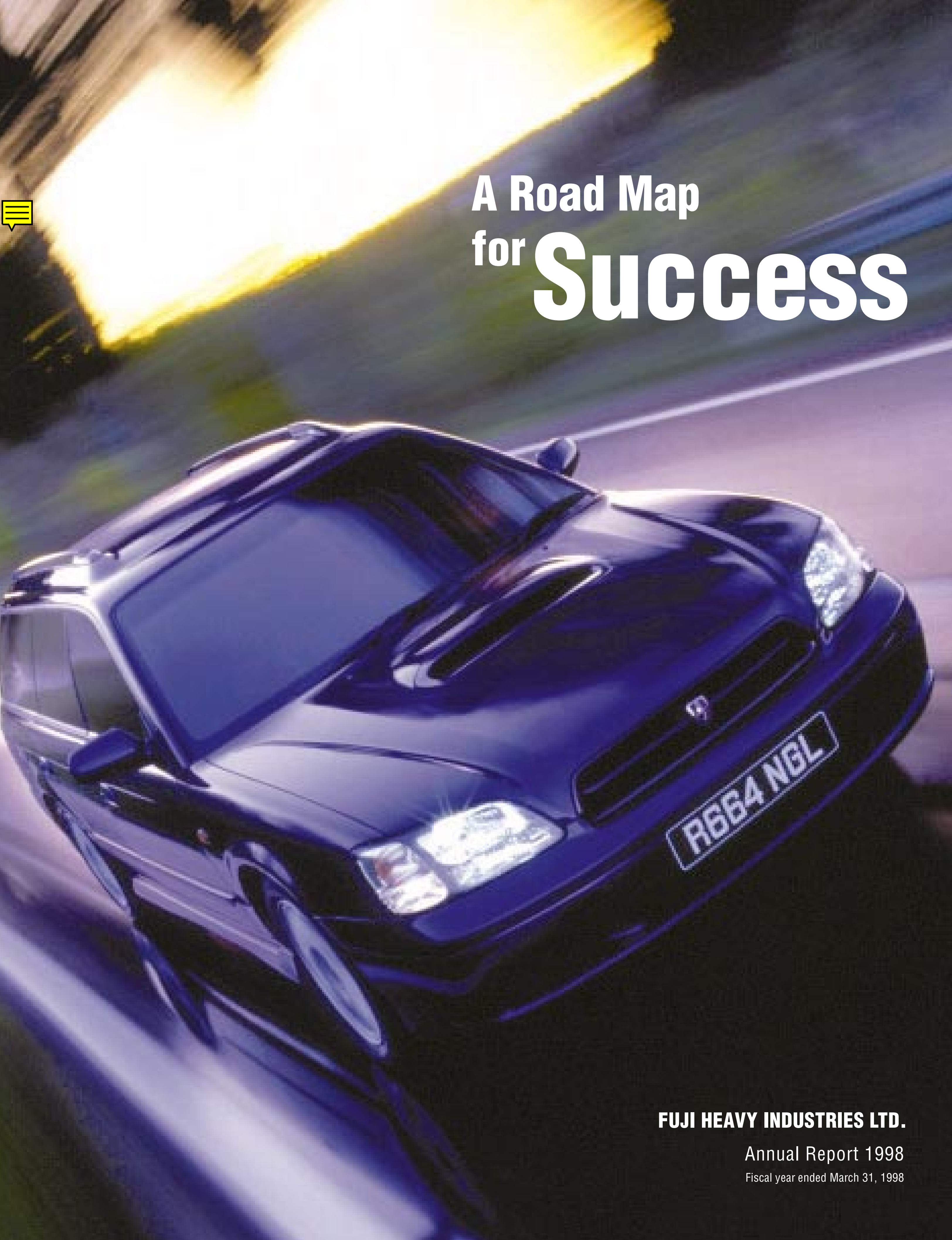
A Road Map for Success



FUJI HEAVY INDUSTRIES LTD.

Annual Report 1998

Fiscal year ended March 31, 1998

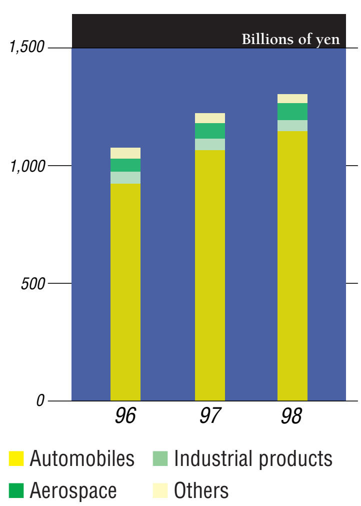
Consolidated Financial Highlights

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

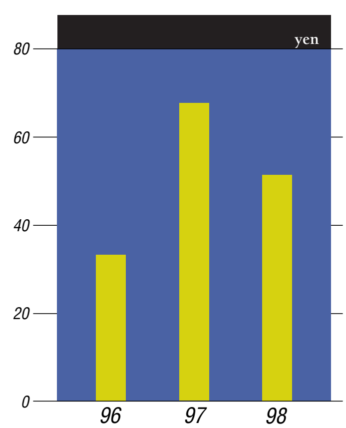
	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
For the Year:				
Net sales	¥1,303,989	¥1,223,015	¥1,077,315	$9,878,705
Operating income	80,437	57,573	24,893	609,372
Net income	30,708	39,596	19,414	232,636
Year-End:				
Shareholders' equity	¥ 168,833	¥ 149,748	¥ 107,448	$1,279,038
Total assets	904,571	759,030	700,859	6,852,811
Per Share of Common Stock (Yen and U.S. Dollars):				
Net income	¥ 51.33	¥ 67.63	¥ 33.17	$ 0.39
Return on equity (ROE)	19.3%	30.8%	19.9%	

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥132 to US$1, the approximate rate of exchange at March 31, 1998.

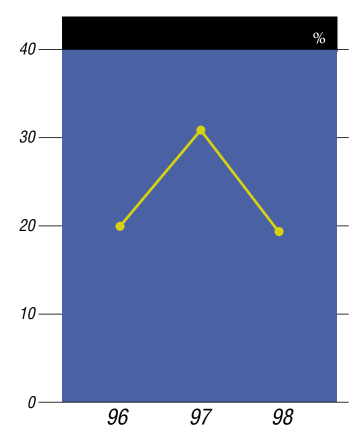
Net Sales

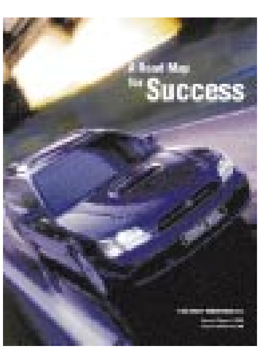


Net Income per Share



Return on Equity





On the Cover

Fuji Heavy Industries Ltd. (FHI) has a unique market positioning strategy. This year's annual report explains the course that the company has charted. FHI has confidence that its strategy, which is underpinned by superior products, has put the company on the road to success.

Contents

Message From the Management

Fuji Heavy Industries Ltd. (FHI) marked two important milestones in 1998: the company's 45th anniversary and the 40th anniversary of the *Subaru 360* (please refer to page 43). Fiscal 1998, the year ended March 31, 1998, saw FHI tightly focus on core competencies. Higher profits were the fruits of this labor. The year also saw dramatic realignments in the global automobile industry, led by the huge merger of Germany's Daimler-Benz and the U.S.'s Chrysler. FHI meanwhile sought to set its Subaru automobiles apart in other ways. A strategy targeted at products that take advantage of proprietary technology such as All-Wheel Drive (AWD) and horizontally opposed engines was one way. Having pioneered the mass-produced AWD market, we are now turning our sights to creating a new sector of the still-growing Sports Utility Vehicle (SUV) category. Nevertheless, there are no guarantees of success in the future. This is why we regard ourselves as a perennial challenger in the automobile marketplace.

Message From the Management

Isamu Kawai *(seated)*
Chairman

Takeshi Tanaka
President

"Active Driving, Active Safety." This slogan has been our guiding philosophy as we staked a claim to a solid position in Japan's station wagon marketplace. Our unique AWD system underlies this success. Fusing the dual benefits of a passenger car and SUV, a hybrid concept that we call the "Best of Both," AWD takes the 4WD concept where the latter can't go. On all roads, under all conditions and in any weather, AWD makes driving a safe and pleasurable experience. Other successes have also followed. Last year, the newly launched *Forester* was one such example. Following in the footsteps of the *Legacy* and *Impreza*, it received raves from drivers. We are extremely fortunate to have three cars of such formidable quality. By concentrating on sectors where we can leverage our resources and basic strengths, such as leading-edge technology and product development expertise, we will continue to play an important role in the markets we serve. The fiscal year in review was a meaningful one in many respects, some of which are discussed in more detail below.

➣ *LEGACY*, *IMPREZA*, AND *FORESTER* LEAD THE WAY

Spearheading our automobile operations is the mainstay *Legacy*. Over the last 3 years this vehicle has maintained an average of 66% of our total domestic and overseas automobile sales. With the *Legacy*, *Impreza*, and *Forester* contributing 50%, 24%, and 26%, respectively, of the Automobiles Division's sales, we have struck an excellent balance in our lineup.

➣ BUILDING A SOUNDER BALANCE SHEET

A keen focus on fields where we can leverage our core competencies has helped improve our profitability. ROE in fiscal 1998, for example, was 19.3%, placing us in the top echelon among Japanese automakers. A 91.8% improvement in shareholders' equity since fiscal 1995 has been another result. Over the same period, net liabilities—short-term borrowings, commercial paper, convertible and corporate bonds, and long-term borrowings minus cash and cash equivalents and marketable securities—decreased 3.7% to ¥205,116 million. Consequently, the net liabilities ratio has fallen from 242.0% to 121.5%.

➣ ESTABLISHING OVERSEAS OPERATING BASES

We generated 70.5% of our operating income in Japan, which includes most exports through trading companies to Europe, and 29.3% in North America. In the latter area, Subaru-Isuzu Automotive Inc. (SIA), the sole producer of the popular *Legacy* series, notably *Legacy Outback*, for the North American market, and Subaru of America, Inc. (SOA), our U.S. sales and marketing arm, saw their results soar in the financial year ended December 31, 1997. The introduction of the *Forester* to North America in July 1997 boosted sales alongside the *Legacy* and *Impreza* series. In the current fiscal year, these companies promise to make a substantial contribution to group earnings.

➢ AEROSPACE DIVISION ON A GROWTH CURVE

Fiscal 1998 sales in the Aerospace Division accounted for 5.6% of total net sales and about 46% of sales generated by the non-automotive divisions. Operating income of this division has also risen, and is now 3.5 times higher than in fiscal 1995. This is the reward for our efforts to lower costs over the last several years and actions to expand operations in the commercial sector. Our relationship with Boeing as a main contractor has been especially significant and is expected to lead to more growth in coming years.

Business Results

We posted all-time-high net sales of ¥1,304.0 billion (US$9,879 million), up 6.6% from a year earlier. Operating income benefited from these gains and cost initiatives to the tune of ¥80.4 billion (US$609 million), 39.7% higher. The bottom line, however, was affected by sharply higher taxes; net income dropped 22.4% to ¥30.7 billion (US$233 million) as a consequence. Results by operating division were as follows:

- The *Automobiles Division* generated sales of ¥1,146.2 billion (US$8,683 million), up 7.4%. Operating income surged 30.3% to ¥72.9 billion (US$552 million). A weakened yen, robust overseas markets in North America and Europe, and a good showing by the *Forester* in its first year were behind this performance. While sales volumes were down sharply at all members of the domestic automobile industry as consumer spending slumped, our decline in sales volumes of registered Subaru vehicles, excluding minicars, was smaller than the industry average.
- The *Industrial Products Division* recorded a 7.0% decrease in sales to ¥45.5 billion (US$344 million) and a decline of 0.2% in operating income to ¥2.1 billion (US$16 million). Sluggish domestic demand for industrial engines in line with an ailing economy and a soft market for engines destined for overseas markets, particularly for leisure equipment in the United States, were the main factors.
- In the *Aerospace Division*, solid demand from Japan's Defense Agency for helicopters and unmanned target drones combined with sharply higher production and sales of civilian passenger aircraft components for the Boeing 777 to fuel sales. The result was a 15.5% increase in sales to ¥73.6 billion (US$558 million). Operating income skyrocketed 244.3% to ¥7.1 billion (US$54 million).
- The *Others Division* returned sales of ¥40.0 billion (US$303 million) and an operating loss of ¥1.7 billion (US$13 million). While railway cars posted results largely on a par with last fiscal year, soft demand for buses and houses dragged overall divisional results down.

➢ MAIN CORPORATE THEMES

Over the course of the last few years we have generated record-high sales and operating income. These numbers are deeply satisfying, but this is no time to rest on our laurels. We still have a ways to go to achieve our goals. We hope our shareholders will share this journey with us.

Turning Domestic Sales Around With the New *Legacy*

With the domestic economy continuing to slide, contraction of the automobile market is inevitable. In fiscal 1998, total industry sales of registered vehicles, excluding minicars, fell 14.6% below last year's level. While we were not exempt from this drop in demand, our decline in unit sales, excluding minicars, was held to 8.3% as we sold roughly 134,000 vehicles. Behind this performance were strong SUV and station wagon growth. The decline in fiscal 1998 unit sales was partially the result of customers waiting on the sidelines for the launch of our new-look *Legacy*, the mainstay in the Automobiles Division. In June 1998, the first full model change for this vehicle since October 1993, a period of 4 years and 8 months, was completed. As we write this letter about two months after the new *Legacy* hit the roads, sales of 10,417 units had already been recorded in July. Given this solid start, we are expecting the new model to support an increase in domestic sales in fiscal 1999.

Enhancing Customer Satisfaction (CS)

The recall of most Subaru models from August through November 1997 caused our customers much inconvenience. We assumed full responsibility and took appropriate measures, thereby minimizing loss of customer support. In fiscal 1998, we recorded an extraordinary loss of ¥3.46 billion related to the recall to close the chapter on this issue in monetary terms. Our experience, however, has taught us a valuable lesson. If we are to continue to prevail amid a soft market and in the face of fierce competition, we must deliver even greater satisfaction to customers in respect of our products, sales and services. At the same time, higher CS means more repeat buyers of our vehicles and more revenues from inspections, service, accessories and insurance. This will lead to increased profits for dealers. That is why we are accelerating our drive to bolster the quality of after-sales service and other assistance for owners of our vehicles.

Improved Profits for Sales Companies

Equity in earnings of affiliates contributed ¥9.8 billion to the fiscal 1997 consolidated net income. In the term under review, however, there was almost no contribution. We have 102 non-consolidated subsidiaries and affiliated companies. Last fiscal year, consolidated companies numbered 29, while in the year under review the number is 53, roughly 90% of which are sales companies. The dramatic slump in the auto market dragged down sales. Another factor behind lower sales was that consumers held off purchasing in anticipation of the introduction of model changes for the *Legacy* and *Vivio*, a minicar. Despite these results, we are expecting improved profits from these sales companies in fiscal 1999. Several reasons are behind our optimism: First, model changes have been introduced for the two models that performed relatively poorly in fiscal 1998 and increased sales are expected to produce tangible profit gains. Second, dealers have carried out dramatic reforms to improve their financial health based on a new medium-term business action plan dubbed "TQS21." These reforms are raising customer satisfaction. At the same time, fixed costs are being trimmed, inventories and receivables are being reduced to lower the break-even point, revenues from maintenance, parts and used car sales are being fortified, and the efficiency of administrative functions is being improved.

A New Strategy for Minicars

The number of minicar registrations in Japan fell by 11.4% in fiscal 1998. Unfortunately, we took a bigger, 28.4% hit. The absence in our lineup of a spacious vehicle, referred to as a "tall car," is one reason. These models have performed well over the last several years. Steps are being taken to recover lost ground. In October 1998, there will be a change in the regulations governing minicars. We aim to use this change to recapture market share. Specifically, plans call for the launch of Subaru's first minicar-class wagon. We are also aiming to be the No. 1 brand in the mini-wagon class, which presently accounts for roughly 60% of passenger-type minicar demand in Japan. Our ultimate aim is to regain a 10% share of Japan's minicar market.

On behalf of FHI's employees and management, we would like to thank shareholders and investors for their support and understanding. We ask for them to remain with us as we pursue our goals.

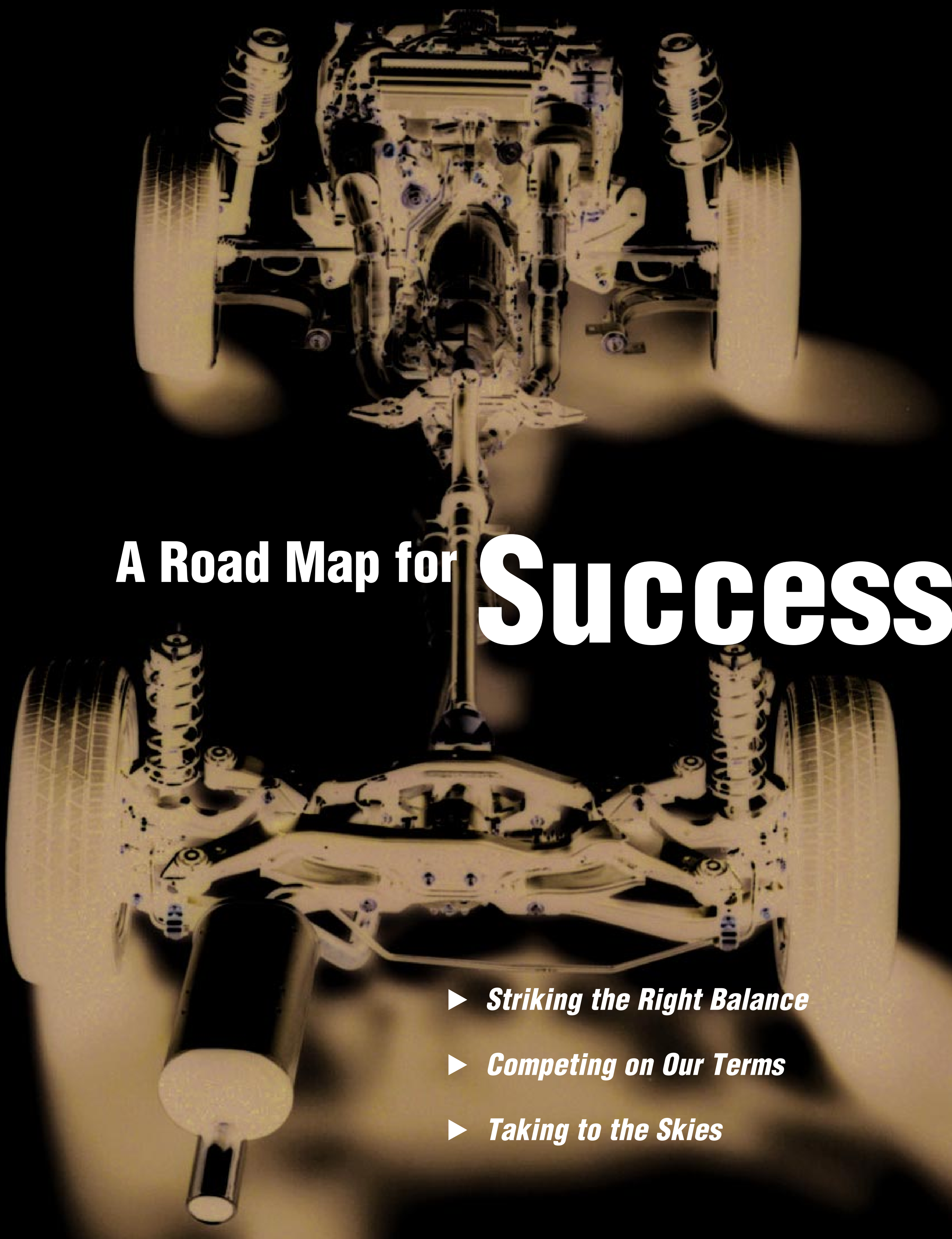
August 1998

I. Kawai

Isamu Kawai
Chairman

T. Tanaka

Takeshi Tanaka
President



A Road Map for Success

- ▶ *Striking the Right Balance*
- ▶ *Competing on Our Terms*
- ▶ *Taking to the Skies*

Striking the Right Balance

Spearheading our automobile operations is the mainstay *Legacy*. Over the last 3 years this vehicle has maintained an average of 66% of our total domestic and overseas automobile sales. With the *Legacy*, *Impreza*, and *Forester* contributing 50%, 24%, and 26%, respectively, of the Automobiles Division's sales, we have struck an excellent balance in our lineup.

Following in the footsteps of the mainstay *Legacy*, FHI launched the *Impreza* in 1992 and later, in 1997, the *Forester* made its debut. With these three popular vehicles, FHI made significant progress in fiscal 1998 in achieving a well-balanced domestic product mix. The company succeeded in shedding a sales structure dominated by one car and assuming one where the *Legacy*, *Impreza* and *Forester* now account for about 40%, 30% and 30%, respectively, of domestic sales, excluding minicars. Overseas, a different, but equally successful, positioning strategy has been employed. The *Legacy*, *Impreza*, and *Forester* generate 55%, 21%, and 24%, respectively, of overseas sales. Concentration on markets in which the company possesses technological superiority has enabled FHI to establish positions at the forefront of carefully targeted vehicle categories. Looking ahead, FHI will strengthen this lucid product positioning strategy and its sales strategy, which underpins the positioning strategy. By doing so, FHI believes it can further develop the potential of these three vehicles.

Product Positioning Strategy

In June this year, FHI introduced a full model change of the flagship *Legacy* wagon series to Japanese consumers. The new-look *Legacy* shifts up a gear from the previous *Legacy*, the driving force in the domestic station wagon market over the last 10 years. Changes are more than just cosmetic. The new model takes full advantage of Subaru's horizontally opposed engine, 4WD system and practical design that made its predecessor so popular. The result is a vehicle that is closely attuned to the demands of today's drivers, offering outstanding safety and environmental compatibility. Optimizing driving pleasure was given priority during the test drives as the new model was developed. This devotion took engineers well beyond the task of merely refining current specifications.

Behind the development concept of the new model is a policy of creating unique products that do not compete directly with offerings from the world's major auto makers. Subaru always stresses excellent performance, reliability, safety and quality. Furthermore, Subaru's policy capitalizes on the distinctive features on each model. A philosophy known as "Active Driving, Active Safety" is a key element here. Sales activities also underpin this policy. Subaru always offers vehicles that accurately reflect the desires of the targeted drivers. Overseas, Subaru has had much success with its highly distinctive positioning strategy. The company offers vehicles that combine the best of ordinary passenger cars and SUVs as well as the benefits of the Subaru AWD system.

FHI has a formidable product lineup: the *Legacy*, with its full model change; the *Impreza*, which is available as either a compact, stylish wagon or as the high-performance sedan that has captured three successive World Rally Championships (WRC); and the *Forester*, a SUV with superb versatility and reliability.

Fortifying Domestic Sales

As automobile sales in Japan dip below last year's level and the economy slips a gear or two, auto makers are attempting to jump-start demand. Measures include new models and aggressive sales campaigns. These attempts to differentiate oneself amid fierce competition are expected to escalate in intensity. To break from the pack, FHI must do more than offer distinctive products that anticipate the needs of customers. Sales and services, as well as customer satisfaction must be enhanced to reinforce Subaru brand loyalty. Furthermore, fortifying the financial condition of Subaru dealers is imperative to keep intact the Subaru dealer network. In this regard, FHI is conducting a review and promoting a revenue structure that lowers the break-even point to make dealers less susceptible to market swings. Subaru dealers, in contrast to competitors, operate through an efficient one-channel sales system. Leveraging this special feature and its inherent strengths, FHI aims to move swiftly to give dealers a sounder operating base. In this climate, the company is striving to make sales activities more effective, reduce accounts receivable and inventories, and improve productivity across all divisions.

Legacy, number one in Japan in the station wagon class, has undergone its first full model change in about five years. Refinements have been made to the traditional horizontally opposed engine and Subaru 4WD System. High-rigidity ring-shaped reinforcement frames and excellent stability when carrying loads—a must for any wagon—make this vehicle world class. One month after appearing in showrooms, sales of the new *Legacy* had topped 10,000 vehicles.

Running, turning and stopping. Subaru stretches these fundamental capabilities of an automobile to their limit with its 4WD System. The jewel in Subaru's proprietary technological riches, the horizontally opposed engine produces superb balance. A low center of gravity and the engine's light weight are other distinctive features.

Leave the city. Hit the highway, roads and beaten tracks. In rain, snow or any other weather and on all roads under any conditions the *Forester* is pure driving pleasure.

Tapping the same technology that captured three consecutive WRC crowns for Subaru, the *Impreza* aims to offer the pinnacle of on-the-road performance.

Competing on Our Terms

Subaru-Isuzu Automotive Inc. (SIA), the sole producer of the popular *Legacy* series, notably *Legacy Outback*, for the North American market, and Subaru of America, Inc. (SOA), our U.S. sales and marketing arm, saw their results soar in the financial year ended December 31, 1997. The introduction of the *Forester* to North America in July 1997 boosted sales alongside the *Legacy* and *Impreza* series.

Data on sales by geographic region in fiscal 1998 reveal that Japan, North America, and other regions accounted for 59.7%, 39.5% and 0.8% of sales, respectively. The figures were 70.5%, 29.3% and 0.2%, respectively, in terms of profitability. Inclusion of almost all cars destined for Europe, which are exported through Japanese trading companies, accounts for Japan's high percentages in both categories. In Asia, the recent currency crisis, which aroused concerns about future demand in that region, had little impact on FHI. This is because the company places emphasis on Japan, North America and Europe, regions that are best suited to the attributes of Subaru vehicles.

The U.S. is FHI's largest overseas market by a considerable margin. Thirty years have elapsed since the company established SOA and penetrated that market in 1968 with the *Subaru 360*. This year marked another milestone—the 10th anniversary of SIA's foundation. Over this time, FHI's product strategy has evolved considerably, underpinned by a wealth of technological expertise. Both companies have successfully established a presence in the U.S.—and firm earnings. Looking ahead, FHI is confident of further success in the U.S. This is a market where the automobile is widely regarded as a means of self-expression. People often seek cars that reflect their own individuality. This bodes well for FHI, which offers vehicles based on technology that is uniquely Subaru in every way. This is why FHI is firmly committed to remaining a trendsetter, never falling into the position of a follower. Setting new standards is the only way to sustain sufficient profitability.

Marketing in Overseas Markets

To gain its foothold in the North American market, FHI has since 1993 been promoting two strategies focused on Subaru's distinctiveness. First is the "Best of Both" concept, which promotes a Sports Utility Wagon fusing the advantages of a passenger car and SUV. The launch of *Legacy Outback* in 1995 is a prime example. Later, in 1997 the even more rugged SUV *Forester*, which is also lightweight and compact, made its market debut. This hybrid concept quickly gained a following and is generating solid support. The second strategy focuses on Subaru's unique All-Wheel Drive (AWD) layout. By concentrating on these basic strategies FHI has successfully avoided head-to-head competition with the big auto makers. In fact, Subaru has been hailed as the pioneer of the hybrid SUV. In the AWD field, Subaru has at last staked its claim as the preeminent brand. Making this accomplishment possible was years of grass-roots marketing. Dealers offered comparison test drives, educational and promotional events, special services and other support to optimize the effectiveness of AWD marketing campaigns. Backed by solid market support and steady expansion, Subaru is gradually establishing a U.S. base that is less susceptible to conditions in its operating environment, including exchange rate movements. Europe is also important. Sales there are on a gradual growth curve thanks to the success of a strategy that emphasizes high performance. Three-peating in the World Rally Championships—Subaru was the first Japanese auto maker to accomplish this feat with the *Impreza*—gives the company the perfect platform to promote Subaru's strengths and enhance its brand image.

Healthy U.S. Subsidiaries

The upshot of successful marketing in the North American marketplace is solid business results for both of FHI's major U.S. subsidiaries. Subaru-Isuzu Automotive Inc. (SIA), a 51% subsidiary set up with Isuzu Motors Limited in 1987, and Subaru of America, Inc. (SOA), which was founded in 1968 as Subaru's U.S. sales arm and later became a wholly owned subsidiary in 1990, reported combined net income of US$138 million in fiscal 1998. While poor business results in the past have left them with accumulated losses—this is part of the reason consolidated shareholders' equity is below that of the parent company—the road ahead is promising. The ratio of parent company equity to consolidated shareholders' equity in fiscal 1997 stood at 100:65. In fiscal 1998, the ratio improved to 100:70. And the outlook for fiscal 1999 is for further improvement.

SOA sold about 133,000 vehicles in fiscal 1998. With the lineup now boasting three powerful vehicles, hopes are high for even more impressive results.

The *Legacy* showed what it's made of as it challenged the official world speed record of the FIA, Fédération Internationale de l'a Automobile, and ACCUS, the Automobile Competition Committee for the United States. On a closed road near Pueblo, Colorado on April 23, 1998, the *Legacy* clocked 270.532 Km/h–a new world record for wagons–eclipsing the old mark, also held by the *Legacy*, of 249.981 Km/h.

SIA continues to roll out Subaru vehicles at the rate of about 102,000 a year. Production is in full swing to meet rising demand in the U.S.

In 1997, the *Forester* made its debut on U.S. and European roads. It made an immediate impact. The answer to customers' needs, the *Forester* is seeing its sales climb.

Taking to the Skies

Fiscal 1998 sales in the Aerospace Division accounted for 5.6% of total net sales and about 46% of sales generated by the non-automotive divisions. Operating income of this division has also risen, and is now 3.5 times higher than in fiscal 1995. This is the reward for our efforts to lower costs over the last several years and actions to expand operations in the commercial sector. Our relationship with Boeing as a main contractor has been especially significant and is expected to lead to more growth in coming years.

In fiscal 1996, the Aerospace Division garnered sales of ¥55.2 billion. This was followed by sales of ¥63.8 billion in fiscal 1997. In the year under review, sales increased further to ¥73.6 billion. That means over the last three years sales have soared by 33.3%. Commercial-sector growth, flying high on the back of production for the Boeing 777, has been particularly impressive. Looking ahead, the defense sector will remain the core business in the Aerospace Division. While seeking new business here, FHI intends to concentrate on consignment production for Boeing passenger aircraft in the commercial sector. Another goal is expanding international joint development of business jets and helicopters.

Expanding Business in the Commercial Sector

In the defense sector, the core business in the Aerospace Division, multi-purpose helicopters, trainer aircraft and unmanned target drones continue to make major contributions to earnings. However, shrinking defense budgets do not bode well for growth in this sector. Fully aware of this situation, FHI set out several years ago to expand commercial sector operations at the same time as capturing orders for future defense-related projects. Reducing costs in both sectors has been a concurrent theme. As a result, operating income has climbed to a level 3.5 times higher than in fiscal 1995. And the operating income margin has improved from 2.8% three years ago to 9.7% in fiscal 1998.

Several projects are expected to generate future earnings. First, there is the F-2 support jet fighter contract in the defense sector. FHI is one of the subcontractors on this project. Next, in the commercial sector, there are the contracts for passenger aircraft components for Boeing and production of the main wing for Hawker Horizon jets. Casting sights further ahead, FHI is intent on aggressively participating in national projects and expanding its international joint development business of helicopters and business aircraft. FHI is also seeking to carve out new business by taking advantage of technological expertise in unmanned aircraft, composite materials, simulators and other strategic fields.

International Joint Development Business Makes Steady Progress

FHI is responsible for the development and manufacture of the wings for U.S.-based Raytheon Aircraft Company's Hawker Horizon business jet. With development progressing smoothly, assembly of the first wing started in April 1998 and is scheduled for shipment in December this year. FHI is also participating in the production of the full range of Boeing's airliners. The high level of quality workmanship displayed by FHI earned the company the "Supplier of the Year" award from Boeing in November 1996. With this accolade, FHI became the first Japanese passenger aircraft manufacturer to be recognized in this way by Boeing.

FHI is currently producing key sections of the B777 airliner that connect the wings to the fuselage. These sections are regarded as one of the most technically exacting areas. FHI's involvement in this project extends back to when it was on the drawing boards. Currently, production is in full swing with seven center wings being produced monthly. By June 1998, FHI had already delivered a total of 170 center wings for the B777. In fiscal 1999, FHI expects to deliver more than 65 center wings. In September 1996, shipments began of elevators for the new Boeing 737. From a level of 80 elevators in fiscal 1998, production is presently being scaled up to enable shipment of 213 elevators in fiscal 1999. In other work for Boeing, development of a new flap for the B757-300 was completed in 1997. The first shipment of this aircraft was made in February 1998. Five flaps a month are currently being produced for this aircraft, including models for the B757-200. In regard to the B767, an integrated product team (IPT) that includes FHI has embarked on the development of the fairing and main landing gear (MLG) door for the latest derivative model, the B767-400ER.

Participation in the development of the Hawker Horizon is expected to lead to projects in passenger aircraft, helicopters and business jets that will make the commercial sector a main pillar of earnings next century.

FHI is participating in the production of the full range of Boeing's airliners. One FHI plant is currently producing seven center wings a month for the B777 airliner.

The unmanned RPH2 helicopter that wowed crowds at the Paris Air Show in 1997, is ideal for fields as diverse as crop spraying, freight transportation, and measurement, observation, examination and photographing of areas that would pose dangers to manned aircraft.

Jointly developed by FHI and Bell Helicopter Textron of the U.S., the Fuji Bell 205B utility helicopter is expected to find applications in a broad range of areas, including rescue, firefighting, business and news reporting.

Automobiles

Business Results

In Japan, sales volumes were down sharply at all members of the automobile industry as consumer spending slumped. Subaru's decline in sales volumes of registered vehicles, excluding minicars, was smaller than the industry average, however. Nevertheless, domestic sales and earnings were down. Overseas, results improved considerably on the back of a weakened yen, a robust European market, and the strong response generated by the *Forester* in its first year in the United States. As a result of these factors, division sales rose 7.4% to ¥1,146.2 billion (US$8,683 million), while operating income climbed 30.3% to ¥72.9 billion (US$552 million).

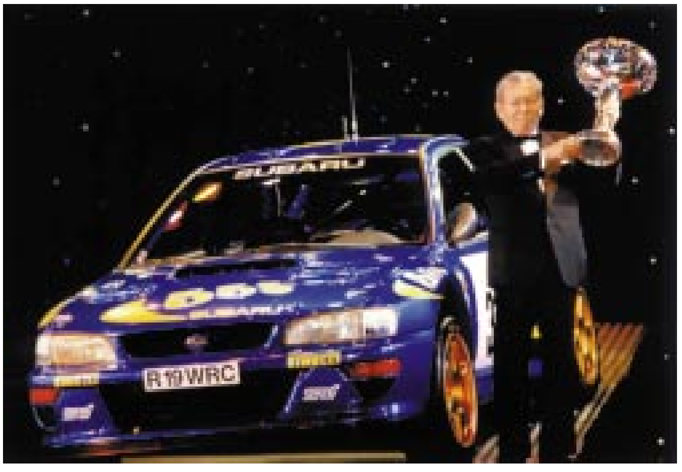
Special Highlight of the Year

Impreza Three-Peats at the World Rally Championship (WRC)

Impreza has become the first Japanese car to win three consecutive Manufacturers' Championships in the WRC. The Subaru world rally team won 8 out of the 14 rallies, including the last, to cap off another amazing season in 1997. On December 12, 1997, in Monaco, in front of approximately 600 invited guests from around the world, FHI Chairman Isamu Kawai accepted the championship at an FIA awards ceremony.

The WRC is a grueling event that pits the world's top motor vehicle manufacturers against each other. All participants leverage the latest technological advances to build machines capable of performing in extreme conditions. This event ranks right up there with F1 racing as a renowned motor sports event. Winning against these odds and markedly different road and weather conditions in each round requires consistent performance. Contestants must negotiate the twisting streets of Monte Carlo and the snow and ice of the Swedish Rally. Events also cover many other locales: difficult gravel roads in Portugal; clouds of dust on the Safari Rally; high-speed driving in Spain's Cataluna region; treacherous mountain roads on the Tour de Corsica; and the punishing roads of the Acropolis Rally. The WRC is no place for pretenders. Put another way, an all-round capability is demanded at this pinnacle of motor sport: the engine, drive train, chassis, body and other elements must perform as one to produce agility and strength. In an age of speed catalyzed by technological innovation, Subaru has shown to the world with its three consecutive titles that it possesses unrivaled proprietary technology. Working from this position of strength, Subaru expects to produce many more developments that will further define its technological superiority.

As the first Japanese automobile maker to capture three consecutive Manufacturers' Championships at the WRC—1995, 1996 and 1997—Subaru has clearly demonstrated that its cars have what it takes to become the best in the world.



On December 12, 1997, FHI Chairman Isamu Kawai accepted the WRC Manufacturers' Championship trophy at an FIA awards ceremony held in Monaco.

The WRC is a demanding event lasting one year. Vehicles must conquer all manner of driving conditions.

Highlights of the Year

Checkered Flag Again for Subaru

Subaru continues to go from strength to strength. In a market survey conducted in England in 1997 by U.S.-based J.D. Power, a well-known pollster of drivers worldwide, Subaru came in first among 33 makers in terms of customer satisfaction. Moreover, *Forester* walked off with the gold medal for best cost performance in Consumers Digest's SUV category. All in all, Subaru had a banner year, lauded by the world's car drivers and specialists alike.

Vehicles That Meet Society's Needs

Mirroring society's demands, FHI began marketing the Trans Care series of specially equipped vehicles in April 1997. These vehicles boast an array of equipment to allow less able-bodied passengers to get around. Features include a step mechanism with handrail, a passenger seat that can rotate 90 degrees, and a bed that allows exit and entry in a horizontal position.

In the November/ December 1997 issue of Consumers Digest, the *Forester* was voted 'Best Buy' in the SUV class of the Annual Buying Guide.

Yunque to Be Produced in China

In September 1997, FHI formed a joint venture to manufacture parts for minicars with China's Guizhou Aviation Industry Corp. Until now, the company has done business with this joint-venture partner under a technology assistance contract. The new relationship sets the stage for annual production of 10,000 *Yunque* vehicles equipped with 550cc engines.

Impreza to Be Seen More on Taiwanese Roads

Impreza assembly and sales operations started at a plant in Taiwan in January 1998. Up to this point, the company had been producing vehicles in a joint venture with Taiwan Vespa Co., Ltd., a local company. With the new facility, FHI plans to raise sales of the *Impreza.*

Outlook

Spearheaded by a full model change for the *Legacy* in June 1998, FHI is eyeing sales of 30,000 vehicles per month domestically. As part of this drive, the company will introduce new vehicles in response to a change in regulations governing minicars that will take effect in October 1998 and take steps to enhance customer satisfaction. In overseas markets, FHI will fortify operations, particularly in North America. Plans also call for the launch of several new models to mirror market needs. Fiscal 1999 results are expected to get a boost from growth in demand for the new *Legacy* at home and abroad. Profits are also expected to remain strong. As the model change for minicars will occur in October, a full contribution to profits from these vehicles is not expected until next fiscal year. Sales and earnings estimates for fiscal 1999 are based on domestic production and exports of 450,000 and 145,000 units, respectively.

FHI has developed vehicles that provide easier access for physically challenged people. This is yet another example of FHI's efforts to respond to the needs of an aging society.

Industrial Products

Business Results

In the year under review, domestic demand for engines for civil engineering and construction and electrical machinery fell, the result of an anemic Japanese economy. Overseas, snowmobile engines destined for the United States also lost ground, while sales of general-purpose engines and machinery were sluggish in the wake of the Asian economic crisis. Sales, therefore, declined 7.0% on a year-on-year basis to ¥45.5 billion (US$344 million). Operating income followed the downward trend, coming in at ¥2.1 billion (US$16 million), 0.2% less than a year earlier.

Highlights of the Year

New Series Goes on Sale

Trusted for their durability, quality, cost performance, after sales service and other qualities, FHI's general-purpose engines rank second and fourth in Japan and the world in terms of market share, respectively. In the small engine category for construction equipment, FHI has the number-one share. To expand its lineup of these general-purpose engines, FHI started selling two powerful new engines in fiscal 1998.

1. EH65: Air-cooled, 4-cycle, 2-cylinder V-type, 653cc OHV gasoline engine
   Production started in October 1997 at Robin Manufacturing U.S.A., Inc. to meet rising demand in the U.S., the world's largest market for engines. The EH65 is performing well, having already been selected as a "Good Design Product" by Japan's Ministry of International Trade and Industry.
2. EH41: Air-cooled, 4-cycle, inclined single-cylinder, 404cc OHV gasoline engine
   High hopes are held for the EH41, FHI's first inclined-cylinder engine. Production started in January 1998 on this compact engine which boasts superior balance.

Technological Assistance Contract With India's ERI

In Bangalore, in October 1997, FHI inked a technological assistance contract for two types of engines, mainly for power generation equipment, with India's Electrex Robin Industries Ltd. Local production commenced in the middle of 1998. FHI is looking to establish a significant presence in the huge and potentially lucrative Indian marketplace as part of the company's globalization strategy.

The Industrial Products Division's general-purpose engines enjoy an excellent reputation for their durability, quality and performance, as well as their competitive cost and after-sales service.

FHI's Robin engines are used in a broad range of products such as buggies made by the U.S.-based Polaris Industries.

Outlook

General-purpose engines, a strategic mainstay in the Industrial Products Division, are set to get a boost. Improved product performance and development of new products, conjoined with stronger tie-ups with overseas distributors and Original Equipment Manufacturing (OEM) agreements with domestic and foreign companies, are expected to spark increased sales. Also slated for attention in FHI's Medium-Term Management Plan is a stronger focus on globalization in areas ranging from quality and cost competitiveness to development, production, procurement and sales. Continuing softness in the domestic market and backwash from the Asian currency crisis leave little room for optimism for growth in production and sales in fiscal 1999. Nevertheless, FHI is working to spur growth through several strategic projects: increased production of ATV engines for Polaris Industries Inc.; golf cart engines for E•Z•GO, an area where demand is rebounding; and the start of engine shipments to the U.S. under new OEM agreements. Increasing volume in the European market through a sales company established in Germany in June 1998 is another area of focus.

Aerospace

Business Results

Sharply higher production and sales of passenger aircraft components for Boeing and robust growth in products for Japan's Defense Agency fueled a 15.5% jump in sales to ¥73.6 billion (US$558 million). Operating income surged 244.3% to ¥7.1 billion (US$54 million).

Highlights of the Year

Production for Boeing Soars

In July 1993, FHI began supplying center wing sections, a critical part that connects the wings and fuselage, for the Boeing 777 airliner. In May 1995, the company chalked up a milestone with its 100th such delivery. And FHI is well on its ways to another milestone, having shipped 146 sets of center wing sections as of March 1998. Production is accelerating to keep pace with demand.

Buzzing the Skies Over Paris

At the 42nd Paris Air Show held at Le Bourget Airport in June 1997, FHI thrilled the crowds with a display of its RPH2 large-scale, remote-piloted helicopter. The response from prospective buyers exceeded expectations. Aircraft makers and people related to the farming industry showed keen interest in the potential of this aircraft.

Target Drones for Japan Defense Agency

As of March 31, 1998, FHI had delivered an aggregate of 243 target drones to the Japan Defense Agency. Deliveries commenced in 1989. In fiscal 1998, the company delivered a record number of these target drones, including special-version target drones. Plans call for a total of 57 state-of-the-art special-version target drones to be delivered in fiscal 1999.

Green Light for New Remote Observation System

Development of a new remote observation system prototype built by Japan's Defense Agency, and in which FHI took part, was completed in June 1997. The project is now poised to enter its next phase, actual production.

Long Lines at the Tokyo Motor Show for Subaru Simulator

FHI's Aerospace Division created a Subaru Driving Simulator for display at the 32nd Tokyo Motor Show in October 1997. The simulator was extremely popular. Visitors rushed to get in line as soon as the event opened. Admission tickets were handed out, with some visitors queuing for over two hours to get a look at this high-tech product.

Multi-Purpose, Unmanned Aircraft

In December 1997, FHI delivered a test model of a multi-purpose, unmanned aircraft to the Japan Defense Agency. FHI has been carrying out research and development on this aircraft as the prime contractor.

Outlook

FHI has many projects poised to make a contribution to earnings. In the defense area, there is the F-2 support jet fighter, for which FHI is a subcontractor. In commercial contracting, passenger aircraft components for Boeing and production of the main wing

FHI, awarded the accolade of "Supplier of the Year" by Boeing, is producing center wing sections at full pitch at its Handa Plant.

The Subaru Driving Simulator, which borrows from technology used in flight simulators produced by the Aerospace Division, was a big hit at the Tokyo Motor Show.

for Hawker Horizon jets are key projects. Furthermore, eyeing increased sales in the future, FHI is aggressively seeking to participate in national projects in Japan and expand the international joint development of business jets and helicopters. Moreover, the company is leveraging technological expertise in unmanned aircraft, composite materials, simulators and other strategic fields to carve out new businesses.

Others

Business Results

During the year under review, railway cars generated sales on a par with last fiscal year. This, however, was insufficient to offset sluggishness in sales of buses and prefabricated unit houses. The upshot was sales of ¥40.0 billion (US$303 million) and an operating loss of ¥1.7 billion (US$13 million). Beginning with fiscal 1998, results include both transportation equipment and other businesses due to the consolidation of subsidiaries engaged in real estate and leasing.

Highlights of the Year

Buses Put on for the Nagano Para-Olympics

The Tokyo Metropolitan Government lent 15 non-step buses to transport disabled athletes to the Nagano Para-Olympics in February 1998. Seven of these buses were a model that was jointly developed by FHI and Nissan Diesel Motor Co., Ltd. in 1997. The 15 buses are part of a fleet of 16 "non-step" models that entered regular service in Tokyo in February 1998.

Progress Continues in Rubbish Disposal

In June 1997, a tie-up with a consortium of four companies led to the development of a plant to process ash from trash incinerators. Ash, produced by the incineration of rubbish, is fused to render it harmless and reduce volume. The new plant contributes to lower fuel costs and capital expenditures. Eyeing joint development of ash processing service to serve regional governments, FHI is aiming to capture contracts totaling ¥7 billion in three years.

From the development of "non-step" buses to diesel rail cars, FHI has a broad range of products boasting technological innovations.

FHI's "Fuji Mighty" refuse collection vehicle is Japan's top-selling vehicle in its class.

A First for Waste Disposal in Office Buildings

FHI made history in Japan by supplying JR East's 28-story head office building with a proprietary FUSWTON high-rise building waste separation and conveyance system in September 1997. It is the first time that this sophisticated system for high-rise buildings has been employed in an ordinary office building.

Fuji Mighty Could Be the Answer to Hong Kong Garbage Reform

In February 1998, FHI shipped a "Fuji Mighty" refuse collection vehicle to Hong Kong. This is the first step toward capturing its first large order in Hong Kong for these vehicles in 13 years. Hong Kong's 1997 return to China has once again created opportunities for FHI to become a major supplier to the environmental authority. FHI has a distinguished 36-year track record in this area with its flagship Fuji Mighty, the industry pacesetter.

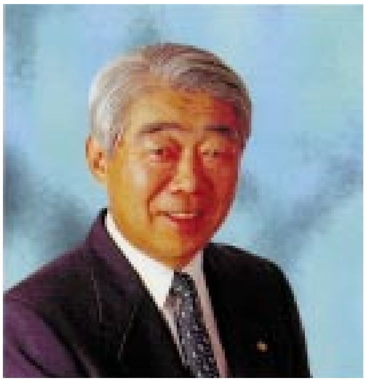
Outlook

In bus operations, which are suffering from soft demand in an ailing domestic market, FHI is working to improve financial health and establish a sound operational base for the next century. In this drive, the company plans to produce prototypes of mini-sized route buses and, in the next fiscal period, next-generation sightseeing buses, among other actions. Railway operations are suffering the effects of unprecedented market sluggishness. In the midst of this unfavorable environment, efforts are being made to enhance profitability. Heightened interest in environmental issues spells opportunities for products such as Fuji Mighty, FUSWTON and garbage separation plants. FHI will also pursue the development of other unique products, including waste incineration and fusion systems.

FUSWTON, FHI's waste collection system for high-rise buildings, is expected to be in increasing demand as awareness of environmental problems grows.

Board of Directors

Chairman
Isamu Kawai



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Takeshi Tanaka

Executive Vice President
Kazuo Matsuzaki

Executive Vice President
Takayoshi Yoshihashi

Senior Managing Director
Eiichi Hongo

Senior Managing Director
Yasuyoshi Watanabe

Senior Managing Director
Teruo Hanada

Managing Directors
Mamoru Morinaga
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Katsuhiko Takagi
Hisashi Takada
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Kazuhiro Miyake
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Takeo Tsumuji
Mitsuo Takahashi
Hideo Wada
Hideshige Gomi
Takao Tsuchiya
Hiroyuki Nakatsubo
Kunitaka Nakahara
Kiyoshi Inoh

Corporate Auditors
Yasuyuki Kogure
Toshio Hirai
Kakuhei Wada
Koji Hayashi

(As of June 26, 1998)

Consolidated Five-Year Financial Summary

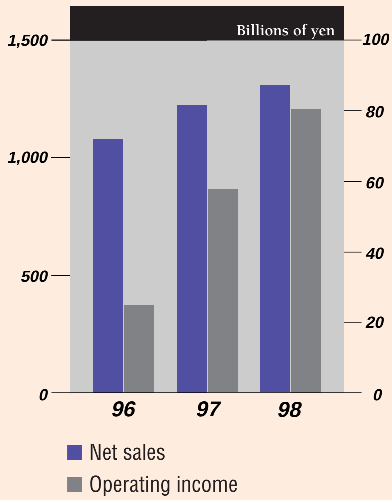
FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	Millions of yen									
	1998		1997		1996		1995		1994	
For the Year:										
Net sales	¥1,303,989		¥1,223,015		¥1,077,315		¥1,103,288		¥1,015,764	
Cost of sales	1,027,782		994,032		909,255		950,730		886,939	
Gross profit	276,207		228,983		168,060		152,558		128,775	
Selling, general and administrative expenses	195,770		171,410		143,167		130,903		150,205	
Operating income (loss)	80,437		57,573		24,893		21,655		(21,430)	
Income (loss) before income taxes, minority interests and equity in losses of affiliates	56,716		37,846		24,669		5,641		(20,467)	
Net income (loss)	30,708		39,596		19,414		1,233		(25,515)	
At Year-End:										
Shareholders' equity	¥ 168,833		¥ 149,748		¥ 107,448		¥ 88,041		¥ 122,447	
Total assets	904,571		759,030		700,859		725,741		801,196	
Ratio of shareholders' equity to total assets (%)	18.7		19.7		15.3		12.1		15.3	
Long-term debt	171,225		130,363		95,808		170,029		203,120	
Per Share (Yen):										
Net income (loss)	¥ 51.33		¥ 67.63		¥ 33.17		¥ 2.11		¥ (43.59)	
Shareholders' equity	282.09		251.05		183.56		150.41		209.19	
Other Information:										
Price range of common stock (Yen):	(High)	(Low)	(High)	(Low)	(High)	(Low)	(High)	(Low)	(High)	(Low)
First quarter	¥649	¥550	¥582	¥454	¥370	¥293	¥513	¥392	¥422	¥350
Second quarter	595	492	566	483	405	313	494	408	388	322
Third quarter	545	305	550	455	408	345	469	403	348	236
Fourth quarter	545	352	618	432	495	405	450	339	420	275
Number of shareholders*	72,107		80,587		83,077		85,268		90,148	
Number of employees*	14,685		14,763		15,082		15,243		15,018	

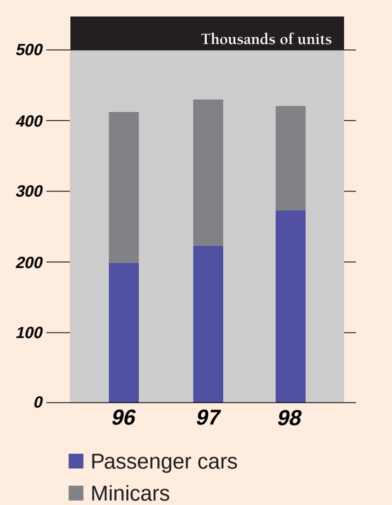
*As of March 31

Financial Review

Net Sales & Operating Income



Subaru's Passenger Cars and Minicars Unit Sales



Note: Aggregate of Domestic and Exports unit sales.

I. Results of Operations

Summary of Financial Results

	Millions of yen except per share		
	1998	1997	1996
Net sales	¥1,303,989	¥1,223,015	¥1,077,315
Gross profit	276,207	228,983	168,060
Operating income	80,437	57,573	24,893
Other income (expenses)	(23,721)	(19,727)	(224)
Income before income taxes, minority interests and equity in gains (losses) of affiliates	56,716	37,846	24,669
Income taxes	21,291	5,764	979
Net income	30,708	39,596	19,414
Per share:			
Net income (basic)	¥ 51.33	¥ 67.63	¥ 33.17
Net income (diluted)	47.18	66.28	33.04

In fiscal 1998, the year ended March 31, 1998, net sales increased 6.6%, while the cost of sales increased only 3.4%. As a result, the gross profit ratio improved 2.5 percentage points from 18.7% to 21.2%. Despite a 14.2% rise in selling, general and administrative expenses, operating income came in 39.7% up on last fiscal year and the operating income margin rose from 4.7% to 6.2%, 1.5 percentage points better than in fiscal 1997. Sales growth in the Automobiles Division was a major factor behind the improvement in operating income. Net sales in that division rose from ¥1,067,199 million to ¥1,146,215 million, accounting for 97.6% of the growth in total net sales. Likewise, the increase in operating income in the Automobiles Division from ¥55,919 million one year earlier to ¥72,884 million contributed 74.2% of the growth in the company's operating income. Income before income taxes, minority interests and equity in gains (losses) of affiliates jumped 49.9%. The improved operating income more than compensated for higher other expenses, swelled by losses on the devaluation of securities. Income taxes that were 3.7 times higher than a year earlier, however, affected the bottom line: net income dropped 22.4% below last year's record level to ¥30,708 million. As a result, net income per share declined from ¥67.63 to ¥51.33.

Operating Statistics

(Number of Vehicles)

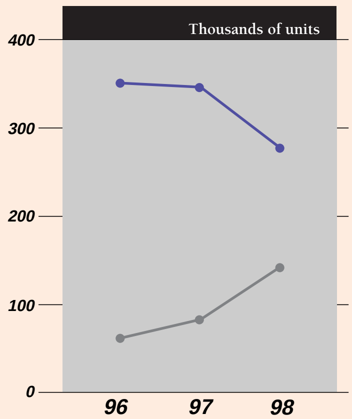
	1998	1997	1996
Domestic Units:			
Legacy	55,001	90,980	88,791
Impreza	37,049	41,918	44,864
Forester	40,032	7,494	–
Others	2,184	4,512	6,011
Subtotal	134,266	144,904	139,666
Minicars	144,366	201,640	211,385
Total	278,632	346,544	351,051
Exports Units:			
Legacy	27,857	23,816	18,875
Impreza	52,251	52,660	35,256
Forester	58,005	32	–
Others	819	2,085	4,428
Subtotal	138,932	78,593	58,559
Minicars	3,337	4,719	3,293
Total	142,269	83,312	61,852

	1998	1997	1996
U.S. Unit Sales:			
Legacy	92,913	94,950	74,191
Impreza	24,242	24,687	24,415
Forester	15,988	–	–
Others	640	1,111	1,801
Total	133,783	120,748	100,407
U.S. Production Units			
Legacy	102,180	98,747	80,660

* Domestic and Exports units are aggregate figures for fiscal 1998.

* U.S. Unit Sales and U.S. Production Units are the aggregate figures for the calendar year from January 1997 through December 1997.

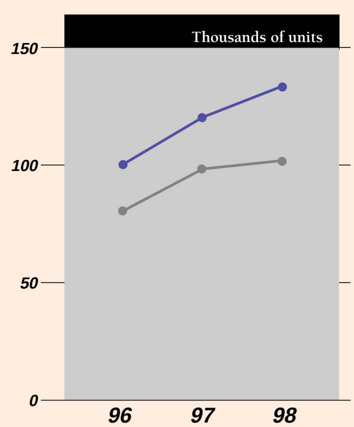
Subaru's Domestic Unit Sales and Exports



Domestic sales
Exports

Note: Excludes all trucks and buses

Subaru's U.S. Unit Sales and Production



U.S. unit sales
U.S. production units

Note: Excludes all trucks and buses

FHI's total automobile unit sales in fiscal 1998 fell 19.6% in Japan, the company's largest market, due to a continuation of sluggish economic conditions. In exports, success of a proprietary product positioning strategy, launch of the *Forester* and capturing the Manufacturers' Championship in the World Rally Championship (WRC) for the third consecutive year all helped to fuel a 70.8% jump in unit sales. Particularly noteworthy was the 10.8% increase in unit sales in the U.S., and a 3.5% increase in production of the *Legacy* at a production base in that country.

Domestic Units: FHI's total domestic automobile unit sales for fiscal 1998 decreased by 19.6% from 346,544 units to 278,632 units. Two factors had a major impact: economic sluggishness and a recoil of demand following a burst of activity prior to a consumption tax rate hike that took effect on April 1, 1997. Also, the fact that a model change for the *Legacy* would be introduced in June 1998, after the end of the fiscal year under review, caused customers to delay purchasing until the launch. Not having a "tall car," a category that has performed well over recent years, in FHI's minicar lineup was another factor. The drop in demand for passenger cars and minicars, therefore, had a significant impact on total domestic automobile sales.

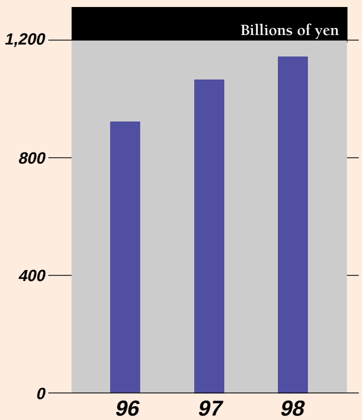
Exports Units: Total exports of finished vehicles for fiscal 1998, a figure made up of sales of passenger cars and minicars, soared 70.8% from 83,312 units to 142,269 units. By destination—results include parts for finished vehicles produced locally—North America, Europe and other areas accounted for 63.5%, 19.4% and 17.1%, respectively. Exports destined for North America increased from 134,010 units to 160,651 units thanks to the success of a product positioning strategy that anticipates customers' needs. Exports bound for Europe rose from 29,748 units to 49,140 units. The heightened popularity of the Subaru brand due to success at the WRC for the third consecutive year was a major factor here. Furthermore, in exports to other areas, units exported increased from 26,980 to 43,167 units. By model, the *Legacy* continued to post a strong showing, while the *Impreza* was largely on a par with last year. The popularity of the *Forester* was a highlight of the year.

U.S. Unit Sales: U.S. unit sales consist of the *Legacy*, *Impreza*, and *Forester*, which was added to the lineup in fiscal 1998. Unit sales for the fiscal year under review amounted to 133,783 units, up 10.8% from 120,748 units a year earlier. By vehicle model, *Legacy* sales were down marginally from 94,950 to 92,913 units. The *Impreza* also saw a marginal drop in unit sales from 24,687 to 24,242 units. The *Forester*, which went on sale in fiscal 1998, posted sales of 15,538 units.

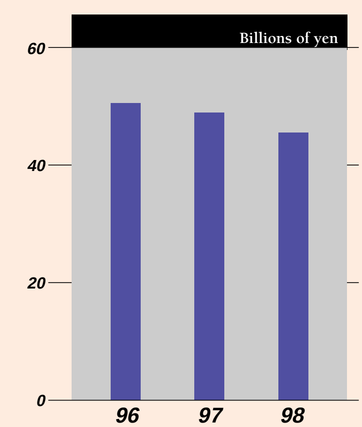
U.S. Production Units: Subaru-Isuzu Automotive Inc. (SIA), FHI's manufacturing base in the U.S., is jointly owned with Isuzu Motors Limited. The *Legacy* accounts for roughly 55% of total production at this base. SIA is presently investing to bolster production facilities in consideration of two factors: robust U.S. sales, and growth in demand that the remodeled *Legacy* is expected to produce in fiscal 1999.

Financial Review

Automobiles Sales



Industrial Products Sales



Selling, General and Administrative Expenses

	Millions of yen		
	1998	1997	1996
Transportation and packing	¥ 17,193	¥ 16,207	¥ 16,045
Advertisement	32,333	26,303	22,109
Sales incentives	51,197	48,762	42,146
Sales promotion	12,089	3,047	2,751
Salaries and bonuses	16,772	15,195	13,963
Accrued bonuses	1,606	1,545	1,291
Research and development	38,231	33,969	23,121
Others	26,349	26,382	21,741
Total	¥195,770	¥171,410	¥143,167

Selling, general and administrative expenses increased 14.2% from ¥171,410 million in fiscal 1997 to ¥195,770 million in the year under review. Of the ¥24,360 million increase, 79% was accounted for by growth in advertisement, sales promotion, and research and development expenses related mainly to the development of new vehicles in the Automobiles Division.

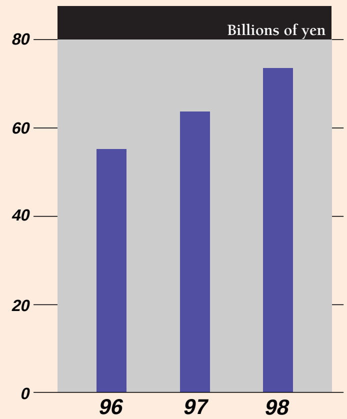
Segment Information

	Millions of yen		
Years ended March 31,	1998	1997	1996
Total sales	¥1,303,989	¥1,223,015	¥1,077,315
Automobiles	1,146,215	1,067,199	924,830
Industrial products	45,473	48,917	50,474
Aerospace	73,645	63,762	55,195
Others (Transportation equipment)	40,034	44,406	48,035
(Eliminations)	(1,378)	(1,269)	(1,219)
Costs and expenses	¥1,223,552	¥1,165,442	¥1,052,422
Automobiles	1,073,331	1,011,280	904,513
Industrial products	43,331	46,770	47,589
Aerospace	66,515	61,691	52,919
Others (Transportation equipment)	41,777	46,983	48,626
(Eliminations)	(1,402)	(1,282)	(1,225)
Operating income	¥ 80,437	¥ 57,573	¥ 24,893
Automobiles	72,884	55,919	20,317
Industrial products	2,142	2,147	2,885
Aerospace	7,130	2,071	2,276
Others (Transportation equipment)	(1,743)	(2,577)	(591)
(Eliminations)	24	13	6

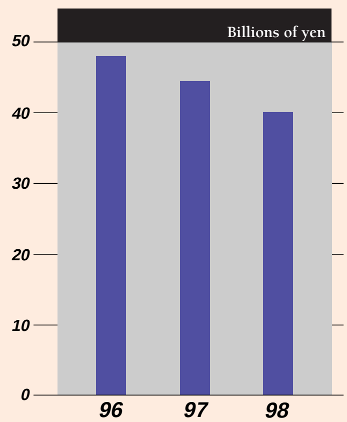
Operating income climbed 39.7% in fiscal 1998 to ¥80,437 million. Most of this increase was attributable to gains made in the Automobiles and Aerospace Divisions. The Automobiles Division posted an operating income ratio of 6.4%, compared with 5.2% a year earlier, mainly because of solid export growth and cost reductions. In the Aerospace Division, operating income was 3.4 times greater than a year earlier, while the operating income ratio improved sharply to 9.7% in contrast to 3.2% in fiscal 1997. These improvements are mainly the result of an increase in sales of products with high profitability.

In Others, although railway cars generated results largely on a par with the previous year, bus and housing operations suffered the effects of a sluggish market. The result was net sales of ¥40,034 million and an operating loss of ¥1,743 million. The division is working to turn these results around through the development of new products.

Aerospace Sales



Others Sales



Other Income (Expenses)

	Millions of yen		
	1998	1997	1996
Interest and dividend income	¥ 3,478	¥ 2,937	¥ 3,118
Interest expenses	(11,665)	(12,329)	(14,182)
Exchange gains (losses)	876	1,277	(1,722)
Losses on devaluation of securities	(9,631)	(6,710)	(3,016)
Gains (losses) on disposal of property, plant and equipment–net	(2,759)	(300)	15,068
Other–net	(4,020)	(4,602)	510
Total	¥(23,721)	¥(19,727)	¥ (224)

Other expenses in fiscal 1998 rose from ¥19,727 million to ¥23,721 million, up 20.2%. The major reasons for the increase in expenses were the losses on devaluation of securities, and the net losses on disposal of property, plant and equipment as gains on the disposal of same were lower than in fiscal 1997. Exchange gains decreased due to a smaller variation in exchange rates compared to the previous fiscal year.

II. Capitalization, Financing and Liquidity

The total of cash and time deposits and marketable securities increased from ¥113.4 billion as of March 31, 1997 to ¥151.5 billion at the end of March 1998. This was the result of more bank loans and the issue of corporate bonds in financing activities during the year under review.

In fiscal 1998, FHI's capital expenditures were ¥56.4 billion, mainly for the development of new products and to streamline and automate operations. With these investments, FHI continued to invest in equipment and facilities at a high level; fiscal 1997 capital expenditures amounted to ¥43.3 billion. Until fiscal 1996, these expenditures were carried out within the bounds of depreciation, but over the last two fiscal years, capital expenditures have exceeded depreciation. Short-term investments in non-consolidated subsidiaries and affiliates rose from ¥20.3 billion to ¥36.9 billion due to an increase in funding to support loans extended by SOA, which is enjoying strong sales growth, and the transfer of investments in and advances to non-consolidated subsidiaries and affiliates to the current portion. In addition to these two factors, some affiliated companies were newly consolidated; these companies brought with them a total of ¥30.6 billion in liabilities.

Working capital improved by ¥4.2 billion from a negative figure of ¥16.4 billion in fiscal 1997 to minus ¥12.2 billion in fiscal 1998. This reflects the procurement of more funds from capital markets to counter the restriction of lending by Japanese financial institutions. A significant portion of these funds was held as cash and time deposits and marketable securities at the balance sheet date.

Short-term fund procurement activities have centered on bank loans. Owing to the tight liquidity situation at Japanese financial institutions during the year under review, the company supplemented its financial policy based on bank loans at the end of the fiscal year with the procurement of funds by commercial paper (CP) to ensure adequate liquidity. In respect of long-term procurement activities, the company had long-term debt of ¥191.8 billion, including the current portion, at March 31, 1998. During the fiscal year under review, ¥30.0 billion was procured by the parent company from financial markets: ¥20.0 billion was procured in July 1997 by straight bonds; and in January 1998, ¥10.0 billion was procured in the same manner. The interest rates on these straight bonds were 2.25% and 2.10%, respectively. These funds were used for capital expenditures.

Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	1998	1997	1998
Current assets:			
Cash and time deposits	¥ 92,679	¥ 72,064	$ 702,114
Marketable securities	58,863	41,326	445,932
Short-term investments in non-consolidated subsidiaries and affiliates	36,927	20,250	279,750
Notes and accounts receivable:			
Non-consolidated subsidiaries and affiliates	24,743	38,924	187,447
Third parties	81,271	89,133	615,689
Less allowance for doubtful accounts	(878)	(900)	(6,652)
Inventories	156,935	125,608	1,188,902
Other current assets	48,098	24,975	364,379
Total current assets	498,638	411,380	3,777,561
Property, plant and equipment (Note 4):	747,062	674,508	5,659,560
Less accumulated depreciation	(456,960)	(439,914)	(3,461,818)
Net property, plant and equipment	290,102	234,594	2,197,742
Investments and other assets:			
Securities investments (Note 4)	23,129	8,187	175,220
Investments in and advances to non-consolidated subsidiaries and affiliates	27,806	44,109	210,652
Other assets	43,288	38,440	327,939
	94,223	90,736	713,811
Translation adjustments	21,608	22,320	163,697
Total assets	¥ 904,571	¥ 759,030	$ 6,852,811

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 1998	1997	Thousands of U.S. dollars (Note 3) 1998
Current liabilities:			
Short-term borrowings	¥164,859	¥127,092	$1,248,932
Current portion of long-term debt (Note 4)	20,574	8,768	155,864
Notes and accounts payable:			
Non-consolidated subsidiaries and affiliates	17,537	16,372	132,856
Third parties	180,222	177,278	1,365,318
Accrued expenses	90,800	73,450	687,879
Income taxes payable	18,373	7,108	139,189
Other current liabilities	18,475	17,689	139,962
Total current liabilities	510,840	427,757	3,870,000
Long-term liabilities:			
Long-term debt (Note 4)	171,225	130,363	1,297,159
Accrued severance indemnities	18,285	18,349	138,523
Other	19,190	21,449	145,379
	208,700	170,161	1,581,061
Minority interest in consolidated subsidiaries	16,198	11,364	122,712
Shareholders' equity:			
Common stock, ¥50 par value per share:			
Authorized— 1,500,000,000 shares;			
Issued 1997— 596,483,764 shares	–	83,618	–
1998— 598,507,144 shares	84,138	–	637,409
Additional paid-in capital	90,588	90,070	686,273
Legal reserve	5,936	5,295	44,970
Accumulated deficit	(11,827)	(29,232)	(89,599)
Less treasury stock, at cost	(2)	(3)	(15)
	168,833	149,748	1,279,038
Contingent liabilities (Note 5)			
Total liabilities and shareholders' equity	¥904,571	¥759,030	$6,852,811

Consolidated Statements of Income and Retained Earnings

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
Net sales (Note 7)	¥1,303,989	¥1,223,015	$9,878,705
Cost of sales (Note 7)	1,027,782	994,032	7,786,227
Gross profit	276,207	228,983	2,092,478
Selling, general and administrative expenses (Note 7)	195,770	171,410	1,483,106
Operating income (Note 7)	80,437	57,573	609,372
Other income (expenses):			
Interest and dividend income	3,478	2,937	26,348
Interest expenses	(11,665)	(12,329)	(88,371)
Exchange gains	876	1,277	6,636
Losses on devaluation of securities	(9,631)	(6,710)	(72,962)
Losses on disposal of property, plant and equipment—net	(2,759)	(300)	(20,902)
Other, net	(4,020)	(4,602)	(30,454)
	(23,721)	(19,727)	(179,705)
Income before income taxes, minority interests and equity in gains (losses) of affiliates	56,716	37,846	429,667
Income taxes	21,291	5,764	161,296
Income before minority interests and equity in gains (losses) of affiliates	35,425	32,082	268,371
Minority interests in consolidated subsidiaries	(4,610)	(2,262)	(34,924)
Equity in gains (losses) of affiliates	(107)	9,776	(811)
Net income	30,708	39,596	232,636
Retained earnings (accumulated deficit):			
Balance at beginning of year:			
As previously reported	(29,232)	(65,442)	(221,454)
Amounts applicable to subsidiaries newly consolidated	(6,197)	(26)	(46,947)
Bonuses to directors and statutory auditors	(194)	(129)	(1,470)
Dividends paid	(6,270)	(2,927)	(47,500)
Transfer to legal reserve	(642)	(304)	(4,864)
Balance at end of year	¥ (11,827)	¥ (29,232)	$ (89,599)

	Yen		U.S. dollars (Note 3)
Per share of common stock:			
Net income	¥51.33	¥67.63	$0.39

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 1998

1. BASIS OF PRESENTING THE FINANCIAL STATEMENTS:

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in Japan, and compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan with the reclassification of certain items.

The accompanying consolidated financial statements do not include the statements of shareholders' equity and of cash flows as these financial statements are not required under the Securities and Exchange Law of Japan. However, the consolidated shareholders' equity and cash flows are, in all material respects, comparable to those in the non-consolidated financial statements.

The accounting information described in the notes to non-consolidated financial statements elsewhere in this annual report is to be read in conjunction with the notes to consolidated financial statements as they are equally applicable or similar to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of consolidation and accounting for investments in non-consolidated subsidiaries and affiliates:

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. Significant intercompany balances, transactions and unrealized profits have been eliminated in consolidation.

Investments in non-consolidated subsidiaries and significant affiliates (owned 20% to 50%) are accounted for on the equity method. Consolidated net income includes the Company's equity in the current net income of such companies after elimination of unrealized intercompany profits.

Investments in insignificant non-consolidated subsidiaries and affiliates not accounted for on the equity method are carried at cost.

The difference between the cost and underlying net equity of consolidated subsidiaries at the time the investments are made is allocated to the appropriate balance-sheet accounts if the cause is determinable; otherwise, such difference is amortized over a period of five years.

(b) Current and non-current accounts denominated in foreign currencies of the Company and its domestic subsidiaries are principally translated into yen at historical exchange rates.

The balance-sheet accounts of the consolidated foreign subsidiaries are translated at the exchange rates in effect at the balance-sheet date, except for common stock which is translated at historical rates.

Revenues and expenses are also translated at the year-end rates. Resulting translation adjustments are reflected in the consolidated balance sheets as "Translation Adjustments."

(c) Deferred income taxes pertaining to temporary differences are recognized only insofar as they relate to the elimination of unrealized intercompany profit and the adjustment of allowance for doubtful accounts for consolidation purposes.

3. U.S. DOLLAR AMOUNTS:

The United States dollar amounts included in the accompanying consolidated financial statements and related notes represent the arithmetic results of translating Japanese yen into U.S. dollars on the basis of ¥132 to U.S.$1, the approximate exchange rate at March 31, 1998. The U.S. dollar amounts are included solely for the convenience of the reader, and it should not be construed that the assets and liabilities, expressed in U.S. dollar equivalents, can actually be realized in or be settled by U.S. dollars at the exchange rates used in the accompanying translation.

4. PLEDGED ASSETS:

The following assets as of March 31, are pledged as collateral for certain loans and other liabilities:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Property, plant and equipment	¥87,322	¥53,480	$661,530
Securities investments	4,432	6,185	33,576
	¥91,754	¥59,665	$695,106

5. CONTINGENT LIABILITIES:

At March 31, 1998, contingent liabilities are as follows:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted with banks	¥ 653	$ 4,947
As guarantor of indebtedness of non-consolidated subsidiaries, affiliates and others	99,677	755,129
	¥100,330	$760,076

6. AMOUNTS PER SHARE OF COMMON STOCK:

Primary net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Fully diluted net income per share is based on the assumption that all convertible bonds were converted into common stock.

	Yen			U.S. dollars
For the year ended March 31,	1998	1997	1996	1998
Net income				
Primary	¥51.33	¥67.63	¥33.17	$0.39
Fully diluted	47.18	66.28	33.04	0.36

The following amounts of net assets per share are computed on the outstanding number of shares of common stock at each balance sheet date.

	Yen			U.S. dollars
For the year ended March 31,	1998	1997	1996	1998
Net assets	¥282.09	¥251.05	¥183.56	$2.14

7. SEGMENT INFORMATION:

Information by industry segment:

The Company and its consolidated subsidiaries operate principally in four industry segments: automobiles, industrial products, aerospace and other businesses (including transportation equipment business).

A summary of net sales, costs and expenses, operating income, assets, depreciation and capital expenditures by industry segment for the years ended March 31, 1998 and 1997 is shown below.

	Millions of yen							
	1998							
Industry segment	Outside customers	Inter-segment	Total sales	Costs and expenses	Operating income	Assets	Depreciation	Capital expenditures
Automobiles	¥1,145,353	¥ 862	¥1,146,215	¥1,073,331	¥72,884	¥704,191	¥26,994	¥51,485
Industrial products	45,202	271	45,473	43,331	2,142	39,384	2,160	976
Aerospace	73,528	117	73,645	66,515	7,130	106,624	2,413	2,894
Others	39,906	128	40,034	41,777	(1,743)	56,171	1,007	1,064
Total	1,303,989	1,378	1,305,367	1,224,954	80,413	906,370	32,574	56,419
Elimination	–	(1,378)	(1,378)	(1,402)	24	(1,799)	–	–
Consolidation	¥1,303,989	¥ 0	¥1,303,989	¥1,223,552	¥80,437	¥904,571	¥32,574	¥56,419

Industry segment	Millions of yen 1997 Outside customers	Inter-segment	Total sales	Costs and expenses	Operating income	Assets	Depreciation	Capital expenditures
Automobiles	¥1,066,334	¥ 865	¥1,067,199	¥1,011,280	¥55,919	¥580,051	¥23,067	¥38,667
Industrial products	48,694	223	48,917	46,770	2,147	41,476	2,318	1,719
Aerospace	63,638	124	63,762	61,691	2,071	100,852	2,592	2,126
Transportation equipment	44,349	57	44,406	46,983	(2,577)	37,665	772	762
Total	1,223,015	1,269	1,224,284	1,166,724	57,560	760,044	28,749	43,274
Elimination	–	(1,269)	(1,269)	(1,282)	13	(1,014)	–	–
Consolidation	¥1,223,015	¥ 0	¥1,223,015	¥1,165,442	¥57,573	¥759,030	¥28,749	¥43,274

Industry segment	Thousands of U.S. dollars 1998 Outside customers	Inter-segment	Total sales	Costs and expenses	Operating income	Assets	Depreciation	Capital expenditures
Automobiles	$8,676,917	$ 6,530	$8,683,447	$8,131,295	$552,152	$5,334,780	$204,500	$390,038
Industrial products	342,439	2,053	344,492	328,265	16,227	298,364	16,364	7,394
Aerospace	557,030	886	557,917	503,902	54,015	807,758	18,280	21,924
Others	302,319	970	303,288	316,492	(13,204)	425,538	7,629	8,061
Total	9,878,706	10,439	9,889,144	9,279,954	609,190	6,866,440	246,773	427,417
Elimination	–	(10,439)	(10,439)	(10,621)	182	(13,629)	–	–
Consolidation	$9,878,705	$ 0	$9,878,705	$9,269,333	$609,372	$6,852,811	$246,773	$427,417

Information by geographic area:
A summary of net sales, costs and expenses, operating income and assets by geographic areas for the years ended March 31, 1998 and 1997 is shown below.

Geographic area	Millions of yen 1998 Outside customers	Inter-segment	Total sales	Costs and expenses	Operating income	Assets
Domestic (Inside Japan)	¥ 708,851	¥ 173,858	¥ 882,709	¥ 823,904	¥58,805	¥656,485
North America	583,332	1,172	584,504	560,045	24,459	269,825
Others	11,806	67	11,873	11,707	166	2,344
Total	1,303,989	175,097	1,479,086	1,395,656	83,430	928,654
Elimination	–	(175,097)	(175,097)	(172,104)	(2,993)	(24,083)
Consolidation	¥1,303,989	¥ 0	¥1,303,989	¥1,223,552	¥80,437	¥904,571

Geographic area	Millions of yen					
	1997					
	Outside customers	Inter-segment	Total sales	Costs and expenses	Operating income	Assets
Domestic (Inside Japan)	¥ 747,934	¥ 106,218	¥ 854,152	¥ 808,638	¥45,514	¥554,709
Outside Japan	475,081	907	475,988	461,636	14,352	217,935
Total	1,223,015	107,125	1,330,140	1,270,274	59,866	772,644
Elimination	–	(107,125)	(107,125)	(104,832)	(2,293)	(13,614)
Consolidation	¥1,223,015	¥ 0	¥1,223,015	¥1,165,442	¥57,573	¥759,030

Geographic area	Thousands of U.S. dollars					
	1998					
	Outside customers	Inter-segment	Total sales	Costs and expenses	Operating income	Assets
Domestic (Inside Japan)	$5,370,083	$1,317,106	$ 6,687,189	$ 6,241,697	$445,492	$4,973,371
North America	4,419,182	8,879	4,428,061	4,242,765	185,296	2,044,129
Other	89,440	507	89,947	88,689	1,258	17,758
Total	9,878,705	1,326,492	11,205,197	10,573,151	632,046	7,035,258
Elimination	–	(1,326,492)	(1,326,492)	(1,303,818)	(22,674)	(182,447)
Consolidaton	$9,878,705	$ 0	$ 9,878,705	$ 9,269,333	$609,372	$6,852,811

Overseas sales:
Overseas sales for the year ended March 31, 1998 are summarized as follows:

	Millions of yen				
	Overseas sales				
	North America	European	Other	Total	Consolidated
Sales amount	¥620,993	¥93,699	¥65,546	¥780,238	¥1,303,989

	Thousands of U.S. dollars				
	Overseas sales				
	North America	European	Other	Total	Consolidated
Sales amount	$4,704,492	$709,841	$496,561	$5,910,894	$9,878,705
Percentage against consolidated sales	47.6%	7.2%	5.0%	59.8%	–

Overseas sales for the year ended March 31, 1997 were ¥597,877 million. The percentage of such sales against consolidated net sales was approximately 48.9%.

Report of Independent Certified Public Accountants

To the Board of Directors of FUJI HEAVY INDUSTRIES LTD.

We have audited the accompanying consolidated balance sheets of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income and retained earnings for the years then ended, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries as of March, 31, 1998 and 1997, and the results of their operations for the years then ended, in conformity with accounting principles generally accepted in Japan.

The United States dollar amounts in the consolidated financial statements have been translated for convenience only on the basis described in Note 3.

Meiji Audit Corporation

MEIJI AUDIT CORPORATION

Tokyo, Japan
June 26, 1998

Non-Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD.
As of March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	1998	1997	1998
Current assets:			
Cash	¥ 42,080	¥ 37,919	$ 318,788
Time deposits	6,032	8,631	45,697
Marketable securities (Note 6)	58,712	40,975	444,788
Short-term investments in subsidiaries and affiliates	35,505	19,944	268,977
Notes and accounts receivable (Note 5):			
Subsidiaries and affiliates	44,993	44,807	340,856
Third parties	67,518	81,935	511,500
Less allowance for doubtful receivables	(976)	(946)	(7,394)
Inventories (Note 4)	86,427	77,454	654,750
Other current assets	15,722	3,905	119,106
Total current assets	356,013	314,624	2,697,068
Property, plant and equipment:			
Land (Note 9)	66,884	64,503	506,697
Buildings (Note 9)	133,372	131,020	1,010,394
Machinery and equipment (Note 9)	395,148	386,951	2,993,545
Construction in progress	10,816	4,435	81,939
	606,220	586,909	4,592,575
Less accumulated depreciation	(393,956)	(391,741)	(2,984,515)
	212,264	195,168	1,608,060
Investments and other assets:			
Securities investments (Note 6 and 9)	13,041	10,306	98,796
Investments in and advances to subsidiaries and affiliates (Note 6)	120,971	107,930	916,447
Other assets	15,175	13,909	114,962
	149,187	132,145	1,130,205
Total assets	¥ 717,464	¥ 641,937	$ 5,435,333

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars (Note 3) 1998
Current liabilities:			
Short-term borrowings (Note 9)	¥ 81,300	¥ 60,503	$ 615,909
Current portion of long-term debt (Note 9)	4,780	5,637	36,212
Notes and accounts payable (Note 5):			
Subsidiaries and affiliates	19,164	19,514	145,182
Third parties	146,029	146,818	1,106,280
Notes for acquisitions of property, plant and equipment	6,225	3,050	47,159
Accrued expenses (Note 7)	32,576	30,793	246,788
Income taxes payable (Note 15)	17,696	6,764	134,061
Other current liabilities (Note 8)	14,778	12,735	111,954
Total current liabilities	322,548	285,814	2,443,545
Long-term liabilities:			
Long-term debt (Note 9)	130,555	103,404	989,053
Accrued severance indemnities (Note 10)	17,241	17,286	130,613
Other	6,183	6,363	46,841
	153,979	127,053	1,166,507
Shareholders' equity (Note 11):			
Common stock, ¥50 par value per share:			
Authorized—1,500,000,000 shares;			
Issued 1997— 596,483,764 shares	–	83,618	–
1998— 598,507,144 shares	84,138	–	637,409
Additional paid-in capital	90,588	90,070	686,273
Legal reserve	5,936	5,295	44,970
Retained earnings (Note 18)	60,275	50,087	456,629
	240,937	229,070	1,825,281
Contingent liabilities (Note 16)			
Total liabilities and shareholders' equity	¥717,464	¥641,937	$5,435,333

Non-Consolidated Statements of Income

FUJI HEAVY INDUSTRIES LTD.
Years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1998	1997	1996	1998
Net sales (Note 12)	¥856,367	¥824,735	¥746,787	$6,487,629
Cost of sales (Note 12)	654,091	646,475	613,197	4,955,235
Gross profit	202,276	178,260	133,590	1,532,394
Selling, general and administrative expenses (Note 13)	143,791	133,623	114,320	1,089,326
Operating income	58,485	44,637	19,270	443,068
Other income (expenses):				
Interest and dividend income	5,311	2,075	2,639	40,235
Interest expenses	(5,171)	(6,140)	(9,179)	(39,174)
Exchange gains (losses)	411	724	(1,774)	3,113
Other, net (Note 14)	(20,009)	(11,246)	2,720	(151,583)
	(19,458)	(14,587)	(5,594)	(147,409)
Income before income taxes	39,027	30,050	13,676	295,659
Income taxes (Note 15)	21,788	7,199	113	165,061
Net income	¥ 17,239	¥ 22,851	¥ 13,563	$ 130,598

	Yen			U.S. dollars (Note 3)
Per share of common stock:				
Net income	¥28.81	¥39.03	¥23.17	$0.22

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Shareholders' Equity

FUJI HEAVY INDUSTRIES LTD.
Years ended March 31, 1998, 1997 and 1996

	Thousands	Millions of yen			
	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance, March 31, 1995	585,346	¥80,716	¥87,183	¥4,991	¥17,014
1996 net income					13,563
Balance, March 31, 1996	585,346	80,716	87,183	4,991	30,577
Dividends paid					(2,927)
Payment of bonuses to directors and statutory auditors					(110)
Transfer from retained earnings				304	(304)
Shares issued upon conversion of convertible bonds	4,612	1,186	1,181		
Shares issued upon exercise of warrants	6,526	1,716	1,706		
1997 net income					22,851
Balance, March 31, 1997	596,484	83,618	90,070	5,295	50,087
Dividends paid					(6,270)
Payment of bonuses to directors and statutory auditors					(140)
Transfer from retained earnings				641	(641)
Shares issued upon conversion of convertible bonds	2,023	520	518		
1998 net income					17,239
Balance, March 31, 1998	598,507	¥84,138	¥90,588	¥5,936	¥60,275

	Thousands of U.S. dollars (Note 3)			
Balance, March 31, 1997	$633,470	$682,348	$40,114	$379,447
Dividends paid				(47,500)
Payment of bonuses to directors and statutory auditors				(1,061)
Transfer from retained earnings			4,856	(4,856)
Shares issued upon conversion of convertible bonds	3,939	3,924		
1998 net income				130,598
Balance, March 31, 1998	$637,409	$686,273	$44,970	$456,629

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Cash Flows

FUJI HEAVY INDUSTRIES LTD.
Years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1998	1997	1996	1998
Cash flows from operating activities:				
Net income	¥ 17,239	¥ 22,851	¥ 13,563	$ 130,598
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	24,145	22,804	23,232	182,917
Provision for accrued severance indemnities	2,435	2,575	2,297	18,447
Payments of accrued severance indemnities	(2,480)	(2,286)	(2,247)	(18,788)
Loss (gain) on sales and disposal of property, plant and equipment	2,884	270	(15,039)	21,848
Write-down of marketable securities and investments in subsidiaries and affiliates	9,574	6,621	13,097	72,530
Other non-cash income	3	(134)	(259)	23
Changes in operating assets and liabilities:				
Notes and accounts receivable	14,261	(2,297)	924	108,038
Inventories and other current assets	(20,790)	3,426	591	(157,500)
Notes and accounts payable	(1,139)	14,720	(10,641)	(8,628)
Income taxes payable	10,932	6,717	2	82,818
Accrued expenses and other current liabilities	(315)	4,980	(1,380)	(2,386)
Net cash provided by operating activities	56,749	80,247	24,140	429,917
Cash flows from investing activities:				
Purchase of property, plant and equipment	(34,730)	(23,941)	(22,754)	(263,106)
Proceeds from sales and disposal of property, plant and equipment	1	3,113	17,290	7
Decrease (increase) in investments	(18,852)	528	(1,241)	(142,818)
Increase in other assets	(3,349)	(2,296)	(2,929)	(25,371)
Decrease (increase) in time deposits and marketable securities	(21,636)	(20,262)	14,486	(163,909)
Decrease (increase) in short-term investments	(15,561)	7,333	(4,062)	(117,886)
Net cash provided by (used for) investing activities	(94,127)	(35,525)	790	(713,083)
Cash flows from financing activities:				
Long-term debt	34,000	30,000	11,250	257,576
Repayment of long-term debt	(6,668)	(55,817)	(55,475)	(50,515)
Subscription of common stock	–	3,422	0	–
Increase (decrease) in short-term borrowings	20,797	(25,000)	11,000	157,553
Payment of cash dividends and bonuses to directors and statutory auditors	(6,410)	(3,037)	0	(48,561)
Other	(180)	2,782	(1,030)	(1,364)
Net cash provided by (used for) financing activities	41,539	(47,650)	(34,255)	314,689
Net increase (decrease) in cash	4,161	(2,928)	(9,325)	31,522
Cash at beginning of period	37,919	40,847	50,172	287,265
Cash at end of period	¥ 42,080	¥ 37,919	¥ 40,847	$ 318,788
Supplemental information on cash flows:				
Cash paid during the period for interest	¥ 5,016	¥ 6,399	¥ 9,097	$ 38,000

The accompanying notes are an integral part of these statements.

Notes to Non-Consolidated Financial Statements

FUJI HEAVY INDUSTRIES LTD.
March 31, 1998

1. BASIS OF PRESENTING THE FINANCIAL STATEMENTS:

Fuji Heavy Industries Ltd. (the "Company") maintains its records and prepares its financial statements in accordance with accounting principles generally accepted in Japan. The accompanying non-consolidated financial statements are prepared based on the non-consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan.

The presentation of statements of shareholders' equity and of cash flows is not requested in Japan. These statements are, however, presented for the convenience of the reader. Furthermore, certain items presented in the original financial statements have been reclassified and summarized for readers outside Japan. In addition, the notes to the financial statements include information which is not required under accounting principles generally accepted in Japan, but is presented as additional information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Non-consolidation of subsidiary accounts:
The accompanying financial statements do not include the accounts of the Company's majority-owned subsidiaries.

Translation of foreign currency accounts:
Monetary assets and liabilities denominated in foreign currency are translated into yen at historical exchange rates.

Revenues and expenses denominated in foreign currency are translated at the exchange rates prevailing when such transactions were made.

Marketable securities and securities investments:
Securities which are listed on stock exchanges, except for investments in subsidiaries, are stated at the lower of cost of market, cost being determined by the moving average method. Securities which are not listed on stock exchanges are stated at cost, as determined by the moving average method, after devaluation for any permanent impairment.

Inventories:
Finished products are stated mainly at cost determined by the moving average method while raw materials, work in process and supplies are stated at cost principally determined by the first-in, first-out method.

Investments in and advances to subsidiaries and affiliates:
Investments in and advances to subsidiaries and affiliates are stated at cost after devaluation for any permanent impairment.

Property, plant and equipment:
Property, plant and equipment is stated at cost. Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of the assets. Maintenance and repairs, including minor renewals and betterment, are charged to income as incurred.

Research and development expenses and bond issue expenses:
Research and development expenses and bond issue expenses are charged to income as incurred

Allowance for doubtful receivables:
The Company has provided an allowance for doubtful receivables to cover possible losses on collection at the maximum amount allowable under Japanese tax regulations and based on management's estimates.

Finance leases:
Finance leases which do not transfer ownership of the leased property to the lessee are accounted for as rental transactions.

Income taxes:
Income taxes are provided based on amounts reflected in the tax returns for the period. Deferred income taxes relating to temporary differences are not recognized, as interperiod income tax allocation is not generally practiced in Japan.

Accrued severance indemnities and pension plan:
Employees who terminate employment are entitled, under most circumstances, to lump-sum payments determined by current basic rate of pay, length of service, position in the Company, and conditions under which the termination occurs. The minimum payment is an amount based on voluntary retirement. In addition to the minimum payment, employees receive additional benefits for retirement at the age limit or for other defined reasons.

Also, the Company has a funded pension plan which will generally provide for an annuity payable subsequent to retirement. This plan covers to the extent of 80% of retirement and severance benefits for employees who terminate employment at age fifty or over. The Company's contributions to the plan include amortization of prior service costs over thirty-seven years.

Japanese tax laws limit the allowable deductions for accrued severance indemnities at 40% of voluntary liabilities. The Company records 40% of the voluntary liabilities in accordance with the law.

The Company has not provided accrued severance benefits for directors because, according to the Commercial Code of Japan, any termination benefits for directors are at the discretion of the shareholders and are not determinable in advance of a resolution by the shareholders covering such payment.

3. U.S. DOLLAR AMOUNTS:

The United States Dollar amounts included in the accompanying non-consolidated financial statements and related notes represent the arithmetic results of translating Japanese yen into U.S. dollars on the basis of ¥132 to U.S.$1, the approximate exchange rate at March 31, 1998. The U.S. dollar amounts are included solely for the convenience of the reader, and it should not be construed that the assets and liabilities, expressed in U.S. dollar equivalents, can actually be realized in or be settled by U.S. dollars at the exchange rates used in the accompanying translation.

4. INVENTORIES:

Inventories comprise the following:

March 31,	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Finished products	¥23,072	¥21,815	$174,788
Work in process	56,578	49,641	428,621
Raw materials	5,580	4,788	42,273
Supplies	1,197	1,210	9,068
	¥86,427	¥77,454	$654,750

5. TRANSACTION OF CURRENT RECEIVABLES AND PAYABLES DENOMINATED IN FOREIGN CURRENCIES:

Current monetary receivables and payables denominated in foreign currencies are translated at historical exchange rates in accordance with Statement No. 55 of the Audit Committee of the Japanese Institute of Certified Public Accountants.

Unrealized foreign exchange gains (losses) resulting from a translation of receivables and payables at current exchange rates prevailing at the balance sheet date are as follows:

March 31,	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Receivables:			
At historical rate	¥13,161	¥11,629	$ 99,705
At current rate	13,849	12,486	104,917
Exchange gains	¥ 688	¥ 857	$ 5,212
Payables:			
At historical rate	¥ 1,947	¥ 3,728	$ 14,750
At current rate	2,077	3,949	15,735
Exchange losses	¥ (130)	¥ (221)	$ (985)

6. MARKETABLE SECURITIES AND SECURITIES INVESTMENTS:

Unrealized valuation gains between aggregate cost and market value of marketable and securities investments (including investments in affiliates) at March 31, 1998 and 1997 are shown below:

March 31,	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Aggregate cost:			
Current	¥20,026	¥26,446	$151,712
Non-current	9,654	11,392	73,136
	¥29,680	¥37,838	$224,848
Market value:			
Current	¥21,202	¥30,447	$160,621
Non-current	19,481	22,180	147,583
	¥40,683	¥52,627	$308,204
Valuation gains	¥11,003	¥14,789	$ 83,355

Securities not traded in stock exchanges or other regulated markets are not included in the above aggregate cost and market value.

7. ACCRUED EXPENSES:

Accrued expenses are summarized as shown below:

	Millions of yen		Thousands of U.S. dollars
March 31,	1998	1997	1998
Accrued interest expenses	¥ 232	¥ 1,156	$ 1,758
Accrued bonuses to employees	10,941	10,314	82,886
Accrued warranty claims	4,981	6,435	37,735
Others	16,422	12,888	124,409
	¥32,576	¥30,793	$246,788

8. OTHER CURRENT LIABILITIES:

Other current liabilities represent:

	Millions of yen		Thousands of U.S. dollars
March 31,	1998	1997	1998
Advance payments received	¥ 858	¥ 1,579	$ 6,500
Payables for acquisitions of property, plant and equipment	12,058	7,917	91,348
Consumption tax payable	–	609	–
Others	1,862	2,630	14,106
	¥14,778	¥12,735	$111,954

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT:

Short-term borrowings at March 31, 1998 consist of unsecured bank loans and commercial papers which are due principally in 365 days and bear interest at an average rate of approximately 1.2% per annum.

A summary of long-term debt is as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	1998	1997	1998
Loans, principally from banks and insurance companies, due through 2004 with interest ranging from 1.9% per annum to 8.5% per annum	¥ 34,155	¥ 36,823	$ 258,750
3.0% convertible bonds in U.S. dollars, due March 31, 2000	13	13	98
1.8% convertible bonds in Japanese yen, due March 31, 2003	2,097	2,097	15,886
8.75% bonds in U.S. dollars, due November 17, 1999	42,474	42,474	321,773
0.9% convertible bonds in Japanese yen, due September 30, 2003	26,596	27,634	201,485
2.25% bonds in Japanese yen, due July 31, 2002	20,000	–	151,515
2.10% bonds in Japanese yen, due January 31, 2001	10,000	–	75,758
	135,335	109,041	1,025,265
Portion due within one year	4,780	5,637	36,212
	¥130,555	¥103,404	$ 989,053

The aggregate annual maturates of long-term debt as of March 31, 1998 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
1999	¥ 4,780	$ 36,212
2000	56,189	425,674
2001	22,942	173,803
2002	1,655	12,538
2003	22,700	171,970
2004 and thereafter	27,069	205,068
	¥135,335	$1,025,265

Assets of the Company pledged as collateral for certain loans at March 31, 1998 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	¥54,871	$415,689
Securities investments	4,402	33,348
	¥59,273	$449,038

Convertible bonds are convertible, unless previously redeemed, into shares of common stock of the Company at conversion prices as follows:

	Conversion price per share	Convertible at any time up to and including
3.0% convertible bonds in U.S. dollars, due March 31, 2000	¥662.70 ($5.02)	March 20, 2000
1.8% convertible bonds in Japanese yen, due March 31, 2003	¥633.30 ($4.80)	March 28, 2003
0.9% convertible bonds in Japanese yen, due September 30, 2003	¥513.00 ($3.89)	September 29, 2003

If all the outstanding convertible bonds were converted at March 31, 1998, approximately 55,175 thousand additional shares of common stock would be issued.

As is customary in Japan, substantially all bank borrowings are subject to general agreements which provide, among other things, that the banks may, under certain circumstances, request additional security for these loans and may treat any security furnished to the banks, as well as cash deposited with them, as security for all present and future indebtedness. The banks have never requested that the Company submit such additional security.

10. SEVERANCE INDEMNITIES AND PENSION PLAN:

Charges to income for severance indemnities and pension plan for employees are as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Funded pension plan	¥4,788	¥4,673	¥3,788	$36,273
Accrued severance indemnities	2,435	2,575	2,297	18,447
	¥7,223	¥7,248	¥6,085	$54,720

11. SHAREHOLDERS' EQUITY:

The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash outlays including cash dividends and bonuses to directors and statutory auditors be appropriated as a legal reserve until such reserve equals 25% of stated capital (common stock).

The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce a deficit by resolution of the shareholders or may be capitalized in the form of a free distribution of shares by resolution of the Board of Directors.

The Japanese Commercial Code also provides that the entire amount of paid-in capital on new share issues including shares issued upon conversion of bonds shall, generally, be included in the common stock account. However, an amount equal to or less than 50% of the issue price of the shares may be transferred to the additional paid-in capital account on the condition that at least the par value per share is included in the common stock account.

The amount available for dividends under the Commercial Code of Japan is based upon retained earnings as recorded by the Company. At March 31, 1998, the amount available for dividends is ¥54,795 million (U.S.$415,114 thousand).

12. SALES TO AND PURCHASES FROM SUBSIDIARIES AND AFFILIATES:

Sales to and purchases from subsidiaries and affiliates during the three years ended March 31, 1998 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Sales to:				
Subaru of America, Inc.	¥ 89,492	¥ 42,982	¥ 23,455	$ 677,970
Other subsidiaries and affiliates	404,322	434,649	396,626	3,063,045
Total	¥493,814	¥477,631	¥420,081	$3,741,015
Purchases from subsidiaries and affiliates	¥ 42,365	¥ 93,339	¥ 88,387	$ 320,947

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

Selling, general and administrative expenses consist of the following:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Transportation and packing expenses	¥ 13,320	¥ 13,102	¥ 13,134	$ 100,909
Advertising expenses	18,091	17,076	14,084	137,053
Sales incentives	31,904	35,105	34,331	241,697
Sales promotion	11,862	3,243	2,727	89,864
Remuneration to directors	322	360	365	2,439
Salaries and bonuses	8,561	8,554	8,571	64,856
Accrued bonuses	1,487	1,430	1,167	11,265
Depreciation	591	627	675	4,477
Research and development expenses	38,099	33,910	23,090	288,629
Provision for accrued severance indemnities	505	801	698	3,826
Provision for allowance for doubtful accounts (net)	84	1,587	230	637
Others	18,965	17,828	15,248	143,674
Total	¥143,791	¥133,623	¥114,320	$1,089,326

14. OTHER INCOME (EXPENSES):

A breakdown of other income (expenses) — other, net is as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Gain on sale of marketable securities	¥ 1	¥ 4	¥ 4	$ 8
Gain on sale of property, plant and equipment	248	3,116	16,421	1,879
Rental income	1,729	2,201	1,964	13,098
Loss from disposal of property, plant and equipment	(2,920)	(3,386)	(1,382)	(22,121)
Write-down of marketable securities and investments in subsidiaries and affiliates	(9,574)	(6,621)	(13,097)	(72,530)
Others	(9,493)	(6,560)	(1,190)	(71,917)
Total	¥(20,009)	¥(11,246)	¥ 2,720	$(151,583)

15. INCOME TAXES:

The Company is subject to several taxes based on income which, in the aggregate, resulted in normal statutory tax rates of approximately 52% for 1998, 1997 and 1996.

The effective tax rates reflected in the statements of income differ from the normal tax rates primarily because of the effect of temporary differences in the recognition of certain income and expenses for tax and financial reporting purposes, the effect of permanent non-deductible expenses, and tax exemptions for dividend income received from Japanese companies.

16. CONTINGENT LIABILITIES:

Contingent liabilities as of March 31, 1998 are as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of subsidiaries, affiliates and others	¥171,340	$1,298,030
Trade notes discounted with banks	653	4,947
	¥171,993	$1,302,977

The Company has cancelable long-term lease agreement, principally for computer equipment, office space, and employee housing, that resulted in annual rental payments totaling approximately ¥6,912 million (U.S.$52,364 thousand) for the year ended March 31, 1998.

17. AMOUNTS PER SHARE OF COMMON STOCK:

Primary net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Fully diluted net income per share is based on the assumption that all convertible bonds were converted into common stock. Cash dividends per share represent those applicable to the respective years.

	Yen			U.S. dollars
For the year ended March 31,	1998	1997	1996	1998
Net income:				
Primary	¥28.81	¥39.03	¥23.17	$0.22
Fully diluted	26.57	38.21	23.10	0.20
Cash dividends applicable to the year	7.00	7.00	5.00	0.05

The following amounts of net assets per share are computed on the outstanding number of shares of common stock at each balance sheet date.

	Yen			U.S. dollars
As at March 31,	1998	1997	1996	1998
Net assets	¥402.56	¥384.03	¥347.60	$3.05

18. RETAINED EARNINGS:

The following appropriations of retained earnings at March 31, 1998 were approved at the general meeting of shareholders held on June 26, 1998.

	Millions of yen	Thousands of U.S. dollars
Balance at March 31, 1998	¥60,275	$456,629
Appropriations for—		
Cash dividends	2,095	15,871
Bonuses to directors and statutory auditors	140	1,061
Transfer to Legal reserve	224	1,697
Retained earnings carried forward	¥57,816	$438,000

Report of Independent Certified Public Accountants

To the Board of Directors of FUJI HEAVY INDUSTRIES LTD.

We have audited the accompanying non-consolidated balance sheets of FUJI HEAVY INDUSTRIES LTD. as of March 31, 1998 and 1997, and the related non-consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements audited by us present fairly, in all material respects, the financial position of FUJI HEAVY INDUSTRIES LTD. as of March, 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended March, 31, 1998, in conformity with accounting principles generally accepted in Japan.

The United States dollar amounts in the non-consolidated financial statements have been translated for convenience only on the basis described in Note 3.

Meiji Audit Corporation

Tokyo, Japan
June 26, 1998

MEIJI AUDIT CORPORATION

Corporate Data

FUJI HEAVY INDUSTRIES LTD.

ESTABLISHED
July 15, 1953
(Founded as the Aircraft Research Laboratory in 1917)

COMMON STOCK
Authorized: 1,500,000,000 shares
Issued: 598,507,144 shares
Number of shareholders: 72,107
Transfer agent:
The Chuo Trust & Banking Co., Ltd.
7-1, Kyobashi 1-chome
Chuo-ku, Tokyo 104-8345, Japan
(As of March 31, 1998)

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Subaru Building
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Shinjuku-ku, Tokyo 160-8316, Japan
Phone: (03) 3347-2111
Facsimile: (03) 3347-2338 (GII, GIII)
Cable Address: TOKYO FUJI HEAVY
Telex: 232-2268 FUJI J
Home page: http://www1.subaru-fhi.co.jp/fhi.htm
Publicity Office
(03) 3347-2023
Subaru Overseas Division
(03) 3347-2396
Aerospace Division
(03) 3347-2513
Transportation & Ecology Systems Division
(03) 3347-2492
Bus Manufacturing & House Prefabricating Division
(03) 3347-2278
Industrial Products Division
(03) 3347-2414

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Subaru Test & Development Center in Europe
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Phone: (206)-266-0328
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c/o Beberidge, DeGrandi 3 Weilacher
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Phone: (202)-659-2811
Facsimile: (202)-659-1462

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• *Subaru Research & Design, Inc.*
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Phone: (734)-623-0075
Facsimile: (734)-623-0076
Lafayette Office
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Facsimile: (765)-449-8932

♦ *Ta Ching Motors Co., Ltd.*
337 Ta Hsi Road
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Facsimile: 8-753-8021

• *Subaru Canada Inc.*
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Facsimile: (905)-568-8087

• *Subaru Parts Europe N.V./S.A.*
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Fuji Heavy Industries (Singapore) Pte. Ltd. (Industrial Products)
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Facsimile: 66-2-314-2154

• *Fuji Robin Industries Ltd.*
• *Daiichi Forging Co., Ltd.*
• *FICS Corporation*
• *F.O.D Co., Ltd.*
• *Subaru Building Co., Ltd.*
♦ *Kiryu Industry Co., Ltd.*
♦ *Yusoki Kogyo K.K.*
♦ *Subaru Kosan Co., Ltd.*
♦ *Subaru Finance Co., Ltd.*
♦ *Subaru Used Car Sales Co., Ltd.*
♦ *Fuji Machinery Co., Ltd.*
♦ *Chuo Subaru Motors Co., Ltd.*
♦ *Tokyo Subaru Motors Co., Ltd.*
♦ *Nagoya Subaru Motors Co., Ltd.*
♦ *Shin-Osaka Subaru Motors Co., Ltd.*

• Fully consolidated subsidiary
♦ Subsidiary or affiliate consolidated by the equity method

FACILITIES (Domestic)
Automobiles Division
Gunma Manufacturing Division
Main Plant
Ohta, Gunma
Yajima Plant
Ohta, Gunma
Ohta North Plant
Ohta, Gunma
Oizumi Plant
Oura-gun, Gunma
Tokyo Office (Mitaka Plant)
Mitaka, Tokyo

Aerospace Division
Transportation & Ecology Systems Division
Utsunomiya Manufacturing Division
Utsunomiya, Tochigi/Handa, Aichi

Bus Manufacturing & House Prefabricating Division
Isesaki Manufacturing Division
Isesaki, Gunma

Industrial Products Division
Saitama Manufacturing Division
Kitamoto, Saitama

Additional copies of this annual report and other information may be obtained by contacting:
Finance Department, Fuji Heavy Industries Ltd.
Phone: (03) 3347-2130
Facsimile: (03) 3347-2126
Other English-language publications:
Fuji Heavy Industries, Ltd.
Corporate Brochure
Subaru News

(As of July 1, 1998)

Subaru 360

The *Subaru 360*, which celebrated its 40th anniversary in March 1998, was Japan's first minicar. Distinctive, rational in design and innovative in so many ways, this compact vehicle was far ahead of its time. Belying its size, the *Subaru 360* could accommodate four adult passengers thanks to a rear-mounted engine. Other features included a monococque body that borrowed from aircraft design and a roof made from lightweight synthetic resin—another first for this vehicle. And while the car's 360cc engine was by no means a powerhouse, it was more than up to the demands put on it. Moreover, to enhance passenger comfort, an independent 4-wheel suspension system was employed. With all this technology, no one was surprised when the *Subaru 360* was an immediate success. Affectionately dubbed the "Ladybug," the *Subaru 360* has a proud place in the annals of Japanese motoring history. Embodying the uniqueness that is Subaru's trademark, the *Subaru 360* stands as the cornerstone for today's Subaru automobiles.

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