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Securities code: 7220
June 7, 2018

To our shareholders:

Hiroshi Otsuka
Representative Director and President
Musashi Seimitsu Industry Co., Ltd.
39-5 Daizen, Ueta-cho, Toyohashi-shi, Aichi

NOTICE OF CONVOCATION OF THE 91ST ANNUAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 91st Annual Meeting of Shareholders of Musashi Seimitsu Industry Co., Ltd. (the “Company”).

If you are unable to attend the meeting, you can exercise your voting rights in writing or via the Internet, etc. Please review the Reference Documents for the Annual Meeting of Shareholders and exercise your voting rights by 5:00 p.m. on Thursday, June 21, 2018.

Meeting Details

- 1. Date and Time:** Friday, June 22, 2018 at 10:00 a.m. (Reception will open at 9:00 a.m.; Japan Standard Time)
- 2. Venue:** Conference Room of the Company’s Head Office
39-5 Daizen, Ueta-cho, Toyohashi-shi, Aichi

3. Purposes:

Items to be reported:

1. Business Report and Consolidated Financial Statements, as well as the audit reports of the Financial Auditor and the Audit and Supervisory Committee for Consolidated Financial Statements, for the 91st fiscal term (from April 1, 2017 to March 31, 2018)
2. Non-consolidated Financial Statements for the 91st fiscal term (from April 1, 2017 to March 31, 2018)

Items to be resolved:

- Proposal 1:** Appropriation of Surplus
- Proposal 2:** Partial Amendments to the Articles of Incorporation
- Proposal 3:** Election of Eight (8) Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

4. Instructions for Exercising Voting Rights, etc.:

Please refer to “Instructions for Exercising Voting Rights, etc.” on page 2.

- * If you plan to attend the meeting in person, please present the enclosed Voting Rights Exercise Form at the reception desk. Please also bring this notice to the meeting for use as a meeting agenda.
- * If any changes have been made to the Reference Documents for the Annual Meeting of Shareholders, Business Report, Non-consolidated Financial Statements or Consolidated Financial Statements, such changes will be posted on the Company’s website (<http://www.musashi.co.jp>).

Instructions for Exercising Voting Rights, etc.

You may exercise your voting rights by one of the following three methods:

[Attending the General Meeting of Shareholders]

Present the Voting Rights Exercise Form to the receptionist at the meeting.

Date and Time:

Friday, June 22, 2018 at 10:00 a.m. (Reception will open at 9:00 a.m.)

Venue:

Conference Room of the Company's Head Office
39-5 Daizen, Ueta-cho, Toyohashi-shi, Aichi

[Exercising Voting Rights in writing]

Complete the enclosed Voting Rights Exercise Form by indicating your approval or disapproval of the proposals and return it without affixing a stamp.

Votes to be received by:

Thursday, June 21, 2018 at 5:00 p.m.

[Exercising Voting Rights via the Internet]

Access the voting rights exercise website (<https://www.net-vote.com/>) from a PC, a smartphone or a mobile phone, input the "Login ID" and "Temporary password" indicated on the enclosed Voting Rights Exercise Form, follow the instructions on the screen, and input your approval or disapproval of the proposals.

Votes to be given by:

Thursday, June 21, 2018 at 5:00 p.m.

- 1) Please note that, to prevent unauthorized access to the site by individuals other than shareholders (persons impersonating shareholders) or unauthorized alteration of votes already made by authentic shareholders, we may request shareholders to change their "Temporary password" at the voting website.
- 2) Shareholders will be informed of the new "Login ID" and "Temporary password," every time a Meeting of Shareholders is called.
- 3) All costs associated with the access to the voting website (cost of internet connections, telephone tolls, etc.) need to be borne by the shareholder. Also, when voting by mobile phone, packet communication fees and other costs entailed by the use of mobile phones also need to be borne by the shareholder.

Exercise of Voting Rights via the Internet, etc.

To exercise your voting rights as a shareholder via the Internet, please refer to the information below and complete the necessary procedures by 5:00 p.m. Thursday, June 21, 2018.

1. Voting Website

You can only exercise your voting rights via the dedicated voting website designated by the Company. This can be found at the following website address: <https://www.net-vote.com/>

2. Handling of votes via the Internet, etc.

- (1) When exercising your voting rights via the Internet, input the “Login ID” and “Temporary password” provided in the enclosed Voting Rights Exercise Form, follow the instructions on the screen, and input your approval or disapproval of the proposals.
- (2) If a shareholder duplicates his or her vote by exercising the voting rights both by mail and via the Internet, we will consider only the Internet vote to be valid. If you vote more than once over the Internet, we will consider the latest vote to be valid, irrespective of whether it was cast from a personal computer, smartphone, tablet, or mobile phone.

3. Handling of “Login ID” and “Password”

- (1) The “Login ID” and “Temporary Password” noted on the enclosed Voting Rights Exercise Form are valid for this meeting only.
- (2) The “Password” is used to confirm the identity of the shareholder when exercising his or her vote and is therefore very important information. Please take adequate precautions to keep it secure.
- (3) If you need to have your “Password” reissued, please contact us at the Helpline below.

Information for electronic voting platform

Institutional investors who have already applied to use of the electronic voting platform operated by ICJ Inc., may also use this platform to exercise their voting rights, in addition to internet platforms listed above.

Inquiries for System, etc.

IR Japan Inc., Transfer Agency Services Department

Helpline: 0120-975-960

Reception: 9:00 a.m. - 5:00 p.m. (excluding Saturdays, Sundays and public holidays)

Reference Documents for the Annual Meeting of Shareholders

Proposal 1: Appropriation of Surplus

Returning profit to shareholders is recognized as one of the highest priorities in the Company's management, and the payment of stable, continuous dividends commensurate to business results is our basic policy.

Regarding the appropriation of surplus for the 91st fiscal term, taking into account such factors as our business results for the fiscal year under review, the strengthening of our management structure and future business development, and considering to secure internal reserves on one hand, we propose the following.

Matters relating to year-end dividends

- i) Type of dividend property
Cash
- ii) Dividend amount to be allocated
Per share of common stock: ¥39
Total dividends: ¥1,217,358,207
- iii) Effective date of dividends of surplus
June 25, 2018

Proposal 2: Partial Amendments to the Articles of Incorporation

1. Reason for Amendments

In order to reflect more accurately the current business activities of the Company and clarify the purposes of business, the Company proposes to add new business items in the provision of Article 2 (Purposes) of the current Articles of Incorporation so that the Company could respond to the diversification of the business in the future.

2. Details of amendments

The details of amendments are as follows.

(Amendments are underlined.)

| Current Articles of Incorporation | Proposed amendments |
|---|--|
| <p>Current Articles of Incorporation</p> <p>Article 2 (Purposes)</p> <p>The purpose of the Company shall be to engage in the following businesses:</p> <p>1) (Omitted)</p> <p>2) (Omitted)</p> <p>(New)</p> <p>(New)</p> <p>(New)</p> <p>3) (Omitted)</p> <p>4) (Omitted)</p> | <p>Article 2 (Purposes) (Unchanged)</p> <p>1) (Unchanged)</p> <p>2) (Unchanged)</p> <p>3) Services related to data processing, data communications and data provision</p> <p>4) Worker dispatch business</p> <p>5) Charged employment placement business</p> <p>6) (Unchanged)</p> <p>7) (Unchanged)</p> |

Proposal 3: Election of Eight (8) Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

The terms of office of nine (9) Directors (excluding Directors serving as Audit and Supervisory Committee Members; the same is applied throughout this proposal) shall expire upon the conclusion of this Annual Meeting of Shareholders.

In that regard, to execute our management structural reforms and enable strategic, quicker and more flexible decision making in the Board of Directors, we request the election of eight (8) Directors, a decrease of one (1) person.

As for this proposal, the Audit and Supervisory Committee has judged that all the candidates for Director are qualified.

The candidates for Director are as follows:

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and significant concurrent positions | Number of the Company's shares held |
|-----|--|--|---|
| 1 | Hiroshi Otsuka (Jul. 6, 1965) Reappointment Number of Board of Directors' meetings attended during the fiscal year under review 8/8 Number of years since appointment as a director 17 years (at the conclusion of this meeting) | <p>Jul. 1993 Entered the Company</p> <p>Apr. 1997 President and Director of TAP Manufacturing Ltd. (currently Musashi Auto Parts UK Ltd.)</p> <p>Feb. 2000 President and Director of Musashi Hungary Manufacturing, Ltd.</p> <p>Jun. 2001 Director of the Company</p> <p>May 2002 Senior General Manager of Sales Division of the Company</p> <p>Jun. 2004 Managing Director of the Company</p> <p>Jun. 2005 Senior General Manager of Sales and Management Divisions of the Company</p> <p>Jun. 2005 Senior Managing Director of the Company</p> <p>May 2006 Representative Director and President of the Company (current position)</p> <p>Reasons for nomination as a candidate for Director</p> <p>Mr. Hiroshi Otsuka, who was appointed President and CEO in 2016, has supervised the entire group with a wealth of experience and broad insight. Holding future vision for the group, he has shown strong leadership through developing policy and long-term strategy and furthermore implementing innovative strategies such as applying AI technology into manufacturing field. Given his long-term excellent management performance, we determined him a right person to enhance corporate value and nominated him as a candidate for Director.</p> | 709,750 |
| | Takayuki Miyata (Nov. 8, 1965) Reappointment Number of Board of Directors' meetings attended during the fiscal year under review 8/8 Number of years since appointment as a director 3 years (at the | <p>Dec. 1989 Entered the Company</p> <p>Apr. 2010 President and Director of Musashi Auto Parts Michigan Inc.</p> <p>Apr. 2013 Executive Officer of the Company</p> <p>Apr. 2015 Managing Executive Officer of the Company</p> <p>Apr. 2015 Head of Machinery & Tools Division and Purchasing Division of the Company</p> <p>Jun. 2015 Director of the Company (current position)</p> <p>Oct. 2015 Head of Power Train (PT) Division and Forging Engineering Division of the Company (current position)</p> <p>Mar. 2016 President and Director of Musashi Holdings Europe GmbH (current position)</p> <p>Dec. 2017 Head of China Regional Operations of the Company</p> <p>Apr. 2018 Senior Managing Executive Officer of the</p> | 5,600 |

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and significant concurrent positions | Number of the Company's shares held |
|-----|--------------------------------|--|---|
| | conclusion of this meeting) | <p style="text-align: center;">Company(current position)</p> <p>Apr. 2018 CEO of China region of the Company(current position)</p> <hr/> <p>(Significant concurrent position) President and Director of Musashi Holdings Europe GmbH</p> <hr/> <p>Reasons for nomination as a candidate for Director</p> <p>Mr. Takayuki Miyata has extensive experience and insight in the PT Business, which is a core business of the Company. He concurrently serves as President and Director of Musashi Holdings Europe GmbH, and has a track record of increasing profit in existing businesses and creating new demand. The Company has determined, in view of his superior management ability cultivated through experience in supervision at multiple divisions, that he is necessary to improve the future corporate value of the Group, and nominated him once again as a candidate for its Director.</p> | |

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and significant concurrent positions | Number of the Company's shares held |
|-----|---|--|---|
| 3 | <p>Haruhisa Otsuka (Nov. 4, 1960)</p> <p>Reappointment</p> <p>Number of Board of Directors' meetings attended during the fiscal year under review 8/8</p> <p>Number of years since appointment as a director 14 years (at the conclusion of this meeting)</p> | <p>Jan. 1984 Entered the Company</p> <p>Jan. 1998 President and Director of Musashi Auto Parts Canada Inc.</p> <p>May 2004 President and Director of Musashi Auto Parts Michigan Inc.</p> <p>Jun. 2004 Director of the Company (current position)</p> <p>May 2006 Head of North America Regional Operations of the Company</p> <p>May 2006 President and Director of Musashi Auto Parts Canada Inc. (current position)</p> <p>Oct. 2010 Head of North America Regional Sales of the Company (current position)</p> <p>Apr. 2015 Managing Executive Officer of the Company</p> <p>Oct. 2015 Head of Linkage & Suspension (L & S) Division of the Company (current position)</p> <p>Apr. 2018 Senior Managing Executive Officer of the Company(current position)</p> <p>Apr. 2018 CEO of North and South America region of the Company(current position)</p> <p>(Significant concurrent position) President and Director of Musashi Auto Parts Canada Inc.</p> <p>Reasons for nomination as a candidate for Director</p> <p>Mr. Haruhisa Otsuka has extensive experience and insight in the L&S Business, which is one of the Company's core businesses. He concurrently serves as President and Director of Musashi Auto Parts Canada Inc., etc., and has a track record of increasing profit in existing businesses and creating new demand. The Company has determined, in view of his superior management ability cultivated through experience in supervision over North America for many years, that he is necessary to improve the future corporate value of the Group, and nominated him once again as a candidate for its Director.</p> | 30,150 |
| 4 | <p>Tracey Sivill (Dec. 2, 1963)</p> <p>Reappointment</p> <p>Number of Board of Directors' meetings attended during the fiscal year under review 6/6</p> <p>Number of years since appointment as a director 1 year (at the conclusion of this meeting)</p> | <p>Dec. 1997 Entered Musashi Auto Parts Canada Inc.</p> <p>Oct. 2013 Executive Officer (current position), Compliance Officer and Senior Manager of Accounting, Purchasing, IT, HR, Production Control of Musashi Auto Parts Canada Inc.</p> <p>Nov. 2013 Director of Musashi Auto Parts Canada Inc. (current position)</p> <p>Apr. 2015 Executive Office of the Company</p> <p>Apr. 2016 In charge of Global IT Strategy of the Company (current position)</p> <p>Apr. 2017 Senior Executive Officer of the Company</p> <p>Apr. 2017 Head of Finance and Accounting Division of the Company</p> <p>June. 2017 Director of the Company (current position)</p> <p>Apr. 2018 Managing Executive Officer of the Company(current position)</p> <p>Apr. 2018 CFO of Group of the Company(current position)</p> <p>Reasons for nomination as a candidate for Director</p> <p>Ms. Tracey Sivill has extensive experience and insight in finance and accounting and IT divisions. She has been responsible for the finance and accounting and IT divisions in the Group company , and has a track record</p> | 0 |

[Translation]

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and significant concurrent positions | Number of the Company's shares held |
|-----|-------------------------|---|---|
| | | of promoting efficiency of the Group's management and operations. The Company has determined, in view of her superior management ability cultivated through ample experience in overseas subsidiary, that she is necessary to improve the future corporate value of the Group, and nominated her as a candidate for its Director. | |

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and significant concurrent positions | Number of the Company's shares held |
|-----|---|--|---|
| 5 | Goro Kamino (Aug. 29, 1960) Reappointment Number of Board of Directors' meetings attended during the fiscal year under review 8/8 Number of years since appointment as a director 6 years (at the conclusion of this meeting) | <p>Aug. 2000 Representative Director and President of Gastec Service, Inc.</p> <p>May 2002 Representative Director and President of Sala Corporation (current position)</p> <p>Mar. 2012 Representative Director and President of Chubu Gas Co., Ltd.</p> <p>Jun. 2012 Director of the Company (current position)</p> <p>Feb. 2018 Chairman and Representative Director of Gastec Service, Inc. (current position)</p> <p>Feb. 2018 Chairman and Representative Director of Chubu Gas Co., Ltd. (current position)</p> <p>(Significant concurrent positions) Representative Director and President of Sala Corporation Chairman and Representative Director of Gastec Service, Inc. (current position) Chairman and Representative Director of Chubu Gas Co., Ltd. (current position)</p> <p>Reasons for nomination as a candidate for Director Mr. Goro Kamino has provided appropriate advice on the Company's management as its Outside Director based on his extensive experience and a high level of knowledge as a corporate manager of listed companies. The Company believes that he will continue to supervise the Company's management based on his experience and knowledge, and requests his election as Outside Director.</p> | 7,200 |
| 6 | Hari N. Nair (Jan. 1, 1960) Reappointment Number of Board of Directors' meetings attended during the fiscal year under review 6/6 Number of years since appointment as a director 1 year (at the conclusion of this meeting) | <p>Aug. 1985 Entered General Motors Corporation</p> <p>Mar. 1987 Retired</p> <p>Mar. 1987 Entered Tenneco Automotive. (currently Tenneco Inc.)</p> <p>Aug. 1997 Same as above Vice President and Managing Director, Asia</p> <p>Aug. 1999 Same as above Vice President, Managing Director, South America and Asia</p> <p>Apr. 2000 Same as above Senior Vice President, Managing Director, International</p> <p>May. 2001 Same as above Executive Vice President, Managing Director, Europe</p> <p>Jun. 2005 Same as above Executive Vice President, Managing Director, Europe, South America and India</p> <p>Apr. 2009 Same as above Appointed to Board of Directors</p> <p>May. 2010 Same as above Chief Operating Officer</p> <p>Jul. 2013 Entered Owens-Illinois Inc. Board of Directors(current position)</p> <p>Jan. 2015 Retired from Tenneco Inc. Board of Directors</p> <p>Mar. 2015 Retired from Tenneco</p> <p>Jun. 2017 Director of the Company (current position)</p> <p>Dec. 2017 Director of Delphi Technologies PLC. (current position)</p> <p>Feb. 2018 Chairman of the Board of Sintercom India. (current position)</p> <p>Reasons for nomination as a candidate for Director</p> | 0 |

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and significant concurrent positions | Number of the Company's shares held |
|-----|---|---|---|
| | | Mr. Hari Nair has provided appropriate advice on the Company's management as its Outside Director based on his extensive experience and a high level of knowledge of an overseas auto part manufacturer. The Company believes that he will continue to supervise the Company's management based on his experience and knowledge, and requests his election as Outside Director. | |
| 7 | <p>Keisuke Tomimatsu (May 2, 1974)</p> <p>Reappointment</p> <p>Number of Board of Directors' meetings attended during the fiscal year under review 8/8</p> <p>Number of years since appointment as a director 3 years (at the conclusion of this meeting)</p> | <p>Apr. 1997 Entered SBC Warburg Japan Ltd.(currently UBS Securities Japan Co., Ltd.)</p> <p>Dec. 2001 Entered UBS Securities Japan Co., Ltd.</p> <p>Mar. 2003 Director of UBS Securities Japan Co., Ltd.</p> <p>Mar. 2006 General Manager/Executive Director, Financial Products Equities Dept. of UBS Securities Japan Co., Ltd.</p> <p>Aug. 2008 Managing Director, Equities Dept. of Credit Suisse Securities (Japan) limited.</p> <p>Nov. 2009 Executive Director, Equities Dept. of Morgan Stanley Japan Securities (currently Morgan Stanley MUFG Securities Co., Ltd.)</p> <p>Sep. 2011 Resigned Morgan Stanley Japan Securities(currently Morgan Stanley MUFG Securities Co., Ltd.)</p> <p>Jun. 2013 Audit & Supervisory Board Member of the Company</p> <p>Jun. 2014 Director of IR Japan Inc.</p> <p>Feb. 2015 Director of IR Japan Holdings, Ltd.(current position)</p> <p>Jun. 2015 Director serving as an Audit and Supervisory Committee Member of the Company</p> <p>Jun. 2017 Director of the Company (current position)</p> <p>(Significant concurrent positions) Director of IR Japan Holdings, Ltd. Director of ABEJA, Inc.</p> <p>Reasons for nomination as a candidate for Director</p> <p>Mr. Keisuke Tomimatsu has extensive experience at various companies in the securities industry and considerable financial and accounting knowledge. Based on such experience and knowledge, he has provided appropriate advice on the Company's management. The Company believes that he will supervise the Company's management based on his experience and knowledge, and requests his election as Outside Director.</p> | 1800 |
| 8 | <p>Yoshie Munakata (June 20, 1958)</p> <p>New appointment</p> | <p>Apr. 1981 Entered Dai Nippon Printing Co., Ltd.</p> <p>Dec. 1983 Entered Intel Japan K.K. (present Intel K.K.)</p> <p>Apr. 1999 Manager, Communication Product Business Headquarters of Intel K.K.</p> <p>Apr. 2001 Executive secretary in charge of corporate planning/government relation of Intel K.K.</p> <p>Apr. 2002 Manager, Business Development Headquarters of Intel K.K.</p> <p>Apr. 2009 Director and executive deputy president of Intel K.K.</p> <p>Apr. 2016 Advisor of Intel K.K.</p> <p>Oct. 2016 Established B.Grove Inc., Representative Director of B.Grove Inc., (current position)</p> <p>Jun. 2017 Director of SoftBank Technology Corp. (current position)</p> <p>Reasons for nomination as a candidate for Director</p> <p>Mr. Yoshie Munakata has long been involved in corporate management,</p> | 0 |

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and significant concurrent positions | Number of the Company's shares held |
|-----|-------------------------|--|---|
| | | serving important positions such as director and executive deputy president at a global company in the data telecommunications technology industry. The Company proposes to elect him as Outside Director since it expects him to perform supervision of the management of the Company by utilizing his abundant experience and deep insight he has cultivated over years. | |

- Notes:
1. There are no special interests between the Company and the candidates.
 2. Mr. Yoshie Munakata is new appointee candidates for Director.
 3. Mr. Goro Kamino, Mr. Hari N. Nair, Mr. Keisuke Tomimatsu and Mr. Yoshie Munakata are candidates for Outside Director.
 4. Mr. Goro Kamino is currently serving as Outside Director of the Company and his term of office will be 6 years at the conclusion of this Annual Meeting of Shareholders. Mr. Hari N. Nair is currently serving as Outside Director of the Company and his term of office will be 1 years at the conclusion of this Annual Meeting of Shareholders. Mr. Keisuke Tomimatsu is currently serving as Outside Director of the Company and his term of office will be 3 years at the conclusion of this Annual Meeting of Shareholders.
 5. Mr. Keisuke Tomimatsu had served as Outside Audit and Supervisory Board Member of the Company.
 6. The Company, with respect to liability under Article 423, paragraph 1 of the Companies Act, entered into an agreement with Mr. Goro Kamino, Mr. Hari N. Nair and Mr. Keisuke Tomimatsu limiting the total amount of the liability to the amount stipulated in Article 425, paragraph 1 of the same Act. Should their election be approved, the Company plans to continue the aforementioned agreements limiting liability. Should Mr. Yoshie Munakata's election be approved, the Company, with respect to liability under Article 423, paragraph 1 of the Companies Act, would enter into an agreement with him limiting the total amount of the liability to the amount stipulated in Article 425, paragraph 1 of the same Act.
 7. The Company registered Mr. Goro Kamino, Mr. Hari N. Nair and Mr. Keisuke Tomimatsu as independent officers with the Tokyo Stock Exchange and the Nagoya Stock Exchange, pursuant to the guidelines thereof. Should their election be approved, the Company would continue his service as Independent Officer. Mr. Yoshie Munakata is a candidate for independent officer with the Tokyo Stock Exchange and the Nagoya Stock Exchange, pursuant to the guidelines thereof. Although the Company has fuel purchasing transactions etc. with Chubu Gas Co., Ltd. and Gastec Service, Inc., in which Mr. Goro Kamino serves concurrently. However, since the annual transaction amount relating thereto accounts for less than 1% of sales of the Company, Chubu Gas Co., Ltd. and Gastec Service, Inc., we believe that there would be no conflicts of interest with general shareholders. The Company consigns shareholder registry administrator services to IR Japan, Inc., a wholly-owned subsidiary of IR Japan Holdings, Ltd. where Mr. Keisuke Tomimatsu concurrently holds a position; however, since the annual transaction amount relating thereto accounts for less than 1% of sales of the Company and said company, we believe that there would be no conflicts of interest with general shareholders. The Company consigns consulting and other services to ABEJA, Inc., where Mr. Keisuke Tomimatsu concurrently holds a position; however, the annual transaction amount relating thereto accounts for less than 1% of sales of the Company and said company, we believe that there would be no conflicts of interest with general shareholders.

(Reference) Composition of the Board of Directors [Scheduled to be effective on June 22, 2018]

The abilities of the Directors of the Company are listed below.

| Directors | | Areas in charge | Corporate management | Manufacturing and engineering R&D | Sales and marketing | Advanced technology and IT | Financial affairs and financing | Governance, risk management and human resources | Global experience |
|----------------------|-------------------------|--|----------------------|-----------------------------------|---------------------|----------------------------|---------------------------------|---|-------------------|
| Hiroshi Otsuka | | | ● | | ● | | | ● | ● |
| Takayuki Miyata | | PT & Engineering | ● | ● | | | | ● | ● |
| Haruhisa Otsuka | | L&S | ● | ● | | | | | ● |
| Tracey Sivill | | Financial affairs | ● | | | ● | ● | | ● |
| Goro Kamino | Outside Director. | | ● | | ● | | ● | ● | |
| Hari N. Nair | Outside Director. | | ● | ● | ● | | | ● | ● |
| Keisuke Tomimatsu | Outside Director. | | | | | ● | ● | | ● |
| Yoshie Munakata | Outside Director. (New) | | ● | | | ● | | | ● |
| Nobuyoshi Sakakibara | | Audit and Supervisory Committee Member | ● | ● | | | | ● | ● |
| Asako Yamagami | Outside Director. | Audit and Supervisory Committee Member | | | | | | ● | ● |
| Yoshinori Morita | Outside Director. | Audit and Supervisory Committee Member | | | | | ● | ● | |

(Attached materials)

Business Report

(April 1, 2017 to March 31, 2018)

1. Overview of the Group

(1) Business results for the fiscal year ended March 31, 2018

1) Progress and results of business

During the fiscal year ended March 31, 2018, the global economy remained strong, particularly in the United States and China, and saw a modest tone of recovery. In the automobile industry, the market, centered around world's largest market of China, expanded robustly, and new products and services are being born in quick succession in the face of a major period of transformation, as represented by the themes of Connectivity, Autonomous, Shared, Electric (CASE). The Company sees these changes in the environment as an opportunity to establish its position as a global supplier, and during the fiscal year under review we made efforts to further strengthen our existing businesses, develop cutting-edge technology, and open up new businesses.

On the business front, with the goal of maximizing our synergies with the Hay Group, we will move forward with the manufacture of motorcycle parts that use the super-high-speed forging machines that are the strength of the Hay Group, carry out wide-ranging development of manufacturing technology for large gears, and strengthen our marketing activities, primarily with European customers. As part of our initiatives to strengthen our presence in the growing Chinese market, and to respond to the need for local development and local production, we have established an R&D facility, and expanded production capacity, primarily at our Nantong site.

In terms of R&D, we are increasing our investments, chiefly in high-performance parts required for the next generation of vehicles. In the area of cutting-edge technology also, we are speedily implementing initiatives that will lead to enhanced competitiveness for both products and services, such as development of automation, making use of AI, for external inspection of parts, and implementation of cutting-edge technology developed jointly with Toyohashi University of Technology.

On the sales front, orders for our main product of differentials are strong worldwide, and we are receiving an increased level of inquiries about next-generation parts, such as high-precision gears, for which demand is expected to grow in the era of electric vehicles. In the motorcycle business, where we have the global top share for transmission components, orders from overseas manufacturers, mostly in developing countries, are increasing.

With regard to management processes, we are promoting measures that will make the Company a genuinely global company, such as redesigning core key systems, expanding the global platform*, drawing up "global policies" to be shared throughout the worldwide network, and improving the efficiency of accounts settlement operations.

*An integrated core system providing the base for global operations

In the above environment, the Company's results for the fiscal year under review were boosted by a full year of the addition of the Hay Group to the results (which had only contributed six months to the previous fiscal year), by the impact of the weaker yen, and by rising sales in Asian regions, such that consolidated net sales rose 31.8% year on year to 237,910 million yen. Consolidated profits grew significantly, with operating

profit up 41.2% year on year to 15,767 million yen, ordinary profit up 54.3% year on year to 15,929 million yen, and profit attributable to owners of parent up 63.9% year on year to 10,351 million yen.

2) Segment Overview

Net sales in Japan rose 5.7% year on year to 28,778 million yen. Although there was an increase in R&D expenses, segment profit rose 1.2% year on year to 2,164 million yen. In North America, net sales were affected by the weaker yen, and came to 43,753 million yen (up 3.5% year on year). In terms of profits, due to the product mix and a temporary increase in production costs, segment profit fell 16.1% year on year to 1,991 million yen. In Europe, due to the addition of the Hay Group to the results, net sales totaled 77,900 million yen (up 127.3% year on year), and the segment posted a profit of 1,539 million yen, compared to the loss of 333 million yen recorded in the previous fiscal year. In Asia, solid results, centered around motorcycles, drove net sales to 79,120 million yen (up 13.4% year on year), while segment profit was 9,431 million yen, up 27.0% year on year. In South America, the effects of higher sales, resulting from the market recovery, and of continuous cost reductions led to net sales of 8,357 million yen (up 19.8% year on year) and segment profit of 82 million yen, compared to a loss of 725 million yen in the previous fiscal year.

3) Group sales by product

(million yen)

| Item | The 90th fiscal year ended March 31, 2017 | | The 91st fiscal year ended March 31, 2018 | | Increase / Decrease | |
|---------------------|---|-----------------------|---|-----------------------|---------------------|------------------|
| | Amount | Composition ratio (%) | Amount | Composition ratio (%) | Amount | Year on Year (%) |
| PT Business | 107,418 | 59.5 | 156,868 | 65.9 | 49,450 | 46.0 |
| L&S Business | 18,774 | 10.4 | 18,441 | 7.8 | (332) | (1.8) |
| Motorcycle Business | 54,330 | 30.1 | 62,601 | 26.3 | 8,271 | 15.2 |
| Total | 180,522 | 100.0 | 237,910 | 100.0 | 57,388 | 31.8 |

Note: Figures are presented with amounts less than one million yen truncated.

4) Status of capital investment

During the fiscal year under review, the Group implemented capital investments totaling 12,792 million yen, for such purposes as manufacturing newly ordered products and responding to increases in output by customers.

5) Status of fund procurement

In the fiscal year under review, procurements of funds from financial institutions were conducted for routine purposes only, and there were no fund procurements made by means of capital increases or issuance of corporate bonds.

6) Initiatives toward achieving sustainability

In an environment where the economic and social influence of corporations is on the increase, we believe that the issue of the Company providing continuous value to society and fulfilling its corporate social responsibility for the realization of the sustainable society is of vital importance to the growth of the Musashi Group over the medium to long term.

In order to win the trust of people all over the world, and to maintain the Company's

position as a company that contributes to the growth of a sustainable global society, the Group is promoting various sustainability initiatives based on the “Musashi Group Basic Policy for Realization of a Sustainable Global Society” that was passed by a resolution of the Board of Directors.

(2) Issues to be handled

The automotive industry is projected to record solid growth going forward, but competition is expected to intensify further as a result of such factors as an increase in market participants, and the accelerating speed of development. Under these circumstances, in order to realize research and development focused on the next generation, the global expansion of its business, and sustainable growth, the Group is tackling the following issues.

1) Development of new products aimed at the era of electric vehicles, and creation of new businesses

With regard to research and development, in addition to reinforcing our existing technological capabilities, we will focus on developing products aimed at the electric vehicle era, such as high-precision gears used in gear reducers, and unit products that take advantage of the development know-how accumulated thus far. We will also work actively on research to improve production efficiency by utilizing such cutting-edge technologies as IoT and AI, as well as on the creation of new businesses that do not fit within the framework of our existing operations.

2) Further expansion of existing businesses and speeding up of management

In the automobile business, we will actively seek to capture growing demand in China to expand sales, whereas for the motorcycle business, our aim is to grow the business primarily in India. At the same time, by redesigning core systems to match the broadening of the business, we will promote the “visualization” and speeding up of global management.

3) Strengthening initiatives aimed at the realization of sustainability

From the perspective of sustainability, we will conduct activities based on the concepts of CSV*1 and CSR*2, such as the environment, quality, human rights, and harmony with local communities, and strengthen even more than previously our initiatives for growing together with society.

*1 Creating Shared Value: creating shared value for both society and the company

*2 Corporate Social Responsibility

(3) Status of Group assets and income

(million yen, except for per share amounts)

| Item | The 88th fiscal year ended March 31, 2015 | The 89th fiscal year ended March 31, 2016 | The 90th fiscal year ended March 31, 2017 | The 91st fiscal year ended March 31, 2018 |
|---|---|---|---|---|
| Net sales | 158,209 | 164,397 | 180,522 | 237,910 |
| Operating income | 11,588 | 13,398 | 11,166 | 15,767 |
| Ordinary income | 11,875 | 11,449 | 10,323 | 15,929 |
| Profit attributable to owners of parent | 6,379 | 6,809 | 6,315 | 10,351 |
| Earnings per share | ¥ 204.51 | ¥ 218.29 | ¥ 202.47 | ¥ 331.69 |
| Total assets | 169,539 | 155,152 | 248,482 | 248,607 |
| Net assets | 83,969 | 77,947 | 88,312 | 100,350 |

Note: Net sales, operating income, ordinary income, profit attributable to owners of parent, total assets, and net assets are presented with amounts less than one million yen truncated.

(4) Status of parent company and major subsidiaries

1) Status of the parent company

No items to report.

2) Matters concerning to transactions with the parent company, etc.

With regard to transactions with Honda Motor Co., Ltd., a company defined as “other affiliate” of the Company, prices are determined similarly to ordinary transactions through negotiations based on market values. In addition, the Company’s Board of Directors deems that decisions pertaining to the business operation and management of the Company are made by its independent managerial determination, securing its independence, and therefore the interest of the Company is not impeded in transactions with the parent company, etc.

3) Status of major subsidiaries

| Company name | Capital (million) | The Company’s ownership ratio (%) | Principal business |
|---|-------------------|-----------------------------------|--|
| Kyushu Musashi Seimitsu Co., Ltd. | JPY 100 | 100.0 | Manufacturing of motorcycle and general-purpose engine parts |
| Musashi Auto Parts Michigan Inc. | USD 40 | 89.5 | Manufacturing of automobile parts |
| Musashi Auto Parts Canada Inc. | CAD 20 | 100.0 | Manufacturing of automobile parts |
| Musashi Auto Parts Mexico, S.A. de C.V. | USD 12.3 | 100.0 | Manufacturing of automobile parts |
| Musashi do Brasil Ltda. | BRL 105.1 | 74.9 | Manufacturing of motorcycle and general-purpose engine parts |
| Musashi da Amazonia Ltda. | BRL 139 | 100.0 | Manufacturing of motorcycle and general-purpose engine parts |
| Musashi Auto Parts Co., Ltd. | THB 200 | 82.3 | Manufacturing of motorcycle and general-purpose engine parts |
| P.T. Musashi Auto Parts Indonesia | USD 14 | 80.0 | Manufacturing of motorcycle and general-purpose engine parts |
| Musashi Auto Parts India Pvt. Ltd. | INR 10,100 | 100.0 | Manufacturing of motorcycle and general-purpose engine parts |

| Company name | Capital (million) | The Company's ownership ratio (%) | Principal business |
|---|-------------------|-----------------------------------|---|
| Musashi Auto Parts Vietnam Co., Ltd. | USD 42 | 100.0 | Manufacturing of motorcycle and general-purpose engine parts |
| Musashi Auto Parts (Zhongshan) Co., Ltd. | USD 65.2 | 100.0 | Manufacturing of automobile parts |
| Musashi Seimitsu Investment (Zhongshan) Co., Ltd. | USD 30 | 100.0 | Regional Headquarters in China |
| Musashi Auto Parts (Nantong) Co., Ltd. | USD 30 | (100.0) | Manufacturing of automobile parts |
| Tianjin Hay Forging Co., Ltd. | EUR 20 | (75.0) | Manufacturing of automobile parts |
| Musashi Hungary Manufacturing, Ltd. | EUR 20.1 | 100.0 | Manufacturing of automobile parts |
| Musashi Holdings Europe GmbH | EUR 320 | 75.0 | Holding shares of subsidiaries conducting manufacturing and sales businesses relating to automobile parts |
| Hay Holding GmbH | EUR 0.1 | (75.0) | Holding shares of subsidiaries conducting manufacturing and sales businesses relating to automobile parts |
| Johann Hay GMBH & CO.KG Automobiltechnik | EUR 15 | (75.0) | Manufacturing of automobile parts |
| Hay Machining GMBH & CO.KG | EUR 0.001 | (75.0) | Manufacturing of automobile parts |
| Metallumform GmbH | EUR 6.6 | (75.0) | Manufacturing of automobile parts |
| Metallumform Prazisionswerkstucke GmbH | EUR 5 | (75.0) | Manufacturing of automobile parts |
| Forjanor, S.L. Unipersonal | EUR 8.7 | (75.0) | Manufacturing of automobile parts |

Notes: The figures shown in parentheses show the ownership ratio when including ownership by subsidiaries.

(5) Principal business (As of March 31, 2018)

The principal business of the Group consists of the manufacturing and sales of automobile power train parts, suspension parts, steering parts and transmission parts, among others, of which the main products are listed below.

| | |
|------------|--|
| PT | Planetary gear assemblies, differential gear assemblies, bevel gears, ring gears, camshafts, balance shafts |
| L&S | Suspension arm assemblies, suspension ball joints, steering ball joints, various connection joints |
| Motorcycle | Motorcycle transmission gear assemblies, motorcycle camshafts, motorcycle kickstarter parts, other motorcycle power train parts and general-purpose engine parts |

(6) Principal business locations and plants (As of March 31, 2018)

1) Musashi Seimitsu Industry Co., Ltd.

| | |
|----------------------------|---------|
| Head Office and Ueta Plant | (Aichi) |
| Akemi Plant #1 | (Aichi) |
| Akemi Plant #2 | (Aichi) |
| Horai Plant | (Aichi) |
| Suzuka Plant | (Mie) |

2) Principal subsidiaries

For the information on the major subsidiaries and their location, etc., please refer to
“(4) Status of parent company and major subsidiaries 3) Status of major subsidiaries.”

(7) Status of employees (As of March 31, 2018)

1) Employees of the Group

| Number of employees | Change from previous fiscal year-end |
|---------------------|--------------------------------------|
| 12,595 (3,790) | 102 (403) |

Note: Number of employees means the number of full-time employees currently at work only, and the average number of part-time and temporary employees for the year is indicated in parentheses.

2) Employees of the Company

| Number of employees | Change from previous fiscal year-end | Average age | Average years of service |
|---------------------|--------------------------------------|----------------|--------------------------|
| 1,157 (179) | 16 (138) | 39.2 years old | 14.8 Years |

Note: Number of employees means the number of full-time employees currently at work only, and the average number of part-time and temporary employees for the year is indicated in parentheses.

(8) Status of major lenders (As of March 31, 2018)

| Lender | Balance of borrowings (million yen) |
|--|-------------------------------------|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 26,161 |
| Sumitomo Mitsui Banking Corporation | 30,101 |
| Development Bank of Japan | 14,073 |
| Mizuho Bank, Ltd. | 14,679 |

Note: The balance of borrowings is the sum total by lender group.

2. Status of the Company

(1) Status of shares (As of March 31, 2018)

| | |
|---|------------|
| 1) Total Number of Shares Authorized to be Issued | 70,000,000 |
| 2) Total Number of Issued Shares | 31,221,100 |
| 3) Number of Shareholders | 2,297 |
| 4) Major Shareholders (Top 10) | |

| Shareholder name | Number of shares (thousand shares) | Ownership ratio (%) |
|--|---------------------------------------|------------------------|
| Honda Motor Co., Ltd. | 8,182 | 26.2 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 2,748 | 8.8 |
| JPMorgan Chase Bank, 385632 | 1,497 | 4.7 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1,264 | 4.0 |
| BNP PARIBAS SEC SERVICES LUXEMBOURG/JASDEC/ABERDEEN GLOBAL CLIENT ASSETS | 874 | 2.8 |
| Otsuka Holdings Co., Ltd. | 801 | 2.5 |
| Hiroshi Otsuka | 709 | 2.2 |
| Northern Trust Company (AVFC) Re Mondrian International Small Cap Equity Fund, L.P. | 706 | 2.2 |
| JPMorgan Chase Bank, 385166 | 590 | 1.8 |
| JPMorgan Bank, Luxembourg S.A. 380578 | 576 | 1.8 |

Notes: 1. Shares less than one thousand have been truncated.
2. Ownership ratio is calculated excluding treasury shares (6,787 shares).

(2) Status of share subscription rights

- Status of share subscription rights held by the Company's officers granted as a consideration for the execution of duties
No items to report.
- Status of share subscription rights granted to employees, etc. during the fiscal year under review as a consideration for the execution of duties
No items to report.

3) Other important matters concerning share subscription rights

Overview of euro-yen denominated convertible bonds subject to call due 2018 issued based on a resolution made at the Board of Directors Meeting held on November 20, 2013

| Item | Euro-yen denominated convertible bonds subject to call due 2018 (Issued December 6, 2013, London time) |
|--|---|
| Number of share subscription rights | 1,000 units |
| Type and number of shares subject to share subscription rights | Common stock of the Company (Share unit: 100 shares) The number of shares of common stock of the Company to be granted by the exercise of the share subscription rights shall be the number obtained by dividing the total face value of corporate bonds in respect of exercise requests by the conversion value below. However, any fraction less than one share that occurs due to exercise shall be truncated and no adjustment in cash shall be made. |
| Conversion value | 3,441 yen |
| Period when share subscription rights can be exercised | December 20, 2013 to November 22, 2018 (in the local time of the location where exercise requests are received) |
| Conditions for exercising share subscription rights | Partial exercising of the share subscription rights may not be made. Until September 6, 2018, holders of bonds with share subscription rights can exercise their rights during the period from the first to the last day of the following fiscal quarter (however, September 5, 2018 for the quarter beginning on July 1, 2018) only if the closing price of the common stock of the Company for any 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any particular fiscal quarter of the Company is more than 120 percent of the conversion value in effect on the last trading day of such fiscal quarter of the Company. |
| Balance of convertible bonds | 10,006 million yen |

(3) Status of Corporate Officers

1) Status of the Directors (As of March 31, 2018)

| Position | Name | Areas of responsibility in the Company and significant concurrent positions |
|---|----------------------|--|
| Representative Director and President | Hiroshi Otsuka | |
| Director | Takayuki Miyata | Head of PT Business and Forging Engineering Head of China Regional Operations President and Director of Musashi Holdings Europe GmbH |
| Director | Haruhisa Otsuka | Head of L&S Business Head of North America Regional Operations President and Director of Musashi Auto Parts Canada Inc. |
| Director | Koji Horibe | Head of Motorcycle Business Division Head of Asia and South America Regional Operations Representative Director and President of Kyushu Musashi Seimitsu Co., Ltd. |
| Director | Toru Uchida | Head of General Affairs, Sustainability Promotion Division |
| Director | Tracey Sivill | Head of Finance and Accounting In charge of Global IT strategy |
| Director | Goro Kamino | Representative Director and President of Sala Corporation Chairman and Representative Director of Chubu Gas Co., Ltd. Chairman and Representative Director of Gastec Service, Inc. |
| Director | Hari N. Nair | |
| Director | Keisuke Tomimatsu | Director of IR Japan Holdings, Ltd. Director of ABEJA, Inc. |
| Director (Full-time Audit and Supervisory Committee Member) | Nobuyoshi Sakakibara | |
| Director (Audit and Supervisory Committee Member) | Asako Yamagami | Attorney at law |
| Director (Audit and Supervisory Committee Member) | Yoshinori Morita | |

- Notes:
1. Director Goro Kamino, Hari N. Nair, Keisuke Tomimatsu and Directors (Audit and Supervisory Committee Members) Asako Yamagami, and Yoshinori Morita are Outside Directors.
 2. Director (Audit and Supervisory Committee Member) Asako Yamagami is qualified as a lawyer with high level of specialized knowledge in corporate legal affairs and compliance.
 3. To strengthen the auditing and supervisory functions of the Audit and Supervisory Committee, the company has designated Mr. Nobuyoshi Sakakibara as Audit and Supervisory Committee Member (full-time) so that information gathering from the Director (excluding Audit and Supervisory Committee Member), information sharing through attendance of important in-house meetings and sufficient cooperation with the internal audit section will be allowed.
 4. The Company designated Messrs. Goro Kamino, Hari N. Nair, Keisuke Tomimatsu, Asako Yamagami and Yoshinori Morita as Independent Officers pursuant to the regulations of the Tokyo Stock Exchange and the Nagoya Stock Exchange, and registered them as such.
 5. The retired Directors during the fiscal year under review are as follows.
The terms of office of Directors Isao Kamiya and Director (Audit and Supervisory Committee Member) Takeshi Fuji expired as of the conclusion of the 90th Annual Meeting of Shareholders held on June 23, 2017

(Ref.) The Company has adopted the executive officer system. The executive officers as of April 1, 2018 are as follows.

| Position | Name | Areas of responsibility in the Company and significant concurrent positions |
|-----------------------------------|--------------------|--|
| President and Executive Officer | Hiroshi Otsuka | |
| Senior Managing Executive Officer | Takayuki Miyata | Head of PT Business and Forging Engineering CEO of China Region President and Director of Musashi Holdings Europe GmbH |
| Senior Managing Executive Officer | Haruhisa Otsuka | Head of L&S Business CEO of North and South America region President and Director of Musashi Auto Parts Canada Inc. |
| Managing Executive Officer | Tracey Sivill | CFO of Group of the Company In charge of Global IT strategy |
| Managing Executive Officer | Koji Horibe | Head of Quality Assurance |
| Managing Executive Officer | Nobuo Takemasa | Head of R&D |
| Senior Executive Officer | Takeshi Isaku | In charge of Global Customer, New Business, and Corporate Planning |
| Senior Executive Officer | Toru Uchida | In charge of Special Task |
| Senior Executive Officer | Ulrich Mehlmann | CEO of Europe region |
| Senior Executive Officer | Takashi Soda | Head of Production Management , IT ,and HR/ Chief Compliance Management Officer |
| Senior Executive Officer | Kenji Morisaki | CEO of Japan region Head of Manufacturing Engineering Chief Risk Management Officer |
| Executive Officer | Tetsunobu Kawai | Managing Director of Kyushu Musashi Seimitsu Co ., Ltd |
| Executive Officer | Graham Hill | In charge of Globalization Initiatives President and Director of Musashi Auto Parts UK Ltd. |
| Executive Officer | Tetsuro Toyama | Deputy Head of L&S Business |
| Executive Officer | Satoshi Tada | Head of Purchasing |
| Executive Officer | Toshihisa Otsuka | COO of China region |
| Executive Officer | Hideaki Asakura | Head of Motorcycle Business Unit /CEO of Asia region |
| Executive Officer | Yasunori Amano | Head of Sales |
| Executive Officer | Tatsuya Yanagisawa | Deputy Head of R&D |

2) Total amount of remuneration of Directors for the fiscal year under review

| Classification | Number of payees | Amount paid (million yen) |
|--|------------------|------------------------------|
| Directors (excluding Directors serving as Audit and Supervisory Committee Members) | 10 | 196 |
| (Outside Director of the above) | (3) | (20) |
| Directors (Audit and Supervisory Committee Members) | 4 | 27 |
| (Outside Director of the above) | (3) | (12) |
| Total | 14 | 224 |
| (Outside Officers of the above) | (6) | (32) |

- Notes:
1. The maximum amount of remuneration of Directors (excluding Directors serving as Audit and Supervisory Committee Members) was determined as 400 million yen per year (of which, 80 million yen or less for Outside Directors; provided, however, that this excludes the portion of employee salaries for Directors who serve concurrently as employees) by resolution at the 88th Annual Meeting of Shareholders held on June 23, 2015. And apart from this, for the Company's Directors (excluding Directors serving as Audit and Supervisory Committee Members), it was approved at the 90th Annual Meeting of Shareholders held on June 23, 2017, a resolution was adopted that the monetary remuneration to grant shares with transfer restrictions and monetary remuneration in an amount linked to the aforementioned share price, etc. shall be not more than 250 million yen per year (of which not more than 40 million yen per year shall be for Outside Directors; however, this excludes the portion of employee salaries of Directors serving concurrently as employees).
 2. The maximum amount of remuneration of Directors (Audit and Supervisory Committee Members) was determined as 80 million yen per year by resolution at the 88th Annual Meeting of Shareholders held on June 23, 2015.
 3. The total amount of remuneration of Directors does not include the portion of employee salaries for Directors who serve concurrently as employees.
 4. The total amount of remuneration paid includes the provision for Directors' bonuses for the fiscal year under review.

3) Matters regarding Outside Officers

A. Status of significant concurrent positions at other companies, etc. and relationship between such companies with the Company

- * Mr. Goro Kamino, Director, also serves as Representative Director and President of SaLa Corporation and as Representative Director and Chairman of Chubu Gas Co., Ltd. and Gastec Service, Inc. The Company has fuel purchasing transactions etc. with Chubu Gas Co., Ltd and Gastec Service, Inc. However, the annual transaction amount relating thereto accounts for less than 1% of sales of the Company as well as the two companies. There is no special relationship between the Company and Sala Corporation.
- * Mr. Keisuke Tomimatsu, Director, also serves as is Director of IR Japan Holdings, Ltd., which was established as the wholly-owning parent company of IR Japan Inc. The Company consigns shareholder registry administrator services to IR Japan, Inc., however, the annual transaction amount relating thereto accounts for less than 1% of sales of the Company as well as IR Japan, Inc. There is no special relationship between the Company and IR Japan Holdings, Ltd. Also, he is a Director of ABEJA, Inc. The Company consigns consulting operations etc. to ABEJA, Inc., but the annual value of transactions related to these operations account for less than 1% of the sales of both the Company and ABEJA, Inc.

B. Main activities during the fiscal year under review

- * Mr. Goro Kamino, Director, attended 8 out of the 8 Board of Directors Meetings held during the fiscal year under review at which he actively provided comments necessary for the deliberation of agenda items of the Board of Director Meetings thereat based on his broad experience and extensive knowledge in corporate management.
- * Since taking up the role of Director on June 23, 2017, Mr. Hari N. Nair attended 6 out of the 6 Board of Directors Meetings held during the fiscal year under review and has utilized his abundant experience of company management and the deep insights cultivated over many years in the industry to actively contribute as required to the deliberation of resolutions by the Board of Directors.
- * Mr. Keisuke Tomimatsu, Director, attended 8 out of the 8 Board of Directors Meetings held during the fiscal year under review and has utilized his abundant experience of the securities industry and his wide-ranging knowledge of the economy to actively contribute as required to the deliberation of resolutions by the Board of Directors.
- * Ms. Asako Yamagami, Director (Audit and Supervisory Committee Member) attended 8 of the 8 Board of Directors Meeting held during the fiscal year under review where she raised questions and provided advice whenever appropriate from a professional perspective as a lawyer. Further, since being appointed to the Company's Director, she attended 10 of the 10 Audit and Supervisory Committee Meetings held during the fiscal year under review where she expressed opinions regarding matters that concern the audit methods and execution of Audit and Supervisory Committee Member duties.
- * Since taking up the role of Director (Audit and Supervisory Committee Member) on June 23, 2017, Mr. Yoshinori Morita attended 6 out of the 6 Board of Directors Meetings held during the fiscal year under review and has utilized his abundant experience and deep insights cultivated over many years to put appropriate questions and offer appropriate advice to the Board of Directors. Also, since taking up his role on June 23, 2017, he has attended 7 out of 7 meetings of the Audit and Supervisory Committee held during the fiscal year under review and has voiced his opinions on audit methods and on other matters related to the duties of the Audit and Supervisory Committee.

C. Overview of limited liability agreements

- * The Company and the Outside Directors entered into limited liability agreements that limit the amount of liability under Article 423, paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, paragraph 1 of the same Act. The maximum amount of liability for damages under these agreements is the amount stipulated in Article 425, paragraph 1 of the same Act.

(4) Financial Auditor

1) Name: Ernst & Young ShinNihon LLC

2) Amount of remuneration, etc.

| | Amount paid (million yen) |
|--|------------------------------|
| Remuneration, etc. of the Financial Auditor for the fiscal year under review | 60.0 |
| Total economic benefits, including money, that should be paid to the Financial Auditor by the Company and its subsidiaries | 72.4 |

- Notes:
1. Subsidiaries of the Company are audited by audit corporations other than the Financial Auditor of the Company.
 2. In the audit agreement between the Company and the Financial Auditor, a distinction is not made between the remuneration for auditing based on the Companies Act and that for auditing based on the Financial Instruments and Exchange Act, nor is such distinction effectively possible. Therefore, the amount of the remuneration, etc. of the Financial Auditor for the fiscal year under review includes the amount of remuneration, etc. for auditing based on the Financial Instruments and Exchange Act.
 3. The Audit and Supervisory Committee gives consent regarding the remuneration etc. of the Financial Auditor pursuant to Article 399, paragraph 1 of the Companies Act, after it has obtained necessary materials and received reports from the Directors, relevant departments within the Company and the Financial Auditor, confirmed the performance of previous financial audits etc. by the Financial Auditor and reviewed the details of the audit plan of the Financial Auditor and the calculation basis for the estimated amount of remuneration etc. for the fiscal year under review.

3) Description of non-auditing services

The Company requested the Financial Auditor to provide advice on international accounting standards as services other than the services under Article 2, paragraph 1 of the Certified Public Accountants Act (non-auditing services), and paid consideration for such services.

4) Policy on decisions concerning dismissal or non-reappointment of the Financial Auditor

When the Financial Auditor has difficulty in execution of duties, the Audit and Supervisory Committee shall determine the detail of a proposal with regards to dismissal or non-reappointment of the Financial Auditor submitted to an Annual Meeting of Shareholders when it recognizes necessity for doing so.

The Financial Auditor may also be dismissed by a unanimous consent of the Audit and Supervisory Committee Members, provided that any items of Article 340, paragraph 1 of the Companies Act are met. In such case, an Audit and Supervisory Committee Member designated by the Audit and Supervisory Committee shall report the dismissal of the Financial Auditor and the reason therefor at the first Annual Meeting of Shareholders convened after the dismissal.

(5) Systems to ensure properness of operations and overview of operational status of the systems

- Basic policy relating to the establishment of the internal control system
 - Below is an overview of decisions regarding systems for ensuring that the execution of duties by Directors comply with laws and regulations and the Articles of Incorporation, and other systems for ensuring proper operations.
 - 1) Systems for ensuring that the execution of duties by Directors and employees comply with laws and regulations and the Articles of Incorporation, and any other systems for ensuring proper operations
 - * Appoint an Officer in charge of promoting compliance and establish a systematic framework.
 - * Establish a committee to deliberate matters regarding business ethics and compliance.
 - * Articulate “Our Compliance” as a code of conduct which must be adhered to by all employees of the Group when dealing with customers and society and striving for the improvement of business ethics.
 - * Establish a hotline to receive proposals regarding compliance concerns.
 - 2) Systems for the preservation and management of information relating to the execution of duties by Directors
 - * Establish an information management framework for the proper storage and management of documents relating to the execution of duties by Directors and other information based on the document management rules.
 - 3) Rules and other systems for loss risk management and other systems
 - * Appoint an Officer in charge of promoting risk management and establish a systematic risk management framework.
 - * Promote formation of relevant regulations on organizations and actions to be taken by employees in the event of a crisis.
 - 4) Systems to ensure efficiency of the execution of duties by Directors
 - * Establish a framework for monitoring the global execution of duties by the Board of Directors that includes governance and regional governance.
 - * Appoint Officers in charge of regional business and execution functions for rapid and optimal business decisions in each region and workplace as well as efficient and effective operations.
 - * Management meetings deliberate important managerial matters within the scope of authority delegated by the Board of Directors.
 - * Establish GTM (Global Top Meeting) for the extraction and handle issues for sharing group policies and realizing business plans, as well as enhancing the optimality and efficiency of business execution as a corporate group.
 - 5) Systems to ensure the properness of operation of the Company and the corporate group constituted by the parent and subsidiaries
 - * Formulate “Regulations on Control of Affiliate Companies” for the proper execution of tasks by all constituent companies of the Group, manage thereof according to such regulations, and receive reports from all constituent companies of the Group.
 - * All constituent companies of the Group conduct periodical self-assessment based on checklists.
 - * The Internal Audit Office, an independent internal audit section of the Company, conducts audits on the status of the business execution of all sections and works to enhance internal auditing in each region and at subsidiaries and associates.
 - * The Internal Audit Office informs the audited departments and audited companies about the results of internal audits, requests plans for measures to improve its observations and periodically confirms the status of progress on the improvement measures in addition to reporting to the Board of Directors as appropriate.

- 6) Matters concerning Directors and employees requested by Audit and Supervisory Committee to assist its duties, and matters regarding the independence of the Directors and employees from other Directors (excluding Directors serving as Audit and Supervisory Committee Members (hereinafter referred to as “Audit and Supervisory Committee Members”))
 - * Provide assistance in the duties of Audit and Supervisory Committee in the internal audit section to contribute to the formation of an efficient and effective audit framework and deepen collaboration with such Audit and Supervisory Committee while ensuring the independence of the internal audit section.
 - 7) System for reporting from Directors (excluding Audit and Supervisory Committee Members) and employees to Audit and Supervisory Committee, and other systems for reporting to Audit and Supervisory Committee
 - * Periodical reports are made to Audit and Supervisory Committee on the status of the business of the Company and subsidiaries, etc. as well as the status of preparation and operation of internal control system covering areas such as compliance and risk management. Also, other factors that may potentially have significant influence on the Company have to be reported.
 - * Audit and Supervisory Committee Members have no obligation to report information obtained from Directors (excluding Audit and Supervisory Committee Members) or employees to the third parties, and may request Directors (excluding Audit and Supervisory Committee Members) to disclose reasons for the transfer, evaluation and disciplinary action, etc. of such employees who made reports.
 - 8) Other systems to ensure that auditing by Audit and Supervisory Committee is conducted effectively
 - * Form an audit framework and establish audit environment to increase the effectiveness of audits. Audit & Supervisory Committee conduct audits on the Company and subsidiaries, etc. in close collaboration with the Internal Audit Office, the internal audit section, and Audit & Supervisory Committee Members attend management meetings and other important meetings.
 - * When an Audit and Supervisory Committee Member requests prepayment or reimbursement of expenses that arise in relation to the execution of duties or repayment of obligations incurred, the Company shall comply, except in cases where it can be proved that the expenses, etc. did not arise in relation to the execution of duties of the Audit and Supervisory Committee Member.
- Status of operation of the internal control system
 - Major operational status of the systems to ensure the adequacy of operations for the fiscal year under review is as follows:
 - 1) Systems for ensuring that the execution of duties by Directors and employees comply with laws and regulations and the Articles of Incorporation, and any other systems for ensuring proper operations
 - * The Company has appointed a compliance officer who promotes initiatives relating to compliance and has established an Internal Control Committee, deliberating business ethics and compliance.
 - * The Company provides the compliance training for all employees through the compliance manual, where it explains “Our Compliance” as the code of conduct in plain words, enhancing business ethics. In addition, for the future, the manual of compliance was reviewed from the perspective of high awareness among the group companies.
 - * The Company has handled proposals regarding compliance concerns at the Musashi compliance hotline, the in-house reporting hotline. In addition to this hotline, there are also contact points set up with external lawyers and with the Audit and Supervisory

- Committee, improving the effectiveness of the system by creating an environment in which it is easier to disclose information.
- 2) System for the preservation and management of information relating to the execution of duties by Directors
 - * The Company has preserved and managed information by prescribing matters relating to management and preservation period of documents in the document management rules.
 - * It also has properly managed information regarding the execution of duties of Directors by specifying the preservation period and indicating the degree of confidentiality under the document management rules.
 - * In fiscal year 2017, the provisions relating to the management of confidential information were revised from the viewpoint of strengthening management of confidential documents, and training regarding confidentiality management was implemented for all employees, with the aim of strengthening the management of stored information.
 - 3) Rules concerning loss risk management and other systems
 - * The Company has appointed a risk management officer who promotes initiatives concerning risk management. It has established a BCP Committee where it has deliberated business continuity risks and its countermeasures and developed the Business Continuity Plan (BCP).
 - * The Company has continuously conducted BCP drills for a large-scale earthquake with an assumption of the maximum risk.
 - 4) Systems to ensure efficiency of execution of duties by Directors
 - * The Board of Directors have allocated duties of Directors and appointed executive officers, efficiently operating the duties. In addition, the management strategy and medium- to long-term management plans for the Group as a whole are actively deliberated with the aim of enhancing corporate value.
 - * As a company with an Audit and Supervisory Committee, the Company has delegated parts of the executions of important operations resolved at the Board of Directors Meeting to management meetings in accordance with the provisions of the Articles of Incorporation, making efficient and flexible management decisions.
 - * Execution of operations is performed with flexibility under the clear accountability of the executive officers.
 - * In order to share these policies with all Group companies and to achieve the aims of the business plan, in addition to holding Global Top Meetings (GTM) to discuss issues and so on, the Company seeks to optimize the execution of duties and to improve efficiency for the Group as a whole, primarily through broadening the global platform, by means of redesigning the core systems.
 - 5) Systems to ensure the adequacy of the business of the Company and the corporate group constituted by the parent company and subsidiaries
 - * The Board of Directors has set out the basic policy relating to the establishment of the internal control system and is supervising the establishment and the operational status of the system of the Group.
 - * The Company has formulated the “Regulations on Control of Affiliate Companies,” which stipulates matters to be reported from companies of the Group to the Head Office, and is managing companies of the Group.
 - * In fiscal year 2017, we performed confirmations of the important rules for each Group company, and the establishment and operational status of in-house reporting system. In addition, we promoted the drawing up of shared rules (global policies) to contribute to the efficient management and unified administration of the Group as a whole, and held meetings between Group companies and those responsible for the internal control system in order to link these rules to understanding and management.

- * Each companies of the Group periodically conduct self-assessment regarding laws and regulations complied and risks considered in business operations by using checklists. Based on the assessment results, the Internal Control Committee has deliberated issues which need to be taken as a Group. In fiscal year 2017, we began self-assessment for the eight major European companies of the Hay Group that were integrated during the previous fiscal year.
- * The Internal Audit Office belonging to the internal audit section of the Company periodically audits each section of the Company and companies of the Group.
- 6) Matters concerning a Director and employee who is to assist the duties of the Audit and Supervisory Committee and matters concerning the independence of such Director and employee from other Directors (excluding Directors serving as Audit and Supervisory Committee Members (hereinafter, the “Audit and Supervisory Committee Members”))
 - * The Internal Audit Office independent from the business execution section assists the Audit and Supervisory Committee, thereby fortifying the auditing function. As the Internal Audit Office is an office independent from other business execution sections, when assisting the duties of the Audit and Supervisory Committee, the Internal Audit Office follows the instructions of the Audit and Supervisory Committee.
- 7) System of reporting from Directors (excluding Audit and Supervisory Committee Members) and employees to the Audit and Supervisory Committee, and other systems reporting to the Audit and Supervisory Committee
 - * The internal audit section, internal control section and other business sections periodically report to the Audit and Supervisory Committee so that the Committee may obtain information necessary for auditing.
- 8) Other systems to ensure that auditing by the Audit and Supervisory Committee is conducted effectively
 - * In addition to the periodical audits conducted by the Audit and Supervisory Committee, the Company has developed an environment to enhance the efficacy of audits by working to understand the status surrounding the Company, as well as collaborating with the Internal Audit Office and providing opportunities for the Audit and Supervisory Committee Members to share information among them.
 - * The Audit and Supervisory Committee Members have attended management meetings and other important meetings, thus understanding the status of the operational execution. Furthermore, the Audit and Supervisory Committee Members have actively stated their opinions at the Board of Directors Meetings from the standpoint of audit and supervision, thereby strengthening the supervisory function.
 - * The Audit and Supervisory Committee Members have conducted audit by collaborating with the Internal Audit Office and being present in audits conducted by the Office.

(6) Policy on the determination of dividends from surplus, etc.

Returning profit to shareholders is recognized as one of the highest priorities in the Company’s management, and the payment of stable, continuous dividends commensurate to business results is our basic policy.

The Company plans to appropriate internal reserves for the repayment of debts that contributes to the improvement of its financial position as well as the augmentation of production facilities and R&D activities in the future, aiming at the further expansion of the business.

Consolidated Balance Sheet

(As of March 31, 2018)

(million yen)

| Account title | Amount | Account title | Amount |
|---------------------------------------|----------------|--|----------------|
| Assets | 248,607 | Liabilities | 148,256 |
| Current assets | 104,843 | Current liabilities | 71,484 |
| Cash and bank deposits | 26,106 | Notes and accounts payable – trade | 21,347 |
| Notes and accounts receivable – trade | 34,319 | Short-term loans payable | 10,779 |
| Merchandise and finished goods | 10,117 | Current portion of long-term loans payable | 12,644 |
| Work in process | 5,513 | Current portion of bonds | 10,006 |
| Raw materials and supplies | 19,860 | Accounts payable – other | 3,310 |
| Deferred tax assets | 1,165 | Accrued expenses | 6,164 |
| Others | 7,800 | Income taxes payable | 1,317 |
| Allowance for doubtful accounts | (39) | Provision for bonuses | 2,213 |
| Non-current assets | 143,763 | Provision for directors' bonuses | 52 |
| Property, plant and equipment | 103,716 | Provision for product warranties | 35 |
| Buildings and structures | 22,839 | Others | 3611 |
| Machinery, equipment and vehicles | 64,652 | Non-current liabilities | 76,772 |
| Tools, furniture and fixtures | 4,053 | Long-term loans payable | 63,362 |
| Land | 6,655 | Deferred tax liabilities | 7,369 |
| Construction in progress | 5,514 | Liabilities on employees' retirement benefits | 4,641 |
| Intangible assets | 28,005 | Others | 1,399 |
| Goodwill | 9,086 | Net assets | 100,350 |
| Customer relationship assets | 14,123 | Shareholders' equity | 85,423 |
| Software | 1,648 | Capital stock | 3,006 |
| Software in progress | 13 | Capital surplus | 1,985 |
| Others | 3,133 | Retained earnings | 80,440 |
| Investments and other assets | 12,041 | Treasury shares | (8) |
| Investment securities | 6,251 | Accumulated other comprehensive income | (2,368) |
| Investments in capital | 81 | Valuation difference on available-for-sale securities | 2,706 |
| Long-term loans receivable | 61 | Foreign currency translation adjustment | (5,270) |
| Deferred tax assets | 2,167 | Remeasurements of defined benefit plan | 195 |
| Others | 3,523 | Non-controlling interests | 17,294 |
| Allowance for doubtful accounts | (43) | Total liabilities and net assets | 248,607 |
| Total assets | 248,607 | | |

Note: Figures are presented with amounts less than one million yen truncated.

Consolidated Statement of Income
(April 1, 2017 - March 31, 2017)

| Account title | Amount |
|--|----------------|
| | (million yen) |
| Net sales | 237,910 |
| Cost of sales | 200,134 |
| Gross profit | 37,776 |
| Selling, general and administrative expenses | 22,008 |
| Operating income | 15,767 |
| Non-operating income | 1,422 |
| Interest income | 371 |
| Dividend income | 208 |
| Foreign exchange losses | 72 |
| Subsidy income | 185 |
| Others | 584 |
| Non-operating expenses | 1,260 |
| Interest expenses | 1,109 |
| Others | 150 |
| Ordinary income | 15,929 |
| Extraordinary income | 50 |
| Gain on sales of non-current assets | 50 |
| Extraordinary losses | 256 |
| Loss on sales of non-current assets | 85 |
| Loss on retirement of non-current assets | 141 |
| Impairment loss | 29 |
| Profit before income taxes | 15,723 |
| Income taxes – current | 4,773 |
| Income taxes – deferred | (9) |
| Profit | 10,959 |
| Profit attributable to non-controlling interests | 608 |
| Profit attributable to owners of parent | 10,351 |

Note: Figures are presented with amounts less than one million yen truncated.

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

(million yen)

| | Shareholders' equity | | | | Total shareholders' equity |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | |
| Balance at April 1, 2017 | 2,973 | 1,952 | 71,114 | (7) | 76,033 |
| Changes of items during period | | | | | |
| Share issuance | 32 | 32 | | | 64 |
| Dividends of surplus | | | (1,653) | | (1,653) |
| Profit attributable to owners of parent | | | 10,351 | | 10,351 |
| Purchase of treasury shares | | | | (0) | (0) |
| Increase (decrease) due to change fiscal year of subsidiaries | | | 628 | | 628 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | 32 | 32 | 9,326 | (0) | 9,390 |
| Balance at March 31, 2018 | 3,006 | 1,985 | 80,440 | (8) | 85,423 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|------------------------------------|---|--|--|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plan | Total accumulated other comprehensive income | | |
| Balance at April 1, 2017 | 2,394 | (0) | (6,467) | (376) | (4,450) | 16,730 | 88,312 |
| Changes of items during period | | | | | | | |
| Share issuance | | | | | | | 64 |
| Dividends of surplus | | | | | | | (1,653) |
| Profit attributable to owners of parent | | | | | | | 10,351 |
| Purchase of treasury shares | | | | | | | (0) |
| Increase (decrease) due to change fiscal year of subsidiaries | | | | | | | 628 |
| Net changes of items other than shareholders' equity | 311 | 0 | 1,197 | 571 | 2,082 | 564 | 2,646 |
| Total changes of items during period | 311 | 0 | 1,197 | 571 | 2,082 | 564 | 12,037 |
| Balance at March 31, 2018 | 2,706 | — | (5,270) | 195 | (2,368) | 17,294 | 100,350 |

Note: Figures are presented with amounts less than one million yen truncated.

Notes to Consolidated Financial Statements

1. Notes relating to the assumptions of the going concern
No items to report
2. Significant matters that serve as the basis for the preparation of consolidated financial statements
 - (1) Matters relating to the scope of consolidation
 - 1) Status of consolidated subsidiaries
 - i) Number of consolidated subsidiaries:
31
 - ii) Names of consolidated subsidiaries:
Kyushu Musashi Seimitsu Co., Ltd.
Musashi Auto Parts Michigan Inc.
Musashi Auto Parts Co., Ltd.
P.T. Musashi Auto Parts Indonesia
Musashi Auto Parts Canada Inc.
Musashi do Brasil Ltda.
Musashi Hungary Manufacturing, Ltd.
Musashi da Amazonia Ltda.
Musashi Auto Parts India Pvt. Ltd.
Musashi Auto Parts (Zhongshan) Co., Ltd.
Musashi Auto Parts Vietnam Co., Ltd.
Musashi Auto Parts Mexico, S.A. de C.V.
Musashi Auto Parts (Nantong) Co., Ltd.
Musashi Holdings Europe GmbH
Hay Holding GmbH
Johann Hay GmbH & Co. KG Automobiltechnik
Hay-Speed-Umformtechnik GmbH
Hay-Tec automotive Verwaltungsgesellschaft mbH
Metallumform GmbH
Metallumform Machining GmbH & Co. KG
Metallumform GmbH & Co. KG Präzisionswerkstücke
MS Umformtechnik GmbH & Co. KG
Tianjin Hay Forging Co., Ltd.
Metaco Union Kft.
Forjanor, S.L. Unipersonal
 - iii) Changes of the scope of consolidation
From the fiscal year under review, Hay Machining GmbH & Co. KG has been included within the scope of consolidation.
Furthermore, Karl Hay Verwaltungsgesellschaft mit beschränkter Haftung has been excluded from the scope of consolidation since it has been dissolved through a merger with Hay Holding GmbH in which the latter was the surviving company.
 - 2) Status of non-consolidated subsidiaries:
 - i) Names of principal non-consolidated subsidiaries:
Musashi Auto Parts UK Ltd.
 - ii) Reason for exclusion from the scope of consolidation
Non-consolidated subsidiaries are excluded from the scope of consolidation because

their respective total assets, net sales, profit or loss, and retained earnings do not have a material effect on the consolidated financial statements.

(2) Matters concerning application of equity method

Status of non-consolidated subsidiaries to which the equity method is not applied

i) Names of principal companies, etc.:

Musashi Auto Parts UK Ltd.

ii) Reason for not applying equity method

Non-consolidated subsidiaries have an immaterial effect on profit or loss and retained earnings; they do not have a material effect on the items of the consolidated financial statements and are therefore not accounted for by the equity method.

(3) Items relating to the fiscal years, etc. of consolidated subsidiaries

The account closing date of the 26 consolidated subsidiaries of the Company is December 31. Financial statements as of the foregoing accounts closing date are used to prepare consolidated financial statements. However, material transactions occurring during the period from the accounts closing date of a subsidiary and the consolidated accounts settlement date are adjusted as necessary for consolidation.

Regarding P.T. Musashi Autoparts Indonesia and Musashi Hungary Manufacturing, Ltd., which are consolidated subsidiaries with account closing date of December 31, their financial statements as of the foregoing dates have been used for consolidated financial statements and adjustments necessary for consolidation purposes have been made for material transactions occurring between December 31 and March 31. However, to increase the usefulness of financial information as a disclosure based on timely and appropriate information, their account closing date has been changed to March 31 as of the fiscal year under review. Consequently, profit or loss arising during the period from January 1, 2017 to March 31, 2017 for P.T. Musashi Autoparts Indonesia and Musashi Hungary Manufacturing, Ltd., whose account closing date was previously December 31, are each adjusted in retained earnings.

(4) Matters relating to accounting practices and policy

1) Valuation basis and method for significant assets

i) Securities

A. Shares of subsidiaries

Stated at cost using the moving average method

B. Available-for-sale securities

* Securities with market value

Market value method based on the market price as of the accounts settlement date (the full amount of the valuation difference is charged to net assets using the direct transfer to capital method, with the disposal cost determined by the moving average method)

* Securities without market value

Stated at cost using the moving average method

ii) Derivatives

Market value method

iii) Inventories

The Company and consolidated subsidiaries mainly state inventories at cost using the moving average method (figures on the balance sheet are adjusted by writing

down the book value where the profitability declines), however, some overseas consolidated subsidiaries use the lower of cost or market method by the first-in first-out method or weighted average method.

2) Depreciation methods for material depreciable assets

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

Depreciated using the straight-line method. Please note that the main useful lives are as follows.

| | |
|--------------------------------------|----------------|
| Buildings and structures | 20 to 50 years |
| Machinery, equipment and vehicles | 5 to 20 years |

ii) Intangible assets (excluding leased assets)

The straight-line method is applied. However, for software for internal use, the straight-line method is applied based on the expected usable period within the Group (mainly 5 years).

Furthermore, straight-line method is applied for customer relationship assets based on the expected usable period (11 years).

iii) Leased assets

Leased assets in non-ownership-transfer finance lease transactions

Depreciation is calculated on the straight-line method over the lease term as the useful life with no residual value.

- 3) Accounting policy for significant provisions
- i) Allowance for doubtful accounts
To provide for losses due to bad debt, the Group reserves an estimated bad debt allowance on ordinary receivables based on historical bad debt ratios and on highly doubtful receivables and other specified debt based on the recoverability from individual receivables.
 - ii) Provision for bonuses
To provide for the future payment of employee bonuses, the Company and some consolidated subsidiaries report the anticipated amount of bonus payments.
 - iii) Provision for directors' bonuses
To provide for the future payment of directors' bonuses, the Company and some consolidated subsidiaries report the anticipated amount of bonus payments.
 - iv) Provision for product warranties
To provide for product warranty expenses, the Group reports the anticipated amount of warranty expenses.
- 4) Accounting policy for translating significant assets or liabilities denominated in foreign currencies into Japanese currency
Foreign currency-denominated receivables and payables are converted to yen at the spot exchange rate on the consolidated closing date and the translation adjustment is treated as a profit or loss. Please note that assets and liabilities of overseas subsidiaries and others are converted into yen based on the spot exchange rate on the day of consolidated closing date, and revenue and expenses are converted into yen by using the average exchange rate during the fiscal year, while the difference arising from the conversion is shown as foreign currency translation adjustment and non-controlling interests.
- 5) Hedge accounting method
- i) Hedge accounting method
Deferred hedge accounting is used for derivative transactions satisfying hedge accounting requirements. However, appropriation accounting is applied to forward foreign exchange contracts and currency swap transactions that satisfy requirements for appropriation accounting, and special treatment is applied to the interest-rate swap transactions that meet the requirements for special treatment.
 - ii) Hedging instruments and hedged items

| | |
|---------------------|---|
| Hedging instruments | Forward foreign exchange contracts, currency swap transactions, and interest-rate swap transactions |
| Hedged items | Foreign currency denominated borrowings and foreign currency denominated trade receivables and payables |
 - iii) Hedging policy
To avoid foreign exchange fluctuation risk for receivables and payables denominated in foreign currencies, the Group uses forward foreign exchange contracts and currency swap transactions. To avoid interest-rate fluctuation risk for borrowings, the Group uses interest-rate swap transactions.
It is our policy that these derivative transactions are carried out in accordance with its internal rules which stipulate authorization and limitation amount of transactions, and used to avoid foreign currency exchange and interest-rate fluctuation risks, and no speculative transactions are allowed.
 - iv) Hedge effectiveness evaluation method
The effectiveness of hedges is evaluated by comparing the cumulative cash flow fluctuations of hedged items or market fluctuations with cumulative cash flow fluctuations of the hedging method or market fluctuations based on the changes of both.
Please note that this assessment is omitted for interest-rate swaps subject to special

treatment.

- 6) Other significant matters that serve as the basis for the preparation of consolidated financial statements
 - i) Accounting treatment for retirement benefits
 - A. The attribution of benefits to periods of service
For the calculation of projected benefit obligation, the Group adopts the plan's benefit formula for the attribution of benefits to the end the fiscal year under review.
 - B. Accounting method of actuarial gains and losses and past service costs
Past service costs are amortized using the straight-line method over a certain period (mainly, 15 years), which is within the average remaining service period of the employees, when they are recognized.
Actuarial gains and losses will be amortized over a certain period (mainly, 15 years), which is within the average remaining service period of the employees, using the straight-line method, from the following fiscal year when the actuarial gains and losses is recognized.
 - ii) Method and period for amortization of goodwill
Straight-line method is applied for a period of 15 years.
 - iii) Accounting treatment of consumption taxes
Accounting treatment for consumption tax and local consumption tax is based on the tax-excluded method.
 - iv) Application of Consolidated Taxation System
From this fiscal year Consolidated Taxation System is applied.

3. Notes to the consolidated balance sheet

(1) Amount of accumulated depreciation for property, plant and equipment
166,622 million yen

(2) Contingent liabilities

The Group has been investigated by overseas authorities for a possible violation of competition laws in certain past transactions and is cooperating fully with the investigation. Such effect on the consolidated financial statements is difficult to reasonably estimate.

4. Notes to the consolidated statement of changes in net assets

(1) Matters concerning total number of issued shares

(thousand shares)

| Types of shares | April 1, 2017 | Increase | Decrease | March 31, 2018 |
|-----------------|---------------|----------|----------|----------------|
| Common shares | 31,200 | 21 | – | 31,221 |

(2) Matters concerning number of treasury shares

(shares)

| Types of shares | April 1, 2017 | Increase | Decrease | March 31, 2018 |
|-----------------|---------------|----------|----------|----------------|
| Common shares | 5,752 | 1,035 | – | 6,787 |

Note: Increase in 1,035 common shares is due to purchase of shares of less than one unit.

(3) Matters concerning dividends of surplus

1) Paid amount of dividends

i) Matters concerning dividends resolved at the 90th Annual Meeting of Shareholders held on June 23, 2017

| | |
|-----------------------|-----------------|
| * Total dividends | 811 million yen |
| * Dividends per share | 26 yen |
| * Record date | March 31, 2017 |
| * Effective date | June 26, 2017 |

ii) Matters concerning dividends resolved at the Board of Directors Meeting held on November 6, 2017

| | |
|-----------------------|--------------------|
| * Total dividends | 842 million yen |
| * Dividends per share | 27 yen |
| * Record date | September 30, 2017 |
| * Effective date | December 1, 2017 |

2) Of the dividends whose record date belongs to the fiscal year under review, dividends whose effective date falls in the next fiscal year

The following shall be presented at the 91st Annual Meeting of Shareholders to be held on June 22, 2018

| | |
|-----------------------|-------------------|
| * Total dividends | 1,217 million yen |
| * Dividends per share | 39 yen |
| * Record date | March 31, 2018 |
| * Effective date | June 25, 2018 |
| * Source of dividends | Retained earnings |

5. Notes concerning financial instruments

(1) Matters concerning the conditions of financial instruments

The Group procures necessary capital through loans from banks and other financial institutions and through bond issuances. Temporary surplus funds are managed only as short-term deposits.

Credit risk of customers in terms of notes and accounts receivable – trade are mitigated according to the Sales Management Rules. Investment securities are mainly shares, and we quarterly monitor the market prices of listed stock.

Borrowings are used as working capital and capital investment funds. Forward foreign exchange contracts and currency swap contracts are used against the exchange fluctuation risk for foreign-denominated borrowings, and interest rate swap contracts are used against interest rate fluctuation risk. Please note that derivative transactions are conducted only in the scope of actual demand according to internal rules.

(2) Matters concerning fair values, etc. of financial instruments

Amounts on the consolidated balance sheet, fair values and their differences at March 31, 2018 are as follows.

(million yen)

| | Consolidated balance sheet amount | Fair value | Difference |
|---|---|------------|------------|
| (1) Cash and bank deposits | 26,106 | 26,106 | – |
| (2) Notes and accounts receivable – trade | 34,319 | 34,319 | – |
| (3) Investment securities | 5,316 | 5,316 | – |
| Total assets | 65,742 | 65,742 | – |
| (4) Notes and accounts payable – trade | 21,347 | 21,347 | – |
| (5) Short-term loans payable | 10,779 | 10,779 | – |
| (6) Accounts payable – other | 3,310 | 3,310 | – |
| (7) Accrued expenses | 6,164 | 6,164 | – |
| (8) Income taxes payable | 1,317 | 1,317 | – |
| (9) Current portion of bonds payable | 10,006 | 10,006 | – |
| (10) Long-term loans payable (*1) | 74,006 | 77,342 | 1,336 |
| Total liabilities | 128,933 | 130,269 | 1,336 |
| (11) Derivative transactions (*2) | 66 | 66 | – |

(*1) Includes current portion of long-term loans.

(*2) Net claims and obligations derived from derivative transactions are indicated in net amounts.

Notes: 1. Calculation method of the fair value of financial instruments and matters concerning marketable securities and derivative transactions

- (1) Cash and bank deposits and (2) Notes and accounts receivable – trade
Because their fair value is almost equal to book value due to their short-term settlement, they are posted at their book value.
- (3) Investment securities
Fair value of investment securities is based on market prices on exchanges.
- (4) (4) Notes and accounts payable – trade, (5) Short-term loans payable, (6) Accounts payable – other, (7) Accrued expenses, (8) Income taxes payable, and (9) Current portion of bonds payable
Because their fair value is almost equal to book value due to their short-term settlement, they are posted at their book value.
- (10) Long-term loans payable
The fair value of long-term loans is calculated at the present value thereof equal to the total of capital and

interests discounted by an interest rate reflecting the remaining terms adjusted for credit risk.
Please note that, for loans requiring interest rate renewals at certain periods, their fair value is roughly equal to book value, and therefore they are determined by the relevant book value.

(11) Derivative transactions

The fair value of derivative transactions is determined by the quoted price obtained from financial institutions.

However, interest rate swap contracts meeting special treatment criteria are treated together with hedged borrowings, therefore, their fair value is included in the fair value of the relevant borrowings. However, forward foreign exchange contracts meeting appropriation accounting criteria are treated together with hedged borrowings, accounts receivable – trade, and accounts payable – trade, therefore, their fair value is included in the fair value of the relevant account items.

2. Unlisted equity securities (939 million yen posted) among investment securities are not included in “(3) Investment securities” as no quoted market price is available and it is extremely difficult to ascertain fair value by such means as estimating future cash flows.

6. Per share information

- | | |
|---------------------------|--------------|
| (1) Net assets per share: | 2,660.82 yen |
| (2) Earnings per share: | 331.69 yen |

7. Significant subsequent events

No items to report.

Non-consolidated Balance Sheet

(As of March 31, 2018)

(million yen)

| Account title | Amount | Account title | Amount |
|---|----------------|--|----------------|
| Assets | 117,526 | Liabilities | 76,344 |
| Current assets | 17,625 | Current liabilities | 35,467 |
| Cash and bank deposits | 320 | Notes payable – trade | 1 |
| Accounts receivable – trade | 10,193 | Electronically recorded obligations – operating | 3,297 |
| Finished goods | 1,168 | Accounts payable – trade | 2,673 |
| Work in process | 1,418 | Short-term loans payable | 2,900 |
| Raw materials and supplies | 750 | Current portion of long-term loans payable | 12,098 |
| Current portion of long-term loans receivable | 1,040 | Current portion of bonds | 10,006 |
| Prepaid expenses | 22 | Lease obligations | 44 |
| Deferred tax assets | 568 | Accounts payable – other | 551 |
| Accounts receivable – other | 1,250 | Accrued expenses | 2,134 |
| Others | 893 | Income taxes payable | 97 |
| | | Deposits received | 183 |
| Non-current assets | 99,900 | Provision for bonuses | 1,015 |
| Property, plant and equipment | 10,576 | Provision for directors' bonuses | 40 |
| Buildings | 1,977 | Provision for product warranties | 11 |
| Structures | 102 | Notes payable – facilities | 366 |
| Machinery and equipment | 5,007 | Others | 46 |
| Vehicles | 27 | Non-current liabilities | 40,876 |
| Tools, furniture and fixtures | 526 | Long-term loans payable | 39,289 |
| Land | 2,489 | Lease obligations | 56 |
| Construction in progress | 445 | Deferred tax liabilities | 750 |
| Intangible assets | 744 | Provision for retirement benefits | 647 |
| Software | 722 | Long-term accounts payable – other | 71 |
| Software in progress | 13 | Asset retirement obligations | 61 |
| Others | 8 | | |
| Investments and other assets | 88,580 | Net assets | 41,182 |
| Investment securities | 32 | Shareholders' equity | 38,613 |
| Shares of subsidiaries and associates | 65,216 | Capital stock | 3,006 |
| Investments in capital | 14 | Capital surplus | 2,746 |
| Long-term loans receivable from subsidiaries and associates | 760 | Legal capital surplus | 2,746 |
| Investments in capital of subsidiaries and associates | 22,506 | Retained earnings | 32,868 |
| Long-term prepaid expenses | 43 | Legal retained earnings | 306 |
| Others | 42 | Other retained earnings | 32,561 |
| Allowance for doubtful accounts | (36) | General reserve | 23,500 |
| | | Retained earnings brought forward | 9,061 |
| | | Treasury shares | (8) |
| | | Valuation and translation adjustments | 2,568 |
| | | Valuation difference on available-for-sale securities | 2,568 |
| Total assets | 117,526 | Total liabilities and net assets | 117,526 |

Note: Figures are presented with amounts less than one million yen truncated.

Non-consolidated Statement of Income

(April 1, 2017 - March 31, 2018)

(million yen)

| Account title | Amount |
|--|---------------|
| Net sales | 48,394 |
| Cost of sales | 39,728 |
| Gross profit | 8,665 |
| Selling, general and administrative expenses | 6,686 |
| Operating income | 1,979 |
| Non-operating income | 4,902 |
| Interest income | 18 |
| Dividend income | 4,309 |
| Guarantee commission received | 536 |
| Others | 37 |
| Non-operating expenses | 303 |
| Interest expenses | 110 |
| Loss on retirement of non-current assets | 19 |
| Foreign exchange losses | 148 |
| Others | 25 |
| Ordinary income | 6,577 |
| Extraordinary income | 6 |
| Gain on sales of non-current assets | 6 |
| Profit before income taxes | 6,583 |
| Income taxes – current | 1,155 |
| Income taxes – deferred | 15 |
| Profit | 5,412 |

Note: Figures are presented with amounts less than one million yen truncated.

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

(million yen)

| | Shareholders' equity | | | | | | Total shareholders' equity |
|--|----------------------|-----------------------|-------------------------|-------------------------|-------------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | | | Treasury shares | |
| | | Legal capital surplus | Legal retained earnings | Other retained earnings | Total retained earnings | | |
| Balance at April 1, 2017 | 2,973 | 2,714 | 306 | 28,803 | 29,110 | (7) | 34,790 |
| Changes of items during period | | | | | | | |
| Share issuance | 32 | 32 | | | | | 64 |
| Dividends of surplus | | | | (1,653) | (1,653) | | (1,653) |
| Profit | | | | 5,412 | 5,412 | | 5,412 |
| Purchase of treasury shares | | | | | | (0) | (0) |
| Net changes of items other than shareholders' equity | | | | | | | |
| Total changes of items during period | 32 | 32 | - | 3,758 | 3,758 | (0) | 3,822 |
| Balance at March 31, 2018 | 3,006 | 2,746 | 306 | 32,561 | 32,868 | (8) | 38,613 |

| | Valuation and translation adjustments | | Total net assets |
|--|---|---|------------------|
| | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | |
| Balance at April 1, 2017 | 2,275 | 2,275 | 37,066 |
| Changes of items during period | | | |
| Share issuance | | | 64 |
| Dividends of surplus | | | (1,653) |
| Profit | | | 5,412 |
| Purchase of treasury shares | | | (0) |
| Net changes of items other than shareholders' equity | 293 | 293 | 293 |
| Total changes of items during period | 293 | 293 | 4,115 |
| Balance at March 31, 2018 | 2,568 | 2,568 | 41,182 |

Note: Figures are presented with amounts less than one million yen truncated.

*Other retained earnings

(million yen)

| | General reserve | Reserve for special depreciation | Retained earnings brought forward | Total |
|---|-----------------|----------------------------------|-----------------------------------|---------|
| Balance at April 1, 2017 | 23,500 | 7 | 5,295 | 28,803 |
| Change in the fiscal year | | | | |
| Share issuance | | | | - |
| Dividends of surplus | - | - | (1,653) | (1,653) |
| Reduction of reserve for advanced depreciation of machinery | - | (7) | 7 | - |
| Profit | - | - | 5,412 | 5,412 |
| Total changes of items during period | - | (7) | 3,766 | 3,758 |
| Balance at March 31, 2018 | 23,500 | - | 9,061 | 32,561 |

Note: Figures are presented with amounts less than one million yen truncated.

Notes to Non-consolidated Financial Statements

1. Notes relating to the assumptions of the going concern
No items to report
2. Matters pertaining to significant accounting policies
 - (1) Valuation basis and method for securities
 - 1) Shares of subsidiaries
Stated at cost using the moving average method
 - 2) Available-for-sale securities
 - * Securities with market value
Market value method based on the market price as of the accounts settlement date (the full amount of the valuation difference is charged to net assets using the direct transfer to capital method, with the disposal cost determined by the moving average method)
 - * Securities without market value
Stated at cost using the moving average method
 - (2) Valuation basis and method for derivative transactions
Market value method
 - (3) Valuation basis and method for inventories
 - 1) Finished goods, work in process and raw materials
Cost using the moving average method (figures on the balance sheet are adjusted by writing down the book value where the profitability declines)
However, machinery purchased for sale and in-house manufactured machinery are recorded at cost using the individual method
 - 2) Supplies of metal molds
Stated at cost using the individual method
 - 3) Other supplies
Stated at cost using the final purchase cost method
 - (4) Depreciation method for non-current assets
 - 1) Property, plant and equipment (excluding leased assets)
Straight-line method
Please note that the main useful lives are as follows.

| | |
|-------------------------|----------------|
| Buildings | 31 to 47 years |
| Machinery and equipment | 9 years |
 - 2) Intangible assets (excluding leased assets)
 - i) Software for internal use
The straight-line method is applied based on the expected usable period within the Company (5 years).
 - ii) Other intangible assets
Straight-line method
 - 3) Leased assets
Leased assets in non-ownership-transfer finance lease transactions
Depreciation is calculated on the straight-line method over the lease term as the useful life with no residual value.
 - (5) Accounting policy for provisions
 - 1) Allowance for doubtful accounts
To provide for losses due to bad debt, the Company reserves an estimated bad debt allowance on ordinary receivables based on historical bad debt ratios and on highly doubtful receivables and other specified debt based on the recoverability from individual receivables.
 - 2) Provision for bonuses
To provide for the future payment of employee bonuses, the Company reports the

- anticipated amount of bonus payments.
- 3) Provision for directors' bonuses
To provide for the future payment of directors' bonuses, the Company reports the anticipated amount of bonus payments.
- 4) Provision for product warranties
To provide for product warranty expenses, the Company reports the anticipated amount of warranty expenses.
- 5) Provision for retirement benefits
To provide for employee retirement benefits, this provision is posted based on an estimate of retirement benefit obligations and plan assets at fiscal year-end.
- i) The attribution of benefits to periods of service
For the calculation of projected benefit obligation, the Company adopts the plan's benefit formula for the attribution of benefits to the end of the fiscal year under review.
- ii) Accounting method of actuarial gains and losses and past service costs
Past service costs are amortized using the straight-line method over a certain period (15 years), which is within the average remaining service period of the employees, when they are recognized.
Actuarial gains and losses will be amortized over a certain period (15 years), which is within the average remaining service period of the employees, using the straight-line method, from the following fiscal year when the actuarial gains and losses is recognized.
- (6) Accounting policy for translating assets or liabilities denominated in a foreign currencies into Japanese currency
Foreign currency-denominated receivables and payables are converted to yen at the spot exchange rate on the closing date and the translation adjustment is treated as a profit or loss.
- (7) Hedge accounting method
- 1) Hedge accounting method
Deferred hedge accounting is used for derivative transactions satisfying hedge accounting requirements. However, appropriation accounting is applied to forward foreign exchange contracts and currency swap transactions that satisfy requirements for appropriation accounting, and special treatment is applied to the interest-rate swap transactions that meet the requirements for special treatment.
- 2) Hedging instruments and hedged items
- | | |
|---------------------|---|
| Hedging instruments | Forward foreign exchange contracts, currency swap transactions and interest-rate swap transactions |
| Hedged items | Foreign currency denominated borrowings and foreign currency denominated trade receivables and payables |
- 3) Hedging policy
To avoid foreign exchange fluctuation risk for receivables and payables denominated in foreign currencies, the Company uses forward foreign exchange contracts and currency swap transactions. To avoid interest-rate fluctuation risk for borrowings, the Company uses interest-rate swap transactions. It is our policy that these derivative transactions are carried out in accordance with its internal rules which stipulate authorization and limitation amount of transactions, and used to avoid foreign currency exchange and interest-rate fluctuation risks, and no speculative transactions are allowed.
- 4) Hedge effectiveness evaluation method
The effectiveness of hedges is evaluated by comparing the cumulative cash flow fluctuations of hedged items or market fluctuations with cumulative cash flow fluctuations of the hedging method or market fluctuations based on the changes of

both.

Please note that this assessment is omitted for interest-rate swaps subject to special treatment.

- (8) Other significant matters that serve as the basis for the preparation of financial statements
- Accounting treatment of consumption taxes Accounting treatment for consumption tax and local consumption tax is based on the tax-excluded method.

3. Notes to the non-consolidated balance sheet

(1) Claims and obligations with respect to subsidiaries and associates

| | |
|------------------------|--------------------|
| Short-term cash credit | 10,566 million yen |
| Long-term cash credit | 760 million yen |
| Short-term cash debt | 1,315 million yen |
| Long-term cash debt | 1,357 million yen |

(2) Amount of accumulated depreciation for property, plant and equipment

37,357 million yen

(3) Contingent liabilities

Guarantee obligations

The following guarantees are made with respect to loans from financial institutions of subsidiaries and associates

(million yen)

| Company name | Guarantee balance |
|---|-------------------|
| Hay Holding GmbH | 21,293 |
| Tianjin Hay Forging Co., Ltd. | 5,693 |
| Musashi Auto Parts Mexico, S.A. de C.V. | 2,656 |
| Musashi Auto Parts Michigan Inc. | 2,344 |
| Musashi Auto Parts India Pvt. Ltd. | 725 |
| Musashi da Amazonia Ltda. | 10 |
| Total | 32,722 |

5. Notes to the non-consolidated statement of income

Transactions with subsidiaries and associates

| | |
|--|--------------------|
| Net sales | 42,732 million yen |
| Purchases | 17,305 million yen |
| Transactions other than operational transactions | 4,897 million yen |

5. Notes to the non-consolidated statement of changes in net assets
Matters concerning number of treasury shares

| | | | | (shares) |
|-----------------|---------------|----------|----------|----------------|
| Types of shares | April 1, 2017 | Increase | Decrease | March 31, 2018 |
| Common shares | 5,752 | 1,035 | - | 6,787 |

Note: Increase of 1,035 common shares is due to purchase of shares less than one unit and forfeiture of rights to receive restricted share-based remuneration.

6. Notes concerning tax effect accounting

Breakdown of major causes for the occurrence of deferred tax assets and deferred tax liabilities

| | (million yen) |
|--|---------------|
| Deferred tax assets | |
| Payable for enterprise tax refund | 24 |
| Provision for bonuses | 305 |
| Provision for directors' bonuses | 12 |
| Accrued social security premiums | 49 |
| Loss on evaluation of inventories | 157 |
| Credit for foreign tax | 337 |
| Over depreciation | 178 |
| Provision for retirement benefits | 194 |
| Directors' retirement benefits payable | 21 |
| Loss on valuation of investment securities | 7 |
| Loss on sales of shares of subsidiaries and associates | 1,170 |
| Allowance for doubtful accounts | 10 |
| Others | 45 |
| Subtotal deferred tax assets | 2,513 |
| Valuation allowance | (1,593) |
| Total deferred tax assets | 920 |
| Deferred tax liabilities | |
| Valuation difference on available-for-sale securities | (1,101) |
| Others | (0) |
| Total deferred tax liabilities | (1,102) |
| Net deferred tax assets (liabilities) | (181) |

7. Notes concerning transactions with related parties

(1) Parent company and principal corporate shareholder

| Category | Company name | Ownership percentage of voting rights (%) | Relationship | Transaction details | Transaction amounts (million yen) (Note 3) | Account item | Fiscal year-end balance (million yen) (Note 3) |
|-----------------|-----------------------|---|---|------------------------------------|--|-----------------------------|--|
| Other affiliate | Honda Motor Co., Ltd. | 26.2 | Sale of the Company's products, purchase of raw materials | Sales of products (Note 1) | 21,555 | Accounts receivable – trade | 2,693 |
| | | | | Purchase of raw materials (Note 2) | 4,816 | Accounts payable – trade | 139 |

Conditions of transactions and policy for determining the conditions of transactions

- Notes:
1. Sale prices are determined by drafting estimates taking into consideration market values based on economic rationality and the Company's production technologies, etc. which are submitted for negotiation.
 2. The purchase of raw materials is determined under the same requirements as general transactions upon price negotiations based on market values.
 3. Consumption taxes are excluded from transaction amounts, but included in balances at fiscal year-end.

(2) Subsidiaries

| Category | Company name | Ownership percentage of voting rights (%) | Relationship | Transaction details | Transaction amounts (million yen) (Note 5) | Account item | Fiscal year-end balance (million yen) (Note 5) |
|------------|---|---|---|--|--|---|--|
| Subsidiary | Kyushu Musashi Seimitsu Co., Ltd. | 100.0 | Product purchasing and secondment of officers | Product purchasing (Note 1) | 10,418 | Accounts payable – trade | 823 |
| Subsidiary | Musashi Auto Parts Michigan Inc. | 89.5 | Debt guarantees and secondment of officers | Underwriting of debt guarantees (Note 2) | 2,344 | – | – |
| Subsidiary | Musashi Auto Parts India Pvt. Ltd | 100.0 | Lending of funds | Receipt of interest (Note 4) | 8 | Current portion of long-term loans receivable | 1,040 |
| | | | | | | Long-term loans receivable from subsidiaries and associates | 760 |
| Subsidiary | Musashi Hungary Manufacturing, Ltd. | 100.0 | Capital borrowing and secondment of officers | Interest payment (Note 3) | 6 | Long-term loans payable | 1,357 |
| Subsidiary | Musashi Auto Parts Mexico, S.A. de C.V. | 100.0 | Debt guarantees and secondment of officers | Underwriting of debt guarantees (Note 2) | 2,656 | – | – |
| Subsidiary | Hay Holding GmbH | 75.0 | Debt guarantees and | Underwriting of debt guarantees (Note 2) | 26,986 | – | – |

| Category | Company name | Ownership percentage of voting rights (%) | Relationship | Transaction details | Transaction amounts (million yen) (Note 5) | Account item | Fiscal year-end balance (million yen) (Note 5) |
|----------|--------------|---|------------------------|---------------------------------------|--|--------------|--|
| | | | secondment of officers | Guarantee commissions income (Note 2) | 536 | — | — |

Conditions of transactions and policy for determining the conditions of transactions

- Notes:
1. Prices and other transaction requirements are determined based on basic agreements with subsidiaries and taking into account market conditions.
 2. Debt guarantees are underwritten by each company for loans from financial institution, no guarantee commissions are received. However, guarantee commissions are received from Hay Holding GmbH.
 3. Interest rate in capital borrowing is reasonably determined in consideration with market interest rate.
 4. Interest rate in capital lending is reasonably determined in consideration with market interest rate.
 5. Consumption taxes are excluded from transaction amounts, but included in balances at fiscal year-end.

8. Per share information

- (1) Net assets per share: 1,319.33 yen
- (2) Earnings per share: 173.41 yen

[English Translation of the Audit Report Originally Issued in the Japanese Language]
Audit Report of Financial Auditor on Consolidated Financial Statements

Independent Auditor's Report

May 11, 2018

To the Board of Directors of Musashi Seimitsu Industry Co., Ltd.

Ernst & Young ShinNihon LLC

Shigeki Hiki (Seal)

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant

Toshikatsu Sekiguchi (Seal)

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant

We have audited the consolidated financial statements of Musashi Seimitsu Industry Co., Ltd. for the fiscal year from April 1, 2017 to March 31, 2018, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and notes to consolidated financial statements for the purpose of reporting under the provisions of Article 444, paragraph 4 of the Companies Act.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

Our opinion is that the above-mentioned consolidated financial statements present fairly the

status of assets and earnings during the period relating to the relevant consolidated financial statements of the corporate group consisting of Musashi Seimitsu Industry Co., Ltd. and its consolidated subsidiaries in every important point in accordance with the corporate accounting standards generally accepted in Japan.

Conflicts of Interest

Our audit corporation and engagement partner have no financial or other interest in the Company required to be stated by the provisions of the Certified Public Accountant Act of Japan.

[English Translation of the Audit Report Originally Issued in the Japanese Language]
Audit Report of Financial Auditor on Non-consolidated Financial Statements

Independent Auditor's Report

May 11, 2018

To the Board of Directors of Musashi Seimitsu Industry Co., Ltd.

Ernst & Young ShinNihon LLC

Shigeki Hiki (Seal)

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant

Toshikatsu Sekiguchi (Seal)

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant

We have audited the non-consolidated financial statements of Musashi Seimitsu Industry Co., Ltd. for the 91st fiscal year from April 1, 2017 to March 31, 2018, comprising the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets and notes to non-consolidated financial statements and the accompanying financial schedule for the purpose of reporting under the provisions of Article 436, paragraph 2, item 1 of the Companies Act.

Management's Responsibility for the Non-consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the accompanying financial schedule. The procedures selected and applied depend on the auditor's judgment, based on the assessment of the risks of material misstatement of the non-consolidated financial statements and the accompanying financial schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the accompanying financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the accompanying financial schedule.

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

Opinion

Our opinion is that the above-mentioned non-consolidated financial statements and the accompanying financial schedule present fairly the status of assets and earnings during the period relating to the relevant non-consolidated financial statements and the accompanying financial schedule in every important point in accordance with the corporate accounting standards generally accepted in Japan.

Conflicts of Interest

Our audit corporation or operating partner has no financial or other interest in the Company required to be stated by the provisions of the Certified Public Accountant Act of Japan.

[English Translation of the Audit Report Originally Issued in the Japanese Language]
Audit Report of Audit and Supervisory Committee

Audit Report

The Audit and Supervisory Committee has conducted audit on the performance of duties of the Directors during the 91st fiscal year from April 1, 2017 to March 31, 2018, and hereby reports the methods and results of audit as follows:

1. Auditing Methods and Contents

The Audit and Supervisory Committee regularly received reports from Directors and employees on the contents of regulation of the Board of Directors relating to the matters set forth in the Article 399-13, paragraph 1, item 1 (b) and (c) of the Companies Act and the status of the establishment and operation of the system (internal control system) established in accordance with the resolution, demanded explanations, as the occasion demanded, and expressed its opinions. The audit was conducted by the following methods.

- 1) In accordance with the Audit and Supervisory Committee's auditing standards, auditing policies, share of assignment, and other matters stipulated by the Audit and Supervisory Committee, we cooperated with the Internal Auditing Department and other departments for internal control; attended important meetings; received reports of execution of duties from Directors and employees; demanded explanations, as the occasion demanded; inspected important documents; and investigated the activities and assets of the head office and of other principal places of business.
As for the subsidiaries, we communicated and exchanged information with the Directors and Audit & Supervisory Board Members, etc. of the subsidiaries, and received reports on their business operations as the occasion demanded.
- 2) We monitored and verified whether or not the Financial Auditor had maintained their independent positions and had conducted appropriate audits and received reports on activities of execution of duty from the financial auditor and received explanation as the occasion demanded. Also, we received notice that the "system to assure that duty is executed appropriately" (the matters listed in the items of Article 131 of the Corporate Accounting Rules) has been maintained in accordance with the "Quality Control Standards for Audits" (October 28, 2005, the Business Accounting Council) from the Financial Auditor and demanded explanation as the occasion demanded.

Based on the above methods, we examined the business report and accompanying financial schedule for the relevant fiscal year, non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statements of changes in equity and notes to non-consolidated financial statements) and accompanying financial schedule as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statements of changes in equity and the notes to consolidated financial statements).

2. Results of Audit

(1) Results of audit on the business report

- 1) The business report and accompanying schedule are found to accurately present the status of the Company in conformity with the laws and regulations and Articles of Incorporation.
- 2) In connection with the performance by the Directors of their duties, no dishonest act or significant fact of a violation of laws, regulations, or the Articles of Incorporation is

- found to exist.
- 3) The contents of the resolutions of the Board of Directors regarding the internal control systems are found to be proper. Also, the descriptions in the business report and execution of duty by the Directors regarding the relevant internal control system are found to accurately present the matters to be stated therein and have nothing to be pointed out including the internal control system regarding financial reporting.
- (2) Results of audit on the non-consolidated financial statements and accompanying financial schedule
The methods and results of the audit made by the Financial Auditor, Ernst & Young ShinNihon LLC, an incorporated auditing firm, are found to be proper.
- (3) Results of audit on the consolidated financial statements
The methods and results of the audit made by the Financial Auditor, Ernst & Young ShinNihon LLC, an incorporated auditing firm, are found to be proper.

May 17, 2018

Audit and Supervisory Committee of
Musashi Seimitsu Industry Co., Ltd.
Nobuyoshi Sakakibara (Seal)
Audit and Supervisory Committee Member (Full-time)
Asako Yamagami (Seal)
Audit and Supervisory Committee Member
Yoshinori Morita (Seal)
Audit and Supervisory Committee Member

Notes: 1. Audit and Supervisory Committee Members Asako Yamagami and Yoshinori Morita are outside directors provided in Article 2, item 15 and Article 331, paragraph 6 of the Companies Act.