy, please refer to "30. Fair Value".



### (3) Profit and loss from investment property

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Rental income	3,729	3,489
Rental expenses	(1,940)	(1,821)
Profit	1,789	1,668

Rental income is mainly stated in "Revenue" in the consolidated statements of income.

Rental expenses are the expenses corresponding to rental income (costs related to depreciation, repairs, insurance and taxes, etc.), and stated in "Cost of sales" and "Selling, general and administrative expenses", and "Other expenses" in the consolidated statements of income.

#### 14. Investments accounted for using the equity method

The carrying amounts of investments accounted for using the equity method are as follows:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Investments accounted for using the equity method	9,831	10,177

The Group's share of profit (loss) and other comprehensive income (loss) of investments accounted for using the equity method are as follows:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Share of profit (loss) of investments accounted for using the equity method	(223)	(120)
Share of other comprehensive income (loss) of investments accounted for using the equity method	(182)	6
Total	(405)	(114)

For the consolidated fiscal years ended March 31, 2020 and 2021, there are no individually significant affiliates or joint ventures in investments accounted for using the equity method.

## 15. Trade and other payables

Trade and other payables consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Notes payable and Accounts payable-trade	267,657	218,516
Electronically recorded obligations-operating	33,376	22,484
Accounts payable-other	33,470	25,887
Others	1,720	937
<b>Total</b>	<b>336,223</b>	<b>267,824</b>
Payables expected to be paid within 12 months	336,223	267,824
Payables expected to be paid beyond 12 months	—	—
<b>Total</b>	<b>336,223</b>	<b>267,824</b>

Trade and other payables are classified as financial liabilities measured at amortized cost.

## 16. Financing liabilities

(1) Financing liabilities consist of the following:

Financial covenants are attached to a part of borrowings as of March 31, 2021.

The Company observes the covenants for the consolidated fiscal year ended March 31, 2021. The covenants are monitored to maintain the required level.

	(Unit: Millions of yen)			
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)	Average interest rate*1	Payment due date
Short-term borrowings	4,753	1,343	0.24%	
Current portion of long-term borrowings	7,420	24,991	0.18%	
Long-term borrowings	187,037	227,549	0.18%	2022-2030
Bonds	40,000	80,000	*2	*2
<b>Total</b>	<b>239,210</b>	<b>333,883</b>		

Note: 1. Average interest rate represents the weighted-average interest rates on outstanding balances of financing liabilities as of March 31, 2021.

2. For Average interest rate and Payment due date of Bonds, please refer to (2) below.

## (2) Bonds consist of the following

(Unit: Millions of yen)

Company Name	Brand	Date of issuance of bonds	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)	Interest rate	Repayment Date
The Company	1st Unsecured bond Limited to inter-bond transactions with a pari passu clause	December 17, 2019	10,000	10,000	0.12%	December 17, 2024
The Company	2nd Unsecured bond Limited to inter-bond transactions with a pari passu clause	December 17, 2019	15,000	15,000	0.21%	December 17, 2026
The Company	3rd Unsecured bond Limited to inter-bond transactions with a pari passu clause	December 17, 2019	15,000	15,000	0.28%	December 17, 2029
The Company	4th Unsecured bond Limited to inter-bond transactions with a pari passu clause	September 10, 2020	—	10,000	0.01%	September 8, 2023
The Company	5th Unsecured bond Limited to inter-bond transactions with a pari passu clause	September 10, 2020	—	10,000	0.17%	September 10, 2025
The Company	6th Unsecured bond Limited to inter-bond transactions with a pari passu clause	September 10, 2020	—	20,000	0.42%	September 10, 2030

## (3) Assets pledged as collateral

## 1. Assets pledged as collateral consist of the following:

(Unit: Millions of yen)

	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Assets pledged as collateral		
Buildings and structures	9,370	6,481
Machinery and vehicles	48	—
Land	16,276	6,615
Total	25,694	13,096

## 2. Secured liabilities

Secured liabilities consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Short-term borrowings	540	—
Current portion of long-term borrowings	446	389
Long-term borrowings	10,155	9,768
Others	1,321	908
<b>Total</b>	<b>12,462</b>	<b>11,065</b>

As is customary in Japan, bank loans are extended under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request from the bank. And in the event of delay in payment or default by the Group, the bank shall have the right to offset cash deposits about all the liabilities and to foreclose depending on the content of agreement.

## 17. Other financial liabilities

Other financial liabilities consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Financial liabilities measured at amortized cost		
Liabilities related to chargeable subcontracting	18,234	23,467
Long-term accounts payable-other	2,805	277
Guarantee deposits received	6,464	6,779
Financial liabilities measured at fair value through profit or loss		
Derivatives	2,028	7,644
Lease liabilities		
Lease liabilities (Current)	23,864	30,171
Lease liabilities (Non-current)	58,586	71,472
<b>Total</b>	<b>111,981</b>	<b>139,810</b>
Liabilities expected to be paid within 12 months	44,126	61,282
Liabilities expected to be paid beyond 12 months	67,855	78,528
<b>Total</b>	<b>111,981</b>	<b>139,810</b>

## 18. Provisions

FYE 2021 (April 1, 2020 to March 31, 2021)

(Unit: Millions of yen)

	Provision for product warranties	Provision for loss on construction contracts	Others*1	Total
Beginning of the period*2	270,974	3,112	34,735	308,821
Increase during the year	179,691	4,479	37,108	221,278
Decrease during the year (utilized)	(213,441)	(558)	(33,330)	(247,329)
Decrease during the year (reversal)	(973)	—	(128)	(1,101)
Others	2,649	—	133	2,782
Ending of the period	238,900	7,033	38,518	284,451
Current liabilities	151,660	7,033	35,804	194,497
Non-current liabilities	87,240	—	2,714	89,954
Total	238,900	7,033	38,518	284,451

Note: 1. Others include asset retirement obligations, etc.

2. "Beginning of the period" of "Others" reflects the content stated in note "2. Basis of Preparation, (4) Change in presentation".

(Provision for product warranties)

Provision for product warranties is recognized at the total amount of the following estimations to cover warranty costs for products sold.

1. Estimated amount based on past experiences with consideration given to the expected level of future warranty costs in accordance with the terms and conditions of the warranties
2. Estimated amount calculated as the expenses related to product recall in accordance with the notifications to the competent authorities

Provision for product warranties is used for expenditures based on the demand from customers and dealers. We believe that we have made sufficient provisions for the warranty costs that we expect to be incurred based on currently available information. However, since the calculation of the provision for product warranties involves the estimate of the warranty costs that would be incurred over multiple years in the future, the actual warranty costs may deviate from the estimates. This could cause the necessity of recording additional provisions for product warranties, and a significant impact on the consolidated financial statements.

(Provision for loss on construction contracts)

To cover loss on contracts in the Aerospace segment, a provision for loss on construction contracts is recognized for uncompleted construction of contracts at the consolidated fiscal year - end for which substantial losses are anticipated and such losses can be reasonably estimated. The timing of expenditure depends on the progress of construction contracts in the future.

## 19. Employee benefits

(1) Outline of employee benefits

The Company and its consolidated domestic subsidiaries have lump-sum retirement payment plans, defined benefit pension plans, and the Company 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, 2021, 51 companies including the Company and its consolidated domestic subsidiaries have lump-sum retirement payment plans, and there are 6 defined benefits pension plans, and also 26 defined contribution plans. In addition, there are 2 multi-employer defined benefits pension plans.

In contract-type corporate pension plan, the Company is obliged to comply with laws and regulations, appointments made by Minister of Ministry of Health, as well as to faithfully accomplish their duties for the participants, etc. It is prohibited that the Company signs asset management agreement for the purpose of a third party interest other than self or participants and orders specific method about the management of contribution. In domestic corporate pension plan, the Company makes actuarial review on the basis of corporate financial position and review of asset management every five years, and raises premium when funding standard is not satisfied.

In the management of plan assets, the Company builds most appropriate portfolio for the purpose of the securement of stable income under the acceptable risks to secure employees' future benefit, and makes an effort to keep the allocation of assets based on the portfolio, and reviews the portfolio regularly in response to the change of market environment and status of funding.

Major plans of the Group are exposed to the interest rate risk, etc.

## (2)Reconciliation

FYE 2020 (April 1, 2019 to March 31, 2020)

	(Unit: Millions of yen)					
	Plan assets		The present value of the defined benefit obligations		Net defined benefit liabilities(assets)	
	Plans in Japan	Plans outside Japan	Plans in Japan	Plans outside Japan	Plans in Japan	Plans outside Japan
Beginning balance	109,419	5,881	133,887	32,169	24,468	26,288
Current service cost	—	—	8,161	1,862	8,161	1,862
Interest income or expense	596	—	595	1,204	(1)	1,204
Remeasurements of net defined benefit liabilities(assets)						
(i) Return on plan assets (excluding amounts included in interest)	223	110	—	—	(223)	(110)
(ii) Actuarial gains and losses	—	—	(1,260)	1,722	(1,260)	1,722
Actuarial gains and losses arising from changes in demographic assumptions	—	—	—	(749)	—	(749)
Actuarial gains and losses arising from changes in financial assumptions	—	—	(1,260)	2,471	(1,260)	2,471
Effect of changes on foreign exchange rates	—	(116)	—	(631)	—	(515)
Contributions to the plan						
Contributions by the employer	3,644	190	—	—	(3,644)	(190)
Payments from the plan	(3,280)	(304)	(5,902)	(826)	(2,622)	(522)
Others	(74)	114	(22)	161	52	47
Ending balance	110,528	5,875	135,459	35,661	24,931	29,786

This reconciliation does not include other employee benefits about welfare program, etc., 1,862 million yen of beginning balance, 1,808 million yen of ending balance.

FYE 2021 (April 1, 2020 to March 31, 2021)

(Unit: Millions of yen)

	Plan assets		The present value of the defined benefit obligations		Net defined benefit liabilities(assets)	
	Plans in Japan	Plans outside Japan	Plans in Japan	Plans outside Japan	Plans in Japan	Plans outside Japan
Beginning balance	110,528	5,875	135,459	35,661	24,931	29,786
Current service cost	—	—	8,197	2,090	8,197	2,090
Interest income or expense	771	—	676	1,138	(95)	1,138
Remeasurements of net defined benefit liabilities(assets)						
(i) Return on plan assets (excluding amounts included in interest)	3,280	983	—	—	(3,280)	(983)
(ii) Actuarial gains and losses	—	—	(894)	40	(894)	40
Actuarial gains and losses arising from changes in demographic assumptions	—	—	48	(1,501)	48	(1,501)
Actuarial gains and losses arising from changes in financial assumptions	—	—	(942)	1,541	(942)	1,541
Effect of changes on foreign exchange rates	—	144	—	739	—	595
Contributions to the plan						
Contributions by the employer	4,731	221	—	—	(4,731)	(221)
Payments from the plan	(2,424)	(345)	(4,489)	(907)	(2,065)	(562)
Others	—	125	28	183	28	58
Ending balance	116,886	7,003	138,977	38,944	22,091	31,941

This reconciliation does not include other employee benefits about welfare program, etc., 1,808 million yen of beginning balance, 1,785 million yen of ending balance.

## (3) Components of plan assets

(Unit: Millions of yen)

	FYE 2020 (as of March 31, 2020)			FYE 2021 (as of March 31, 2021)		
	Quoted market prices in active markets			Quoted market prices in active markets		
	With	Without	Total	With	Without	Total
Cash and cash equivalents	3,673	—	3,673	4,226	—	4,226
Shares issued by Japanese companies	9,375	—	9,375	12,349	—	12,349
Shares issued by foreign companies	5,890	—	5,890	7,841	—	7,841
Subtotal	15,265	—	15,265	20,190	—	20,190
Bonds issued by Japanese companies	75,476	—	75,476	75,385	—	75,385
Bonds issued by foreign companies	3,692	—	3,692	4,263	—	4,263
Subtotal	79,168	—	79,168	79,648	—	79,648
Life insurance - General accounts	—	3,791	3,791	—	3,861	3,861
Others	—	14,506	14,506	—	15,964	15,964
Subtotal	—	18,297	18,297	—	19,825	19,825
<b>Total</b>	<b>98,106</b>	<b>18,297</b>	<b>116,403</b>	<b>104,064</b>	<b>19,825</b>	<b>123,889</b>

(4) Significant actuarial assumptions used to determine the present value of defined benefit obligations at the end of each consolidated fiscal year are as follows:

	FYE 2020 (as of March 31, 2020)		FYE 2021 (as of March 31, 2021)	
	Plans in Japan	Plans outside Japan	Plans in Japan	Plans outside Japan
Discount rate	0.5%	3.3%	0.6%	3.2%



Sensitivity analysis about effects on defined benefit obligations due to any change in actuarial assumptions mentioned above are as follows:

	(Unit: Millions of yen)			
	FYE 2020		FYE 2021	
	(as of March 31, 2020)		(as of March 31, 2021)	
	Plans in Japan	Plans outside Japan	Plans in Japan	Plans outside Japan
Discount rate				
1.0% increase	(12,070)	(4,053)	(12,089)	(4,335)
1.0% decrease	14,633	3,821	14,654	4,029

Sensitivity analysis about effects of each actuarial assumption is calculated on the basis that there are no changes in other actuarial assumptions.

Therefore, if these assumptions change in combination, the effects may be different from the amounts stated above.

In addition, approximate amounts are stated above because the projected cash flow is not taken into account for all benefit payments of the plans.

The Group expects to contribute 4,952 million yen from April 1, 2021 to March 31, 2022.

The Group's weighted-average durations of the defined benefit obligations for the consolidated fiscal years ended March 31, 2020 and 2021 were 12 years in Japan and 6 years outside Japan, and 12 years in Japan and 6 years outside Japan, respectively.

#### (5) Multi-employer plan

Some domestic subsidiaries participate in a pension fund, which is a multi-employer plan.

The fund is a defined benefits pension plan. However, the amount of pension assets corresponding to contributions cannot be calculated reasonably. Therefore, the method where contribution payable to the pension fund is recognized as retirement benefit expenses is adopted.

If a plan is liquidated and settled, shortfalls are collected or residual assets are distributed on the basis of the minimum base amount calculated by laws. If an employer withdraws from the multi-employer plan, liabilities and shortfalls expected due to withdrawal are collected.

Information about the multi-employer plan is as follows:

Funding status of the multi-employer plan as a whole

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Plan assets	9,064	9,422
Total amount of actuarial liabilities and minimum actuarial reserve for the purpose of pension financing calculation	10,150	10,108
Difference	(1,086)	(686)

Note: The latest figures for each consolidated fiscal year end are mainly disclosed.

Ratio of contributions by the Group to the fund in the overall plan

FYE 2020 5% (Principally, April 1, 2019 to March 31, 2020)

FYE 2021 5% (Principally, April 1, 2020 to March 31, 2021)

(Contributions to the multi-employer plans in the next financial year)

The Group estimates the contributions to the multi-employer plans for the consolidated fiscal year ending March 31, 2022 to be 24 million yen.

(6) Personnel expenses

Personnel expenses included in the consolidated statements of income are as follows:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Personnel expenses	314,156	299,979
Contributions to defined contribution pension plans	5,693	5,306

Personnel expenses include salaries, bonuses, social security expenses and retirement benefit expenses, etc.

## 20. Equity and Other components of equity

### (1) Management of Capital

The Group makes investments in capital and research and development to improve corporate value through growth on a global basis.

In order to meet these funding needs, the Group makes capital management through consideration of the balance between financing liabilities and equity.

Equity Ratios as of March 31, 2020 and 2021 are as follows:

Equity means "equity attributable to owners of the parent", and Equity Ratio is obtained by dividing equity by total liabilities and equity.

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Equity	1,712,881	1,777,735
Total Liabilities and Equity	3,293,908	3,411,712
Equity Ratio	52.0%	52.1%

### (2) Capital Surplus and Retained Earnings

The Companies Act of Japan provides that no less than 50% of the paid-in amount or proceeds of issuance of shares shall be incorporated in common stock, and that the remaining shall be incorporated in capital reserves. Capital reserves may be incorporated in common stock upon approval of the General Meeting of Shareholders.

Number of authorized shares as of March 31, 2020 and 2021 is 1,500,000,000. The changes in the number of the paid-in outstanding shares for the consolidated fiscal years ended March 31, 2020 and 2021 are as follows:

	Number of Shares
FYE 2020 (as of April 1, 2019)	769,175,873
Change	—
FYE 2020 (as of March 31, 2020)	769,175,873
Change	—
FYE 2021 (as of March 31, 2021)	769,175,873

All shares issued by the Company are no-par-value stock with no restriction on rights.

### (3) Retained Earnings

The Companies Act of Japan provides that earnings in an amount equal to 10% of the cash dividends from retained earnings shall be appropriated as capital reserves or legal retained earnings on the date of distribution of retained earnings until an aggregated amount of capital reserve and legal reserve equals 25% of the common stock. The amount of legal retained earnings can be used to compensate for deficits. Legal reserves may be used upon approval of the General Meeting of Shareholders.

#### (4) Treasury Stock

Under the Companies Act of Japan, the number of shares and total value of treasury stock acquisition may be determined, upon approval of the General Meeting of Shareholders, within the amount available for distribution. Furthermore, treasury stock may be acquired through market transactions or tender offers in accordance with the articles of incorporation within the conditions set forth in the Companies Act, upon approval of the Board of Directors.

The changes in the treasury stock as of April 1, 2019 and March 31, 2020 and 2021 are as follows:

	Number of Shares
FYE 2020 (as of April 1, 2019)	2,414,841
Increase	2,436
Decrease	(56,909)
FYE 2020 (as of March 31, 2020)	2,360,368
Increase	6,589
Decrease	(61,827)
FYE 2021 (as of March 31, 2021)	2,305,130

The increase of 2,436 treasury stock in the consolidated fiscal year ended March 31, 2020 is due to purchase of shares less than one unit. The decrease of 56,909 treasury stock in the consolidated fiscal year ended March 31, 2020 is due to disposal on July 31, 2019 as compensation to grant restricted stock that was passed as a resolution in the Board of Directors Meeting on April 28, 2017.

The increase of 6,589 treasury stock in the consolidated fiscal year ended March 31, 2021 is due to purchase of shares less than one unit. The decrease of 61,827 treasury stock in the consolidated fiscal year ended March 31, 2021 is due to disposal on August 7, 2020 as compensation to grant restricted stock that was passed as a resolution in the Board of Directors Meeting on April 28, 2017.

#### (5) Other Components of Equity

##### 1. Remeasurements of defined benefit plans

The amount of remeasurements of defined benefit plans is comprised of the amounts of the difference between the actuarial assumptions and actual results at the beginning of the consolidated fiscal year, changes in actuarial assumptions and revenue from plan assets excluding amount included in interest. This amount is recognized as other comprehensive income and immediately transferred from other components of equity to retained earnings.

2. Net changes in revaluation of equity instruments designated as measured at fair value through other comprehensive income and net changes in revaluation of debt instruments measured at fair value through other comprehensive income.

Cumulative gain or loss on revaluation of financial assets measured at fair value through other comprehensive income.

##### 3. Exchange differences on translating foreign operations

Exchange differences arising from translation of the financial statement of consolidated foreign operations from the respective functional currencies to Japanese yen, which is the presentation currency of the Group.

The changes in the components of accumulated other components of equity as of March 31, 2020 and 2021 are as follows:

(Unit: Millions of yen)

	Remeasurements of defined benefit plans	Net changes in revaluation of equity instruments designated as measured at fair value through other comprehensive income	Net changes in revaluation of debt instruments measured at fair value through other comprehensive income	Exchange differences on translating foreign operations	Other comprehensive income under the equity method	Total
FYE 2020 (as of April 1, 2019)	—	8,839	187	15,691	(186)	24,532
Adjustment during the year	(475)	(763)	1,966	(12,168)	(182)	(11,622)
Reclassification to retained earnings	475	(4,994)	—	—	—	(4,519)
FYE 2020 (as of March 31, 2020)	—	3,082	2,153	3,523	(368)	8,391
Adjustment during the year	4,467	6,527	745	19,436	6	31,180
Reclassification to retained earnings	(4,467)	(109)	—	—	—	(4,576)
FYE 2021 (as of March 31, 2021)	—	9,500	2,898	22,959	(362)	34,995

(6) Other Comprehensive Income

Each component of other comprehensive income and related tax effect including non-controlling interests for the consolidated fiscal years ended March 31, 2020 and 2021 are as follows:

	(Unit: Millions of yen)					
	FYE 2020 (April 1, 2019 to March 31, 2020)			FYE 2021 (April 1, 2020 to March 31, 2021)		
	Before tax	Tax benefit (expense)	Net of tax	Before tax	Tax benefit (expense)	Net of tax
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit plans:						
Amount incurred during the year	(402)	(73)	(475)	4,934	(467)	4,467
Net changes	(402)	(73)	(475)	4,934	(467)	4,467
Net changes in revaluation of equity instruments designated as measured at fair value through other comprehensive income:						
Amount incurred during the year	(1,048)	285	(763)	9,293	(2,766)	6,527
Net changes	(1,048)	285	(763)	9,293	(2,766)	6,527
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations:						
Amount incurred during the year	(12,581)	—	(12,581)	20,031	—	20,031
Reclassification to profit or loss	—	—	—	—	—	—
Net changes	(12,581)	—	(12,581)	20,031	—	20,031
Share of other comprehensive income of investments accounted for using the equity method:						
Amount incurred during the year	(182)	—	(182)	6	—	6
Reclassification to profit or loss	—	—	—	—	—	—
Net changes	(182)	—	(182)	6	—	6
Net changes in revaluation of debt instruments measured at fair value through other comprehensive income						
Share of other comprehensive income						
Amount incurred during the year	2,484	(518)	1,966	944	(199)	745
Reclassification to profit or loss	—	—	—	—	—	—
Net changes	2,484	(518)	1,966	944	(199)	745
<b>Total other comprehensive income</b>	<b>(11,729)</b>	<b>(306)</b>	<b>(12,035)</b>	<b>35,208</b>	<b>(3,432)</b>	<b>31,776</b>

The components of other comprehensive income included in non-controlling interests for the consolidated fiscal years ended March 31, 2020 and 2021 are as follows:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Exchange differences on translating foreign operations	(413)	596

## 21. Revenue

### (1) Breakdown of revenue

The Group has adopted "IFRS 15 Revenue from Contracts with Customers" and recognizes revenue based on the following five-step approach.

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contracts

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to performance obligations

Step 5: Recognize revenue when performance obligations are satisfied

The automotive segment is mainly engaged in manufacturing and sales of automobiles as well as providing services such as maintenance.

For sale of vehicles, revenue is recognized primarily at the time of delivery of the product as we consider that upon delivery the customer obtains control of the product and the performance obligation is satisfied. Maintenance and other service revenue are recognized over a certain period of time. Payment for the sale of a product is generally made within 30 days of the transfer of control of the product to the customer.

The contract with the customer for the sale of the product includes a clause that guarantees that the product complies with the agreed specifications and the Group recognizes the provision for product warranty for the costs related to that warranty. For details of the provision for product warranty, please refer to "3. Significant Accounting Policies (12) Provisions 2. Provision for product warranty".

The aerospace segment has contracts with customers. Revenue from contract construction is recognized based on the progress of performance obligations. The progress is measured by an input method based on the costs incurred. Payments for contracts are generally made in stages based on the contracts with customers.

As described in “6. Segment Information” in the notes to the consolidated financial statements, the Group’s business segment is classified into three categories: automotive, aerospace, and others. Revenue is broken down by region based on the location of the customer. The relationship between these disaggregated revenues and the revenue of each reportable segment is as follows:

FYE 2020 (April 1, 2019 to March 31, 2020)

	(Unit: Millions of yen)			
	Automotive	Aerospace	Others*3	Total
Revenue from contracts with customers				
Japan	506,405	46,761	4,481	557,647
North America	2,313,306	95,297	55	2,408,658
Europe	116,143	83	16	116,242
Asia	106,360	—	5	106,365
Others	135,674	—	33	135,707
<b>Total</b>	<b>3,177,888</b>	<b>142,141</b>	<b>4,590</b>	<b>3,324,619</b>
Revenue arising from other sources *2	16,061	—	3,429	19,490
<b>Total</b>	<b>3,193,949</b>	<b>142,141</b>	<b>8,019</b>	<b>3,344,109</b>

Note: 1. The amounts mentioned above reflect elimination of internal transactions.

2. Revenue recognized from other sources includes lease revenue of products that are accounted for in accordance with "IFRS 16 Leases", etc.

3. Other segment includes real estate leasing business, etc.

FYE 2021 (April 1, 2020 to March 31, 2021)

	(Unit: Millions of yen)			
	Automotive	Aerospace	Others	Total
Revenue from contracts with customers				
Japan	441,705	40,700	1,908	484,313
North America	2,034,229	46,986	171	2,081,386
Europe	53,555	7	24	53,586
Asia	94,012	—	12	94,024
Others	101,180	—	45	101,225
<b>Total</b>	<b>2,724,681</b>	<b>87,693</b>	<b>2,160</b>	<b>2,814,534</b>
Revenue arising from other sources *2	12,822	—	2,854	15,676
<b>Total</b>	<b>2,737,503</b>	<b>87,693</b>	<b>5,014</b>	<b>2,830,210</b>

Note: 1. The amounts mentioned above reflect elimination of internal transactions.

2. Revenue recognized from other sources includes lease revenue of products that are accounted for in accordance with "IFRS 16 Leases", etc.

3. Other segment includes real estate leasing business, etc.



## (2) Contract balances

The balances of receivables, contract assets and contract liabilities arising from contracts with customers as of March 31, 2020 and 2021:

	(Unit: Millions of yen)	
	FYE 2020	FYE 2021
	(as of March 31, 2020)	(as of March 31, 2021)
Receivables included in Trade and other receivables	105,522	107,756
Contract assets included in Trade and other receivables	27,415	6,521
Contract liabilities included in other current liabilities	111,900	119,043
Contract liabilities included in other non-current liabilities	175,321	202,419

The contract assets mainly relate to the Group's right to the consideration for the work of contracts for aircraft production and periodic repairs in the aerospace business that have been recognized based on measurement of progress. Contract assets are transferred to receivables when all deliveries of such construction are completed. The contract liability mainly relates to contracts with defense industries in the aerospace business for which revenue is recognized upon completion of aircraft production and periodic repairs, as well as advance consideration received from customer for contracts.

Of the revenues recognized in the consolidated fiscal year ended March 31, 2021, the amount included in the contract liability balance at the beginning of the consolidated fiscal year was 78,298 million yen, and the amount in the consolidated fiscal year ended March 31, 2020 was 70,441 million yen.

The amount of revenue recognized in the consolidated fiscal year ended March 31, 2021 from performance obligations satisfied (or partially satisfied) in past periods is immaterial.

## (3) Transaction price allocated to the remaining performance obligations

Breakdown of the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) and revenue expected to be recognized for each period are as follows:

There are no significant amounts that are not included in the transaction price among the consideration arising from contracts with customers. In addition, as a practical expedient, transactions whose expected contract periods are equal to or less than one year on an individual basis are not included in the following breakdown calculation.

	(Unit: Millions of yen)	
	FYE 2020	FYE 2021
	(as of March 31, 2020)	(as of March 31, 2021)
Within 1 year	175,357	140,814
Over 1 year	339,110	348,352
Total	514,467	489,166

(4) Costs to fulfill a contract with a customer or costs of obtaining a contract recognized as assets

The Group has no material incremental costs of obtaining a contract or costs to fulfill a contract that should be recognized as assets.

## 22. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Salary and bonus	73,245	71,710
Advertising expenses	83,807	69,724
Depreciation and amortization expenses	26,424	27,452
Transportation and warehousing expenses	20,911	14,423
Others	103,840	96,558
<b>Total</b>	<b>308,227</b>	<b>279,867</b>

## 23. Other income and other expenses

(1) Other income

Breakdown of other income is as follows:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Government grants	—	2,748
Gain on settlement of factory shutdown related costs	2,534	—
Gain on sales of property, plant and equipment	2,141	458
Revenue from investment property	392	410
Others	2,684	1,457
<b>Total</b>	<b>7,751</b>	<b>5,073</b>

(2) Other expenses

Breakdown of other expenses is as follows:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Loss on sales of property, plant and equipment	5,376	5,119
Others	6,650	5,938
<b>Total</b>	<b>12,026</b>	<b>11,057</b>

## 24. Finance Income and Finance Costs

### (1) Finance income

Finance income for the consolidated fiscal years ended March 31, 2020 and 2021 consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Interest income:		
Financial assets measured at amortized cost	9,976	1,659
Debt instruments measured at fair value through other comprehensive income	2,457	2,365
Gains (losses) on derivatives:		
Financial assets and financial liabilities measured at fair value through profit or loss	919	—
Dividends received:		
Equity instruments measured at fair value through other comprehensive income	918	793
Gains (losses) on investment trust:		
Debt instruments measured at fair value through profit or loss	—	10,245
Gains (losses) on foreign exchange	—	3,489
Others	1,574	2,452
<b>Total</b>	<b>15,844</b>	<b>21,003</b>

### (2) Finance cost

Finance costs for the consolidated fiscal years ended March 31, 2020 and 2021 consist of the following:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Interest expense:		
Financial liabilities measured at amortized cost	786	874
Lease liabilities	1,019	1,072
Gains (losses) on derivatives:		
Financial assets and financial liabilities measured at fair value through profit or loss	—	6,748
Gains (losses) on investment trust:		
Debt instruments measured at fair value through profit or loss	3,412	68
Gains (losses) on foreign exchange	12,901	—
Others	389	755
<b>Total</b>	<b>18,507</b>	<b>9,517</b>

## 25. Notes on Income Taxes

### (1) Income Taxes

#### 1. Income tax expense recognized in profit or loss

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Current income tax expense		
Current year	38,707	35,662
Prior year adjustment	1,064	(1,500)
Total current income tax expense	39,771	34,162
Deferred income tax expense		
Recognition and reversal of temporary differences	14,563	2,423
Write-down of deferred tax asset	731	49
Total deferred income tax	15,294	2,472
Total	55,065	36,634

#### 2. Reconciliation between the statutory income tax rate and the average effective tax rate

The statutory income tax rate in Japan for the consolidated fiscal years ended March 31, 2020 and 2021 is 30.5%.

The tax rates for the foreign subsidiaries are calculated based on the general tax rate in each tax jurisdiction.

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Statutory income tax rate	30.5 %	30.5 %
Permanently non-deductible items	0.6 %	3.5 %
Tax credits for testing and research expenses	(1.7) %	— %
Modification and refund of income taxes for prior periods	0.5 %	(1.3) %
Difference in statutory income tax rates of foreign subsidiaries	(2.6) %	(7.2) %
Changes in unrecognized deferred tax assets	0.4 %	0.0 %
Undistributed profits	— %	5.4 %
Others	(1.2) %	1.2 %
Average effective tax rate after applying tax effect accounting	26.5 %	32.1 %

## (2) Deferred Tax Assets and Deferred Tax Liabilities

## 1. The components by major factor in deferred tax assets and deferred tax liabilities

FYE 2020 (April 1, 2019 to March 31, 2020)

(Unit: Millions of yen)

	Beginning balance	Recognized in profit or loss	Recognized in other comprehen sive income	Others (translation gains and losses, etc.)	Ending balance
<b>Deferred tax assets</b>					
Unrealized profit on inventories	15,485	1,835	—	—	17,320
Retirement benefit liabilities	23,606	2,074	(73)	(127)	25,480
Depreciation of fixed assets	8,672	1,111	—	—	9,783
Provisions	104,703	(7,909)	—	(268)	96,526
Inventories	2,127	(63)	—	(11)	2,053
Accrued business tax	407	(173)	—	—	234
Carryforward of unused tax losses	911	(21)	—	(22)	868
Others	51,884	(2,137)	—	(2,217)	47,530
<b>Total deferred tax assets</b>	<b>207,795</b>	<b>(5,283)</b>	<b>(73)</b>	<b>(2,645)</b>	<b>199,794</b>
<b>Deferred tax liabilities</b>					
Depreciation of fixed assets	23,221	3,248	—	(385)	26,084
Deferred income of overseas subsidiaries	19,998	(1,730)	—	(394)	17,874
Financial assets measured at fair value through other comprehensive income	2,943	—	233	(1,304)	1,872
Reserve for advanced depreciation	1,618	87	—	—	1,705
Net defined benefit assets	180	(180)	—	—	—
Intangible assets	36,200	7,801	—	—	44,001
Others	700	785	—	—	1,485
<b>Total deferred tax liabilities</b>	<b>84,860</b>	<b>10,011</b>	<b>233</b>	<b>(2,083)</b>	<b>93,021</b>
<b>Net deferred tax assets (liabilities)</b>	<b>122,935</b>	<b>(15,294)</b>	<b>(306)</b>	<b>(562)</b>	<b>106,773</b>

FYE 2021 (April 1, 2020 to March 31, 2021)

(Unit: Millions of yen)

	Beginning balance	Recognized in profit or loss	Recognized in other comprehen sive income	Others (translation gains and losses, etc.)	Ending balance
<b>Deferred tax assets</b>					
Unrealized profit on inventories	17,320	(9,029)	—	—	8,291
Retirement benefit liabilities	25,480	(825)	(467)	100	24,288
Depreciation of fixed assets	9,783	102	—	—	9,885
Provisions	96,526	(9,940)	—	253	86,839
Inventories	2,053	930	—	49	3,032
Accrued business tax	234	(183)	—	—	51
Carryforward of unused tax losses	868	20,176	—	18	21,062
Others	47,530	(4,907)	—	(416)	42,207
<b>Total deferred tax assets</b>	<b>199,794</b>	<b>(3,676)</b>	<b>(467)</b>	<b>4</b>	<b>195,655</b>
<b>Deferred tax liabilities</b>					
Depreciation of fixed assets	26,084	(6,485)	—	(82)	19,517
Deferred income of overseas subsidiaries	17,874	(3,147)	—	(158)	14,569
Financial assets measured at fair value through other comprehensive income	1,872	—	2,965	68	4,905
Reserve for advanced depreciation	1,705	(63)	—	—	1,642
Intangible assets	44,001	(628)	—	(11)	43,362
Undistributed profits	—	6,140	—	—	6,140
Others	1,485	2,979	—	—	4,464
<b>Total deferred tax liabilities</b>	<b>93,021</b>	<b>(1,204)</b>	<b>2,965</b>	<b>(183)</b>	<b>94,599</b>
<b>Net deferred tax assets (liabilities)</b>	<b>106,773</b>	<b>(2,472)</b>	<b>(3,432)</b>	<b>187</b>	<b>101,056</b>

Note: "Carryforward of unused tax losses" which was included in "Others" under "Deferred tax assets" in the previous fiscal year, is presented as a separate item from the current fiscal year due to its increased materiality. 911 million yen of Beginning balance and 868 million yen of Ending balance in "Carryforward of unused tax losses" included in "Others" of "Deferred tax assets" in the previous fiscal year is reclassified.

Deferred tax assets and liabilities recognized in the consolidated statement of financial position are as follows:

(Unit: Millions of yen)

	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Deferred tax assets	118,487	108,906
Deferred tax liabilities	11,714	7,850
<b>Net deferred tax assets (liabilities)</b>	<b>106,773</b>	<b>101,056</b>

2. Deductible temporary differences and carryforward of unused tax losses for which deferred tax assets are not recognized are as follows. Deductible temporary differences and carryforward of unused tax losses are presented on a tax amount basis.

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Deductible temporary differences	3,017	3,392
Carryforward of unused tax losses	218	445
<b>Total</b>	<b>3,235</b>	<b>3,837</b>

3. The components by expiry of the carryforward of unused tax losses for which deferred tax assets are not recognized are as follows. The following amounts are presented on a tax amount basis.

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Within 1 year	—	—
Within 2 years	10	—
Within 3 years	48	—
Within 4 years	—	—
Over 5 years	160	445
<b>Total</b>	<b>218</b>	<b>445</b>

4. Effective from the consolidated fiscal year ended March 31, 2021, the Group has recognized deferred tax liabilities for the taxable temporary differences related to investments in subsidiaries, which relate to undistributed earnings that are expected to be distributed at the end of the reporting period.

For the consolidated fiscal years ended March 31, 2020 and 2021, the Group does not recognize deferred tax liabilities for future taxable temporary differences related to the investment in subsidiaries, except for the future taxable temporary differences mentioned above. This is because the Group can control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary differences related to the investment in subsidiaries for which deferred tax liabilities are not recognized as of March 31, 2020 and 2021 are 650,257 million yen and 460,966 million yen, respectively.

5. Deferred tax assets are recognized to the extent that it is probable that taxable income will be earned against which the future deductible temporary differences etc. can be utilized. Deferred tax liabilities are recognized in principle for all taxable temporary differences.

The calculation of deferred tax assets may be affected by changes in uncertain economic conditions and other factors, and the timing and amount of actual taxable income may differ from the estimates. This could cause a significant impact on the amount of deferred tax assets in the annual securities report for the following fiscal year.

## 26. Earnings per Share

Basis for calculation of Earnings Per Share

Earnings per share attributable to owners of the parent for the consolidated fiscal years ended March 31, 2020 and 2021 are calculated based on the following information. There were no potentially dilutive common shares outstanding for the consolidated fiscal years ended March 31, 2020 and 2021.

	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Profit for the year attributable to owners of the parent (million yen)	152,587	76,510
Weighted average number of common shares outstanding, basic (thousands of shares)	766,799	766,856
Basic earnings per share attributable to owners of the parent (yen)	198.99	99.77



## 27. Dividends

### 1. Dividend payout

The amounts of dividends paid are as follows:

FYE 2020 (April 1, 2019 to March 31, 2020)

Resolution	Type of shares	Total amount of dividends (yen)	Dividend per share (yen)	Record date	Effective date	Source for dividend
The 88th Ordinary General Meeting of Shareholders on June 21, 2019	Common shares	55,236	72.0	March 31, 2019	June 24, 2019	Retained earning
The Board of Directors Meeting on November 6, 2019	Common shares	55,240	72.0	September 30, 2019	December 3, 2019	Retained earning

FYE 2021 (April 1, 2020 to March 31, 2021)

Resolution	Type of shares	Total amount of dividends (yen)	Dividend per share (yen)	Record date	Effective date	Source for dividend
The 89th Ordinary General Meeting of Shareholders on June 23, 2020	Common shares	21,482	28.00	March 31, 2020	June 24, 2020	Retained earning
The Board of Directors Meeting on November 4, 2020	Common shares	21,484	28.00	September 30, 2020	December 1, 2020	Retained earning

### 2. Dividends payable for the case when resolution made on or after April 1, 2021

Dividends payable for the case when the record date is in the consolidated fiscal year ended March 31, 2021, effective on or after April 1, 2021 is as follows:

Resolution	Type of shares	Total amount of dividends (yen)	Dividend per share (yen)	Record date	Effective date	Source for dividend
The 90th Ordinary General Meeting of Shareholders on June 23, 2021	Common shares	21,484	28.00	March 31, 2021	June 24, 2021	Retained earning

## 28. Cash Flow Information

### (1) Reconciliation of liabilities arising from financing activities

FYE 2020 (April 1, 2019 to March 31, 2020)

(Unit: Millions of yen)

	Beginning balance	Cash flow	Non-cash changes			Ending balance
			Acquisitions	Changes in foreign currency exchange rates	Others	
Short-term borrowings	7,682	(2,400)	—	(147)	(382)	4,753
Long-term borrowings	96,044	98,408	—	—	5	194,457
Bonds	—	40,000	—	—	—	40,000
Lease liabilities	100,218	(41,230)	23,636	(174)	—	82,450
Total	203,944	94,778	23,636	(321)	(377)	321,660

FYE 2021 (April 1, 2020 to March 31, 2021)

(Unit: Millions of yen)

	Beginning balance	Cash flow	Non-cash changes			Ending balance
			Acquisitions	Changes in foreign currency exchange rates	Others	
Short-term borrowings	4,753	(540)	—	78	(2,948)	1,343
Long-term borrowings	194,457	58,079	—	—	4	252,540
Bonds	40,000	40,000	—	—	—	80,000
Lease liabilities	82,450	(40,425)	63,732	848	(4,962)	101,643
Total	321,660	57,114	63,732	926	(7,906)	435,526

## 29. Financial Risk Management

### (1) Risk Management

The Group's business activities are affected by the business environment and the financial market environment. Financial instruments held or assumed during the course of the business activities are subject to inherent risks.

The risks include (1) credit risk, (2) liquidity risk and (3) market risk.

The Group establishes an internal management system and implements crisis management to minimize the impact on the Group's financial condition and business performance using financial instruments.

Specifically, the Group manages those risks according to the following methods.

### (2) Credit Risk

#### (a) Credit risk of financial assets held by the Group

Credit risk is the risk that a party to a financial instrument defaults on its contractual obligations and causes a financial loss for the Group. Specifically, the Group is exposed to the following credit risks:

1. The Group's trade receivables, lease receivables, contract assets and other receivables are exposed to the credit risk of customers and counterparties.
2. Bonds and other securities held to manage surplus funds are exposed to the credit risk of the issuers.
3. Derivative transactions conducted by the Group for the purpose of hedging foreign exchange and interest rate risks as well as banking transactions are exposed to the credit risk of the financial institutions that are counterparties to the transactions."

#### (b) The Group's response to the risks

Regarding credit risk of customers, the Group has a system where the due date and balances of each customer are managed and the credit status is monitored in accordance with the credit management standards of each company.

For receivables except for trade receivables, lease receivables and contract assets, the Group determines that the credit risk of a financial asset has increased significantly since initial recognition if the financial asset is 30 days or more past the contractual due date (including a request for a grace period) after the transaction date.

However, the Group does not determine that the credit risk has increased significantly if it is due to temporary demand for funds and the risk of default is low and it is obvious that the customer has the ability to meet contractual cash flow obligations in the near future based on objective data such as external ratings even if there is a delay in payment and a request for a grace period.

For debt instruments recorded as securities, the Group determines that the credit risk has increased significantly from initial recognition if the credit risk is not assessed to be low based on the rating information provided by the major rating agencies.

Expected credit losses are measured and recognized based on financial information available during the transaction and credit risk management processes, taking into account macroeconomic conditions such as the number of bankruptcies and material changes in the actual or expected performance of the debtor.

If the debtor does not pay within 90 days after the due date or the debtor commences legal liquidation proceedings due to bankruptcy, etc., it is determined as a default.

If there is a default, or if there is evidence of impairment of the issuer or debtor, such as significant financial difficulties, it is determined that the credit is impaired. The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof and determines that write-off is appropriate based on a credit check.

Even if a financial asset is written down, the collection activities are continued for fulfillment and the amounts collected are recorded in profit or loss.

The Group's receivables do not have a significant concentration of credit risk on a particular business partner or group of business partners.

Since the Group conducts derivative transactions and banking transactions only with financial institutions with high creditworthiness, there is little credit risk due to the default of the counterparties. In addition, the Group conducts surplus investment and derivative transactions only with highly rated financial institutions in order to reduce the occurrence of credit risk beforehand. The finance and accounting department obtains the approval by the applicable person set forth in the authority rules for each case based on each company's internal rules and related policies that define the details.

There are few past due receivables.

Aggregation of the net carrying value of financial assets and the amount of guarantee obligation recognized in the consolidated statement of financial position without taking into account the value of the collateral received as credit enhancement is the maximum exposure to credit risk.

The Group generally holds on products that have been sold as collateral for operating loans to customers.

(Measurement of expected credit losses on other receivables and debt instruments)

If the credit risk on other receivables and debt securities is not found to have increased significantly since initial recognition as of the closing date, the Group calculates the loss allowance for the financial instruments by estimating the 12-month expected credit losses using grouping by similar credit risk characteristics and based on historical credit loss experience and forecast information.

On the other hand, if the credit risk is found to have increased significantly since initial recognition as of the closing date, the Group calculates the loss allowance by estimating the lifetime expected credit losses for the collection of the financial instrument based on historical credit loss experience and forecast information.

(Measurement of expected credit losses on trade receivables, lease receivables, and contract assets)

For all trade receivables, lease receivables and contract assets, the loss allowance is calculated based on the lifetime expected credit losses until the trade receivables, lease receivables or contract assets, as applicable, are collected using a simplified approach and grouping by similar credit risk characteristics.

For trade receivables, the loss allowance is calculated by estimating the lifetime expected credit losses based on historical bad debt experience and forecast information on the age of receivables for each trade receivable.

(Unit: Millions of yen)

	Loss allowance for expected credit loss measured at an amount equal to 12-month expected credit losses	Loss allowance for expected credit loss measured at an amount equal to the lifetime expected credit losses			Total
		Assets that are not credit-impaired financial assets	Credit-impaired financial assets	Operating receivables, lease receivables, contract assets, etc.	
FYE 2020 (Balance as of April 1, 2019)	33	264	3,158	138	3,593
Increase during the period (provision)	7	88	53	21	169
Decrease during the period (intended use)	(21)	(57)	(2,670)	—	(2,748)
Others*1	(3)	—	(51)	—	(54)
FYE 2020 (Balance as of March 31, 2020)	16	295	490	159	960
Increase during the period (provision)	28	27	56	17	128
Decrease during the period (intended use)	(6)	(71)	(16)	—	(93)
Others*1	62	—	(8)	—	54
FYE 2021 (Balance as of March 31, 2021)	100	251	522	176	1,049

Note: 1. Others mainly include the reversal of loss allowance due to collection.

2. All debt instruments measured at fair value through other comprehensive income have high credit ratings and no material provisions are recognized for them.

#### Guarantee contract

The Group mainly provides guarantees to subsidiaries' business partners, but credit risk is not included in the above table because it is limited and immaterial.

The amount of the guarantees is described in "35. Contingencies".

#### (3) Market risk

##### 1) Foreign currency exchange risk

##### (Foreign currency exchange risk management)

The Company hedges foreign currency fluctuation risks of trade receivables and payables denominated in foreign currencies that are identified by currency and by month by using, in principle, forward exchange contracts and currency options. Depending on the exchange rate situation, forward exchange contracts and other transactions are used against the net position of trade receivables and trade payables denominated in foreign currencies for a maximum of six months.

(Currency sensitivity analysis)

Sensitivity analysis of the foreign currency exchange risk associated with financial instruments held at the end of the consolidated fiscal years ended March 31, 2020 and 2021 is as follows. The following scenario demonstrates the impact of a 1% appreciation (increase) of the Japanese yen against the US dollar on profit after tax, holding all variables other than the foreign currency exchange rate as constant, for foreign exchange risk exposure arising from deposits, trade receivables and payables denominated in foreign currencies of which foreign exchange differences are recognized at the end of the consolidated fiscal year in profit or loss.

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Impact on profit after income taxes	(888)	(219)

(4) Liquidity Risk

Liquidity Risk Management

"The Group raises funds by borrowings from financial institutions and corporate bonds. The Group is exposed to a risk that the Group would not be able to repay liabilities by the due date in the event of disruptions of financial system and financial markets or a significant reduction of credit rating by rating agencies. (Hereinafter referred to as "Liquidity risk".)

In order to ensure liquidity and stability, the Company has sufficient cash and cash equivalents as well as maintains liquidity that satisfies the level of cash required by entering into commitment line agreements, etc. with major financial institutions.

The unused portions of the committed lines are as follows:

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Specified commitment line contract	213,825	197,500

(Maturity analysis of financial liabilities)

1) Non-derivative financial liabilities

Non-derivative financial liabilities by maturity as of March 31, 2020 and 2021 are as follows:

FYE 2020 (as of March 31, 2020)

	(Unit: Millions of yen)							
	Carrying amount	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total contractual cash flows
Trade and other payables	336,223	336,223	—	—	—	—	—	336,223
Financing liabilities	239,210	12,538	15,353	51,502	45,666	56,208	59,854	241,121
Other financial liabilities	109,953	42,098	13,175	5,617	5,401	6,522	43,617	116,430
Total	685,386	390,859	28,528	57,119	51,067	62,730	103,471	693,774

FYE 2021 (as of March 31, 2021)

	(Unit: Millions of yen)							
	Carrying amount	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total contractual cash flows
Trade and other payables	267,824	267,824	—	—	—	—	—	267,824
Financing liabilities	333,883	26,957	51,758	55,926	69,448	31,353	101,809	337,251
Other financial liabilities	132,166	61,282	18,048	7,001	6,035	7,265	46,890	146,521
Total	733,873	356,063	69,806	62,927	75,483	38,618	148,699	751,596

Financial guarantee contracts cause payment obligation on the basis of demand for performance. Guarantees to the clients are described in “35. Contingencies”.

2) Derivative financial liabilities

Derivative financial liabilities by maturity as of March 31, 2020 and 2021 are as follows:

FYE 2020 (as of March 31, 2020)

	(Unit: Millions of yen)							
	Carrying amount	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total contractual cash flows
Revenue	—	149,702	—	—	—	—	—	149,702
Expenditure	—	(151,702)	(9)	(9)	(6)	(2)	—	(151,728)
Derivative financial liabilities	(2,028)	(2,000)	(9)	(9)	(6)	(2)	—	(2,026)

FYE 2021 (as of March 31, 2021)

	(Unit: Millions of yen)							
	Carrying amount	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total contractual cash flows
Revenue	—	169,825	—	—	—	—	—	169,825
Expenditure	—	(177,408)	(29)	(20)	(12)	—	—	(177,469)
Derivative financial liabilities	7,644	(7,583)	(29)	(20)	(12)	—	—	(7,644)



### 30. Fair Value

#### (1) Definition of Fair Value Hierarchy

The Group uses a three-level hierarchy system when measuring fair value. The following is a description of the three levels of hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly

Level 3: Unobservable inputs for the assets or liabilities

#### (2) Method of Fair Value Measurement

The fair values of assets and liabilities are determined based on relevant market information and through the use of an appropriate valuation method.

The measurement methods and assumptions used in the measurement of assets and liabilities are as follows:

(Cash and cash equivalents, Trade and other receivables, Trade and other payables)

Cash and cash equivalents, Trade and other receivables, and Trade and other payables are measured at amortized cost. Lease receivables are measured in accordance with IFRS 16.

The fair value of operating loans and lease receivables is calculated based on the present value of the receivables discounted by the interest rate, taking into account the maturity period and credit risk, for each receivable classified by a certain period. Therefore, fair value measurements are classified as Level 3 because credit risks are not observable.

The fair values of financial assets other than lease receivables and operating loans approximate their carrying amounts of those financial assets due to their short-term maturities.

(Other debt instruments)

Debt instruments (instruments measured at fair value) consist mainly of government bonds, corporate bonds, and investment trust.

The fair value of government bonds and investment trust with an active market is measured by using quoted market prices. Fair value measurement for government bonds is classified as Level 1.

The fair value of other debt instruments except for the instruments mentioned above is measured based on the proprietary pricing models provided by financial institutions using observable inputs in the market such as credit ratings and discount rates. Fair value measurements for other debt instruments are classified as Level 2.

Other debt instruments are reported as other financial assets (current).

(Equity instruments)

Equity instruments consist mainly of stocks.

The fair value of equity instruments with an active market is measured by using quoted market prices.

Fair value measurement for equity instruments with an active market is classified as Level 1.

As a general rule, the fair value of equity instruments with no active market is measured mainly by using the comparable company valuation method and other appropriate valuation methods. Fair value measurement for equity instruments with no active market is classified as Level 3.

Equity instruments are reported as other financial assets (non-current).

Such fair value measurements are conducted in accordance with the Group accounting policy approved by the appropriate person of authority and based upon valuation methods determined by an accountant of the Group.

(Financing liabilities)

Financing liabilities are measured at amortized cost. However, borrowings recognized in securitization transactions of accounts receivable using trusts are measured in accordance with IFRS 9. The fair value of financing liabilities is measured by discounting future cash flows using interest rates currently available for liabilities of similar terms and remaining maturities. Fair value measurement for financing liabilities is mainly classified as Level 2.

(Derivatives)

Derivatives consist mainly of foreign currency forward exchange contracts, and interest rate swap agreements. The fair values of derivatives are measured based on observable inputs such as foreign exchange rates and quoted prices obtained from the financial institutions. Fair value measurements for these derivatives are classified as Level 2.

Derivatives are reported as other financial assets (current) or other financial liabilities (current).

(Other financial liabilities)

Other financial liabilities other than derivatives mainly include liabilities related to chargeable subcontracting. Liabilities related to chargeable subcontracting are measured at amortized cost. Lease liabilities are measured in accordance with IFRS 16.

(3) Assets and Liabilities Measured at Fair Value on a recurring basis  
FYE 2020 (as of March 31, 2020)

(Unit: Millions of yen)

	Level 1	Level 2	Level 3	Total
Other financial assets				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	—	1,131	—	1,131
Debt instruments	21,134	351	—	21,485
Total	21,134	1,482	—	22,616
Financial assets measured at fair value through other comprehensive income:				
Equity instruments	4,104	—	4,818	8,922
Debt instruments	64,688	68,141	—	132,829
Total	68,792	68,141	4,818	141,751
Total	89,926	69,623	4,818	164,367
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	—	2,028	—	2,028
Total	—	2,028	—	2,028

FYE2021 (as of March 31, 2021)

(Unit: Millions of yen)

	Level 1	Level 2	Level 3	Total
<b>Other financial assets</b>				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	—	—	—	—
Debt instruments	30,390	311	—	30,701
<b>Total</b>	<b>30,390</b>	<b>311</b>	<b>—</b>	<b>30,701</b>
Financial assets measured at fair value through other comprehensive income:				
Equity instruments	92,347	—	5,163	97,510
Debt instruments	59,440	84,661	—	144,101
<b>Total</b>	<b>151,787</b>	<b>84,661</b>	<b>5,163</b>	<b>241,611</b>
<b>Total</b>	<b>182,177</b>	<b>84,972</b>	<b>5,163</b>	<b>272,312</b>
<b>Other financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	—	7,644	—	7,644
<b>Total</b>	<b>—</b>	<b>7,644</b>	<b>—</b>	<b>7,644</b>

The Group recognizes the transfers between the levels of the fair value hierarchy at the end of the day on which an event or change in conditions that causes the transfer has occurred.

There were no material transfers between the levels.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the consolidated fiscal years ended March 31, 2020 and 2021 are as follows:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020) Equity instruments	FYE 2021 (April 1, 2020 to March 31, 2021) Equity instruments
Beginning balance	4,703	4,818
Total gains or losses:		
Profit or loss	—	—
Other comprehensive income	115	345
Purchases	—	—
Sales	—	—
Exchange differences on translating foreign operations	—	—
Ending Balance	4,818	5,163
Unrealized gains or losses included in profit or loss on assets held at March 31, 2020 and 2021	—	—

Note: 1. Gains or losses included in profit or loss for the consolidated fiscal years ended March 31, 2020 and 2021 are included in finance income and finance costs in the consolidated statements of income.

2. Gains or losses included in other comprehensive income for the consolidated fiscal years ended March 31, 2020 and 2021 are included in net changes in revaluation of equity instruments designated as measured at fair value through other comprehensive income in the consolidated statements of comprehensive income.

#### (4) Financial Assets and Financial Liabilities that are not measured at fair value

The carrying amounts and fair values of financial assets and financial liabilities that are not measured at fair value as of March 31, 2020 and 2021 are as follows:

	(Unit: Millions of yen)			
	FYE 2020 (as of March 31, 2020)		FYE 2021 (as of March 31, 2021)	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables				
Operating loans	178,492	186,162	177,039	184,792
Lease receivables	12,928	14,239	11,915	13,160
Account receivables and other receivables*1	173,419	—	152,954	—
Other financial asset*1&2	59,736	—	57,356	—
Financing liabilities				
Borrowings	199,210	199,185	253,883	252,789
Bonds payables	40,000	39,704	80,000	79,550
Trade and other payables*1	336,223	—	267,824	—
Other financial liabilities*1&3	27,503	—	30,523	—

Note: 1. Disclosure of fair value is omitted because the fair values approximate their carrying amounts due to their short-term maturities.

2. Items disclosed in “(3) Assets and Liabilities Measured at Fair Value on a recurring basis” are not included.

3. Other financial liabilities do not include derivatives of 2,028 million yen (March 31, 2020) and 7,644 million yen (March 31, 2021) and lease liabilities of 82,450 million yen (March 31, 2020) and 101,643 million yen (March 31, 2021).
4. The table does not include cash and cash equivalents, commercial paper and negotiable certificates of deposit measured at amortized cost whose fair values approximate their respective carrying amounts.

(5) Assets and Liabilities Measured at Fair Value on a non-recurring basis

There are no assets and liabilities measured at fair value on a non-recurring basis as of March 31, 2020 and 2021.

**31. Transfers of financial assets that do not meet the requirement for derecognition**

The Group securitizes a part of its financial assets.

The Group's aerospace company securitizes account receivables through trusts. The Group transfers a part of beneficiary rights, but transferees have recourse to the transferor (the Group). Therefore, we have determined that the Group retains substantially all the risks and rewards of ownership, and the transfer of beneficiary rights is accounted for as a financing transaction.

Transferred assets and liabilities for which transferees have recourse are as follows:

	(Unit: Millions of yen)			
	FYE 2020		FYE 2021	
	(as of March 31, 2020)		(as of March 31, 2021)	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	2,948	2,948	—	—
Borrowings	2,948	2,948	—	—

### 32. Offsetting of Financial Assets and Financial Liabilities

Information about offsetting of financial assets and financial liabilities as of March 31, 2020 and 2021 is as follows:

FYE 2020 (as of March 31, 2020)

	(Unit: Millions of yen)				
	Gross amounts of recognized financial assets and financial liabilities	Amounts offset in the consolidated statements of financial position	Net amounts presented in the consolidated statements of financial position	Amounts subject to master netting agreements or similar agreements that do meet offsetting criteria	Net amounts
Other financial assets					
Derivatives	1,131	—	1,131	(1,131)	—
Other financial liabilities					
Derivatives	2,028	—	2,028	(1,131)	897

FYE 2021 (as of March 31, 2021)

	(Unit: Millions of yen)				
	Gross amounts of recognized financial assets and financial liabilities	Amounts offset in the consolidated statements of financial position	Net amounts presented in the consolidated statements of financial position	Amounts subject to master netting agreements or similar agreements that do meet offsetting criteria	Net amounts
Other financial assets					
Derivatives	—	—	—	—	—
Other financial liabilities					
Derivatives	7,644	—	7,644	—	7,644

Amounts that do not meet offsetting criteria are financial assets and financial liabilities subject to enforceable master netting agreements that the Group does not intend to settle on a net basis.

### 33. Commitment

The following table shows commitments for the purchase of assets after the reporting period:

	(Unit: Millions of yen)	
	FYE 2020	FYE 2021
	(as of March 31, 2020)	(as of March 31, 2021)
Purchase of property, plant and equipment	34,481	36,548

### 34. Leases

#### 1. Information as Lessee

##### (1) Information as Lessee

	(Unit: Millions of yen)	
	FYE 2020	FYE 2021
	(April 1, 2019 to March 31, 2020)	(April 1, 2020 to March 31, 2021)
Real estate	6,778	7,926
Machinery	1,447	1,560
Vehicles	11	11
Tools	36,528	47,311
Total depreciation charge for right-of-use assets	44,764	56,808
Interest expense on lease liabilities	1,019	1,072
Lease expenses with the exemption of short-term lease*1	1,855	1,411
Lease expenses with the exemption of leases of low-value assets*2	1,040	1,089
Total lease expense (net)	48,678	60,380
Total cash outflow for leases	45,144	43,997

There is no material income from sub-leasing of right-of-use assets.

Note: 1. The Group applies IFRS 16.6 to short-term leases.

2. The Group applies IFRS 16.6 to leases of low-value assets.

3. For increase in right-of-use assets, please refer to "11. Property, plant and equipment".

	(Unit: Millions of yen)	
	FYE 2020	FYE 2021
	(as of March 31, 2020)	(as of March 31, 2021)
Real estate	45,123	49,606
Machinery	14,577	16,135
Vehicles	38	32
Tools	40,080	65,798
Total carrying amount of right-of-use assets	99,818	131,571

(2) Maturity analysis of lease liabilities

	(Unit: Millions of yen)						
	Total	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years
FYE 2020 (as of March 31, 2020)	89,897	24,834	9,367	5,598	5,313	4,845	39,940
FYE 2021 (as of March 31, 2021)	109,418	31,231	17,162	6,486	6,035	5,503	43,001

Management policy for Liquidity Risk

Exposure to liquidity risk is managed by maintaining sufficient capital resources, a sufficient level of liquidity and a sound balance sheet.

(3) The nature of the lessee's leasing activities

The Group is the lessee under several operating leases, primarily for production tools such as molds, and network equipment and devices, as well as for real estate such as stores, company-owned houses and warehouses for the automotive business.

(4) Future cash outflows to which the lessee is potentially exposed and which are not reflected in the measurement of lease liabilities

There are no material future cash outflows to which the lessee is potentially exposed and which are not reflected in the measurement of lease liabilities.

(5) Restrictions or covenants imposed by leases

There are no restrictions or covenants imposed by leases (e.g. restrictions on dividends, additional borrowings and additional leases).

(6) Variable lease payments

For some lease agreements, the amount of lease payment varies based on the transactions with the counterparties. The amounts of variable lease payments recognized as expenses in the consolidated fiscal years ended March 31, 2020 and 2021 are not material.

2. Information as Lessor

(1) Finance Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases.

A lease receivable under a finance lease is recognized at an amount equal to the net investment in the lease at the commencement date.

The Group purchases insurance to cover physical damages to vehicles.

(i) Lease income

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Selling profit or loss	1,974	943
Finance income on the net investment in the lease	1,780	1,449

(ii) The nature of the lessor's leasing activities (finance lease)

The Group mainly leases out vehicles under finance leases.

(iii) Significant changes in the carrying amount of the net investment in the lease

Not applicable



## (iv) Maturity analysis of the lease payments receivable

	(Unit: Millions of yen)	
	FYE 2020 (as of March 31, 2020)	FYE 2021 (as of March 31, 2021)
Within 1 year	6,404	5,710
1 to 2 years	4,000	3,557
2 to 3 years	2,489	2,245
3 to 4 years	1,499	1,522
4 to 5 years	970	1,073
After 5 years	4	6
<b>Total</b>	<b>15,366</b>	<b>14,113</b>
Unearned financial income	2,814	2,523
Present value of unguaranteed residual value	376	325
The net investment in the lease	12,928	11,915

## (2) Operating Lease

## (i) Lease income

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Lease income	8,493	5,373

## (ii) The nature of the lessor's leasing activities (operating lease)

The Group leases out vehicles and real estates such as office buildings under operating leases.

## (iii) Maturity analysis of lease payments

	(Unit: Millions of yen)						
	Total	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years
FYE 2020 (as of March 31, 2020)	457	305	125	20	5	2	—
FYE 2021 (as of March 31, 2021)	1,200	964	194	30	11	1	—

The Group purchases insurance to cover physical damages to vehicles.

Most of the amounts disclosed in (i) lease revenues are vehicle rental fees at overseas subsidiaries and real estate rental income from office buildings, etc. Vehicle rental fees are paid in full at the time the contract starts, and the possibility that lessee's option of cancellation is not exercised by lessee is not secure reasonably as for real estate rental income. Therefore, (iii) the maturity analysis of lease payments does not include the amounts related to those transactions.

### 35. Contingencies

#### (1) Guarantees

Guarantees provided by the Group to the clients are as follows:

	(Unit: Millions of yen)	
	FYE 2020	FYE 2021
	(as of March 31, 2020)	(as of March 31, 2021)
Customers of		
SUBARU Canada Inc.	29,030	23,341
Employees:		
Others	5,304	4,439
	1,203	255
Total	35,537	28,035

#### (2) Other Contingencies

Based on the modified agreement between the U.S. subsidiary of Takata Co., Ltd.(Current, TKJP Corporation) and the National Highway Traffic Safety Administration (NHTSA) of the United States dated May 4, 2016, Notification "Extended schedule of the recalls of airbag inflators manufactured by Takata Co., Ltd." released by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) of Japan dated May 27, 2016, and recall policies in other regions including China and Australia in consideration of the request by the U.S. and Japanese authorities, expenses for extension of recall for airbag inflators manufactured by Takata are accrued to the extent that the amount can be reasonably estimated. There is a possibility that additional accrual may be required due to events in the future.

### 36. Significant subsidiaries

Significant subsidiaries as of March 31, 2021

Name of Subsidiary	Location	Share capital	Percentage of Voting Rights of The Company	Main Businesses
Fuji Machinery Co., Ltd.	Gunma	480 Million yen	100.0%	Manufacture and sales of automotive parts
Ichitan Co., Ltd.	Gunma	480 Million yen	100.0%	Manufacture and sales of automotive parts
KIRYU INDUSTRY Co., Ltd.	Gunma	400 Million yen	100.0%	Manufacturing of repair parts for Subaru cars, Subaru vehicle rust prevention works, Manufacture of custom-build car, etc.
Subaru Logistics Co., Ltd.	Gunma	96 Million yen	100.0%	Shipping, land freight and warehousing of Subaru vehicles, etc.
H.B.C. Co., Ltd.	Kanagawa	490 Million yen	68.0%	Storing and shipping of Subaru vehicles
Hokkaido Subaru Inc.	Hokkaido	98 Million yen	100.0%	Sales of Subaru vehicles and components
Miyagi Subaru Inc.	Miyagi	80 Million yen	100.0%	Sales of Subaru vehicles and components
Niigata Subaru Inc.	Niigata	100 Million yen	100.0%	Sales of Subaru vehicles and components
Kanagawa Subaru Inc.	Kanagawa	100 Million yen	100.0%	Sales of Subaru vehicles and components
Chiba Subaru Inc.	Chiba	100 Million yen	100.0%	Sales of Subaru vehicles and components
Tokyo Subaru Inc.	Tokyo	100 Million yen	100.0%	Sales of Subaru vehicles and components
Nagoya Subaru Inc.	Aichi	100 Million yen	100.0%	Sales of Subaru vehicles and components
Osaka Subaru Inc.	Osaka	100 Million yen	100.0%	Sales of Subaru vehicles and components
Hiroshima Subaru Inc.	Hiroshima	92 Million yen	100.0%	Sales of Subaru vehicles and components
Fukuoka Subaru Inc.	Fukuoka	50 Million yen	100.0%	Sales of Subaru vehicles and components
Subaru Finance Co., Ltd.	Tokyo	2,000 Million yen	100.0%	Leasing and rental of Subaru vehicles; credit and financing related to Subaru vehicles
Subaru of Indiana Automotive, Inc. (SIA)	US	USD 794,045,000	100.0%	Purchasing of production parts for Subaru vehicles, sales of completed vehicles to Subaru of America Inc. (SOA) and others
Subaru of America, Inc. (SOA)	US	USD 241,000	100.0%	Sales of Subaru manufactured vehicles, Subaru of Indiana Automotive, Inc. (SIA) manufactured vehicles and parts
Subaru Canada, Inc. (SCI)	Canada	CND 30,000,000	100.0%	Sales of Subaru manufactured vehicles, Subaru of Indiana Automotive, Inc. (SIA) manufactured vehicles and parts
Subaru Europe N.V./S.A. (SE)	Belgium	EUR 87,504,000	100.0%	Sales of Subaru vehicles and components
Subaru of China Ltd. (SOC)	Belgium	CNY 187,354,000	60.0%	Sales of Subaru vehicles and components

Name of Subsidiary	Location	Share capital	Percentage of Voting Rights of The Company	Main Businesses
North American Subaru Inc. (NASI)	US	USD 5,000	100.0%	Technical investigation for Subaru manufactured vehicles, Subaru of Indiana Automotive, Inc. (SIA) manufactured vehicles in North America market, automobile related regulatory compliance in the US
Yusoki Kogyo K.K.	Aichi	100 Million yen	100.0%	Manufacture and sales of aircraft parts to Subaru
Fuji Aircraft Maintenance Co., Ltd.	Tokyo	30 Million yen	100.0%	Inspection, service and maintenance of aircrafts
Subaru Kohsan Co., Ltd.	Tokyo	675 Million yen	100.0%	Rental and management of real estate
SUBARU IT CREATIONS CORPORATIONS	Saitama	100 Million yen	100.0%	IT system development and operation for Subaru Group

### 37. Related Parties

#### Compensation to Key Management

Compensation paid to the directors of the Company is as follows:

	(Unit: Millions of yen)	
	FYE 2020 (April 1, 2019 to March 31, 2020)	FYE 2021 (April 1, 2020 to March 31, 2021)
Short-term employee benefits	501	467
Stock compensation	53	53

### **38. Significant Subsequent Event**

Due to various factors including interruptions in the supply of certain parts using semiconductors, we partially suspended production of vehicles at our Gunma Manufacturing Plant (Yajima Plant) from April 10, 2021 to April 27, 2021. In addition, we suspended production of vehicles at Gunma Manufacturing Plant (Main Plant and Yajima Plant) on April 27, 2021 due to the maintenance of some equipment.

Gunma Manufacturing Plant (Main Plant and Yajima Plant) has resumed its operation since May 10, 2021, as the plant was closed for long consecutive holidays from April 28, 2021 to May 9, 2021.

We also suspended production of vehicles at Subaru of Indiana Automotive, Inc. (SIA), the Group's U.S. manufacturing base, due to interruptions in the supply of certain parts using semiconductors from April 19, 2021 to April 30, 2021. The production lines have resumed operations since May 3, 2021.

We expect shortages in the supply of semiconductors and certain parts to continue and the effects of the production suspension and production adjustments may have a significant impact on the financial position, business performance, and cash flow of the Group for the fiscal year ending March 2022 and beyond.

At this point, it is difficult to reasonably calculate the amount of the impact.

## 2【Others】

Quarterly information for the current consolidated fiscal year,

Cumulative period	Unit	1st quarter	2nd quarter	3rd quarter	FYE 2021
Revenue	(million yen)	456,998	1,218,392	2,074,829	2,830,210
Profit (loss) before tax	(million yen)	(10,735)	36,100	105,686	113,954
Profit (loss) for the period attributable to owners of parent	(million yen)	(7,700)	23,706	74,205	76,510
Profit (loss) for the period per share, basic	(yen)	(10.04)	30.91	96.77	99.77

Accounting period	Unit	1st quarter	2nd quarter	3rd quarter	4th quarter
Profit (loss) per share, basic	(yen)	(10.04)	40.95	65.85	3.01



## Independent Auditor's Report

To the Board of Directors of SUBARU CORPORATION:

### Opinion

We have audited the accompanying consolidated financial statements of SUBARU CORPORATION (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) which comprise the consolidated statement of financial position as of March 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of “the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (hereinafter referred to as “IFRS”).

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Reasonableness of the estimate of a specific provision for product warranties pursuant to notifications to the competent authority</b>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>As described in Note 18. “Provisions” to the consolidated financial statements, the Group recorded provisions for product warranties of 151,660 million yen in current liabilities and 87,240 million yen in non-current liabilities in its consolidated financial statements within the Automobile segment. These amounts include a specific provision for product warranties pursuant to notifications to the competent authority, among others.</p> <p>The Group recognizes a specific provision for product warranties for future expenses related to the covered repairs under warranty pursuant to notifications to the competent authority when it is probable that outflows of resources embodying economic benefits will be required, and reliable</p>	<p>The primary procedures we performed to assess whether the estimate of a specific provision for product warranties pursuant to notifications to the competent authority was reasonable are set forth below. As part of these procedures, we requested the component auditors of subsidiaries in the U.S. to perform an audit and evaluated the report of the component auditors to conclude on whether sufficient and appropriate audit evidence was obtained.</p> <p><b>(1) Internal control testing</b></p> <p>We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to estimating a specific provision for product warranties pursuant to notifications to the competent authority, including controls related to</p>

<p>estimates can be made of the amount of the obligations.</p> <p>The aforementioned future warranty expenses are calculated by estimating the expected number of vehicles for which warranty services will be provided (hereinafter, “Expected Number of Affected Units”) and the warranty expenses that will be incurred in the future per vehicle (hereinafter, “Per-unit Future Warranty Expense”) based on the historical experience of warranty services provided in the past, and multiplying these two figures. As the estimates of the Expected Number of Affected Units and the Per-unit Future Warranty Expense included certain assumptions that involved significant management judgment, there was a risk that the provision for product warranties may not be properly measured.</p> <p>We, therefore, determined that the reasonableness of the estimate of a specific provision for product warranties pursuant to notifications to the competent authority was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>the determination of assumptions used for the estimate and those related to the completeness and accuracy of underlying data.</p> <p><b>(2) Assessment of the reasonableness of the estimate of a specific provision for product warranties</b></p> <p>In order to evaluate the completeness and accuracy of underlying data used and the reasonableness of key assumptions adopted by management in assessing the reasonableness of a specific provision for product warranties pursuant to notifications to the competent authority, we performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>assessed the reasonableness of key assumptions related to the estimate of the Expected Number of Affected Units and the Per-unit Future Warranty Expense by inquiring of personnel in the relevant departments about the methods used to estimate the Per-unit Future Warranty Expense and by inspecting the meeting minutes and the supporting materials;</li> <li>assessed whether underlying data used to estimate the Expected Number of Affected Units and the Per-unit Future Warranty Expense were consistent with the supporting materials and the historical data of warranty services provided in the past; and</li> <li>assessed whether any changes in key assumptions underlying the estimate of the Per-unit Future Warranty Expense were necessary by performing a data analysis in which we compared the trend of actual warranty expenses for each claim with the provision balance for the past several years.</li> </ul>
---	---

**Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors’ performance of their duties with regard to the design, implementation and maintenance of the Group’s financial reporting process.



## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

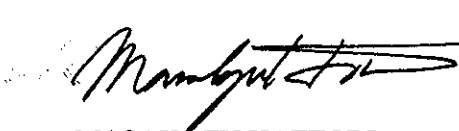

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Interest required to be disclosed by the Certified Public Accountants Act of Japan**

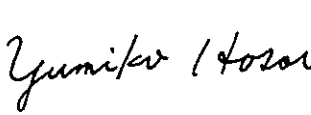

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

MASAKAZU HATTORI  
Designated Engagement Partner  
Certified Public Accountant

TAKASHI HASUMI  
Designated Engagement Partner  
Certified Public Accountant

YUMIKO HOSOI  
Designated Engagement Partner  
Certified Public Accountant

*KPMG AZSA LLC*  
Tokyo Office, Japan  
June 24, 2021