SUBARU

Annual Report 2008

For the year ended March 31, 2008

Chapter II

Moving Forward with the Global Subaru Identity

Contents

Fuji Heavy Industries Ltd. (FHI) is a global manufacturer of transportation-related products and the maker of Subaru automobiles.

FHI's roots date back to 1917, when Japan's first Aircraft Research Laboratory (later Nakajima Aircraft Co., Ltd.) was established. While some of the world's other automakers once manufactured aircraft, FHI is the only automaker who continues to build aircraft today.

At FHI, everything we do is for our customer satisfaction. This policy of delivering true value to customers at every turn underpins all our business activities as we strive to be a compelling company with a strong market presence. This year marks half a century since FHI unveiled its first Subaru brand car, the Subaru 360. Along with this exciting milestone, we carried out full-model changes for the Impreza and Forester in 2007, which we followed up with the debut of a brand new car, the Exiga. As these actions attest, we are ready to begin chapter II in the history of FHI by embodying the true meaning of the Subaru brand.

Disclaimer Regarding Forward-Looking Statements

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


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A Message to Our Stakeholders

Fuji Heavy Industries Ltd. (FHI) approaches an important milestone in 2008, which marks the 50th anniversary since it unveiled the Subaru 360.
Meanwhile, we've been hard at work. In 2007, for example, we released the Impreza, the Impreza WRX STI and the third-generation Forester, all of which underwent a full model change. In June 2008, we launched the brand-new Exiga, a multi-passenger vehicle in Japan. We have also enjoyed strong domestic and overseas sales of the Forester, a car that truly offers "a distinctive Subaru experience" from the customer's perspective.
Unit sales of Subaru vehicles have grown steadily in the United States and Europe, as well as in China, Russia, and other overseas regions, highlighting the solid progress of our strategy to "increase sales globally," a key theme of our new medium-term management plan.
In April 2008, FHI strengthened its alliance with the Toyota Group, which involves the joint development of a compact FR sporty car and the procurement of compact cars and minicars on an OEM basis. The alliance has thus entered a new stage of development and is clearly headed in the right direction. In my opinion, these achievements are simply part of the process of establishing the Subaru brand, and provide no guarantee that FHI will record stable growth in the future. In our ongoing quest to deliver "a distinctive Subaru experience," we recognize that the true value of Subaru will be determined by the success or failure of initiatives going forward.

Ikuo Mori
Representative Director of the Board,
President and CEO

Fiscal 2008 in Review

In fiscal 2008, ended March 31, 2008, FHI reported consolidated net sales of ¥1,572.3 billion, up 5.2% from fiscal 2007, reflecting increased unit volume for automobiles in overseas markets. Following a decline in the previous fiscal year, operating income slipped 4.6% to ¥45.7 billion, due mainly to an increase in fixed costs associated with the launch of new models. However, operating income exceeded our initial forecast of ¥35.0 billion, owing to a number of factors, including the depreciation of the yen in the first half of the year, as well as higher overseas sales volume and the effect of new car launches in Japan. These factors helped curb the deterioration in our sales mix, both domestically and overseas, and enabled us to reduce costs despite surging prices for raw materials. Upon analysis, we believe that as an automobile manufacturer, we now have an infrastructure capable of generating sustained profits in our core business.

In North America, we sold 210 thousand vehicles, up 4 thousand from the previous fiscal year. This figure, though, was below our initial forecast and reflected the impact of the subprime loan crisis and soaring gasoline prices. By contrast, we became more flexible in responding to local needs owing to the establishment of the Overseas Sales and Marketing Division I, set up to bring sales activities closer to our target markets and achieve more centralized control of production and sales. This enabled us to manage inventories more accurately and reduce the average per-vehicle sales incentive by US$200 compared with CY 2006. With these efforts delivering concrete results, we improved regional earnings in fiscal 2008.

In Europe, sales volume increased by 15 thousand, to 86 thousand units. Although we struggled in Western Europe, where the share of diesel-engine vehicles is high, we compensated for this with strong sales in Russia and other CIS nations.

In other regions, sales in emerging markets, such as China, surpassed our initial forecasts, continuing the trend of the previous fiscal year.

In Japan, unit sales of both passenger cars and minicars declined year on year. However, we improved the sales mix thanks to the popularity of our new Impreza and Forester vehicles.

Performance Overview

Billions of yen

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	(Forecast) **FY2009**
Automobile Sales Volume (thousand units)	540	551	582	571	578	597	**636**
Net Sales	1,372.3	1,439.5	1,446.5	1,476.4	1,494.8	1,572.3	**1,600.0**
Operating Income	67.5	50.3	42.0	58.3	47.9	45.7	**23.0**
Ordinary Income	58.6	56.6	43.6	46.8	42.2	45.4	**20.0**
Net Income	33.5	38.6	18.2	15.6	31.9	18.5	**10.0**
Capital Expenditures	64.6	74.6	85.3	56.2	59.6	56.3	**70.0**
Depreciation Expenses	48.8	53.2	51.1	57.5	58.9	65.5	**66.0**
R&D Expenses	60.1	57.5	53.0	46.9	50.7	52.0	**55.0**
Interest-Bearing Debt	389.1	379.0	412.2	374.1	343.9	304.5	**304.5**
Exchange Rate (¥/$, non-consolidated)	124	116	108	112	117	116	**100**
ROE	8.3	8.9	3.9	3.3	6.6	3.7	—
ROA*	5.3	3.9	3.3	4.6	3.9	3.9	—
Total Assets	1,344.1	1,349.7	1,357.5	1,348.4	1,316.0	1,296.4	—
Net Assets**	414.6	457.0	474.6	467.8	495.7	494.4	—

* ROA was calculated as "(operating income + interest and dividend income)/(average of assets at the beginning and end of the term)"
** Net Assets until the year ended March 2006 was the figure of total shareholders' equity.

" The Impreza and Forester have been particularly well received in the market, earning acclaim for high customer satisfaction. "

Outlook for Fiscal 2009

From the outset of fiscal 2009, we have noticed dramatic changes in our business environment. For the year ending March 31, 2009, we forecast operating income of ¥23.0 billion, with our performance affected particularly by foreign exchange fluctuations and surging prices for raw materials.

When we announced our medium-term management plan in 2007, we assumed an average exchange rate of ¥110 to the U.S. dollar. In March 2008, however, that rate suddenly changed, with the U.S. dollar falling below ¥100 for the first time in 12 years. For this reason, we have revised the assumed rate for our business forecasts to ¥100 to the U.S. dollar. Each one-yen movement against the U.S. dollar affects our operating income by around ¥2.7 billion, so we expect foreign exchange factors to reduce earnings by ¥46.0 billion in fiscal 2009.

With that said, I must confess that I view this situation as a great opportunity. As a company, we must harness our strengths and strive to build an infrastructure capable of generating profits even when the U.S. dollar falls below ¥100. Specifically, we will expand sales in Russia, China, and other emerging markets and have launched European sales of the Tribeca, currently in production in the United States. In these and other ways, we will step up efforts to minimize the effect of the strong yen on our business performance.

Rising prices for raw materials, such as steel and precious metals, are also having a major impact on our operations. Strengthening competitiveness in quality and cost, we have succeeded in cutting costs by ¥100,000 per vehicle, while reducing tooling and other development-related costs by 30%. The benefits of these efforts were reflected in the new Impreza launched in 2007 and all other new models that followed. We will work to incorporate these advances in new models to be introduced in the future. At the same time, we will comprehensively lower costs, not only for materials and components but also for basic processes, such as design.

Although FHI's business environment has radically changed, we nonetheless managed to improve our sales mix in the latter half of fiscal 2008, benefiting from the launch of new models. We intend to build on this momentum going forward.

In February 2007, when we announced our medium-term management plan, we set a consolidated operating income target of ¥80.0 billion for the year ending March 31, 2011. At this stage, we have no intention of changing the target, and we will strive hard to reach that target in the years ahead.

A Compelling Company with a Strong Market Presence

In April 2007, we embarked on our new medium-term management plan, the core focus of which is to embrace a "customers come first" mindset. Guided by the plan, we are pursuing five key initiatives: provide a distinctive Subaru experience for drivers and passengers, increase sales globally, strengthen competitiveness in quality and cost, growth through the business alliance with Toyota, and grow the level of employee competence and so enhance the organization. We are determined to work vigorously to achieve progress in these areas.

Provide a Distinctive Subaru Experience for Drivers and Passengers

Reflecting our customer-oriented approach, we made a succession of new-model rollouts in 2007, starting with the Impreza in June, the Impreza WRX STI in October, and the Forester in December. This was followed in March 2008 by the launch in Europe of Legacy and Outback models equipped with the world's first boxer turbo diesel engine. And in June 2008, we unveiled the Exiga, a multi-passenger vehicle, in the domestic market. In these ways, we are launching products that provide a distinctive Subaru experience, as promised in our plan.

The Impreza and Forester have been particularly well received in the market, earning acclaim for high customer satisfaction. Both the Impreza and Forester deliver the automotive experience that customers want: a comfortable ride for both front- and rear-seat passengers, together with easy maneuverability for drivers. Indeed, this market response confirms that our vision and direction for our automobiles is the right one, since we have clearly delivered what people really want in a car. Suffice it to say, this revelation has rejuvenated everyone at the Company.

In June 2008, we launched the Exiga multi-passenger vehicle in Japan. This is our response to Subaru fans requesting a vehicle able to carry many passengers. Like the Impreza and Forester, it boasts exceptional basic performance and is much anticipated in the market as a multi-passenger vehicle with the driving feel of the Legacy.

Also reflecting our pursuit of a distinctive Subaru experience, in March 2008 we unveiled in Europe Legacy and Outback models equipped with the world's first boxer turbo diesel engine. To date, we have struggled in Western Europe, where diesel-powered vehicles account for over 50% of the market. However, launching boxer turbo diesel vehicles has enabled us to boost unit sales. Moreover, such vehicles emit around 30% less carbon dioxide than gasoline-powered vehicles with similar engine sizes, helping us contribute to initiatives that reduce environmental load. Traditional diesel engines were plagued by high levels of vibration and noise. By leveraging our superior boxer engine technology, though, we have created a compact engine with extremely low vibration and noise levels. In rolling out this boxer diesel-engine car, we will strive to reaffirm customers' recognition of the advantage of our core boxer engine technology, and thus establish a firm foothold for Subaru's brand in the market.

Overseas Sales Progressing as Planned

As part of our plan to increase sales globally, we are promoting marketing strategies in overseas regions, which we regard as pivotal to building a solid earnings foundation. While the United States is our most important market, we also consider Europe and emerging regions as suitable markets for expanding revenue and profits. At this stage, our overseas marketing efforts are progressing better than planned, although there are differences in the growth levels of each specific market.

In the United States, the outlook remains difficult to predict, due to uncertainty about that nation's economic direction amid the subprime loan crisis and other factors. Nevertheless, we will continue strengthening our sales network by transforming some dual dealerships into exclusive and separate showroom dealerships, while also setting up Subaru "Signature Facility" showrooms. In the meantime, we will enhance the effect of new models, such as the Impreza WRX STI and Forester. In Europe, we will introduce boxer diesel engine models, as I stated earlier, in order to boost sales. In Russia, China, and other emerging markets, where growth has exceeded our initial expectations, we will continue seeking to broaden our market presence.

Due to our success overseas, especially in emerging markets, the number of units sold has greatly surpassed our original forecast, placing pressure on the production capacity of our Yajima Plant, where we make passenger vehicles. For this reason, we will fast-track our capital spending schedule with the aim of raising annual production capacity to around 400 thousand units during the summer of 2008.

Deepening Alliance with the Toyota Group

In April 2008, FHI reached an agreement with Toyota Motor Corporation (Toyota) and Daihatsu Motor Co., Ltd. (Daihatsu) to build a new cooperative framework for vehicle development and production. The agreement has three main components: joint development with Toyota of the compact FR (front engine, rear-wheel drive) sporty car, to be marketed by both companies; supply of compact cars to FHI by Toyota on an OEM basis; and supply of minicars to FHI by Daihatsu on an OEM basis. To help our cooperative relationship run more smoothly, we will transfer 61 million shares of treasury stock to Toyota, bringing its equity stake in FHI to 16.5%. Since first announcing our business alliance in October 2005, we have built a strong cooperative relationship of reciprocal vehicle development and production. This includes consignment production of the Toyota Camry by Subaru of Indiana Automotive, Inc. (SIA), and the supply by Daihatsu to FHI of compact cars destined for Europe. Through the new agreement, we intend to bolster this relationship even further.

A key objective of the stronger alliance is to better address industry challenges. Competition will intensify among Japanese and overseas automakers, who will be pressed further by the adoption of tougher environmental standards in Japan, North America, and Europe. To prevail amid these conditions, we must intensify our focus on the passenger car business, our core specialty, and channel business resources accordingly. This is consistent with our aim of providing a distinctive Subaru experience, a key theme of the medium-term management plan, and a stronger alliance will only expedite our progress.

Compact FR Sporty Car: Joint Development and Marketing with Toyota

FHI and Toyota will join forces to develop the compact FR sporty car that seeks to deliver a new level of driving enjoyment. The compact FR sporty car will be based on a new platform equipped with a boxer engine, a core Subaru technology. Toyota will consign production to FHI, whose Gunma Manufacturing Division will build a new vehicle assembly plant. Market launch is slated for the end of 2011.

Under the joint development agreement, Toyota will handle the basic concept and design, while FHI will take care of development, production, and manufacturing. Although still at the development stage, we believe the excellent layout of the compact FR sporty car will go well with the advantages offered by the boxer engine. For this reason, we're confident that we can deliver a vehicle that is extremely fun to drive. By incorporating a boxer engine into the compact FR sporty car, rather than our traditional AWD technology, we can best highlight the twin features of the boxer engine and the Subaru DC^3 (The new Subaru Dynamic Chassis Control Concept) that supports it, creating a superior package with all the core essentials.

For production, we will build a new auto-assembly plant adjacent to the Oizumi Plant of the Gunma Manufacturing Division, which currently produces engines, transmissions, and other items. Operations at the new facility are scheduled to start in 2011. Because all vehicles under this agreement will be produced by FHI, consignment production of models apart from the compact FR sporty car is still under consideration. Although we currently make passenger cars at our Yajima Plant in Gunma Prefecture and at SIA in the United States, we hope to take advantage of the new facility to increase our overall production capacity.

Furthermore, we will start reorganizing our domestic sales network to meet a new product portfolio of Subaru leveraging the alliance with the Toyota group. First, we will rebuild our sales company framework by setting up holding companies for each region and halving the number of distributors, currently 46, by March 2010. This will enable us to lower fixed costs and establish a system that complements our future product development plans.

OEM Supply to FHI by Toyota and Daihatsu

Previously, FHI had considered in-house development of compact cars as a way to augment its product lineup. We ultimately concluded, however, that we should concentrate our management resources in areas where we can best demonstrate our strengths. For this reason, we decided to accept compact cars from Toyota on an OEM basis. Under this arrangement, we will strengthen our product lineup by the end of 2010.

In addition, we have decided to take delivery of 6 thousand units annually of the "Coo" compact car produced by Daihatsu from October 2008. Destined for the domestic market, these vehicles will be supplied on an OEM basis. From the latter half of 2009, we will supplement our OEM lineup with minicars produced by Daihatsu, taking advantage of synergies with Daihatsu's increasing production output of such vehicles. While we will not withdraw completely from the minicar segment, we have decided to terminate its development and production. To provide a distinctive Subaru experience and further hone our strengths, we believe it is most important to channel our resources into our mainstay product areas. By mobilizing our alliance with Toyota and Daihatsu, we will continue expanding and upgrading our product lineup.

Changing Investment Ratio and the New Subaru

Following the aforementioned share transfer, Toyota's equity stake in FHI will increase from 8.7% to 16.5%. Since forming our initial alliance in 2005, SIA has produced Camry vehicles and adopted the latest production equipment from Toyota. At the same time, engineers from FHI have participated in the development of Toyota vehicles. In other words, both companies have actively shared their vehicle development and production technologies. Under the new agreement, which starts with the joint development and consigned production of the compact FR Sporty car, both companies will promote various projects in the future. We have decided that we can build a more progressive relationship by having Toyota raise its stake in our company. In the process, we can move forward as a member of the Toyota Group.

The basic reason for entering the recent alliance is to keep the Subaru brand shining brightly in the future. Considering our current business scope and resources, there is an urgent sense that we may not survive as a company unless we direct all of our powers toward improving our strengths. To continue operations in a distinctive Subaru-like manner, therefore, we decided to become a member of the Toyota Group and concentrate all of our limited resources in our areas of expertise.

In the short term, the transfer of treasury stock will have a dilutive effect on our share base. By the same token, it will provide funds for R&D on the FR Sporty car and capital to build the new production facility, while enabling us to focus on our core strengths. From a long-term perspective, therefore, we believe we can raise the value of our shares and of FHI as a corporation.

In Conclusion

The focal point for all our activities is, "What can we do for our customers?" From this standpoint, we have emphasized the importance of making cars that customers love, advancing our business in the process. As described earlier, we are upgrading our new-car lineup and reaping the benefits of our overseas initiatives. We have also made an important decision about our alliance with Toyota. We are now well-positioned to firmly establish the Subaru brand and create true value for customers and shareholders alike. Going forward, we will continue striving to be "a compelling company with a strong market presence." We ask for your ongoing support and understanding in this endeavor.

Ikuo Mori
President and CEO

" We are now well-positioned to firmly establish the Subaru brand and create true value for customers and shareholders alike. "

Discussions with project team members for the new-generation Forester

Creating Cars that People Want to Drive

December 25, 2007 : World debut of the third-generation Forester

The new Forester is the core embodiment of the "customers come first" philosophy outlined in our new medium-term management plan. Since its development and launch, the new Forester has earned strong acclaim from customers in Japan and overseas, and it continues to sell well in markets throughout the world. The Company's new management plan involves several key themes, such as "provide a distinctive Subaru experience" and "increase sales globally." We asked project team members for the new Forester to discuss how well they expressed and exemplified those themes, and whether they succeeded in creating a vehicle that perfectly matches the market. Details of our discussion with the project team are given in the following pages.




Global

"The team members always kept a global perspective in mind."

The Forester is the only model in the Subaru lineup that does not have separate sedan or wagon options. It was developed as a single vehicle for markets worldwide and created from a truly global perspective. Under the initial concept, we considered size and performance requirements that are common throughout the world, including in Japan, the United States, and Europe. We then held repeated "design clinics" to find a design that would win the hearts of people worldwide. In these ways, the engineers approached their task from the viewpoint of making a car with global appeal.

As a result, the Forester has been a huge success, generating strong sales globally. Domestic orders in the first month after launch totaled 4,285 units, more than double the initial sales target of 2,000 units per month. In the United States, we posted record-high sales of 6,412 units in May 2008, while back orders in China quickly reached 3,500 units after launch.

From the design stage, we have sought to blend three key elements—packaging, drivability, and the environment—at an advanced level based on the concept of "Best Package for an Active Lifestyle." The idea of incorporating such a "best balance" in the Forester has resonated with customers, leading to strong sales.

Concept

"We shifted from a 'driver's car' to a vehicle in which all drivers and passengers can ride in comfort."

—Best Package for an Active Lifestyle—

When refining the product concept for the new Forester, we decided that our first task should be to better understand the essence of the "customers come first" mindset. This time, engineers from the planning and design departments, together with key staff from the technical division, actively participated in forums arranged to elicit the opinions of customers. Staff involved in every development-related phase took the initiative to directly incorporate customer feedback into discussions about what Subaru should do from now on. They then held rigorous discussions and, through a process of trial and error, found ways to create new levels of value exceeding customers' expectations, while retaining the essential elements and core technologies demanded by Subaru customers. To date, we have focused mainly on the personal-use aspect of vehicle development, namely how to maximize enjoyment for the driver. We have since realized that we traditionally paid somewhat less attention to the riding comfort of front- and rear-seat passengers.

In the process of formulating the product concept, we spoke directly with customers around the world, going back to the basics to gain an impartial view of what customers really want. After considerable communication, we agreed that our concept would be to create a car that all drivers and passengers will enjoy and that delivers exceptional environmental performance, by blending three key elements—packaging, drivability, and the environment—at an advanced level.

"Since its launch last Christmas, the new Forester has been hailed as 'a really good car' by the press at rollout events and test-drive sessions around the world. It has also been warmly received by dealers. The feedback from customers, too, has been excellent, making all of our work worthwhile."

Kazuharu Ichikawa
Subaru Product and Portfolio Planning Division
Project General Manager

"The combination of a boxer engine and symmetrical AWD has enabled us to offer a distinctive Subaru experience in terms of driving performance. We believe the Subaru brand will be further enhanced by the new Forester."

Naoyoshi Morita
Subaru Product and Portfolio Planning Division

Size

"We enlarged the body size for all the family to ride in comfort, providing space for relaxation."

For the new Forester, size was a very important issue. When deciding the product concept, we took steps to obtain market data, and the feedback we received from market research companies was that the Forester appeared small in the worldwide context. By contrast, there was also the view that the Forester's configuration, with a large engine fitted into a small chassis, was a unique and positive attribute. So we sought to find out exactly how customers are using their vehicles. To do this, we went into the field to examine the market first-hand and hear opinions directly from customers themselves. On visits to shopping mall parking lots in the United States, we were reminded once again how small the Forester appeared compared with locally made SUVs. We also learned that people wanted genuine family-use cars with plenty of room in the rear seat, enough to comfortably fit up to four adults. After combining market research results with more opinions canvassed than ever before, we reached a major decision to enlarge the body size. However, we were determined to ensure that the core elements of the Forester—ease of entry and exit, wide field of vision, and good maneuverability with a small turning radius—would be retained even if the body size increased.

Design

"We sought to embody universal customer values in the form of a car."

The basic premise of our design has always been to "combine function and style at an advanced level." We retained basic functional and performance aspects of a good automobile, such as side-sill positioning for easy access, a windshield designed for good viewing, and large rear windows, while at the same time placing emphasis on styling. By "styling," we did not mean pursuit of the latest styling trends. Rather, we sought to embody universal customer values in the form of a car. This is our fundamental consideration in designing the ideal car. The latest Forester offers a sleek design and sense of elegance, while fully retaining the high function and performance levels expected of a Subaru. We also strongly feel that the new car will appeal to a broader range of customers, not only Subaru loyalists.

"With respect to driving performance, it is certainly not appropriate to ignore the advances we've made to date. The driving performance of a Subaru is the result of refinements and enhancements by our engineers, giving us the solid foundation we have today—a foundation that will not simply disappear tomorrow or the day after. One of our missions is to nurture and advance the DNA inherent in that foundation."

Kazuya Takahashi
Subaru Product and Portfolio Planning Division

"We sought to create a vehicle with universal appeal, rather than target only loyal Subaru fans. As such, we are convinced that the new Forester will be embraced by people who have never bought a Subaru before."

Kunihiro Tomita
Design Dept.

Input

"We got back to the basics of what makes the Forester an SUV"

We also visited dealers in Japan and conducted a customer survey to find out exactly how Subaru vehicles are being used. Many people responded that they purchased our cars mainly because they were impressed with Subaru's advantages with respect to safety and driving performance. Based on these customer comments, we came up with the concept for the new Forester. Specifically, we decided to promote Forester as an SUV while retaining the positive attributes of Subaru earned to date. With this in mind, we returned to the basics and determined how we could deliver a distinctive Forester experience. After further verification, we reaffirmed the various scenarios in which a single car might be used by customers. To highlight the Forester's ease of handling and high utility as an SUV, our development team created a car that can be used for practically any purpose, such as commuting, shopping, and even camping. As an example of how we addressed the strong demand of customers, we added "soft flat seats" to the product seating specifications.

New models Old models

"We started development based on the concept of building a versatile car suited to almost any scenario. We envisaged a vehicle that can be used for commuting and shopping, and even for long drives and camping with family and friends on weekends."

Kiyokazu Nakatsu
Interior and Electronic Design Dept.

Evaluation

"We had groups of two or three actually ride in the car, checking the driver and passenger seats and the rear seats."

Our evaluation team, charged with the task of improving vehicle function and performance, sought to raise not only drivability, a traditional Subaru trait, but also the riding comfort levels of all passengers in the front- and rear-seats. We also strove to create a car in which people could travel long distances in comfort and style, without getting tired. At the trial stage, we had groups of two or three actually ride in the car, whereas normally we would only evaluate riding comfort for the driver. The groups sat in the driver's seat and the front- and rear-seats to experience the ride as passengers would in the car, which was test-driven in various conditions, including uneven road surfaces. We conducted repeated tests in this way to evaluate the car from the customer's perspective. Rather than create a car merely to impress automotive specialists, we felt it very important to obtain the views of those who would use the car on a regular basis. For this reason, we asked many people to participate in the test-driving sessions, right from the development stage, and we undertook development while respectfully considering their evaluations and opinions.

"We had repeated discussions about many things, such as streamlining the window frame by just one millimeter to ensure good visibility. Such persistence underscores our commitment to improving riding comfort, entry and exit accessibility, and field of vision."

Yukio Suzuki
Total Vehicle Performance Integration Dept.

Drivability

"We were determined to make the minimum turning radius 10 centimeters less than the previous model."

In our opinion, a Subaru's basic distinguishing characteristic is its driving performance, which is produced by combining a boxer engine with symmetrical all-wheel drive (AWD). These core technologies have enabled us to achieve a low center of gravity and excellent front-back, left-right balance. Despite being larger and taller than the previous model, the new Forester delivers the driving feel of a passenger car and a comfortable ride even over long distances.

Indeed, the new Forester brings together "a distinctive Subaru experience" and superb "driving performance" into one vehicle. With respect to driving performance, there are other cars in the market that do well on driving circuits in terms of straight-line driving and cornering. With the Forester, however, we wanted to achieve the kind of operational ease that would give the car a unique Subaru feel. For example, we were determined to make the minimum turning radius 10 centimeters less than the previous model. Performance that matches the requirements of each category, therefore, is also one aspect of our pursuit of a distinctive Subaru experience. In short, we wanted to create a car that appeals to a broader range of customers, by deploying Subaru's proprietary technologies to deliver performance for all driving scenarios, as well as comfort and environmental performance. This is how we make cars at Subaru.

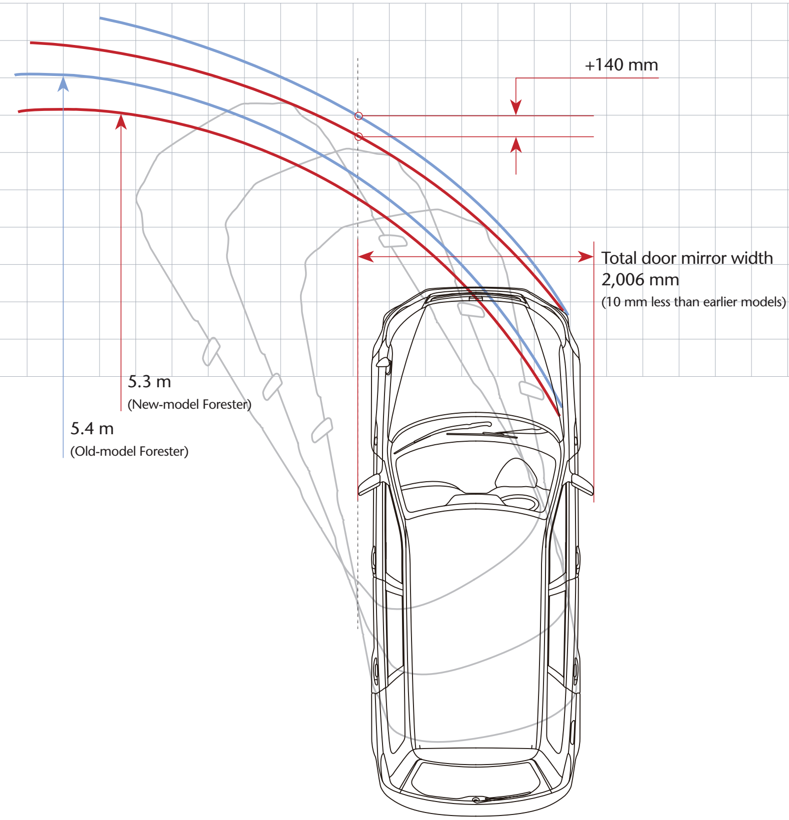
"In developing the new Forester, we gave repeated attention to minute details. Even the slightest improvement, such as a 0.1% boost in fuel efficiency, was considered important. Consequently, we succeeded in creating a top-class car in terms of fuel efficiency. Based on the Forester's strong sales, I conclude that the direction we took was the right one."

Toyohide Sunaguchi
1st Powerunit Research and Experiment Dept.

Performance

"Through strong persistence, we achieved advances in two areas normally considered contradictory."

In the case of automobiles, simultaneously raising driving performance and environmental performance would normally be considered a contradictory task. This is because SUVs are generally regarded as having poor fuel economy. To counter this image, we strove to achieve top-class fuel performance in each category in all markets, including Japan, Europe, and North America. First, we reduced the vehicle's weight, then increased engine fuel efficiency, lowered friction and tire rolling resistance, and improved body aerodynamics. In these and other ways, we made numerous and meticulous enhancements, enabling the Forester to achieve unparalleled fuel performance in its class.



Cost

"In monetary terms, the new Forester shares around 75% of its components with the Impreza."

One theme of our medium-term management plan is to "strengthen competitiveness in quality and cost." Our specific target is to reduce the basic cost of each vehicle by ¥100,000 compared with the previous model, a target that we achieved with the new Forester. An effective way to lower costs is to share components with other models. In monetary terms, around 75% of the new Forester's components are shared with the Impreza, including frame, platform, and instrument panel surroundings. It was a huge challenge for us to undertake a full model change of the Forester, following that of the Impreza, in such a short period of time. Nevertheless, we were able to achieve our initial targets, with everyone fulfilling their roles properly. Reducing costs requires a comprehensive effort. We strove to cut costs in all aspects of development, including by modifying the design and deleting components with excessive quality. Soaring prices for precious metals, steel, and other raw materials represented another major challenge. To meet emission standards for exhaust gas, for example, we had to closely monitor regulatory trends with respect to catalytic metals. Meanwhile, we made continual assessments to ensure that the outcome of our efforts reflected what customers really want. Throughout development, we constantly sought to achieve the best overall result, while keeping a close watch on market movements.

We were also committed to achieving a safety level that would be highly acclaimed worldwide. In this respect, we sought a good balance between keeping costs down and improving safety, by incorporating Vehicle Dynamic Control (VDC) as standard. Through the effective use of high-tension steel plates for the chassis and paneling, we attained a higher level of collision safety performance despite increasing the vehicle's size.

"Drawing on Subaru's impressive AWD technologies, we pinpointed the performance requirements of Forester drivers and SUV drivers in general, then embarked on development."

Kazunobu Matsumae
3rd Powerunit Research and Experiment Dept.

Customers Come First

"The new Forester has been well received by customers throughout the world because we imagined what would put a smile on their faces and strove to meet their expectations."

When developing the drive train, we did not attempt to blindly incorporate into the Forester all the know-how amassed in developing the Legacy and Impreza. Instead, we tried to reaffirm what SUV drivers expect in an AWD vehicle. Rather than promoting generally recognized specifications, such as number of transmission gears in the automatic and manual versions, we packaged the Forester to suit SUV drivers. This included incorporating VDC as standard and ensuring a satisfactory towing capacity, which is important to many users in Europe. We stood face-to-face with customers and spent money on areas highly valued by them in our quest to meet their expectations. By fusing the needs of customers with the "essence" of Subaru, we successfully created a new level of value beyond what anyone had anticipated. That is why the new Forester has been so widely received by people throughout the world.

"When developing the new Forester, we sought to provide a gentle, comfortable ride so that front- and rear-seat passengers can travel long distances without getting tired."

Kazuhiro Ito
1st Vehicle Research and Experiment Dept.

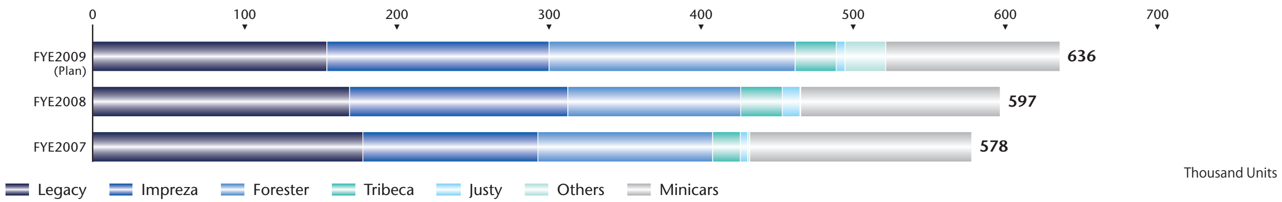

FORESTER

Success of Efforts to "Increase Sales Globally"

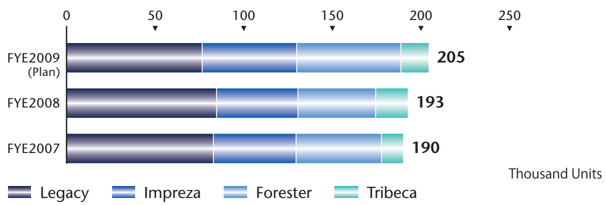
One of the key themes of FHI's new medium-term management plan is to "increase sales globally." At present, sales volumes are steadily increasing as we promote a marketing strategy that views overseas markets as pivotal to our earnings base. Sales of new car models, such as the Impreza and Forester, have played a particularly vital role in supporting brisk sales. Growth has been especially prominent in our highest priority market, North America, as well as in fast-growing emerging markets such as Russia and China.

Global

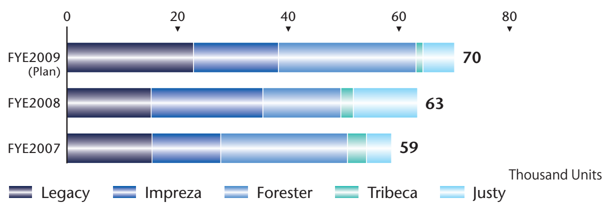
In fiscal 2008, overseas sales volume totaled 388 thousand units, an increase of 36.9 thousand units over the previous fiscal year—and far greater than initially planned. The target for the current fiscal year is to raise volume by approximately 9% to 423.3 thousand units. Among other actions, we intend to meet this objective by expanding overseas sales through stronger marketing in newly emerging markets.

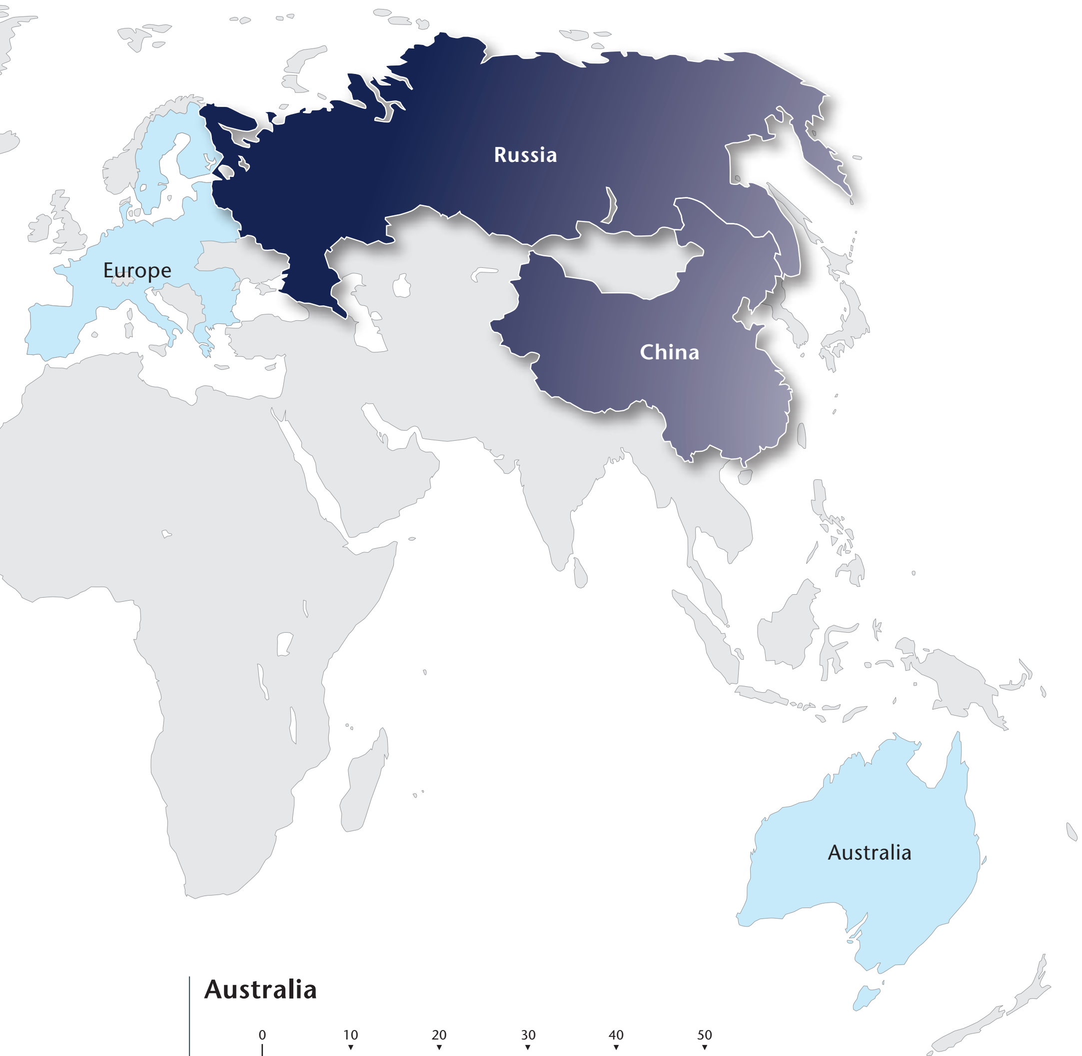


United States

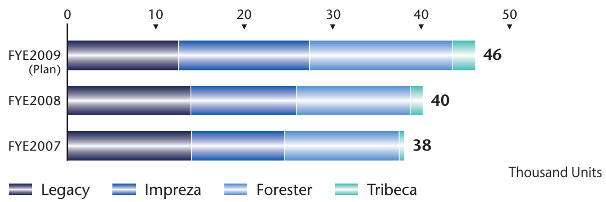


Europe



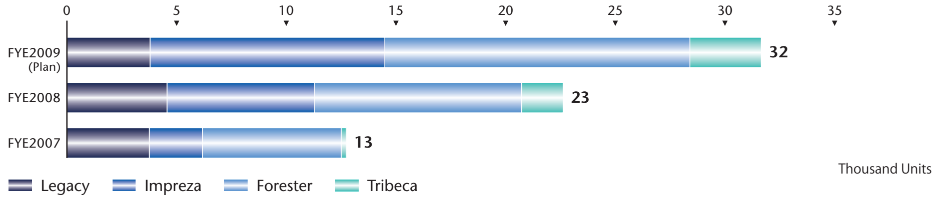


Australia



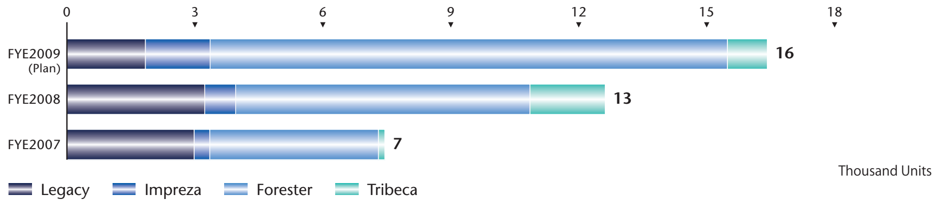
Russia

Sales volume in Russia was 22.6 thousand units in fiscal 2008, 9.9 thousand units up from the previous fiscal year. This growth was mainly from sales of the Forester and Impreza. This market recorded annual sales per dealership of 665 units, the most of any Subaru market worldwide. Our target for fiscal 2009 is to raise sales volume by roughly 40% to 31.7 thousand units.



China

Sales volume in China for fiscal 2008 was 12.6 thousand units, a year-on-year increase of 5.2 thousand units, with growth largely reflecting Forester sales. Due to road conditions in this market, the Subaru driving experience—made possible by highly reliable boxer engines and symmetrical AWD—is a key advantage that has earned praise for the brand. Our target for fiscal 2009 is to raise sales volume by roughly 30% to 16.4 thousand units.



“Customers Come First” Initiatives

To provide customers with peace of mind when driving our vehicles, we are reinforcing our safety performance by focusing on two areas: “passive safety” (protecting drivers, passengers and pedestrians in the event of an accident) and “active safety” (reducing the possibility of accidents occurring in the first place).

Passive Safety—Collision Safety Performance Recognized Globally

In April 2008, the new Impreza received the Assessment Grand Prix award from the Japan New Car Assessment Program (JNCAP). This award recognizes vehicles that provide exceptional levels of safety. Among vehicles tested, the Impreza was the only one to receive top marks in terms of overall collision safety performance and pedestrian head protection performance. In collision tests by the Australasian New Car Assessment Program (ANCAP), moreover, the Impreza received the highest 5-star rating for vehicle occupant protection and was the first among models from any manufacturer to ever obtain a 4-star rating for pedestrian protection. Under the same program, the new Forester also received a 5-star rating for vehicle occupant protection.

Subaru has also earned a reputation for safety in the United States. In November 2007, for example, the Legacy, Impreza, Forester, and Tribeca all earned Top Safety Pick awards for safety from the Insurance Institute for Highway Safety (IIHS). The Impreza, moreover, was the only compact car chosen for this honor. In April 2008, the new Forester earned an IIHS Top Safety Pick award, and in the following month received a 5-star rating from the National Highway Traffic Safety Administration (NHTSA). These awards attest to Subaru’s ability to make cars that provide “safety from any direction.”

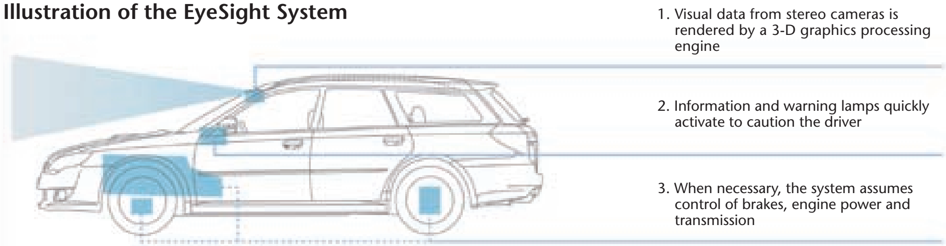
Active Safety—Our Efforts to Develop “Collision-Free” Cars

From the beginning, we have sought to maximize safety in the event of a collision. Focusing also on the area of preventative safety, we have developed vehicles with the ultimate goal of creating “collision-free cars.” One development is “EyeSight,” a new-generation Active Driving Assist (ADA) system incorporated in the Legacy and Outback. We were also the first in the world (as of March 31, 2008; according to FHI data) to adopt “pre-crash brakes” as well as a “creep suppression and control” system for automatic vehicles. We also have “Cruise Control for All Speed Ranges” and other functions to minimize the burden on the driver. We are the first carmaker to solely employ stereo cameras to realize this system. The addition of various pre-crash safety functions to features for which Subaru is famous—such as the stability and ability to avoid dangerous obstacles offered by symmetrical AWD—makes the Subaru driving experience more enjoyable and relaxing. Having successfully reduced the basic costs of these systems to around half of previous levels, we intend to incorporate such systems in other models and help deliver preventative safety to more and more customers.

Stereo cameras

Obstacle detection image in town

Illustration of the EyeSight System



Corporate Social Responsibility (CSR)

Approach to CSR

One of the core elements of FHI's latest medium-term management plan is a commitment to "pursue Quality rather than just Size to fulfill its Corporate Social Responsibility."

Pursuant to this tenet, FHI strives for two key goals in its CSR activities:

1. Address social issues through business activities as a good corporate citizen, and
2. Remain a vitally important company that retains the trust of its customers and the public.

Corporate Governance

In line with the Corporate Philosophy, FHI views the strengthening of corporate governance as one of management's highest priorities, to ensure that it can measure up to the trust and confidence placed in the Company by all its shareholders, customers and other stakeholders. In the pursuit of more efficient management, FHI is working to clarify management and execution functions to enhance decision-making speed. The Company is also ensuring proper management and business execution through a well-developed auditing system that includes the presence of outside corporate auditors. In this way, FHI is working to augment both its compliance and risk management frameworks. Fair and timely information disclosure is also leading to more transparent management.

Internal Control Systems

FHI's Systems and Policies

To ensure that directors of the board comply with laws and the Company's Articles of Incorporation in the execution of their duties, FHI has systems in place whereby directors and corporate auditors attend all relevant meetings, peruse documents that require managerial approval, and receive business reports from executive officers and employees. We have also established regulations covering legal and ethical compliance and a system for internal reporting (compliance hotline system), and we conduct training programs related to compliance.

In addition, we have set up systems as directed by the Ministry of Justice that are necessary for assuring proper business conduct by companies. These include a system for saving and managing information related to directors' execution of duties, regulations and other frameworks for managing risk of losses, a system for assuring that directors perform their duties efficiently, a system for ensuring that executive officers and employees comply with laws and the Company's Articles of Incorporation in the execution of their duties, a system for assuring proper conduct of business by the FHI Group, rules covering items related to support staff assigned to assist corporate auditors, a system covering reporting by directors, executive officers, and employees to corporate auditors, other systems for reporting to corporate auditors, and a system for ensuring that corporate auditors conduct their audits effectively.

Progress Status

Spearheaded by its Strategy Development Division, the FHI Group is strengthening risk management through close cooperation across all relevant departments and Group companies. In addition, the Internal Audit Department conducts regular audits of the business execution of each department and Group company.

To facilitate establishment of internal control systems, the Company is setting up and operating compliance systems and infrastructure, positioning compliance as the most fundamental element of proper risk management. To promote compliance-oriented practices across the entire Group, we established the Compliance Committee, which discusses and makes decisions on important compliance issues and exchanges and communicates relevant information. We have also assigned compliance managers and compliance officers in each department and Group company, providing a system in which compliance is practiced rigorously in each workplace. In addition, for some time we have conducted regular educational and training programs for executives and employees, and we promote compliance-related awareness through internal magazines and other means.

Response to J-SOX Law

In response to the so-called J-SOX Law (Japanese Securities and Exchange Law), FHI has added specialized project teams to its organizational structure. These teams are charged with four tasks designed to promote the readiness and robustness of internal control systems across the Group: (1) ensure effectiveness and efficiency of business operation; (2) ensure the reliability of financial reporting; (3) ensure compliance with applicable laws and regulations relevant to business activities; and (4) ensure safeguarding of assets. We are currently documenting all initiatives with a view to filing an internal control system report at the end of the current fiscal year.

Environmental Initiatives

The FHI Environmental Policy states that the Company "recognizes the integral relationship between the environment and its business activities and strives to provide products that are friendly to the earth, society, and people. FHI is protecting the environment to ensure our future." Guided by this policy, the Company has drafted its Voluntary Plan for the Environment, the "FHI Environmental Conservation Program," through which FHI undertakes activities aimed at reducing the burden on the environment at every stage of business—from product development to procurement, production, use and disposal. The Company is presently enacting its fourth New Voluntary Plan for the Environment that will run from fiscal 2008 through fiscal 2012.

In the latest medium-term management plan, FHI has positioned the pursuit of a product development concept that integrates the pleasure of driving and environmental responsibility as the way to provide customers with "a distinctive Subaru experience." While continuing to enable drivers and passengers alike to experience the distinctive sense of comfort and reliability that comes with driving a Subaru, FHI is developing technology that aims to improve the fuel consumption of its vehicles from the ground up.

Electric Vehicles (EV)

Since June 2006, FHI has been conducting practical trials of an electric vehicle (R1e, based on the R1) in cooperation with Tokyo Electric Power Company (TEPCO). Since September 2007, we have conducted public road trials of 40 electric vehicles (EVs), with the Kanagawa Prefectural Government also participating.

In July 2008, we supplied five "Plug-in Stella" (electric version of the Stella minicar) vehicles to the G8 Hokkaido Toyako Summit, attracting the attention of the press and summit participants from around the world. This car is slated as the base model for our planned commercialization of an EV in 2009.

The Subaru R1e and the Plug-in Stella are environmentally friendly EVs developed with sustainability of the earth, our society and our future in mind. In addition to reduced emissions of carbon dioxide, identified as a key cause of global warming, they allow users to lower their running costs.

Subaru's EVs emit zero carbon dioxide when in operation. Carbon dioxide produced while charging the batteries is only about one-quarter of that emitted by gasoline-powered minicars in the same class (in the case of Japan). Moreover, running costs are only around one-eighth those of gasoline-powered minicars and one-fifth those of hybrid vehicles.

The power source of these EVs is a lithium-ion battery, which can be charged to around 80% of capacity in only 15 minutes if a dedicated EV-use high-speed charger is used. When its battery is fully charged, a Subaru EV can travel distances of 80 kilometers or more.

In the early stages after launch, we expect our EVs to be used mainly for commuting purposes. Because lithium-ion batteries are expensive and heavy, we do not expect users to increase the number of batteries to achieve longer travel distance. Rather, they will likely align their vehicle usage to one suitable for commuting distances. Going forward, we will create an environment in which more and more people can experience EV driving. At the same time, we will strive to lower the costs of EVs, including their batteries, in order to expand sales of these environmentally friendly vehicles.

EV Initiatives

2009	2012~13	Around 2015
Plan to sell roughly 100 cars annually, largely to corporate customers and local governments	Bring EV prices down to around ¥2 million/car; sell vehicles to eco-conscious customers	Use economies of scale to bring battery prices down; plan to sell several tens of thousands of units annually for around ¥1.5 million/car

Subaru Plug-in STELLA
Concept model

Subaru Plug-in STELLA at a recharging station

Main Specs

Dimensions	3,395×1,475×1,660 mm (nearly identical in size to gasoline-engine Stella)
Passenger Seating	4 people
Curb Weight	1,060 kg (approx. 200kg more than gasoline-engine Stella)
Per-Charge Driving Distance	More than 80 km
Maximum Speed	100 km/h
Electric Motor	Permanent-magnet type synchronous motor Maximum power output: 40 kW (comparable to gasoline engine) Maximum torque output: 150 Nm
Battery Type	Lithium-ion battery (Cell-battery procurement from NEC subsidiary AESC; battery unit packaging by FHI) Total voltage: 346V Total energy output: 9.2 kWh
Recharging Capacity	Fast recharge: 80% in 15 minutes Residential power source: 100% in 8 hours
Running Costs	Compared to gasoline-engine minicar, 1/3 of cost with daytime recharge, 1/8 to 1/10 of cost with late-night recharge

Diesel Engines

March 2008 saw the European market launch of Legacy and Outback models fitted with the world's first boxer turbo diesel engine. Compared with their gasoline counterparts, diesel engines are more environmentally friendly because they consume less fuel and emit less carbon dioxide. Indeed, our boxer diesel engine, which emits 30% less carbon dioxide than a similar two-liter gasoline engine, meets the stringent Euro 4 emission standards adopted in Europe and delivers a top-class environmental performance among AWD passenger vehicles. The vehicles combine the strengths of diesel, such as powerful torque at low and medium speeds, with the features of the boxer engine, namely high rigidity and low vibration. The result is a superb driving experience—the fusion of comfortable driving and low environmental impact that represents a distinctive Subaru experience. We plan to introduce more boxer diesel models and expand our sales territory for these vehicles in the future.

For more information on the FHI Group's CSR initiatives, please refer to the Social & Environmental Report.

Subaru boxer turbo diesel engine

Key Boxer Diesel Engine Specs

	EE20 (Boxer Diesel)	EJ20 (petrol)	EZ30 (petrol)
Displacement [cc]	**1,998**	1,994	2,999
Maximum power output [kW (PS)/rpm]	**110 (150)/3,600**	110 (150)/6,000	180 (245)/6,600
Maximum torque output [Nm (kgfm)/rpm]	**350 (35.7)/1,800**	196 (20.0)/3,200	297 (30.3)/4,200
CO_2 emissions [g/km]	**148 (sedan)**	209 (Sedan MT)	243 (Sedan MT)
Compression ratio	**16.3**	10.2	10.7
Bore/Stroke [mm]	**86.0×86.0**	92.0×75.0	89.2×80.0
Bore pitch [mm]	**98.4**	113	98.4
Fuel injection system	**Common rail type**	EGI	EGI
Turbo charger	**Variable nozzle turbocharger**	–	–
EGR layout	**Water cooled**	–	–
DPF (Diesel Particulate Filter)	**Open type**	–	–
Engine length [mm]	**353.5**	414.8	438.4

Management

(As of June 25, 2008)

Ikuo Mori
Representative Director of the Board,
President and CEO

Shunsuke Takagi
Representative Director of the Board,
Executive Vice President

Norihisa Matsuo
Director of the Board,
Executive Vice President

Masatsugu Nagato
Director of the Board,
Executive Vice President

Jun Kondo
Director of the Board,
Executive Vice President

Kazushige Okuhara
Director of the Board,
Executive Vice President

Hiroyuki Oikawa
Director of the Board,
Executive Vice President

Hiroshi Komatsu
Representative Director of the Board,
Senior Executive Vice President

Representative Director of the Board,
President and CEO

Ikuo Mori

Representative Director of the Board,
Senior Executive Vice President

Hiroshi Komatsu

Representative Director of the Board,
Executive Vice President

Shunsuke Takagi

Directors of the Board,
Executive Vice Presidents

Hiroyuki Oikawa
Norihisa Matsuo
Kazushige Okuhara
Masatsugu Nagato
Jun Kondo

Senior Vice Presidents

Takashi Ishihara
Tsunenori Hoshi
Yoshio Hasunuma
Naoto Muto
Yasuyuki Yoshinaga
Akira Mabuchi
Tamaki Kamogawa

Vice Presidents

Masakazu Kimura
Tomohiko Ikeda
Takeshi Tachimori
Hisashi Nagano
Mitsuru Takahashi
Motokiyo Nomura
Motohisa Miyawaki
Masahiro Kasai
Naoto Arai
Yasuo Ueno
Hidetoshi Kobayashi
Yoshio Hirakawa

Standing Corporate Auditors

Takeo Tsumuji
Yoji Ishimaru
Nobushige Imai

Corporate Auditor

Giichi Miyakawa

Consolidated Nine-Year Financial Summary

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

									Millions of yen	Thousands of U.S. dollars
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008
For the Year:										
Net sales	¥1,330,125	¥1,311,887	¥1,362,493	¥1,372,337	¥1,439,451	¥1,446,491	¥1,476,368	¥1,494,817	¥1,572,346	$15,692,075
Cost of sales	995,131	978,841	992,950	1,011,582	1,085,716	1,107,718	1,125,293	1,142,674	1,217,662	12,152,315
Gross profit	334,994	333,046	369,543	360,755	353,735	338,773	351,075	352,143	354,684	3,539,760
Selling, general and administrative expenses	243,593	251,373	281,063	293,234	303,411	296,756	292,736	304,237	309,004	3,083,872
Operating income	91,401	81,673	88,480	67,521	50,324	42,017	58,339	47,906	45,680	455,888
Income before income taxes and minority interest	64,839	21,291	56,136	46,970	56,266	21,066	28,674	45,589	31,906	318,423
Net income	31,348	22,628	30,283	33,484	38,649	18,238	15,611	31,899	18,481	184,441
At Year-End:										
Net assets*	¥ 213,806	¥ 363,199	¥ 399,598	¥ 414,614	¥ 457,027	¥ 474,616	¥ 467,786	¥ 495,703	¥ 494,423	$ 4,934,361
Shareholders' capital	206,404	357,455	396,112	411,252	453,708	471,149	465,522	494,004	493,397	4,924,121
Total assets	1,038,558	1,168,501	1,269,558	1,344,072	1,349,727	1,357,459	1,348,400	1,316,041	1,296,388	12,938,004
Ratio of net assets to total assets (%)	19.9%	30.6%	31.2%	30.6%	33.6%	34.7%	34.5%	37.5%	38.1%	
Per Share (in yen and U.S. dollars):										
Net income:										
Basic	¥ 51.90	¥ 30.44	¥ 40.74	¥ 44.84	¥ 50.62	¥ 23.27	¥ 20.66	¥ 44.46	¥ 25.73	$ 0.26
Diluted	48.53	29.06	38.83	42.91	49.66	23.27	20.66	44.44	25.73	0.26
Net assets	338.75	480.86	532.88	553.90	582.60	604.51	649.41	687.81	687.02	6.86
Other Information:										
Automobile inventory (1,000 units):										
Japan	26.1	29.7	33.5	22.9	28.4	24.5	18.5	16.5	12.4	
United States	29.2	40.0	41.2	44.7	48.1	51.2	55.6	46.3	49.5	
Depreciation/amortization expenses	¥ 60,190	¥ 64,070	¥ 63,964	¥ 67,896	¥ 71,112	¥ 71,010	¥ 80,073	¥ 81,454	¥ 87,164	$ 869,900
Capital expenditures (addition to fixed assets)	103,922	102,301	118,376	119,423	128,026	147,759	119,289	126,329	118,869	1,186,317
R&D expenses	40,123	46,622	54,903	60,110	57,541	52,962	46,893	50,709	52,020	519,162
Number of shares issued (thousands of shares)**	614,553	746,502	746,506	746,521	782,866	782,866	782,866	782,866	782,866	
Number of shareholders**	49,381	32,996	33,094	35,584	34,704	34,558	46,367	42,920	44,484	
Number of employees**:										
Parent only	13,668	13,603	13,374	13,064	12,928	12,703	11,998	11,752	11,909	
Consolidated	26,914	26,502	26,483	27,478	27,296	26,989	26,115	25,598	26,404	

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥100.20 to US$1.00, the approximate rate of exchange at March 31, 2008.
* Prior year amounts have been reclassified to conform to the current year presentation.
** As of March 31

Management's Discussion and Analysis of Results of Operations and Financial Position

Overview

During fiscal 2008, ended March 31, 2008, the Fuji Heavy Industries Ltd. ("FHI") Group was engaged in production and sales activities in a wide range of business sectors. Operations in the Group's network of 102 subsidiaries and 9 affiliated companies were conducted under four main business divisions: the Group's mainstay Automobiles division, the Aerospace division, the Industrial Products division, and the Other division.

FHI announced a new medium-term management plan in February 2007, covering the four-year period from fiscal 2008 to 2011. With "customers come first" as our key word, the FHI Group is making concerted efforts toward achievement of the targets.

The following is an overview of operations during fiscal 2008.

In the Group's mainstay Automobiles division, in Japan, sales of the Impreza (launched in June 2007) and Forester (launched in December 2007), both of which underwent full model changes, increased thanks to a favorable reception from the market. However, existing models, namely the Legacy and minicars, posted lower sales volume. As a result, sales volume for both passenger cars and minicars declined compared to the previous fiscal year. Meanwhile, overseas sales volume exceeded levels in the previous fiscal year in all markets, beginning with North America and Europe, with sales higher than initially expected in emerging markets, including Russia and China.

Regarding the non-automobiles divisions, the Aerospace division posted record sales for the third consecutive year, reflecting strong demand for commercial aircrafts. The Industrial Products division recorded lower sales year on year as a result of Fuji Robin Industries Ltd. (now Makita Numazu Corporation) becoming a non-consolidated subsidiary due to the tender of all the shares of Fuji Robin owned by FHI to Makita Corporation in response to a friendly takeover bid.

All of these factors taken together, and due especially to contributions from higher sales volume overseas and the yen's depreciation in the first half of the fiscal year, consolidated net sales increased ¥77.5 billion, or 5.2%, to ¥1,572.3 billion. Operating income, however, declined ¥2.2 billion, or 4.6%, to ¥45.7 billion. Earnings were negatively affected by weak sales volume in Japan, deterioration of the sales mix in overseas markets in the first half of the fiscal year, fixed costs associated with depreciation method changes, selling, general and administrative (SG&A) expenses and other costs, and higher R&D expenses, overshadowing efforts to reduce material costs. Net income fell ¥13.4 billion, or 42.1%, to ¥18.5 billion. The main factors were the disappearance of gains on the sale and disposal of property, plant and equipment that were recorded in the previous fiscal year, and the booking of impairment losses on property, plant and equipment for minicar manufacturing facilities at the Gunma manufacturing plant (Ota, Gunma Prefecture) in conjunction with planned reorganization of the production framework.

Segment Information

Automobiles Division

Net sales from the Automobiles division increased by ¥81.9 billion, or 6.1% year on year, to ¥1,421.2 billion. However, operating income declined ¥0.7 billion, or 1.8%, to ¥37.1 billion. In the second half of the fiscal year, the sales volume and mix improved due to strong sales of new vehicles both in Japan and overseas, but efforts to reduce the cost of materials were unable to compensate for fixed costs of dies and molds associated with getting new vehicles off the ground, and a change in depreciation method, SG&A expenses and other costs, and higher R&D expenses.

Global sales volume was 597 thousand units, up 19 thousand units, or 3.2%, over the previous fiscal year.

In Japan, passenger car sales benefited from the new Impreza and Forester, but this was outweighed by lower sales volume for the existing Legacy. As a result, domestic passenger car sales volume declined by 3 thousand units, or 3.9 % year on year, to 78 thousand units. Similarly, minicar sales declined by 15 thousand units, or 10.3%, to 131 thousand units as benefits from the new Stella, launched in June 2006, fell away, and sales of other models also declined. As a result of these factors, total sales volume in Japan declined by 18 thousand units, or 8.0% year on year, to 209 thousand units.

In contrast, overseas sales volume increased by 37 thousand units, or 10.5%, to 388 thousand units. In North America, sales volume rose by 4 thousand units, or 1.9%, to 210 thousand units as higher sales of the Legacy and Tribeca, which underwent big change, offset lower sales volume for the Forester ahead of its full model change. In Europe, sales volume rose by 15 thousand units, or 20.4%, to 86 thousand units. In addition to substantial growth in emerging markets, particularly Russia, where volume increased by 10 thousand units, or 77.7%, to 23 thousand units, expansion was led by the Impreza and the Justy. Sales in Australia remained strong, rising by 2 thousand units, or 5.4%, to 40 thousand units, setting a new record high for the tenth consecutive year. Sales in other regions were also strong, increasing by 16 thousand units, or 46.7%, to 51 thousand units, led by China, where sales rose by 5 thousand units, or 69.3%, to 13 thousand units, mainly from Forester sales.

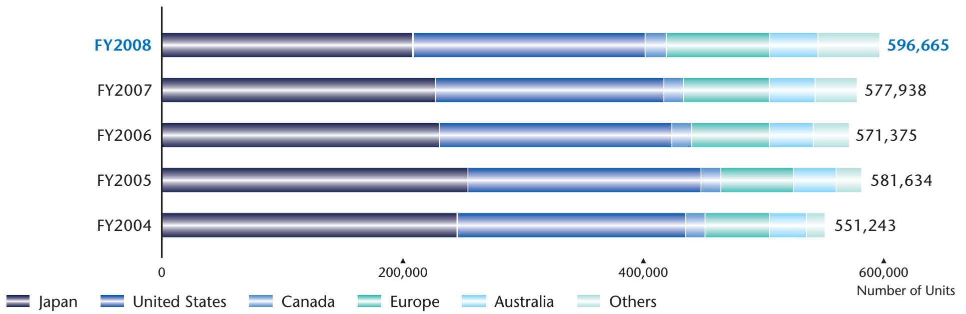
Consolidated Automobile Sales

Number of Units

	2008	2007	2006	2005	2004
Domestic Units:					
Legacy	31,079	43,951	50,619	56,977	65,907
Impreza	29,678	24,135	26,911	25,194	21,200
Forester	16,863	11,807	17,405	17,709	18,988
Others	435	1,308	2,747	4,138	5,000
Subtotal	78,055	81,201	97,682	104,018	111,095
Minicars	130,635	145,610	132,483	150,021	134,446
Domestic total	208,690	226,811	230,165	254,039	245,541
Overseas Units by Region:					
United States	192,760	190,276	193,562	193,917	189,633
Canada	17,587	16,247	16,384	16,506	16,154
Europe*	85,995	71,404	64,724	60,517	53,578
Australia	40,210	38,136	36,506	35,414	30,685
Others	51,423	35,064	30,034	21,241	15,652
Subtotal	387,975	351,127	341,210	327,595	305,702
Overseas Units by Model:					
Legacy	137,829	133,720	132,236	150,987	128,994
Impreza	113,777	90,927	72,790	66,670	72,729
Forester	96,839	102,969	104,059	95,173	98,941
Tribeca	27,327	18,268	24,187	—	—
Others	12,203	5,243	7,938	14,765	5,038
Subtotal	387,975	351,127	341,210	327,595	305,702
CKD** Overseas	—	—	—	—	2,800
Total	596,665	577,938	571,375	581,634	554,043

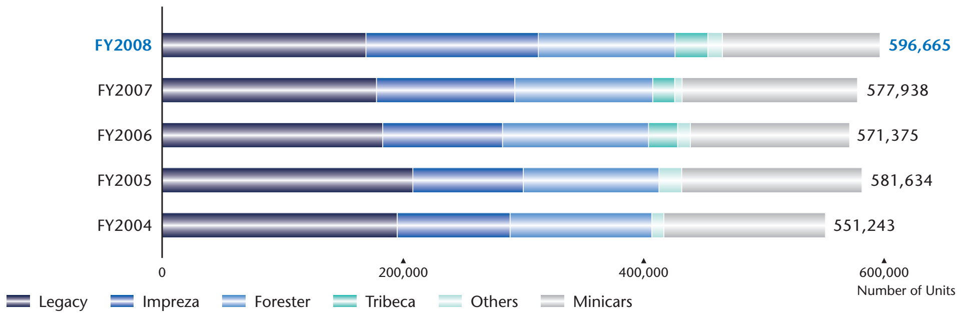
* "Europe" includes figures for Russia.
** CKD: Complete Knocked Down

Consolidated Automobile Sales by Region**



**Excluding CKD Overseas

Consolidated Automobile Sales by Model**



**Excluding CKD Overseas

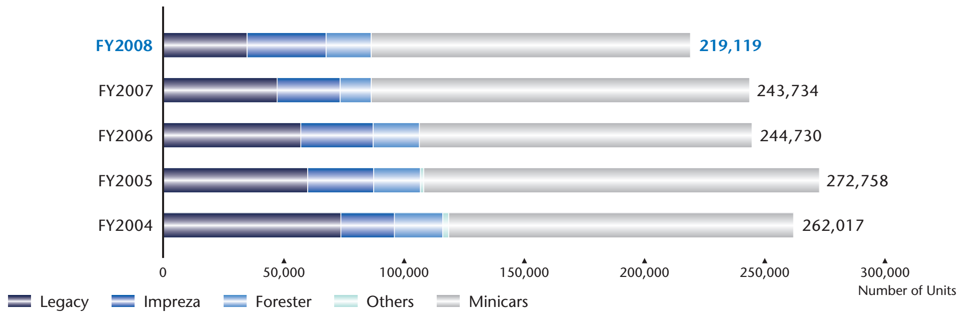
Non-Consolidated Automobile Sales

Number of Units

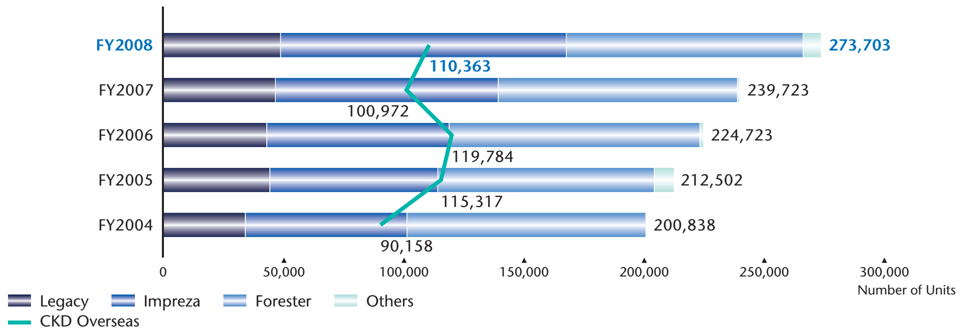
	2008	2007	2006	2005	2004
Domestic Units:					
Legacy	34,634	47,176	57,013	59,843	73,676
Impreza	32,873	26,159	30,063	27,437	22,263
Forester	18,740	12,946	19,256	19,457	20,097
Others	0	0	0	1,397	2,479
Subtotal	86,247	86,281	106,332	108,134	118,515
Minicars	132,872	157,453	138,398	164,624	143,502
Domestic total	219,119	243,734	244,730	272,758	262,017
Export Units:					
Legacy	48,568	46,410	42,809	44,101	33,865
Impreza	119,000	92,782	75,935	69,946	67,349
Forester	98,602	99,637	104,425	90,131	99,463
Others	7,533	894	1,554	8,324	161
Export total	273,703	239,723	224,723	212,502	200,838
U.S. Retail Sales*:					
Legacy	78,428	84,442	87,788	89,453	79,839
Impreza	46,329	41,148	33,637	32,209	36,525
Forester	44,534	51,258	53,541	58,424	59,761
Baja	1,127	5,241	6,239	7,316	10,694
Tribeca	16,790	18,614	14,797	—	—
Total	187,208	200,703	196,002	187,402	186,819
CKD Overseas	110,363	100,972	119,784	115,317	90,158
(SIA Portion)	110,363	100,972	119,784	115,317	87,358
SIA Production Units*:					
Legacy	84,960	89,351	91,510	105,550	96,993
Tribeca	24,218	21,022	27,481	—	—

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

Non-Consolidated Domestic Automobile Sales by Model



Non-Consolidated Automobile Export Units by Model



Aerospace Division

The division posted record sales for the third consecutive year, with sales up ¥5.7 billion, or 6.0%, to ¥99.7 billion. However, operating income fell ¥1.2 billion, or 21.7%, to ¥4.4 billion.

Sales to the Japan Ministry of Defense declined compared to the previous fiscal year. Sales of the "AH-64D" combat helicopter and unmanned aircraft increased, but sales of the "XP-1/CX" next-generation fixed-wing Maritime Patrol Aircraft and Cargo Transport Aircraft declined with the move into the termination stage of prototype delivery.

Sales to the commercial sector were up substantially compared with the previous fiscal year. In addition to higher shipments of the center wing for the Boeing 777, the division saw increased deliveries of the main wing for the H4000 mid-sized business jet and for the Eclipse 500 light business jet.

Earnings declined mainly because of increasing manufacturing expenses related to parts for the Boeing 787.

Industrial Products Division

Sales in the industrial products division declined ¥9 billion, or 18.2%, to ¥40.7 billion. Operating income decreased ¥0.8 billion, or 56.3%, to ¥0.7 billion.

One factor was lower year on year sales due to a decline in sales of engines for construction machinery in the domestic market. Overseas, sales in the North American market declined due to the slowing economy there. However, the appreciation of euro boosted sales in Europe and sales in the Middle East, where business conditions remain good due to high prices for crude oil. As a result, total overseas sales rose compared with the previous fiscal year.

Another factor reducing sales was the fact that Fuji Robin Industries was no longer a consolidated subsidiary, as FHI sold its entire stake during the fiscal year.

Other Division

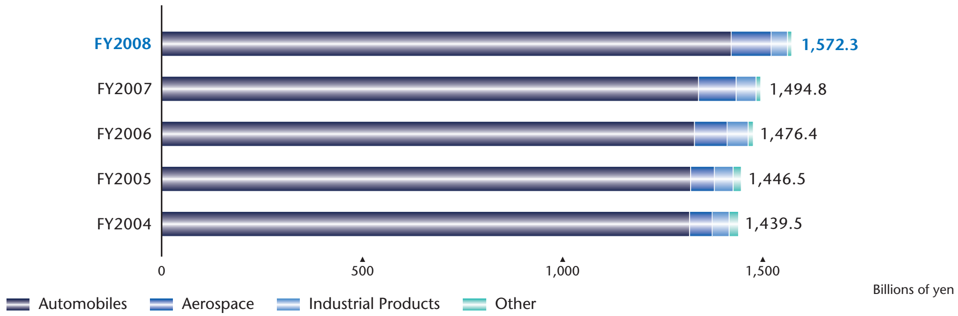
Other division sales were down ¥1 billion, or 8.5%, to ¥10.8 billion. However, operating income rose ¥0.3 billion, or 11.9%, to ¥2.5 billion.

Although sales were boosted by the May 2007 introduction of 2-ton and 3-ton vehicles in the new "Fuji Mighty 81 series" sanitation truck and the delivery of the first mass-produced large-scale wind turbine generator systems, the decrease in sales caused by withdrawal from the environmental equipment business in fiscal 2008 had a negative impact. However, factors such as the complete consolidation of an affiliate subsidiary had a positive impact on earnings.

Cost of Sales, Expenses and Operating Income

Compared to the previous fiscal year, the cost of sales increased by ¥75.0 billion, or 6.6%, to ¥1,217.7 billion, and the cost of sales ratio edged up 1.0 percentage point to 77.4%. Higher raw materials costs fueled by sharp increases in prices for materials, mainly steel and precious metals, were responsible for the increase in the cost of sales ratio. Operating income declined by ¥2.2 billion, or 4.6%, to ¥45.7 billion, as ¥1.0 billion in currency exchange gains and ¥7.0 billion in benefits from cost reductions net of sharply higher values for raw materials were outweighed by a ¥8.1 billion increase in miscellaneous expenses (including ¥4.6 billion due to changes in depreciation method), a ¥1.3 billion rise in R&D expenses, and ¥0.8 billion due to deterioration in the sales volume and mix.

Net Sales by Division (Excluding intersegment sales)



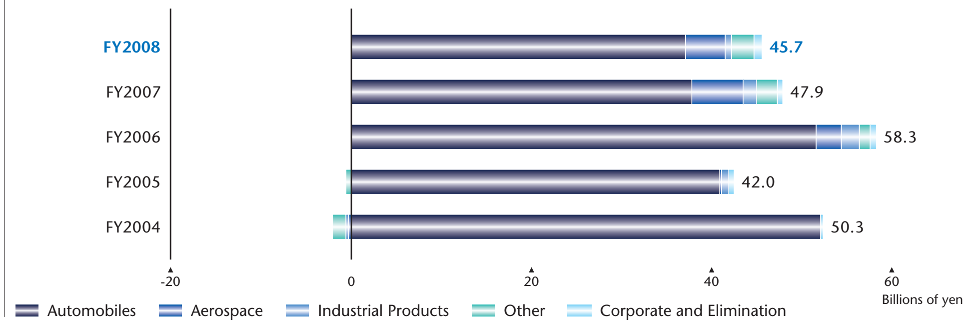
Net Sales by Division (Excluding intersegment sales)

Billions of yen

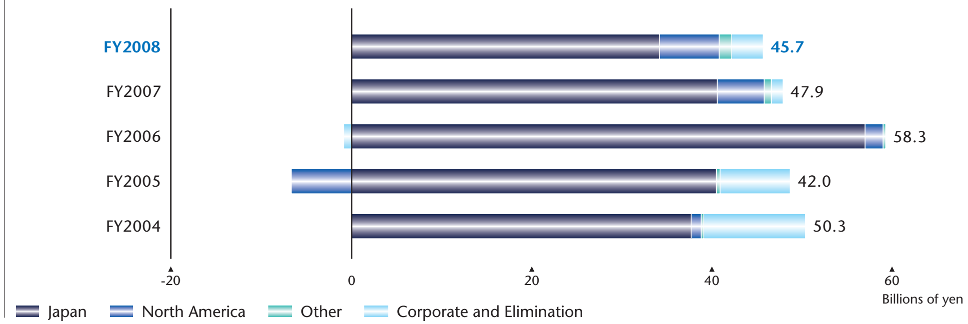
	2008	2007	2006	2005	2004
Automobiles	¥1,421.2	¥1,339.3	¥1,329.2	¥1,319.6	¥1,317.0
Aerospace	99.7	94.0	81.8	59.4	56.6
Industrial Products	40.7	49.7	52.4	46.8	42.3
Other	10.8	11.8	13.0	20.6	23.6
Total	¥1,572.3	¥1,494.8	¥1,476.4	¥1,446.5	¥1,439.5

Net other income/expenses declined ¥11.5 billion to a loss of ¥13.8 billion. Although foreign exchange losses were offset by a gain on revaluation of derivatives, net income/expenses declined due to lower gains on the sale and disposal of property, plant and equipment, which were recorded in the previous fiscal year, and the booking of impairment losses on minicar manufacturing facilities at the Gunma plant in association with planned reorganization of the production framework. Income before income taxes and minority interest declined ¥13.7 billion, or 30.0%, to ¥31.9 billion. Net income fell ¥13.4 billion, or 42.1%, to ¥18.5 billion.

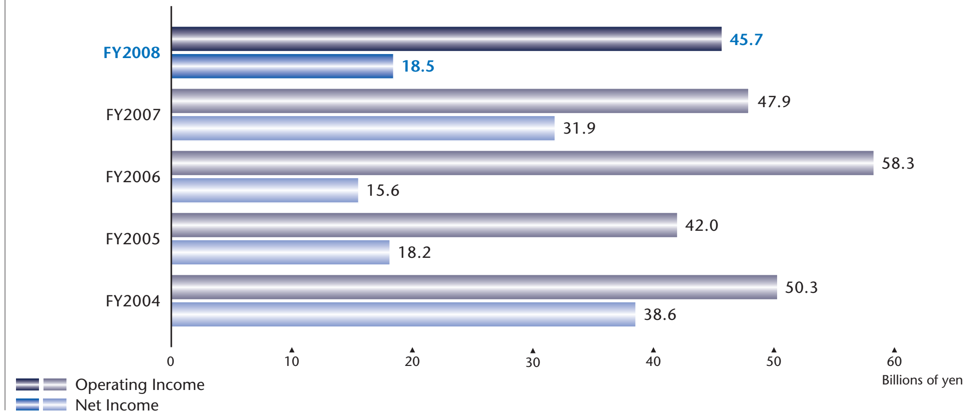
Operating Income (Loss) by Division



Operating Income (Loss) by Region



Operating Income & Net Income



Operating Income (Loss) by Division

Billions of yen

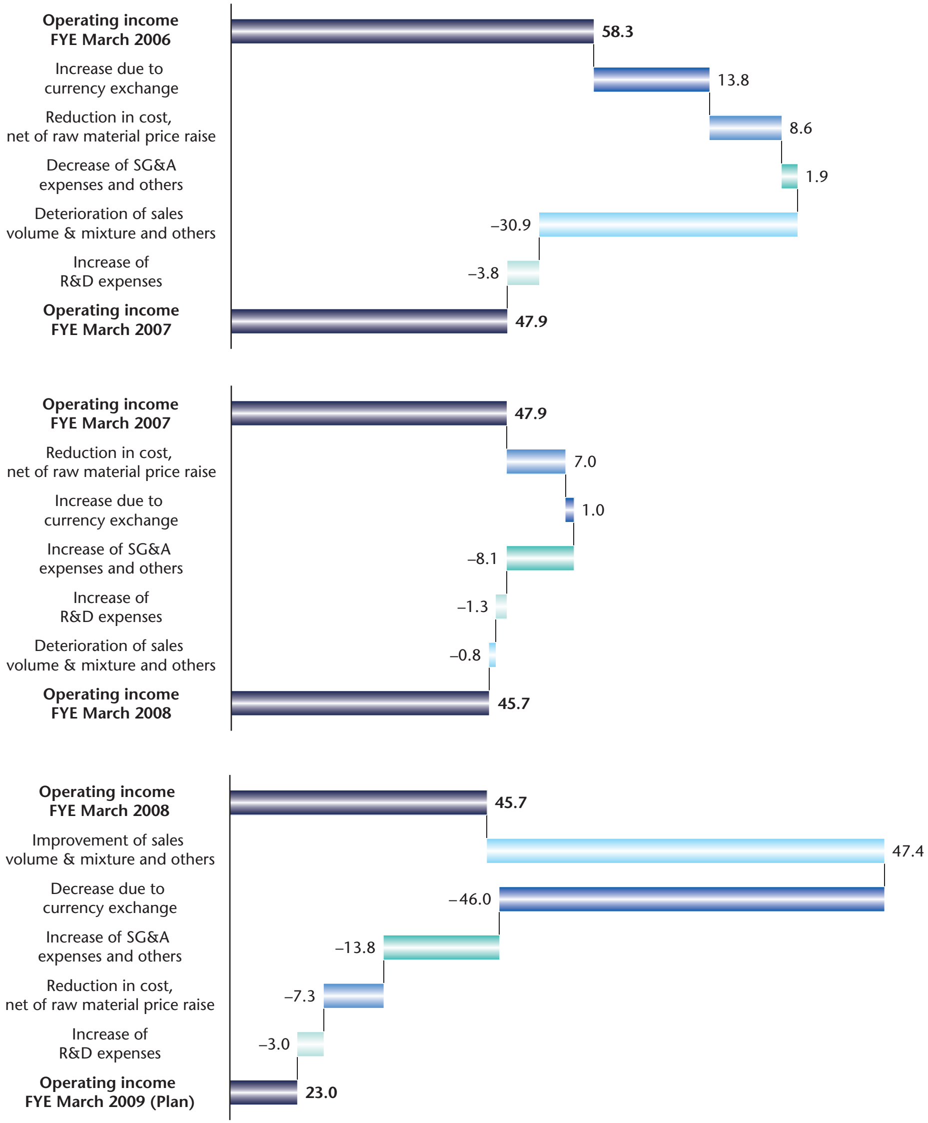
	2008	2007	2006	2005	2004
Automobiles	¥37.1	¥37.8	¥51.6	¥40.9	¥52.1
Aerospace	4.4	5.7	2.8	0.2	(0.3)
Industrial Products	0.7	1.5	2.0	0.8	(0.3)
Other	2.5	2.3	1.2	(0.6)	(1.5)
Corporate and Elimination	0.9	0.6	0.7	0.6	0.3
Total	¥45.7	¥47.9	¥58.3	¥42.0	¥50.3

Operating Income (Loss) by Region

Billions of yen

	2008	2007	2006	2005	2004
Japan	¥34.2	¥40.6	¥57.0	¥40.5	¥37.7
North America	6.6	5.2	2.0	(6.7)	1.1
Other	1.4	0.8	0.3	0.4	0.3
Corporate and Elimination	3.5	1.3	(0.9)	7.8	11.3
Total	¥45.7	¥47.9	¥58.3	¥42.0	¥50.3

Analysis of Increases and Decreases in Operating Income (Consolidated, Three-Year (FY2006-FY2009) YoY Comparison) (Billions of Yen)



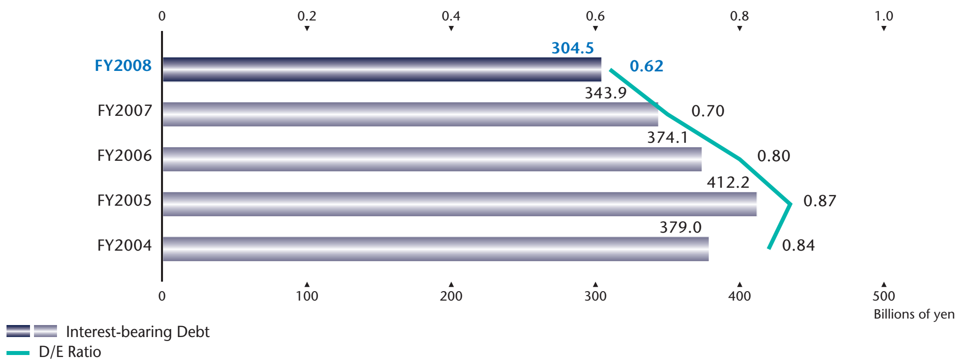
Liquidity and Financing

Securing Liquidity

FHI believes that it has secured a degree of liquidity sufficient to satisfy a level of funds as currently necessary through the use of commitment lines contracted with major banks, combined with cash and cash equivalents.

Interest-bearing debt at the end of fiscal 2008 totaled ¥304.5 billion, a year-on-year decrease of ¥39.4 billion. The debt/equity ratio improved 0.08 of a point to 0.62, as FHI maintained a sound financial position.

Interest-Bearing Debt Balance & D/E Ratio



Financial Position

Total assets at March 31, 2008 decreased ¥19.7 billion, or 1.5% compared to the previous fiscal year-end, to ¥1,296.4 billion. Total current assets were ¥622.8 billion, increasing ¥28.2 billion, or 4.7%, from the previous fiscal year. This change largely reflected a decrease in short-term loans due to the securitization of receivables at a financing subsidiary, as well as higher inventories and an increase in cash and time deposits.

Property, plant and equipment decreased by ¥38.9 billion, or 7.1%, to ¥511.7 billion, a change primarily attributable to a decline in machinery and vehicles, the account for construction in progress and leased assets.

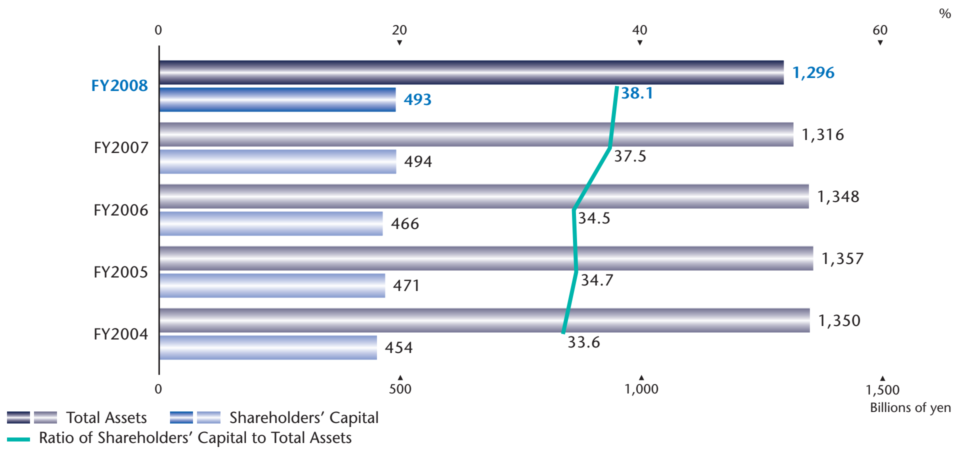
Investments and other assets totaled ¥161.9 billion, a decrease of ¥8.9 billion, or 5.2%, from the previous fiscal year-end.

Total liabilities were down ¥18.4 billion, or 2.2%, to ¥802.0 billion, mostly as a result of a reduction in interest-bearing debt to ¥304.5 billion, down ¥39.4 billion, or 11.5%, due to redemption of bonds and reductions in loans.

Net assets totaled ¥494.4 billion, down ¥1.3 billion, or 0.3%, compared to the previous fiscal year. Retained earnings increased ¥13 billion to ¥227.8 billion, while net unrealized holding gains on securities declined ¥8.5 billion to ¥13.7 billion.

As a result of the above, return on equity (ROE) at the end of the year was 3.7%, deteriorating 2.9 percentage points compared to the previous fiscal year. Return on assets (ROA), the numerator of which consists of operating income plus interest and dividend income, was unchanged at 3.9%.

Total Assets, Shareholders' Capital & Shareholders' Capital to Total Assets



Cash Flows

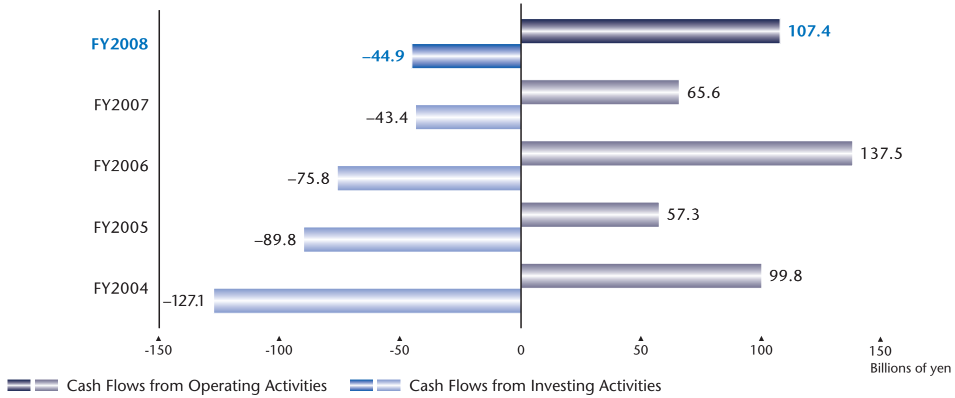
Net cash provided by operating activities increased by ¥41.8 billion, to ¥107.4 billion. Inventories increased ¥45.6 billion, while income before income taxes and minority interest was ¥31.9 billion, depreciation and amortization was ¥87.2 billion, and notes and accounts payable, trade, rose ¥44.2 billion.

Net cash used in investing activities increased ¥1.5 billion year on year, to ¥44.9 billion, mainly reflecting ¥57.0 billion used for the purchase of property, plant and equipment (net of proceeds from sale of property, plant and equipment), and ¥19.9 billion in inflows from the collection of loans receivable (net of disbursement of loans receivable).

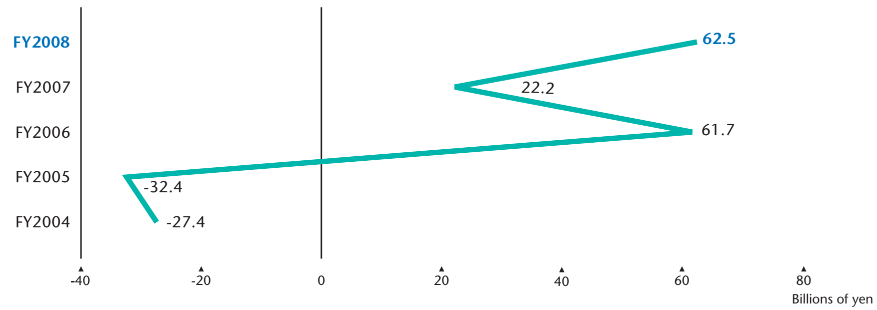
As a result, free cash flow totaled ¥62.5 billion, an improvement of ¥40.3 billion from ¥22.2 billion in the previous fiscal year.

Net cash used in financing activities totaled ¥45.1 billion, representing a year-on-year improvement of ¥8.9 billion. This result was largely attributable to a reduction in interest-bearing debt.

Cash Flows from Operating Activities & Cash Flows from Investing Activities



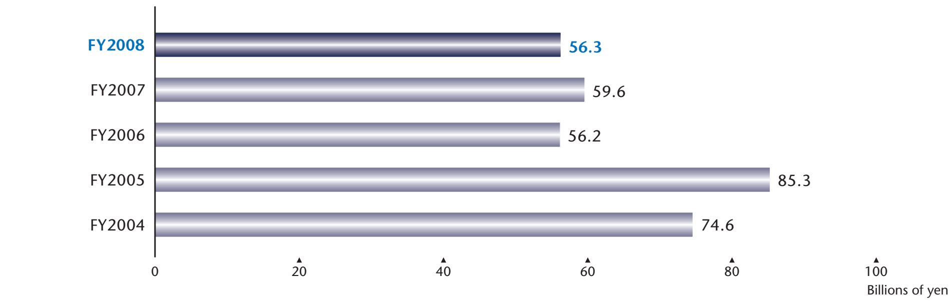
Free Cash Flow



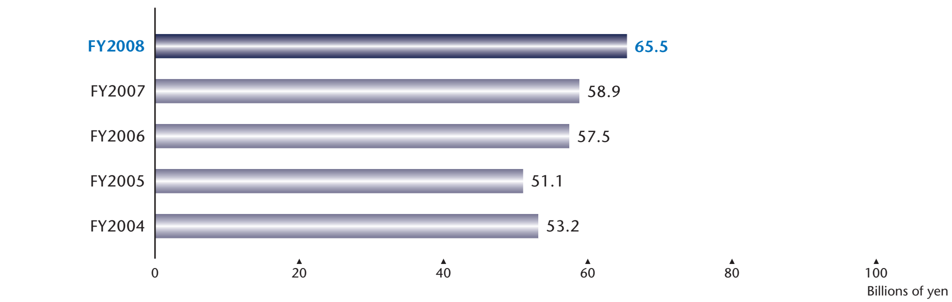
Capital Expenditures

Capital expenditures declined ¥3.3 billion, or 5.5% compared to the previous fiscal year, to ¥56.3 billion. Expenditures declined due to a reduction in investment for SIA and slower progress in acquiring new land for domestic dealers than initially expected. Depreciation increased ¥6.6 billion, or 11.2%, to ¥65.5 billion, partly because of a change in depreciation method.

Capital Expenditures



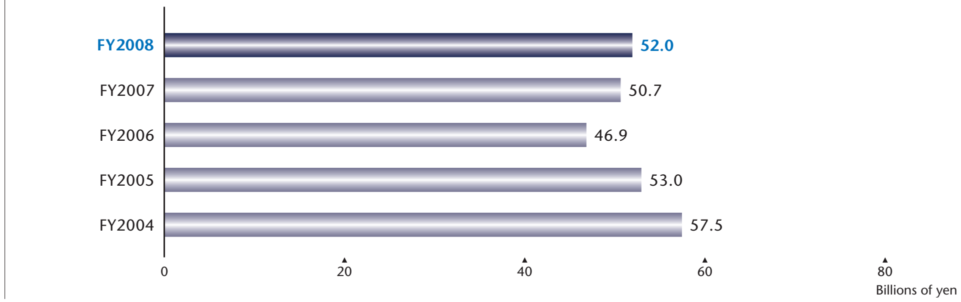
Depreciation Expenses



Research & Development Expenses

Research and development expenses at FHI as a whole increased ¥1.3 billion, or 2.6%, to ¥52.0 billion, mainly from R&D on models undergoing the next generation full model changes and initiatives for improving environmental performance.

Research & Development Expenses



Basic Policy Regarding the Distribution of Profits

FHI views the return of profits to shareholders as a priority task for management, and follows a basic policy of maintaining stable long-term dividends while taking comprehensive consideration of such factors as its earnings performance and dividend payout ratio. FHI uses retained earnings with the intent of strengthening its financial position. Funds are also allocated for investments to support future growth and development in areas such as R&D for the development of appealing products, and investments to bolster FHI's production and sales network.

Outlook

The automobile market in Japan is expected to remain harsh, while economic conditions in the U.S. are likely to decelerate against the backdrop of the sub-prime loan issue. Additionally, sharp increases in prices for raw materials, including petroleum, steel and precious metals, and the further strengthening of the yen against other currencies make the business environment for FHI difficult to predict.

In this environment, FHI is forecasting fiscal 2009 sales of ¥1,600.0 billion, up ¥27.7 billion, or 1.8%, from the previous fiscal year atop increased sales volume, and operating income of ¥23.0 billion, down ¥22.7 billion, or 49.6%. While the Company expects improvement in the sales mix due to the ongoing introduction of new vehicles into the market to contribute to earnings, it also expects foreign exchange loss, higher manufacturing fixed costs, increased SG&A expenses, sharp increases in raw material prices, and greater R&D expenses. As a result, FHI is forecasting net income of ¥10 billion, down ¥8.5 billion, or 45.9% year on year.

These targets are based on an exchange rate of ¥100 to U.S.$1 for the parent company.

Forecast for Global Automobile Sales

1,000 Units

	2009	2008	Change
Japan			
Passenger cars	98.1	78.1	20.0
Minicars	114.6	130.6	(16.1)
Subtotal	212.6	208.7	3.9
Overseas			
United States	204.6	192.8	11.8
Canada	18.0	17.6	0.4
Europe	101.7	86.0	15.7
Australia	46.2	40.2	5.9
Other	52.9	51.4	1.5
Subtotal	423.3	388.0	35.4
Total	636.0	596.7	39.3

Medium- to Long-term Management Strategies

In February 2007, FHI announced a new four-year, medium-term management plan scheduled to run from fiscal 2008 to 2011. While retaining FHI's long-term vision of becoming a compelling company with a strong market presence, the new plan places priority on building stronger foundations to underpin future growth, and aims for solid improvements in enterprise value, guided by an unswerving commitment to FHI customers. Centered on the philosophy that "Customers come first," the plan seeks to 1) provide a distinctive Subaru experience for drivers and passengers, 2) increase sales globally, 3) strengthen competitiveness in quality and cost, 4) grow through the business alliance with Toyota, and 5) grow the level of employee competence and so enhance the organization. Financial targets include attaining an operating margin at the level of 5% and a target ROA level of 7% by fiscal 2011.

In April 2008, FHI announced that it would expand cooperative ties with Toyota Motor Corporation (Toyota) and Daihatsu Motor Co., Ltd. (Daihatsu), specifically through new arrangements related to R&D and product supply, with the aim of strengthening its competitiveness by achieving mutual synergies through the apt application of each company's technological know-how.

The specifics of the alliance are as follows:

(1) FHI and Toyota are to jointly develop a compact FR (front engine, rear drive) sporty car, to be marketed by both companies. The new sporty car is to be developed based on Subaru's boxer engine platform, with market launch in late 2011.

(2) FHI is to build a new vehicle assembly plant at its Gunma facility, and the new compact sporty car will be manufactured entirely at FHI's new plant.

(3) Toyota will supply FHI with a compact car on an OEM (original equipment manufacturing) basis, with the start of supply targeted for the end of 2010.

(4) Daihatsu will supply FHI with the compact car "Coo" on an OEM basis, starting in October 2008.

(5) Daihatsu is to supply FHI with minicars on an OEM basis, starting in the second half of 2009.

(6) FHI will terminate development and production of minicars and transfer employees at its existing Main Plant to the new factory in Oizumi, Gunma Prefecture.

(7) To further promote a smooth business alliance, FHI will transfer 61 million shares owned as treasury stock to Toyota, following approval by Japan's Fair Trade Commission.
After this transfer, Toyota's ownership ratio in FHI will increase from 8.7% to 16.5%. The funds received for the transfer of shares will be allotted for capital investment for the construction of the new production facility.*

FHI believes that each of these measures will make its pursuit of a distinctive Subaru experience for drivers and passengers more visible in the automobile market. Through this focus on our resources, we will enhance the advantages of the Subaru brand while maintaining management independence, and will be better able to pursue the improvement of shareholder value through increased enterprise value.

*This transfer was completed on July 14, 2008.

Principal Risks

Business risks faced by FHI with the potential to have a significant impact on investor decisions are listed on FHI's website at http://www.fhi.co.jp/english/ir/

Consolidated Subsidiaries and Affiliates

(As of March 31, 2008)

Japan

Fuji Machinery Co., Ltd. (100.0%)

Manufacture and sales of automobile parts and industrial product parts
http://www.fuji-machinery.co.jp/

Ichitan Co., Ltd. (51.0%)

Manufacture and sales of forged automobile/industrial product parts
http://www.ichitan.co.jp/

Kiryu Industrial Co., Ltd. (97.5%)

Manufacture of Subaru specially equipped automobiles and distribution of Subaru automobile parts
http://www.kiryu-kougyo.co.jp/

Subaru Kosan Co., Ltd. (100.0%)

Leasing of real estate, shopping mall managements and travel agency operations
http://www.ebis303.com/

Subaru UI Co., Ltd. (100.0%)

Sales & car auction support for second hand Subaru automobiles and pre-delivery inspection & body repair works for Subaru automobiles
http://www.subaru-ui.jp/

Subaru Finance Co., Ltd. (100.0%)

Lease & credit facilities provider for Subaru automobiles, financing for FHI subsidized companies, lease for various facility equipments, rolling stocks & FHI made garbage truck and sales of insurance
http://www.subaru-finance.co.jp/

Yusoki Kogyo K.K. (100.0%)

Manufacture and sales for aircraft parts
http://www.yusoki.co.jp/

Tokyo Subaru Inc. (100.0%) and 33 other dealerships

Distribution, sales and services of Subaru automobiles
http://www.tokyo-subaru.co.jp/

Overseas

Subaru of America, Inc. (100.0%) and 10 subsidiaries

Subaru Plaza, 2235 Route 70 West, Cherry Hill, NJ08002, U.S.A.
Phone: +1-856-488-8500
Fax: +1-856-488-0485
Distribution and sales of Subaru automobiles and parts
http://www.subaru.com/

Fuji Heavy Industries U.S.A., Inc. (100.0%) and one subsidiary

c/o Subaru of America, Inc.
Subaru Plaza, 2235 Route 70 West, Cherry Hill, NJ08002, U.S.A.
Phone: +1-856-488-8743
Fax: +1-856-488-8517
Engineering research of Subaru automobiles in North America Market

Subaru Research & Development, Inc.

3995 Research Park Drive, Ann Arbor, MI 48108, U.S.A.
Phone: +1-734-623-0075
Fax: +1-734-623-0076
Research and development of automobiles

Subaru of Indiana Automotive, Inc. (100.0%) and one subsidiary

5500 State Road 38 East, Lafayette, IN47905, U.S.A.
Phone: +1-765-449-1111
FAX: +1-765-449-6952
Manufacture of Subaru automobiles and contracted manufacture of Toyota automobiles
http://www.subaru-sia.com/

Subaru Canada, Inc. (100.0%) and one subsidiary

560 Suffolk Court Mississauga, Ontario L5R 4J7, Canada
Phone: +1-905-568-4959
Fax: +1-905-568-8087
Distribution and sales of automobiles and parts
http://www.subaru.ca/

Subaru Europe N.V./S.A. (100.0%)

Leuvensesteenweg 555 B/8, 1930 Zaventem, Belgium
Phone: +32-2-714-0300
Fax: +32-2-725-7792
Distribution, sales and marketing of Subaru automobiles and parts

Subaru of China Co, Ltd. (100.0%)

Beijing Landmark Towers office Building 2-1501, 8 North Dongsanhuan Road,
Chaoyang District, Beijing 100004, China
Tel: +86-10-6590-0725
Fax: +86-10-6590-0729
Distribution, sales and marketing of Subaru automobiles and parts

Investor Information

(As of March 31, 2008)

Head Office

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

Investor Relations Office

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

Established

July 15, 1953

Paid-in Capital

¥153,795 million

Number of Shareholders

55,422

Number of Common Stock Issued

782,865,873

Domestic Manufacturing Division

Gunma Manufacturing Division (Automobiles Division)
Utsunomiya Manufacturing Division (Aerospace Division and Eco Technologies Division)
Saitama Manufacturing Division (Industrial Products Division)

Major Shareholders

1. Toyota Motor Corporation
2. Fuji Heavy Industries Ltd.
3. Northern Trust Company (AVFC) Sub-account American Client
4. The Master Trust Bank of Japan, Ltd. (Trust Account)
5. Japan Trustee Services Bank, Ltd. (Trust Account)
6. Hero and Company
7. Nippon Life Insurance Company
8. Suzuki Motor Corporation
9. Mizuho Corporate Bank, Ltd.
10. Mizuho Bank, Ltd.

Stock Exchange Listing

Tokyo Stock Exchange

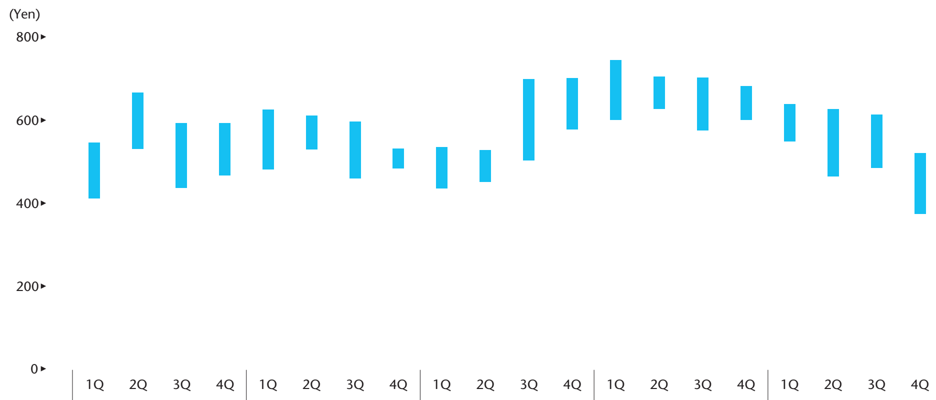
Transfer Agent

Mizuho Trust & Banking Co., Ltd.
2-1 Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

Web Site Address

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

Quarterly Common Stock Price Range (Tokyo Stock Exchange)



	FY2004	FY2005	FY2006	FY2007	FY2008
High	668	627	704	747	641
Low	414	462	437	577	376

With the new EXIGA, Subaru has created a car that brings new value to multi-passenger vehicles. Based on the concept of a seven-seater with panoramic visibility for the touring experience, the EXIGA has been developed to provide a safe and pleasant journey for all occupants. Leveraging expertise gained from its work in wagons, Subaru has created an open and comfortable interior space enabling all passengers to easily engage in conversation and share scenic views as they enjoy the experience of touring.

The entire Annual Report including the financial statements, please visit FHI's website: http://www.fhi.co.jp/english/ir/report/ar.html

FUJI HEAVY INDUSTRIES LTD.
Subaru Building, 7-2, Nishi-Shinjuku 1-chome,
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Consolidated Nine-Year Financial Summary

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31

	Millions of yen				
	2000	2001	2002	2003	2004
For the Year:					
Net sales	¥1,330,125	¥1,311,887	¥1,362,493	¥1,372,337	¥1,439,451
Cost of sales	995,131	978,841	992,950	1,011,582	1,085,716
Gross profit	334,994	333,046	369,543	360,755	353,735
Selling, general and					
administrative expenses	243,593	251,373	281,063	293,234	303,411
Operating income	91,401	81,673	88,480	67,521	50,324
Income before income taxes					
and minority interest	64,839	21,291	56,136	46,970	56,266
Net income	31,348	22,628	30,283	33,484	38,649
At Year-End:					
Net assets	¥213,806	¥363,199	¥399,598	¥414,614	¥457,027
Shareholders' capital	206,404	357,455	396,112	411,252	453,708
Total assets	1,038,551	1,168,501	1,269,558	1,344,072	1,349,727
Ratio of net assets					
to total assets (%)	19.9%	30.6%	31.2%	30.6%	33.6%
Per Share: (in yen and U.S. Dollars)					
Net income:					
Basic	¥51.90	¥30.44	¥40.74	¥44.84	¥50.62
Diluted	48.53	29.06	38.83	42.91	49.66
Net assets	338.75	480.86	532.88	553.90	582.60
Other Information:					
Depreciation/amortization					
expenses	¥60,190	¥64,070	¥63,964	¥67,896	¥71,112
Capital expenditures					
(addition to fixed assets)	103,922	102,301	118,376	119,423	128,026
R&D expenses	40,123	46,622	54,903	60,110	57,541
Number of shares issued					
(thousands of shares) *	614,553	746,502	746,506	746,521	782,866
Number of shareholders*	49,381	32,996	33,094	35,584	34,704
Number of employees*:					
Parent only	13,668	13,603	13,374	13,064	12,928
Consolidated	26,914	26,502	26,483	27,478	27,296

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥100.20 to US$1.00, the approximate rate of exchange at March 31, 2008.

* As of March 31

	2005	2006	2007	Millions of yen **2008**	Thousands of U.S. dollars **2008**
For the Year:					
Net sales	¥1,446,491	¥1,476,368	¥1,494,817	**¥1,572,346**	**$15,692,075**
Cost of sales	1,107,718	1,125,293	1,142,674	**1,217,662**	**12,152,315**
Gross profit	338,773	351,075	352,143	**354,684**	**3,539,760**
Selling, general and					
administrative expenses	296,756	292,736	304,237	**309,004**	**3,083,872**
Operating income	42,017	58,339	47,906	**45,680**	**455,888**
Income before income taxes					
and minority interest	21,066	28,674	45,589	**31,906**	**318,423**
Net income	18,238	15,611	31,899	**18,481**	**184,441**
At Year-End:					
Net assets	¥474,616	¥467,786	¥495,703	**¥494,423**	**$4,934,361**
Shareholders' capital	471,149	465,522	494,004	**493,397**	**4,924,121**
Total assets	1,357,459	1,348,400	1,316,041	**1,296,388**	**12,938,004**
Ratio of net assets					
to total assets (%)	34.7%	34.5%	37.5%	**38.1%**	
Per Share: (in yen and U.S. Dollars)					
Net income:					
Basic	¥23.27	¥20.66	¥44.46	**¥25.73**	**$0.26**
Diluted	23.27	20.66	44.44	**25.73**	**0.26**
Net assets	604.51	649.41	687.81	**687.02**	**6.86**
Other Information:					
Depreciation/amortization					
expenses	¥71,010	¥80,073	¥81,454	**¥87,164**	**$869,900**
Capital expenditures					
(addition to fixed assets)	147,759	119,289	126,329	**118,869**	**1,186,317**
R&D expenses	52,962	46,893	50,709	**52,020**	**519,162**
Number of shares issued					
(thousands of shares) *	782,866	782,866	782,866	**782,866**	
Number of shareholders*	34,558	46,367	42,920	**44,484**	
Number of employees*:					
Parent only	12,703	11,998	11,752	**11,909**	
Consolidated	26,989	26,115	25,598	**26,404**	

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥100.20 to US$1.00, the approximate rate of exchange at March 31, 2008.

* As of March 31

Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and time deposits (Note 4)	**¥67,053**	¥52,406	**$669,192**
Marketable securities (Notes 4 and 5)	**32,775**	32,017	**327,096**
Notes and accounts receivable, trade (Note 9)	**96,017**	99,290	**958,253**
Allowance for doubtful accounts	**(1,346)**	(1,713)	**(13,433)**
Inventories (Note 6)	**261,009**	224,919	**2,604,880**
Short-term loans (Note 4)	**78,329**	101,184	**781,727**
Deferred tax assets (Note 12)	**26,486**	27,072	**264,331**
Other current assets	**62,504**	59,501	**623,792**
Total current assets	**622,827**	594,676	**6,215,838**
Property, plant and equipment (Notes 7, 8 and 9)	**1,280,060**	1,284,660	**12,775,050**
Less－accumulated depreciation	**(768,352)**	(734,076)	**(7,668,184)**
Net property, plant and equipment	**511,708**	550,584	**5,106,866**
Investments and other assets:			
Investment securities (Note 5)	**57,958**	72,349	**578,423**
Investments in non-consolidated subsidiaries and affiliated companies	**14,974**	15,136	**149,441**
Long-term loans	**3,736**	3,696	**37,285**
Goodwill	**18,500**	19,092	**184,632**
Intangibles, net	**12,972**	16,100	**129,461**
Deferred tax assets (Note 12)	**27,256**	20,825	**272,016**
Other assets	**29,544**	26,806	**294,850**
Allowance for doubtful accounts	**(3,087)**	(3,223)	**(30,808)**
Total investments and other assets	**161,853**	170,781	**1,615,300**
Total assets	**¥1,296,388**	¥1,316,041	**$12,938,004**

Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2008**	2007	**2008**
Current liabilities:			
Short-term borrowings (Note 9)	**¥150,625**	¥172,665	**$1,503,244**
Current portion of long-term debts (Note 9)	**51,261**	20,789	**511,587**
Notes and accounts payable, trade	**229,780**	190,394	**2,293,214**
Accrued expenses	**100,024**	94,970	**998,243**
Accrued income taxes (Note 12)	**8,091**	4,572	**80,748**
Other current liabilities (Note 12)	**58,261**	80,277	**581,447**
Total current liabilities	**598,042**	563,667	**5,968,483**
Long-term liabilities:			
Long-term debts (Note 9)	**102,661**	150,400	**1,024,561**
Accrued pension and severance liability (Note 11)	**40,993**	45,516	**409,112**
Negative goodwill (Notes 1 and 3)	**-**	821	**-**
Other long-term liabilities (Notes 8 and 12)	**60,269**	59,934	**601,487**
Total long-term liabilities	**203,923**	256,671	**2,035,160**
Contingent liabilities (Note 21)			
Net assets: (Notes 1 and 13)			
Shareholders' capital:			
Common stock			
Authorized—1,500,000,000 shares			
Issued — 782,865,873 shares	**153,795**	153,795	**1,534,880**
Capital surplus	**160,098**	160,104	**1,597,785**
Retained earnings	**227,789**	214,831	**2,273,343**
Less－treasury stock, at cost, 2008— 64,698,395 shares	**(40,538)**	(40,511)	**(404,571)**
2007—64,639,092 shares			
Total shareholders' capital	**501,144**	488,219	**5,001,437**
Valuation, translation and other adjustments:			
Net unrealized holding gain on securities	**13,716**	22,182	**136,886**
Revaluation reserve for land (Notes 8 and 12)	**-**	290	**-**
Foreign currency translation adjustments	**(21,463)**	(16,687)	**(214,202)**
Total valuation, translation and other adjustments	**(7,747)**	5,785	**(77,316)**
Minority interest in consolidated subsidiaries	**1,026**	1,699	**10,240**
Total net assets	**494,423**	495,703	**4,934,361**
Total liabilities and net assets	**¥1,296,388**	¥1,316,041	**$12,938,004**

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

Consolidated Statements of Income

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Net sales	**¥1,572,34**	¥1,494,817	¥1,476,3	**$15,692,07**
Cost of sales	**1,217,662**	1,142,674	1,125,29	**12,152,315**
Gross profit	**354,684**	352,143	351,075	**3,539,760**
Selling, general and administrative expenses (Note 14)	**309,004**	304,237	292,736	**3,083,872**
Operating income	**45,680**	47,906	58,339	**455,888**
Other income (expenses):				
Interest and dividend income	**5,503**	3,864	3,421	**54,920**
Interest expenses	**(4,063)**	(4,017)	(3,181)	**(40,549)**
Gain on sale of securities, net	**1,502**	40	3,021	**14,990**
Foreign exchange losses	**(4,740)**	(11,906)	(10,597)	**(47,305)**
Loss on devaluation of securities	**-**	(335)	(16)	**-**
Gain (loss) on sale and disposal of property, plant and equipment, net	**(4,009)**	1,899	(401)	**(40,010)**
Gain (loss) on revaluation of derivatives	**4,811**	4,196	(2,470)	**48,014**
Impairment loss on property, plant and equipment	**(13,174)**	(550)	(4,064)	**(131,477)**
Additional retirement payments (Note 11)	**-**	-	(7,991)	**-**
Loss on termination of development projects (Note 16)	**-**	-	(7,094)	**-**
Amortization of negative goodwill (Note 3)	**-**	2,175	3,296	**-**
Prior period adjustment (Note 17)	**1,539**	1,451	-	**15,359**
Gain on transfer of the substitutional portion of the employees' pension fund (Note 11)	**-**	2,423	**-**	**-**
Loss on liquidation of affiliated companies (Note 18)	**-**	(913)	**-**	**-**
Other, net	**(1,143)**	(644)	(3,589)	**(11,407)**
	(13,774)	(2,317)	(29,665)	**(137,465)**
Income before income taxes and minority interest	**31,906**	45,589	28,674	**318,423**
Income taxes (Note 12):				
Current	**14,536**	7,231	13,231	**145,070**
Deferred	**(1,148)**	6,411	(303)	**(11,457)**
	13,388	13,642	12,928	**133,613**
Income before minority interest	**18,518**	31,947	15,746	**184,810**
Minority interest in earnings of consolidated	**(37)**	(48)	(135)	**(369)**
Net income	**¥18,481**	¥31,899	¥15,611	**$184,441**

	Yen	Yen	Yen	U.S. dollars (Note 1)
Per share data (Note 2) :				
Net income—Basic	**¥25.73**	¥44.46	¥20.66	**$0.26**
—Diluted	**25.73**	44.44	20.66	**0.26**
Net assets	**687.02**	687.81	649.41	**6.86**
Cash dividends (Note 13)	**9.00**	9.00	9.00	**0.09**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2008, 2007 and 2006

Fiscal 2006 (from April 1, 2005 to March 31, 2006)

	Thousands	Millions of yen				
		Shareholders' capital				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' capital
Balance, March 31, 2005	782,866	¥153,795	¥160,071	¥178,022	¥(2,231)	¥489,657
Cash dividends		-	-	(7,015)	-	(7,015)
Payment of bonuses to directors and statutory auditors		-	-	(111)	-	(111)
Net income		-	-	15,611	-	15,611
Purchase of treasury stock		-	-	-	(39,351)	(39,351)
Disposal of treasury stock		-	-	(8)	37	29
Increase in the number of companies accounted for by the equity method		-	-	3,466	-	3,466
Other comprehensive income of foreign subsidiaries		-	-	31	-	31
Other changes in shareholders' capital		-	-	-	-	-
Changes (other than shareholders' capital), net		-	-	-	-	-
Balance, March 31, 2006	782,866	¥153,795	¥160,071	¥189,996	¥(41,545)	¥462,317

	Millions of yen					
	Valuation, translation and other adjustments					
	Net unrealized holding gains on securities	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation, translation and other adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance, March 31, 2005	¥16,945	¥421	¥(35,874)	¥(18,508)	¥3,467	¥474,616
Cash dividends	-	-	-	-	-	(7,015)
Payment of bonuses to directors and statutory auditors	-	-	-	-	-	(111)
Net income	-	-	-	-	-	15,611
Purchase of treasury stock	-	-	-	-	-	(39,351)
Disposal of treasury stock	-	-	-	-	-	29
Increase in the number of companies accounted for by the equity method	-	-	-	-	-	3,466
Other comprehensive income of foreign subsidiaries	-	-	-	-	-	31
Other changes in shareholders' capital	-	-	-	-	-	-
Changes (other than shareholders' capital), net	4,200	(131)	17,644	21,713	(1,203)	20,510
Balance, March 31, 2006	¥21,145	¥290	¥(18,230)	¥3,205	¥2,264	¥467,786

Fiscal 2007 (from April 1, 2006 to March 31, 2007)

	Thousands	Millions of yen				
		Shareholders' capital				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' capital
Balance, March 31, 2006	782,866	¥153,795	¥160,071	¥189,996	¥(41,545)	¥462,317
Cash dividends		-	-	(6,452)	-	(6,452)
Payment of bonuses to directors and statutory auditors		-	-	(107)	-	(107)
Net income		-	-	31,899	-	31,899
Purchase of treasury stock		-	-	-	(71)	(71)
Disposal of treasury stock		-	33	-	1,105	1,138
Increase in the number of companies accounted for by the equity method		-	-	1,038	-	1,038
Other comprehensive income of foreign subsidiaries		-	-	(1,513)	-	(1,513)
Other changes in shareholders' capital		-	-	(30)	-	(30)
Changes (other than shareholders' capital), net		-	-	-	-	-
Balance, March 31, 2007	782,866	¥153,795	¥160,104	¥214,831	¥(40,511)	¥488,219

	Millions of yen					
	Valuation, translation and other adjustments					
	Net unrealized holding gains on securities	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation, translation and other adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance, March 31, 2006	¥21,145	¥290	¥(18,230)	¥3,205	¥2,264	¥467,786
Cash dividends	-	-	-	-	-	(6,452)
Payment of bonuses to directors and statutory auditors	-	-	-	-	-	(107)
Net income	-	-	-	-	-	31,899
Purchase of treasury stock	-	-	-	-	-	(71)
Disposal of treasury stock	-	-	-	-	-	1,138
Increase in the number of companies accounted for by the equity method	-	-	(18)	(18)	-	1,020
Other comprehensive income of foreign subsidiaries	-	-	-	-	-	(1,513)
Other changes in shareholders' capital	-	-	-	-	-	(30)
Changes (other than shareholders' capital), net	1,037	-	1,561	2,598	(565)	2,033
Balance, March 31, 2007	¥22,182	¥290	¥(16,687)	¥5,785	¥1,699	¥495,703

Fiscal 2008 (from April 1, 2007 to March 31, 2008)

	Thousands	Millions of yen				
		Shareholders' capital				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' capital
Balance, March 31, 2007	**782,866**	**¥153,795**	**¥160,104**	**¥214,831**	**¥(40,511)**	**¥488,219**
Cash dividends		**-**	**-**	**(6,468)**	**-**	**(6,468)**
Net income		**-**	**-**	**18,481**	**-**	**18,481**
Purchase of treasury stock		**-**	**-**	**-**	**(60)**	**(60)**
Disposal of treasury stock		**-**	**(6)**	**-**	**33**	**27**
Increase due to changes in scope of consolidation		**-**	**-**	**402**	**-**	**402**
Other comprehensive income of foreign subsidiaries		**-**	**-**	**543**	**-**	**543**
Changes (other than shareholders' capital), net		**-**	**-**	**-**	**-**	**-**
Balance, March 31, 2008	**782,866**	**¥153,795**	**¥160,098**	**¥227,789**	**¥(40,538)**	**¥501,144**

	Millions of yen					
	Valuation, translation and other adjustments					
	Net unrealized holding gains on securities	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation, translation and other adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance, March 31, 2007	**¥22,182**	**¥290**	**¥(16,687)**	**¥5,785**	**¥1,699**	**¥495,703**
Cash dividends	**-**	**-**	**-**	**-**	**-**	**(6,468)**
Net income	**-**	**-**	**-**	**-**	**-**	**18,481**
Purchase of treasury stock	**-**	**-**	**-**	**-**	**-**	**(60)**
Disposal of treasury stock	**-**	**-**	**-**	**-**	**-**	**27**
Increase due to changes in scope of consolidation	**-**	**-**	**-**	**-**	**-**	**402**
Other comprehensive income of foreign subsidiaries	**-**	**-**	**-**	**-**	**-**	**543**
Changes (other than shareholders' capital), net	**(8,466)**	**(290)**	**(4,776)**	**(13,532)**	**(673)**	**(14,205)**
Balance, March 31, 2008	**¥13,716**	**-**	**¥(21,463)**	**¥(7,747)**	**¥1,026**	**¥494,423**

Fiscal 2008 (from April 1, 2007 to March 31, 2008)

	Thousands	Thousands of U.S. dollars (Note 1)				
		Shareholders' capital				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' capital
Balance, March 31, 2007	**782,866**	**$1,534,880**	**$1,597,845**	**$2,144,022**	**$(404,301)**	**$4,872,446**
Cash dividends		**-**	**-**	**(64,551)**	**-**	**(64,551)**
Net income		**-**	**-**	**184,441**	**-**	**184,441**
Purchase of treasury stock		**-**	**-**	**-**	**(599)**	**(599)**
Disposal of treasury stock		**-**	**(60)**	**-**	**329**	**269**
Increase due to changes in scope of consolidation		**-**	**-**	**4,012**	**-**	**4,012**
Other comprehensive income of foreign subsidiaries		**-**	**-**	**5,419**	**-**	**5,419**
Changes (other than shareholders' capital), net		**-**	**-**	**-**	**-**	**-**
Balance, March 31, 2008	**782,866**	**$1,534,880**	**$1,597,785**	**$2,273,343**	**$(404,571)**	**$5,001,437**

	Thousands of U.S. dollars (Note 1)					
	Valuation, translation and other adjustments					
	Net unrealized holding gains on securities	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation, translation and other adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance, March 31, 2007	**$221,377**	**$2,894**	**$(166,537)**	**$57,734**	**$16,956**	**$4,947,136**
Cash dividends	**-**	**-**	**-**	**-**	**-**	**(64,551)**
Net income	**-**	**-**	**-**	**-**	**-**	**184,441**
Purchase of treasury stock	**-**	**-**	**-**	**-**	**-**	**(599)**
Disposal of treasury stock	**-**	**-**	**-**	**-**	**-**	**269**
Increase due to changes in scope of consolidation	**-**	**-**	**-**	**-**	**-**	**4,012**
Other comprehensive income of foreign subsidiaries	**-**	**-**	**-**	**-**	**-**	**5,419**
Changes (other than shareholders' capital), net	**(84,491)**	**(2,894)**	**(47,665)**	**(135,050)**	**(6,716)**	**(141,766)**
Balance, March 31, 2008	**$136,886**	**-**	**$(214,202)**	**$(77,316)**	**$10,240**	**$4,934,361**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Cash flows from operating activities:				
Income before income taxes and minority interest	**¥31,906**	¥45,589	¥28,674	**$318,423**
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities:				
Depreciation and amortization expenses	**87,164**	81,454	80,073	**869,900**
(Gain) loss on sale and disposal of property, plant and equipment, net	**4,009**	(1,899)	401	**40,010**
Decrease in accrued pension and severance liability	**(4,136)**	(6,790)	(6,859)	**(41,277)**
Gain on sale of investment securities	**(1,502)**	(40)	(3,021)	**(14,990)**
Loss on devaluation of securities	**-**	335	16	**-**
Decrease in notes and accounts receivable, trade	**460**	6,392	13,893	**4,591**
Increase in inventories	**(45,633)**	(12,787)	(9,944)	**(455,419)**
Increase (decrease) in notes and accounts payable, trade	**44,205**	(20,520)	16,555	**441,168**
Increase (decrease) in deposits received	**(11,111)**	(825)	23,964	**(110,888)**
Income taxes paid	**(11,475)**	(15,555)	(9,201)	**(114,521)**
Impairment loss on property, plant and equipment	**13,174**	550	4,064	**131,477**
Loss on termination of development projects	**-**	-	7,094	**-**
Amortization of negative goodwill	**-**	(2,175)	(3,296)	**-**
(Gain) loss on revaluation of derivatives	**(4,811)**	(4,196)	2,470	**(48,014)**
Other, net	**5,137**	(3,917)	(7,398)	**51,267**
Net cash provided by operating activities	**107,387**	65,616	137,485	**1,071,727**
Cash flows from investing activities:				
Purchase of property, plant and equipment	**(59,430)**	(57,388)	(60,942)	**(593,114)**
Proceeds from sale of property, plant and equipment	**2,384**	7,571	3,616	**23,792**
Purchase of investment securities	**(18,032)**	(16,599)	(9,063)	**(179,960)**
Purchase of marketable securities	**(4,700)**	(3,517)	(9,489)	**(46,906)**
Proceeds from sale of investment securities	**15,911**	11,430	13,092	**158,792**
Proceeds from sale of marketable securities	**6,020**	8,472	21,908	**60,080**
Purchase of intangible assets	**(2,782)**	(3,100)	(5,127)	**(27,765)**
Disbursement of loans receivable	**(108,620)**	(114,761)	(124,989)	**(1,084,032)**
Collection of loans receivable	**128,476**	138,280	127,450	**1,282,196**
Price adjustment of investments in subsidiary (Note 4)	**-**	-	(7,087)	**-**
Purchase of leased assets	**(60,048)**	(64,100)	(59,933)	**(599,281)**
Proceeds from sale of leased assets	**57,734**	52,112	34,499	**576,188**
Other, net	**(1,833)**	(1,828)	290	**(18,293)**
Net cash used in investing activities	**(44,920)**	(43,428)	(75,775)	**(448,303)**
Cash flows from financing activities:				
Proceeds from long-term debts	**3,100**	1,700	15,301	**30,938**
Repayment on long-term debts	**(10,735)**	(3,848)	(28,996)	**(107,136)**
Issuance of bonds	**-**	20,000	-	**-**
Redemption of bonds	**(10,000)**	(20,500)	(10,300)	**(99,800)**
Net increase (decrease) in short-term borrowings	**(20,972)**	(27,169)	18,538	**(209,301)**
Purchase of treasury stock	**(60)**	(62)	(39,352)	**(599)**
Proceeds from disposal of treasury stock	**27**	224	30	**269**
Dividends paid	**(6,470)**	(6,452)	(7,015)	**(64,571)**
Other, net	**-**	(102)	(15)	**-**
Net cash used in financing activities	**(45,110)**	(36,209)	(88,885)	**(450,200)**
Effect of exchange rate changes on cash and cash equivalents	**(1,968)**	756	7,856	**(19,641)**
Net increase (decrease) in cash and cash equivalents	**15,389**	(13,265)	(19,319)	**153,583**
Cash and cash equivalents:				
Balance at beginning of year	**99,060**	112,366	131,685	**988,623**
Net increase (decrease) related to the change in scope of consolidation	**200**	(41)	-	**1,996**
Balance at end of year (Note 4)	**¥114,649**	¥99,060	¥112,366	**1,144,202**
Supplementary information on cash flows:				
Cash paid during the year for interest	**¥4,135**	¥3,945	¥2,920	**$41,267**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements
FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presentation of the Financial Statements

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

The accounts of the company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of their domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statements of changes in net assets for 2006) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.20 to U.S.$1. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The fiscal year-end of the consolidated domestic subsidiaries is the same as that of the Company, while the fiscal year-end of the consolidated foreign subsidiaries is December 31. Although these consolidated foreign subsidiaries are included based on their fiscal year ended December 31, significant intervening transactions that occurred for the period between December 31 and March 31 are reflected in the consolidated financial statements.

The consolidated financial statements include the accounts of the Company and 62 subsidiaries in the fiscal year 2008 (61 subsidiaries in the fiscal year 2007 and 68 subsidiaries in the fiscal year 2006).

In addition, 19 non-consolidated subsidiaries and 2 affiliated companies were accounted for by the equity method in the fiscal year 2008, while 17 non-consolidated subsidiaries and an affiliated company were accounted for by the equity method in the fiscal year 2007, and there were 10 non-consolidated subsidiaries and an affiliated company accounted for by the equity method in the fiscal year 2006.

Investments in insignificant non-consolidated subsidiaries and affiliated companies not accounted for by the equity method are carried at cost. The difference between the cost and the underlying net equity of investments in subsidiaries and affiliated companies is allocated to identifiable assets based on their fair value at the date of acquisition. The unallocated residual value of the excess of the cost over the fair value of the underlying net assets is recognized as goodwill, and is amortized over a period of five years on a straight-line basis.

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

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

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

Revenue recognition
Revenue from sales of finished products is generally recognized when the products are shipped to dealers or customers. Revenue from operating leases is recognized on a straight-line basis over the lease term. In addition, revenue of the Aerospace division's production contracts with the production term exceeding one year and the amount exceeding ¥5,000 million is recognized by the percentage-of-completion method.

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

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

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

Derivative financial instruments and hedge accounting
The Japanese accounting standards for financial instruments requires the Company and

consolidated domestic subsidiaries to state derivative financial instruments at their fair value and to recognize changes in the fair value as a gain or loss unless such derivative financial instruments are used for hedging purposes.

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

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

Financial Instrument	Transactions, assets and liabilities
Interest swaps	Borrowings

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

Inventories

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

Property, plant and equipment

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

Depreciation of the property, plant and equipment of the Company and consolidated domestic subsidiaries is principally computed by the declining-balance method, except for the buildings (excluding building improvements) acquired on or after April 1, 1998, for which the straight-line method is applied. Depreciation of the property, plant and equipment of consolidated foreign subsidiaries is computed by the straight-line method at rates based on the estimated useful lives of the assets according to their general class, type of construction, and use.

Estimated useful lives for depreciable assets are as follows:

(Fiscal 2007 and 2006)
Buildings and structures: 7–50 years
Machinery, equipment and vehicles: 2–12 years
(Fiscal 2008)
Buildings and structures: 7–50 years
Machinery, equipment and vehicles: 3–12 years

(Change in accounting policy)

(Fiscal 2006)

In the fiscal year 2006, the Company and the consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning

Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). As a result of this change, income before income taxes and minority interest decreased by ¥3,263 million. (Impairment loss on property, plant and equipment in the consolidated statement of income in the fiscal year 2006 was ¥4,064 million, of which ¥801 million was related to consolidated subsidiaries in the United States.) The impact of such change on segment information is stated in Segment Information (Note 24).
An accumulated impairment loss is recorded as a direct deduction in the book value of the respective assets.
(Fiscal 2008)
In the fiscal year 2008, the Company and domestic consolidated subsidiaries changed their depreciation method for fixed assets acquired on or after April 1, 2007 to conform to the enacted revisions to the tax depreciation schedules under the Corporate Tax Law and related tax regulations. The effects of this change were to decrease operating income by ¥2,308 million (US$23,034 thousand), and to decrease ordinary income and income before income taxes and minority interest by ¥2,319 million (US$23,144 thousand) each as compared to the respective amounts that would have been reported under the previous method. Please refer to "24. Segment Information", about the effect on the business and geographical segments.
(Additional Information)
In addition, during the fiscal year 2008, the Company and domestic consolidated subsidiaries started to depreciate the residual book value of fixed assets acquired on or before March 31, 2007 on a straight-line basis over a five-year period commencing in the year following the year in which those assets have reached their depreciation limit under the previous depreciation method. Please refer to "24. Segment Information", about the effect on the business and geographical segments.
This change resulted in a decrease in operating income of ¥2,298 million (US$22,934 thousand), and decreases in both ordinary income and income before income taxes and minority interest of ¥2,345 million (US$23,403 thousand), as compared to the respective amounts that would have been reported had the change not been implemented.

Accounting for leases
In principle, finance leases are accounted for on a similar basis to sales by lessors or purchases by lessees. However, finance leases which do not transfer ownership of the leased assets to lessees as stipulated in the lease contracts can be accounted for as operating leases. Therefore, as a lessee, the Company and consolidated domestic subsidiaries account for those leases as operating leases and charge periodic lease payments to expenses as incurred. Certain "as-if capitalized" pro-forma information is disclosed in Note 21 to the consolidated financial statements.

Goodwill and intangible assets
Goodwill is principally amortized by the straight-line method in accordance with accounting principles generally accepted in the countries where such goodwill is recorded. However, goodwill of the consolidated subsidiary in the U.S. is not amortized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, while other identifiable assets are being amortized by the straight-line method.
Computer software used internally by the Company and consolidated subsidiaries is

amortized by the straight-line method over the relevant economic useful lives of 3 or 5 years.

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

Directors’ bonus
Directors’ bonus is recognized as expenses for the period in which it is incurred.

(Fiscal 2007)
Accounting standard for directors’ bonus
In previous fiscal years, directors’ bonus was accounted for as a direct distribution from unappropriated retained earnings. Effective from the fiscal year 2007, it is recognized in earnings as incurred. This change in accounting standards had no material effect on income.

Accrued pension and severance liability
Upon termination of employment, employees of the Company and consolidated subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pensions as described below, based on current rates of pay, length of service, and conditions under which the termination occurs. The minimum payment is an amount based on voluntary retirement. In addition to the minimum payment based on voluntary retirement, employees receive additional benefits for retirement due to age limit, death or other defined reasons.

Certain consolidated subsidiaries in Japan have contributory funded defined benefit employees’ welfare pension funds, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension funds consist of a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the corporate noncontributory pension plans.

Under the Japanese accounting standards for pension and severance benefits, accrued pension and severance liability for employees is provided based on the estimated amounts of projected pension and severance obligation and the fair value of plan assets at the end of the fiscal year. Prior service cost is being amortized by the straight-line method over a period (12-18 years) which is shorter than the average remaining service period of the eligible employees. Actuarial gains and losses are amortized from the following fiscal year by the straight-line method over a period (primarily 18 years) which is shorter than the average remaining service period of the eligible employees.

Accrued pension contribution for defined benefit pension plans is included in accrued pension and severance liability.

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

(Additional Information)

(Fiscal 2008)
In order to pay the directors and statutory auditors' retirement benefits, the Company had provided for the amount of required payments based on the Company's internal rules. However, at the annual general meeting held in June 2007, the shareholders have resolved to abolish this retirement benefits system, subject to a "grandfather" provision under which those incumbent directors and statutory auditors who were reappointed at the meeting shall be eligible for such retirement benefits when they retire based on their services through the date of that shareholders' meeting. As of March 31, 2008, ¥271 million (US$2,705 thousand) of the estimated benefits for the payment are included in "Other long-tem liabilities".

Research and development costs
Research and development costs are expensed as incurred and amounted to ¥52,020 million (US$519,162 thousand), ¥50,709 million and ¥46,893 million for the fiscal years 2008, 2007 and 2006, respectively.

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

(Fiscal 2007)
Accounting standard for business combinations
Effective from the fiscal year 2007, the Company and consolidated domestic subsidiaries adopted the provisions of "Accounting Standard for Business Combination" (Business Accounting Deliberation Council, October 31, 2003), "Accounting Standard for Business Separation" (Statement No. 7 issued by the Accounting Standards Board of Japan on December 27, 2005), and the related "Implementation guidance for the accounting standard for business combination and the accounting standard for business separation" (the Financial Accounting Standard Implementation Guidance No. 10 issued by the Accounting Standards Board of Japan on December 27, 2005). The adoption of these new accounting standards had no effect on income.

Accounting Standard for Presentation of Net Assets in the Balance Sheet
Effective from the fiscal year 2007, the Company adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the related "Implementation guidance for the accounting standard for presentation of net assets in the balance sheet" (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the new presentation. There was no effect on total assets or total liabilities after applying these new accounting standards to the balance sheet as of March 31, 2006. The adoption of the new accounting standards had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006.

Accounting Standard for Statement of Changes in Net Assets

Effective from the fiscal year 2007, the Company adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the related "Implementation guidance for the accounting standard for statement of changes in net assets" (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005).

Accordingly, the Company prepared the statement of changes in net assets for the year ended March 31, 2007 in accordance with these new accounting standards. Also, the Company voluntarily prepared the consolidated statements of changes in net assets for the year ended March 31, 2006 in accordance with the new accounting standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Net income per share

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

Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation. Also, in lieu of the consolidated statements of shareholders' equity for the years ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statements of changes in net assets for the year ended March 31, 2006 as well as for 2007 and 2008.

These reclassifications had no impact on previously reported results of operations or retained earnings.

3. Acquisition of Isuzu's Share of Subaru of Indiana Automotive, Inc.

Subaru of Indiana Automotive, Inc. ("SIA," formerly Subaru-Isuzu Automotive Inc.), a consolidated subsidiary in the United States, had been a joint venture company of Isuzu Motors, Limited ("Isuzu") and the Company (the Company had held a 51% interest in SIA). On January 1, 2003, as a result of dissolution of the joint venture relationship with Isuzu and execution of an agreement for the consignment of production, the Company acquired Isuzu's share of SIA to make SIA a wholly owned subsidiary of the Company, and SIA was assigned to produce certain Isuzu vehicles as well as Subaru vehicles.

The acquisition cost of Isuzu's share of SIA was determined in consideration of certain losses on disposal of property, plant and equipment, losses on cancellation of operating leases, and losses related to personnel reduction, to be incurred during and after the consigned production activities. Consequently, negative goodwill arose.

The portion of the negative goodwill that clearly corresponds to the forecasted future losses has been amortized according to the generation of those losses, and the remaining portion has been amortized by the straight-line method over five years.

The Company revised this amortization schedule following the settlement of actual losses with Isuzu according to the Master Agreement for Cancellation of Joint Venture Relationship and Consignment of Production dated December 20, 2002.

As a result, negative goodwill totaled ¥1,949 million as of March 31, 2006, which was fully amortized by the end of the fiscal year 2007.

4. Additional Cash Flow Information

(a) Cash and cash equivalents as of March 31, 2008, 2007 and 2006, consisted of the following:

			Millions of yen	Thousands of U.S. dollars
	2008	2007	2006	**2008**
Cash and time deposits	**¥67,053**	¥52,406	¥ 65,524	**$669,192**
Marketable securities	**32,775**	32,017	37,444	**327,096**
Short-term loans	**78,329**	101,184	118,414	**781,727**
	178,157	185,607	221,382	**1,778,015**
Less maturity over three months	**(63,508)**	(86,547)	(109,016)	**(633,813)**
Cash and cash equivalents	**¥114,649**	¥99,060	¥112,366	**$1,144,202**

(b) Significant non-cash transactions:

(Fiscal 2006)

None

(Fiscal 2007)

On October 1 2006, the Company executed a share exchange agreement to make Fuji Machinery Co., Ltd. a wholly owned subsidiary of the Company. As a result of the share exchange, goodwill increased by ¥307 million and treasury stock decreased by ¥1,000 million in the fiscal year 2007.

(Fiscal 2008)

None

(c) Price adjustment of investments in subsidiary

(Fiscal 2006)

"Price adjustment of investments in subsidiary" included in the cash flows from investing activities represents a cash payment related to the adjustment to the price of Subaru of Indiana Automotive, Inc. ("SIA," formerly Subaru-Isuzu Automotive Inc.) shares transferred from Isuzu Motors, Limited ("Isuzu") under the settlement of actual losses in the fiscal year 2006, in accordance with the Master Agreement for Cancellation of Joint Venture Relationship and Consignment of Production with Isuzu, as described in Note 3. Acquisition of Isuzu's Share of Subaru of Indiana Automotive, Inc.

5. Marketable Securities and Investment Securities

Information as to the value of marketable securities and investment securities as of March 31, 2008 and 2007 was as follows:

(1) Other securities (available-for-sale securities) for which fair market value was available:

(a) As of March 31, 2008:

	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity securities	**¥20,552**	**¥43,269**	**¥22,717**
Debt securities			
Government and municipal bonds	**10,111**	**10,362**	**251**
Corporate bonds	**3,044**	**3,083**	**39**
Other	**36**	**131**	**95**
Sub-total	**33,743**	**56,845**	**23,102**
Book value not exceeding acquisition cost:			
Equity securities	**425**	**333**	**(92)**
Debt securities			
Corporate bonds	**565**	**565**	**(0)**
Other	**1,446**	**1,445**	**(1)**
Sub-total	**2,436**	**2,343**	**(93)**
Total	**¥36,179**	**¥59,188**	**¥23,009**

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity securities	**$205,110**	**$431,827**	**$226,717**
Debt securities			
Government and municipal bonds	**100,908**	**103,413**	**2,505**
Corporate bonds	**30,379**	**30,769**	**390**
Other	**359**	**1,307**	**948**
Sub-total	**336,756**	**567,316**	**230,560**
Book value not exceeding acquisition cost:			
Equity securities	**4,242**	**3,323**	**(919)**
Debt securities			
Corporate bonds	**5,639**	**5,639**	**(0)**
Other	**14,431**	**14,421**	**(10)**
Sub-total	**24,312**	**23,383**	**(929)**
Total	**$361,068**	**$590,699**	**$229,631**

(b) As of March 31, 2007:

			Millions of yen
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity securities	¥20,348	¥57,376	¥37,028
Debt securities			
Other	36	272	236
Sub-total	20,384	57,648	37,264
Book value not exceeding acquisition cost:			
Equity securities	293	274	(19)
Debt securities			
Government and municipal bonds	9,746	9,722	(24)
Corporate bonds	2,929	2,919	(10)
Other	2,181	2,173	(8)
Sub-total	15,149	15,088	(61)
Total	¥35,533	¥72,736	¥37,203

(2) Other securities (available-for-sale securities) sold during the fiscal years 2008 and 2007:

(a) For the year ended March 31, 2008:

Sales amount	Total gains	Total losses
¥681,548 million US$6,801,876 thousand	¥1,889 million US$18,852 thousand	¥260 million US$2,595 thousand

The above sales amount included sales of short-term investments in commercial paper and other amounting to ¥659,617 million (US$6,583,004 thousand).

(b) For the year ended March 31, 2007:

Sales amount	Total gains	Total losses
¥616,735 million	¥413 million	¥370 million

The above sales amount included sales of short-term investments in commercial paper and other amounting to ¥596,833 million.

(3) Book value of major securities without available fair market value as of March 31, 2008 and 2007:

Other securities (available-for-sale securities)	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Money management fund	**¥24,629**	¥29,656	**$245,798**
Floating rate note	**5,077**	-	**50,669**
Unlisted stocks (excluding over-the-counter stocks)	**1,832**	1,967	**18,283**

Note: The Company and consolidated subsidiaries recognized ¥18 million (US$180 thousand) and ¥335 million in loss on devaluation of securities for the fiscal years 2008 and 2007, respectively.
For the purpose of recording a loss on devaluation of securities, the Company and consolidated

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

(4) Scheduled redemption of other securities (available-for-sale securities) with maturity and held-to-maturity debt securities as of March 31, 2008 and 2007:

(a) As of March 31, 2008:

	Millions of yen				Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Within 1 Year	1 to 5 years	5 to 10 Years	Over 10 years
Debt securities								
Government and municipal bonds	**¥2,479**	**¥4,505**	**¥1,531**	**¥1,846**	**$24,741**	**$44,960**	**$15,279**	**$18,423**
Corporate bonds	**565**	**2,520**	**433**	**130**	**5,639**	**25,150**	**4,321**	**1,297**
Other	**23**	**715**	**26**	**682**	**229**	**7,136**	**260**	**6,807**
Total	**¥3,067**	**¥7,740**	**¥1,990**	**¥2,658**	**$30,609**	**$77,246**	**$19,860**	**$26,527**

(b) As of March 31, 2007:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years
Debt securities				
Government and municipal bonds	¥767	¥7,825	¥286	¥844
Corporate bonds	599	1,987	333	-
Other	994	720	210	249
Total	¥2,360	¥10,532	¥829	¥1,093

6. Inventories

Inventories as of March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished products	**¥133,175**	¥117,272	**$1,329,092**
Work in process	**100,133**	84,786	**999,331**
Raw materials	**2,213**	20,936	**22,086**
Supplies	**25,488**	1,925	**254,371**
Total	**¥261,009**	¥224,919	**$2,604,880**

7. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2008 and 2007, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Buildings and structures	**¥302,268**	¥298,614	**$3,016,647**
Machinery and vehicles	**460,450**	452,166	**4,595,309**
Leased assets	**85,263**	97,576	**850,928**
Other	**237,572**	241,504	**2,370,978**
Subtotal	**1,085,553**	1,089,860	**10,833,862**
Less accumulated depreciation	**(768,352)**	(734,076)	**(7,668,184)**
Land	**184,346**	176,465	**1,839,781**
Construction in progress	**10,161**	18,335	**101,407**
Total	**¥511,708**	¥550,584	**$5,106,866**

8. Revaluation Reserve for Land

In accordance with the Land Revaluation Law (Law No. 34, enacted on March 31, 1998), land owned by a consolidated subsidiary for business use was revalued on March 31, 2002. The unrealized gains from the revaluation were included in the net assets as "Revaluation reserve for land," net of income taxes. The deferred taxes for the unrealized gains are included in other long-term liabilities. Unrecorded loss on the revalued land as of March 31, 2007 was ¥483 million. According to the Law, the Company and consolidated subsidiaries are not permitted to revalue the land after April 1, 2002.

9. Short-Term Borrowings and Long-Term Debts

Short-term borrowings as of March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Bank loans with average interest rate of 1.06% and 0.79% per annum as of March 31, 2008 and 2007, respectively	**¥144,625**	¥161,665	**$1,443,364**
Commercial paper with average interest rate of 0.90% and 0.70% per annum as of March 31, 2008 and 2007, respectively	**6,000**	11,000	**59,880**
Total	**¥150,625**	¥172,665	**$1,503,244**

Long-term debts as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loans principally from banks and insurance companies due through 2025 with average interest rate of 2.16% and 2.42% per annum as of March 31, 2008 and 2007, respectively	**¥63,922**	¥71,189	**$637,944**
Unsecured 1.22% bonds due September 30, 2008	**30,000**	30,000	**299,401**
Unsecured 0.68% bonds due June 18, 2010	**20,000**	20,000	**199,601**
Unsecured 1.31% bonds due April 28, 2011	**20,000**	20,000	**199,601**
Unsecured 2.01% bonds due May 31, 2012	**20,000**	20,000	**199,601**
Subtotal	**153,922**	171,189	**1,536,148**
Less—Portion due within one year	**(51,261)**	(20,789)	**(511,587)**
Total	**¥102,661**	¥150,400	**$1,024,561**

Annual maturities of long-term debts as of March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
2009	¥51,261	$511,587
2010	21,717	216,736
2011	24,420	243,713
2012	20,439	203,982
2013	32,624	325,589
2014 and thereafter	3,461	34,541
Total	¥153,922	$1,536,148

The following assets as of March 31, 2008 and 2007, were pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Notes and accounts receivable, trade	**¥78**	¥132	**$778**
Property, plant and equipment	**54,057**	57,168	**539,491**
Total	**¥54,135**	¥57,300	**$540,269**

The unused balance of commitments for borrowings by the Company and consolidated subsidiaries (Subaru of America, Inc. and Subaru Europe N.V./S.A.) as of March 31, 2008 and 2007, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Total commitments	**¥84,691**	¥82,599	**$845,220**
Less amounts currently borrowed	**-**	-	**-**
Unused balance	**¥84,691**	¥82,599	**$845,220**

10. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at a consolidated subsidiary (Subaru Finance Co., Ltd.) as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Total overdraft facilities and lending commitments	**¥8,340**	¥10,910	**$83,234**
Less amounts currently executed	**1,859**	2,312	**18,553**
Unexecuted balance	**¥ 6,481**	¥ 8,598	**$64,681**

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

11. Pension and Severance Plans

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

By the end of the fiscal year 2008, the Company has transferred 80% of prescribed retirement benefits from the lump-sum retirement payment plan to the qualified retirement pension plan for employees who terminate their employment at the age of 50 or over.

As of March 31, 2008, the Company and 40 of its consolidated domestic subsidiaries, which add up to a total of 41 companies, have lump-sum retirement payment plans. Within the group, there are also 21 qualified retirement pension plans, 5 defined contribution plans, and 3 defined benefits pension plans. In addition, there are 14 single-employer employees' welfare pension funds subject to the provisions of Article 33 of "Practice Guidelines of Accounting for Retirement Benefits."

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

Certain information concerning the multi-employer pension plan, required contributions to which are expensed as they become due as pension and severance costs, is as follows:

(1) Overall funded status of the multi-employer pension plan (mainly as of March 31, 2007)

	Millions of yen	Thousands of U.S. dollars
	2008	**2008**
Plan assets	**¥278,501**	**$2,779,451**
Projected benefit obligation	**283,519**	**2,829,531**
Funded status	**¥(5,018)**	**$(50,080)**

(2) Contributions by the Company and consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan (mainly from April 1, 2006 to March 31, 2007): 8%

Additional information

(Fiscal 2007)

Transfer to the government of the substitutional portion of employees' welfare pension fund

As stipulated in the Japanese Defined Benefit Pension Insurance Law, the Tokyo Subaru Employees' Pension Fund (a multi-employer employees' welfare pension fund), of which certain consolidated subsidiaries are members, obtained an approval from the Minister of Health, Labor and Welfare for exemption from the benefit obligations related to future employee service in respect of the substitutional portion on October 28, 2005, and obtained an approval from the Minister of Health, Labor and Welfare for transferring the obligations related to past employee service on November 1, 2006. The pension fund is currently in the process of transferring plan assets related to the obligations related to past employee service to the government.

The amount of plan assets to be transferred (the minimum reserve obligations) to the government as of March 31, 2007, was ¥5,294 million. Assuming the transfer had taken place at the end of the fiscal year 2007, the Company would have recognized a resulting difference of ¥2,423 million as "Gain on transfer of the substitutional portion of the employees' pension fund" in other income in the fiscal year 2007, in accordance with the provisions of Article 44 – 2 of "Practice Guidelines of Accounting for Retirement Benefits (Interim Report)" (JICPA Accounting Systems Committee Report No. 13).

(Fiscal 2008)

Multi-employer pension plan

Effective the fiscal year 2008, the Company and consolidated domestic subsidiaries adopted the provision of "The partial revisions (Part 2) to "Accounting Standard for Retirement Benefits" (Statement No. 14 issued by the Accounting Standard Board of Japan on May 19, 2007)".

A reconciliation between the projected pension and severance obligation and accrued pension and severance liability as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
a. Projected pension and severance obligation	**¥114,783**	¥120,177	**$1,145,539**
b. Plan assets	**(61,134)**	(71,200)	**(610,120)**
c. Unfunded pension and severance obligations	**53,649**	48,977	**535,419**
d. Unamortized actuarial loss	**(13,199)**	(4,003)	**(131,727)**
e. Unamortized prior service cost	**476**	488	**4,751**
f. Net amount recorded in balance sheet	**40,926**	45,462	**408,443**
g. Prepaid pension cost	**(67)**	(54)	**(669)**
h. Accrued pension and severance liability	**¥40,993**	¥45,516	**$409,112**

Notes: 1. The above amounts include the substitutional portion of the government pension plan funded by social security taxes paid by employees and employer.
2. Certain insignificant consolidated subsidiaries calculated the liability using the simplified method.
3. In addition to the above plan assets, there were plan assets of the multi-employer pension plan amounting to ¥20,764 million as of March 31, 2007. The plan assets for the multi-employer pension plan could not be allocated to each participating employer. These amounts were based on the number of participants.

Periodic pension and severance costs for the fiscal years 2008, 2007 and 2006, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
a. Service cost	**¥8,715**	¥8,572	¥9,351	**$86,976**
b. Interest cost	**2,117**	2,232	2,557	**21,128**
c. Expected return on plan assets	**(2,863)**	(1,313)	(1,266)	**(28,573)**
d. Amortization of actuarial gain/loss	**526**	663	1,218	**5,250**
e. Amortization of prior service cost	**(11)**	51	186	**(110)**
f. Pension and severance cost	**8,484**	10,205	12,046	**84,671**
g. Gain on transfer of the substitutional portion of the employee's pension fund	**-**	(2,423)	-	**-**
h. Total	**¥8,484**	¥7,782	¥12,046	**$84,671**

Notes: 1. The above amounts do not include the social security taxes paid by employees.
2. The service cost of consolidated subsidiaries using the simplified method is included in the service cost above.
3. The service cost above includes required funding for the multi-employer pension plan amounting to ¥797 million (US$7,954 thousand), ¥797 million and ¥831 million for the fiscal years 2008, 2007 and 2006, respectively, for which plan assets could not be allocated to each participating employer.
4. The service cost above includes contributions for the defined contribution plans of certain consolidated foreign subsidiaries amounting to ¥1,651 million (US$16,477 thousand), ¥1,436 million and ¥1,397 million for the fiscal years 2008, 2007 and 2006, respectively.
5. In addition to the pension and severance cost above, additional retirement payments amounting to ¥258 million (US$2,575 thousand), ¥971 million and ¥7,467 million were made for the fiscal years 2008, 2007 and 2006, respectively. For the fiscal year 2008, the entire ¥258

million (US$2,575 thousand) of additional retirement payments is included in cost of sales and selling, general and administrative expenses. For the fiscal year 2007, ¥190 million out of the total additional retirement payments is included in selling, general and administrative expenses, and the remaining ¥781 million is reflected as part of "Other, net" in other expense in the accompanying consolidated statement of income. For the fiscal year 2006, ¥37 million out of the total additional retirement payments is included in selling, general and administrative expenses, and the remaining ¥7,430 million is reflected as "Additional retirement payments" in other expense in the accompanying consolidated statement of income.

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

a. Attribution of expected benefit obligation	The straight-line method
b. Discount rate	2.0%–2.5%
c. Expected rate of return on plan assets	0.8%–4.0% (fiscal 2006 and 2007) 0.8%–4.5% (fiscal 2008)
d. Amortization of actuarial gain/loss	Primarily 18 years (It is amortized by the straight-line method starting from the following fiscal year over a period shorter than the average remaining service periods of the eligible employees)
e. Amortization of prior service cost	12 to 18 years (fiscal 2008) 12 to 18 years (fiscal 2007) 14 to 18 years (fiscal 2006)

12. Income Taxes

The Company and consolidated subsidiaries were subject to a number of taxes based on income, which in the aggregate, resulted in a normal statutory income tax rate of approximately 40.5% for the fiscal years 2008, 2007 and 2006.

A reconciliation of the statutory income tax rates in Japan to the Company's effective income tax rates for the fiscal years 2008, 2007 and 2006 was as follows:

	2007	2006
Statutory income tax rate in Japan	40.5%	40.5%
Increase (reduction) in taxes resulting from:		
Changes in valuation allowance and tax benefits realized from loss carry forwards	(4.9)	20.2
Adjustment to past corporate income taxes payable and corporate income taxes refundable	(0.9)	2.8
Adjustment to past deferred income taxes	(1.0)	(6.8)
Special deductions on corporate income taxes	(2.3)	(6.1)
Entertainment and other non-deductible expenses	1.1	1.1
Equity income	(1.4)	(2.0)
Amortization of goodwill	(1.9)	(4.6)
Other	0.7	0.0
Effective income tax rate	29.9%	45.1%

For the fiscal year 2008, such reconciliation is not presented herein because the difference between the statutory income tax rate and the effective income tax rate is less than 5%.

Significant components of the deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Accrued pension and severance liabilities	**¥16,373**	¥18,267	**$163,403**
Depreciation and amortization expenses	**7,347**	2,184	**73,323**
Accrued warranty claims	**7,305**	8,205	**72,904**
Accrued expenses	**7,299**	6,956	**72,844**
Loss on devaluation of inventories	**6,374**	6,443	**63,613**
Accrued bonus	**6,325**	6,173	**63,124**
Long-term accounts payable, other	**4,228**	3,087	**42,196**
Unrealized gain on sale of inventories	**3,527**	4,611	**35,200**
Unrealized gain on sale of property, plant and equipment	**-**	6,017	**-**
Net operating loss carry forwards	**16,276**	18,453	**162,435**
Other	**18,492**	14,781	**184,551**
Total deferred tax assets	**93,546**	95,177	**933,593**
Valuation allowance	**(18,412)**	(16,685)	**(183,753)**
Total deferred tax assets, net of valuation allowance	**75,134**	78,492	**749,840**
Deferred tax liabilities:			
Depreciation and amortization expenses	**(6,648)**	(8,782)	**(66,347)**
Net unrealized holding gains on investment securities	**(9,045)**	(15,031)	**(90,269)**
Revaluation reserve for land	**-**	(703)	**-**
Advanced depreciation reserve	**(510)**	(489)	**(5,090)**
Other	**(5,621)**	(7,044)	**(56,098)**
Total deferred tax liabilities	**(21,824)**	(32,049)	**(217,804)**
Net deferred tax assets	**¥53,310**	¥46,443	**$532,036**

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current assets—Deferred tax assets	**¥26,486**	¥27,072	**$264,331**
Investments and other assets—Deferred tax assets	**27,256**	20,825	**272,016**
Current liabilities—Other current liabilities	**-**	-	**-**
Long-term liabilities—Other long-term liabilities	**(432)**	(1,454)	**(4,311)**
Total net deferred tax assets	**¥53,310**	¥46,443	**$532,036**

13. Net Assets

The Japanese Corporate Law (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code (the "Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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

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

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in-capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in-capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

At the annual shareholders' meeting held on June 25, 2008, the shareholders approved cash dividends amounting to ¥3,234 million (US$32,275 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

14. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the fiscal years 2008, 2007 and 2006 consisted of the following:

			Millions of yen	Thousands of U.S. dollars
	2008	2007	2006	**2008**
Transportation and packing expenses	**¥18,645**	¥17,291	¥16,184	**$186,078**
Advertisement expenses	**51,907**	49,342	45,823	**518,034**
Sales incentives	**47,577**	48,606	38,827	**474,820**
Salary and bonus	**47,409**	47,210	48,421	**473,144**
Research and development cost	**51,055**	49,552	45,809	**509,531**
Other	**92,411**	92,236	97,672	**922,265**
Total	**¥309,004**	¥304,237	¥292,736	**$3,083,872**

15. Impairment Loss on Property, Plant and Equipment

In the fiscal year ended March 31, 2008, the Company recorded an impairment loss with regard to the following asset groups:

Use	Location	Category
Production facility	Gunma Prefecture	Buildings, machinery and other
Assets for dealership business	Yamagata Prefecture and 2 other locations	Buildings and structures, machinery, land and other
Idle assets	Hokkaido Prefecture and 3 other locations	Machinery, land and other

The assets on which impairment was recognized are grouped as follows: The production facilities are grouped by product line, the operating assets for dealership are grouped by each company, and the idle assets are grouped on a property-by-property basis.

In light of an agreement entered into by the Company and Daihatsu Motor Co., Ltd. (Daihatsu) under which Daihatsu will provide sub-compact vehicles to the Company on an OEM basis, the Company has revised certain assets groupings within its Automobiles segment. Accordingly, the Company wrote down the carrying amounts of its sub-compact vehicle manufacturing equipment to a recoverable amount. In addition, a certain idle manufacturing facility was classified as held-for-sale, and its carrying amount was reduced to a recoverable amount.

At the subsidiaries, certain assets were written down to their recoverable amounts due to a recent decline in the real estate market as well as their decreased profitability. As a result, the Company and consolidated subsidiaries recognized a total of ¥13,174 million ($131,740 thousand) in impairment losses which is included in “Other expenses”.

The impairment loss by each category of property, plant and equipment was as follows:

	Millions of yen	Thousands of U.S. dollars
	2008	**2008**
Buildings and structures	**¥3,092**	**$30,858**
Machinery and equipment	**8,619**	**86,018**
Land	**789**	**7,874**
Other	**674**	**6,727**
Total	**¥13,174**	**$131,477**

A recoverable amount is the higher of net realizable value or value in use. A net realizable value is determined based on the government-published land valuation index prices or values used for real estate tax purposes less cost of disposal. A value in use is calculated based on projected future cash flows discounted at principally 6.4%.

In the fiscal year ended March 31, 2006, the Company recorded an impairment loss with regard to the following asset groups:

Use	Location	Category
Manufacturing facility	United States	Structures, machinery and equipment
Assets for dealership business	Wakayama Prefecture and 3 other locations	Buildings and structures, machinery and equipment, and land
Real estate for lease business	Gunma Prefecture	Buildings
Underutilized real estate	Hokkaido Prefecture and 3 other locations	Land, buildings and structures, and other

The operating properties for dealers are grouped by each company, and the leased property and unused property are grouped on a property-by-property basis, and the operating properties of a subsidiary in the United States are grouped by the product.

The impairment loss by each category of property, plant and equipment was as follows;

	Millions of yen
	2006
Buildings and structures	¥1,672
Machinery and equipment	782
Land and other	1,610
Total	¥4,064

16. Loss on Termination of Development Projects
In the fiscal year ended March 31, 2006, the Company recorded a ¥7,094 million loss on termination of development projects, which consisted of the following two components:
(1) A joint development project for new model vehicle
In light of the termination of the Strategic Alliance between the Company and General Motors (GM), the Company and GM agreed to terminate the joint development project for crossover vehicles with SAAB Automobile AB. As a result, the Company has recorded other expense of ¥3,633 million on the joint project costs already incurred. As the Company has since identified certain project assets to be used for another model development, the loss has been reduced by ¥1,980 million compared to the amount recorded in the consolidated financial statements for the semi-annual period of the fiscal year 2006.
(2) New software system development project
The Company started to develop a software operating system which was expected to support its business processes from order entry to delivery. However, the Company has concluded that the new system would not be as cost effective as it was originally planned. As a result, the Company terminated the development project and has recorded other expense of ¥3,461 million from the termination.

17. Prior Period Adjustment
(Fiscal 2008)
Prior period adjustment recorded in the fiscal year 2008 represents a gain on reversal of certain expenses due to a revision to the estimated expense related to a change in the medical insurance system of a foreign subsidiary and the settlement of a tariff rate issue on imported parts.

(Fiscal 2007)
Prior period adjustment recorded in the fiscal year 2007 represents a gain on reversal, as a result of the final settlement, of a portion of “Loss on termination of joint development projects (joint development projects for new model vehicles)” which was recorded as other expense in the fiscal year 2006.

18. Loss on Liquidation of Affiliated Companies
Loss on liquidation for the fiscal year 2007 represents a loss of ¥913 million upon liquidation of Fuji AT Ltd, which was a joint venture with JATCO Ltd.

19. Business Combinations
(Fiscal 2007)
The Company has integrated certain Subaru dealer subsidiaries for the purpose of enhancement of their sales force and improvement of their profitability.
Those integrated companies are consolidated subsidiaries included in the Automobiles segment, and the integration has been accounted for as a reorganization of entities under common control.

(1) April 1, 2006, merger by surviving companies

Area	Integrated companies	New companies
Hokkaido	Asahikawa Subaru, Inc. Hokkaido Subaru, Inc. ※	Hokkaido Subaru, Inc.
Chubu	Hokuriku Subaru, Inc ※ Fukui Subaru, Co., Ltd	Hokuriku Subaru, Inc.
Shikoku	Kagawa Subaru, Inc. ※ Tokushima Subaru, Inc.	Higashishikoku Subaru, Inc.
Kita-Kyushu	Saga Subaru, Inc. Nagasaki Subaru, Inc. ※	Nishikyushu Subaru, Inc.
Minami-Kyushu	Miyazaki Subaru, Inc. Kagoshima Subaru, Inc ※	Minamikyushu Subaru, Inc.

※ Surviving companies

(2) October 1, 2006, sale of automobile dealership business to a surviving company.

Area	Integrated companies	New company
Kinki	Wakayama Subaru Motors Inc. Osaka Subaru, Inc. ※	Osaka Subaru, Inc.

※ Surviving company

In addition, the number of consolidated subsidiaries decreased because Subaru Yard Operations, Inc (subsidiary of Subaru of America, Inc.) was merged into Subaru of America, Inc (sales company in America).

Share exchange

On October 2, 2006, the Company acquired additional common shares of Fuji Machinery Co., Ltd. through a share exchange. The details of the transaction are as follows:

1. Acquired company and nature of its business, legal form of business combination, and a summary of the transaction including the purpose

(1) Acquired company and nature of its business
Fuji Machinery Co., Ltd. (manufacturing and selling parts for automobiles and industrial products)

(2) Legal form of business combination
A share exchange (simplified share exchange method)

(3) Summary of the transaction including the purpose
Fuji Machinery Co., Ltd. accounts for approximately 90% of its sales to the

Company. In order to enhance group management, the Company made Fuji Machinery Co., Ltd. a wholly owned subsidiary.

2. Accounting treatment
   Transaction with minority shareholders

3. Information concerning the acquisition of additional shares of subsidiary

   (1) Acquisition cost and its breakdown
   Price for acquisition
   The shares of Fuji Heavy Industries Ltd.: ¥705 million

   (2) Share exchange ratio by class of shares, method of determining the share exchange ratio, and the number of shares issued and their valuation amount

   ① Class of share and exchange ratio
   Common shares Fuji Heavy Industries Ltd. 1: Fuji Machinery Co., Ltd. 0.52

   ② Method of determining the share exchange ratio
   The Company and Fuji Machinery Co., Ltd. individually engaged third party appraisers to analyze the exchange ratio. This analysis was performed based on the market stock prices, the comparable company comparisons, and the discounted cash flows. The Company and Fuji Machinery Co., Ltd. have agreed to the above ratio, taking into consideration the results of such third party appraisals and certain other factors.

   ③ The number of shares issued and their valuation amount
   1,586,520 shares ¥1,066 million

   (3) The amount of recognized goodwill, source of generated goodwill, and method of amortization and amortization period

   ① The amount of recognized goodwill: ¥307 million

   ② Source of generated goodwill
   The difference between the acquisition cost of the additional shares of the subsidiary and the amount of minority interest that were decreased by the additional acquisition

   ③ Method of amortization and amortization period
   Five years amortization by the straight-line method

20. Stock Option Plans
(Fiscal 2007)
1. Descriptions, volume, and movement of stock options
   (1) Descriptions of stock option plans

	Fiscal 2002 Stock option plan	Fiscal 2004 Stock option plan
Position and number of grantee	Directors, Executive Officers, Corporate Auditors and employees: 303	Directors, Executive Officers, Corporate Auditors and employees: 320
Class and number of stock (shares)	Common Stock 1,029,000	Common Stock 1,917,000
Date of grant	September 9,2002	September 6, 2004
Vesting condition	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted
Required service period	From September 9, 2002, to July 31, 2004	From September 6, 2004, to July 31, 2006
Exercise period	From August 1, 2004, to July 31, 2009	From August 1, 2006, to July 31, 2011

Note: The number of stock options is converted to the equivalent number of common stock.

(2) Volume and movement of stock options

The stock options outstanding in the fiscal year 2007 are summarized as follows:

①The number of stock options (shown as the equivalent number of common stock)

	Fiscal 2002 Stock option plan	Fiscal 2004 Stock option plan
Not exercisable stock options (shares):		
At the end of the fiscal year 2006	-	1,917,000
Stock options granted	-	-
Forfeitures	-	8,000
Conversion to exercisable stock options	-	1,909,000
Stock options outstanding	-	-
Exercisable stock options (shares):		
At the end of the fiscal year 2006	962,000	-
Conversion from not exercisable stock options	-	-
Stock options exercised	120,000	39,000
Forfeitures	-	-
Stock options outstanding	842,000	1,870,000

② Price information of stock options

	Fiscal 2002 Stock option	Fiscal 2004 Stock option
Exercise price (Yen)	¥498,000	¥594,000
Average market price of the stock at the time of exercise (Yen)	678	675
Fair value (date of grant) (Yen)	-	-

(Fiscal 2008)

1. Descriptions, volume, and movement of stock options

(1) Descriptions of stock option plans

	Fiscal 2002 Stock option plan	Fiscal 2004 Stock option plan
Position and number of grantee	Directors, Executive Officers, Corporate Auditors and employees: 303	Directors, Executive Officers, Corporate Auditors and employees: 320
Class and number of stock (shares)	Common Stock 1,029,000	Common Stock 1,917,000
Date of grant	September 9, 2002	September 6, 2004
Vesting condition	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted
Required service period	From September 9, 2002, to July 31, 2004	From September 6, 2004, to July 31, 2006
Exercise period	From August 1, 2004, to July 31, 2009	From August 1, 2006, to July 31, 2011

Note: The number of stock options is converted to the equivalent number of common stock.

(2) Volume and movement of stock options
The stock options outstanding in the fiscal year 2008 are summarized as follows:

①The number of stock options (shown as the equivalent number of common stock)

	Fiscal 2002 Stock option plan	Fiscal 2004 Stock option plan
Not exercisable stock options (shares):		
At the end of the fiscal year 2007	-	-
Stock options granted	-	-
Forfeitures	-	-
Conversion to exercisable stock options	-	-
Stock options outstanding	-	-
Exercisable stock options (shares):		
At the end of the fiscal year 2007	842,000	1,870,000
Conversion from not exercisable stock options	-	-
Stock options exercised	29,000	7,000
Forfeitures	-	-
Stock options outstanding	813,000	1,863,000

② Price information of stock options

	Fiscal 2002 Stock option	Fiscal 2004 Stock option
Exercise price (Yen)	¥498,000	¥594,000
Average market price of the stock at the time of exercise (Yen)	585	579
Fair value (date of grant) (Yen)	-	-

21. Leases
(1) Information as lessee
As allowed under the Japanese accounting standards, the Company and consolidated subsidiaries in Japan account for finance leases, which do not transfer ownership of leased assets to lessees as stipulated in the lease contracts, as operating leases. The “as-if capitalized” pro forma information of such leases as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Machinery, equipment and vehicles	**¥703**	¥1,195	**$7,016**
Other tangible assets	**2,662**	2,230	**26,567**
Intangible assets	**164**	55	**1,637**
	3,529	3,480	**35,220**
Accumulated depreciation/amortization	**(1,870)**	(1,815)	**(18,663)**
Net	**¥1,659**	¥1,665	**$16,557**

Pro forma information related to finance leases for the fiscal years 2008, 2007 and 2006 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Rent paid	**¥679**	¥616	¥623	**$6,776**
Depreciation and amortization expenses	**633**	565	578	**6,317**
Interest expense portion	**44**	47	51	**439**

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finance leases:			
Due within one year	**¥623**	¥536	**$6,217**
Due after one year	**1,120**	1,222	**11,178**
Total	**¥1,743**	¥1,758	**$17,395**
Operating leases:			
Due within one year	**¥925**	¥888	**$9,231**
Due after one year	**3,263**	3,252	**32,565**
Total	**¥4,188**	¥4,140	**$41,796**

(2) Information as lessor

The carrying amounts of leased assets under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Machinery, equipment and vehicles	**¥22,574**	¥22,016	**$225,290**
Other tangible assets	**4,612**	8,811	**46,028**
Intangible assets	**1,682**	1,938	**16,786**
	28,868	32,765	**288,104**
Accumulated depreciation and amortization	**(15,972)**	(18,663)	**(159,401)**
Net	**¥12,896**	¥14,102	**$128,703**

Information related to finance leases for the fiscal years 2008, 2007 and 2006 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Rent received	**¥7,727**	¥8,844	¥9,357	**$77,116**
Depreciation and amortization expenses	**5,773**	6,635	7,109	**57,615**
Interest income portion	**779**	937	1,231	**7,774**

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finance leases:			
Due within one year	**¥5,709**	¥6,524	**$56,976**
Due after one year	**8,714**	9,888	**86,966**
Total	**¥14,423**	¥16,412	**$143,942**
Operating leases:			
Due within one year	**¥5,117**	¥5,028	**$51,068**
Due after one year	**4,523**	3,947	**45,140**
Total	**¥9,640**	¥8,975	**$96,208**

22. Contingent Liabilities

Contingent liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
As guarantor of third-party indebtedness from financial institutions	**¥41,705**	¥39,960	**$416,218**

23. Derivative Financial Instruments

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

The fair value information of derivative financial instruments as of March 31, 2008 and 2007 was as follows:

(1) Foreign currency contracts:
(a) As of March 31, 2008:

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Fair value	Valuation gain (loss)	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:						
Sell—						
U.S. dollar	**¥51,510**	**¥48,200**	**¥3,310**	**$514,072**	**$481,038**	**$ 33,034**
Euro	**11,658**	**11,774**	**(116)**	**116,347**	**117,505**	**(1,158)**
Canadian dollar	**8,374**	**7,955**	**419**	**83,573**	**79,391**	**4,182**
Buy—						
U.S. dollar	**2,454**	**2,400**	**(54)**	**24,491**	**23,952**	**(539)**
British pound	**407**	**399**	**(8)**	**4,062**	**3,982**	**(80)**
Foreign currency options contracts:						
Sell—						
Call U.S. dollar	**11,088** 〔**282**〕	**303**	**(21)**	**110,659** 〔**2,814**〕	**3,024**	**(210)**
Buy—						
Put U.S. dollar	**11,088** 〔**282**〕	**326**	**44**	**110,659** 〔**2,814**〕	**3,253**	**439**

(b) As of March 31, 2007

	Notional Amount	Fair value	Millions of yen Valuation gain (loss)
Foreign exchange forward contracts:			
Sell—			
U.S. dollar	¥64,166	¥64,805	¥(639)
Euro	9,232	9,708	(476)
Canadian dollar	5,888	5,909	(21)
Buy—			
U.S. dollar	4,539	4,535	(4)
British pound	1,112	1,121	9
Foreign currency options contracts:			
Sell—			
Call U.S. dollar	13,063 〔178〕	218	(40)
Call Euro	6,212 〔59〕	116	(57)
Call Canadian dollar	8,134 〔93〕	127	(34)
Buy—			
Put U.S. dollar	19,196 〔245〕	167	(78)
Put Canadian dollar	2,540 〔33〕	26	(7)

Note: The amounts in brackets [ ] are the carrying amounts of the premium on the option contracts recorded as other current assets or liabilities.

(2) Interest rate contracts:

(a) As of March 31, 2008:

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Fair value	Valuation gain (loss)	Notional Amount	Fair value	Valuation gain (loss)
Interest rate swap contracts: Receive floating rate pay fixed rate	**¥5,424**	**¥(8)**	**¥(8)**	**$54,132**	**$(80)**	**$(80)**

(b) As of March 31, 2007:

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Interest rate swap contracts: Receive floating rate pay fixed rate	¥7,743	¥101	¥101

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

Derivative financial instruments that qualify as a hedge and are accounted for using the deferred hedge accounting method are excluded from the above table according to the disclosure requirements.

24. Segment Information

Information by business segment

The Company and consolidated subsidiaries operate principally in four business segments: automobiles, industrial products, aerospace and other business fields (including eco-related equipment).

A summary of net sales, operating income, assets, depreciation and amortization expenses and capital expenditures by business segment for the fiscal years 2008, 2007 and 2006 is shown below:

Net sales:	2008	2007	2006	2008
			Millions of yen	Thousands of U.S. dollars
Automobiles—				
Outside customers	**¥1,421,179**	¥1,339,291	¥1,329,161	**$14,183,423**
Inter-segment	**2,849**	3,050	3,688	**28,433**
Sub-total	**1,424,028**	1,342,341	1,332,849	**14,211,856**
Industrial products—				
Outside customers	**40,678**	49,699	52,436	**405,968**
Inter-segment	**13**	20	116	**130**
Sub-total	**40,691**	49,719	52,552	**406,098**
Aerospace—				
Outside customers	**99,673**	94,012	81,787	**994,740**
Inter-segment	**1**	16	35	**10**
Sub-total	**99,674**	94,028	81,822	**994,750**
Other—				
Outside customers	**10,816**	11,815	12,984	**107,944**
Inter-segment	**6,778**	2,575	2,518	**67,645**
Sub-total	**17,594**	14,390	15,502	**175,589**
Total	**1,581,987**	1,500,478	1,482,725	**15,788,293**
Corporate and elimination	**(9,641)**	(5,661)	(6,357)	**(96,218)**
Consolidated total	**¥1,572,346**	¥1,494,817	¥1,476,368	**$15,692,075**

Operating income or loss:	2008	2007	2006	2008
			Millions of yen	Thousands of U.S. dollars
Operating income:				
Automobiles	**¥37,141**	¥37,831	¥51,559	**$370,669**
Industrial products	**659**	1,508	2,038	**6,577**
Aerospace	**4,442**	5,674	2,795	**44,331**
Other	**2,525**	2,257	1,231	**25,199**
Total	**44,767**	47,270	57,623	**446,776**
Corporate and elimination	**913**	636	716	**9,112**
Consolidated total	**¥45,680**	¥47,906	¥58,339	**$455,888**

Assets:	2008	2007	2006	2008
			Millions of yen	Thousands of U.S. dollars
Total assets:				
Automobiles	**¥1,041,057**	¥1,058,957	¥1,110,445	**$10,389,791**
Industrial products	**45,528**	55,450	56,621	**454,371**
Aerospace	**172,410**	165,177	147,557	**1,720,659**
Other	**64,869**	64,915	68,435	**647,395**
Total	**1,323,864**	1,344,499	1,383,058	**13,212,216**
Corporate and elimination	**(27,476)**	(28,458)	(34,658)	**(274,212)**
Consolidated total	**¥1,296,388**	¥1,316,041	¥1,348,400	**$12,938,004**

Other significant items:	2008	2007	2006	2008
			Millions of yen	Thousands of U.S. dollars
Depreciation and amortization expenses:				
Automobiles	**¥79,575**	¥73,899	¥74,431	**$794,162**
Industrial products	**1,527**	1,618	1,795	**15,239**
Aerospace	**4,250**	4,236	1,941	**42,415**
Other	**1,812**	1,701	1,906	**18,084**
Total	**87,164**	81,454	80,073	**869,900**
Corporate and elimination	**-**	-	-	**-**
Consolidated total	**¥87,164**	¥81,454	¥80,073	**$869,900**
Impairment loss on property, plant and equipment:				
Automobiles	**¥13,174**	¥530	¥3,968	**$131,477**
Industrial products	**-**	-	-	**-**
Aerospace	**-**	-	-	**-**
Other	**-**	20	96	**-**
Total	**13,174**	550	4,064	**131,477**
Corporate and elimination	**-**	-	-	**-**
Consolidated total	**¥13,174**	¥550	¥4,064	**$131,477**
Capital expenditures for segment assets:				
Automobiles	**¥114,245**	¥120,079	¥109,955	**$1,140,170**
Industrial products	**858**	1,620	1,195	**8,563**
Aerospace	**3,142**	4,120	7,605	**31,357**
Other	**624**	669	534	**6,227**
Total	**118,869**	126,488	119,289	**1,186,317**
Corporate and elimination	**-**	(159)	-	**-**
Consolidated total	**¥118,869**	¥126,329	¥119,289	**$1,186,317**

Notes: 1. Definition of business segments
Business segments are defined based on their product line and market.
2. Main products by each business segment
Business segments' main products:
Automobiles: Legacy, Impreza, Forester, Tribeca, Stella, R1, R2, Pleo, Samber
Industrial products; Robin engines, power generators, pumps
Aerospace: Aircraft, parts of space-related devices
Other: Garbage collection vehicles, specialized vehicles, real estate lease
3. All operating costs and expenses are allocated to each business segment.
4. All figures in corporate and elimination represent elimination.
5. Changes in accounting policies

(Fiscal 2006)

Impairment loss on property, plant and equipment

The Company and domestic consolidated subsidiaries adopted the accounting standards for impairment of fixed assets in the fiscal year 2006. As a result of this change, the assets of the Automobile segment decreased by ¥3,167 million and the assets of the Other segment decreased by ¥96 million in the fiscal year 2006.

(Fiscal 2007)

Directors' bonus

The adoption of the accounting standard for directors' bonus had no material effect on segment results.

(Fiscal 2008)
Depreciation method of fixed assets
The Company and domestic consolidated subsidiaries changed their depreciation method in the fiscal year 2008 as mentioned in "2. Summary of Significant Accounting Policies". The effect of this change was to decrease operating income of "Automobiles" by ¥2,158 million (US$21,537 thousand). In addition, the change in the depreciation method for the residual book value during the fiscal year 2008 resulted in a decrease in operating income of "Automobiles" of ¥1,897 million (US$18,932 thousand). The effects of these changes on other business segments were insignificant.

Information by geographic area
A summary of net sales, operating income and assets by geographic area for the fiscal years 2008, 2007 and 2006 is shown below:

			Millions of yen	Thousands of U.S. dollars
Net sales:	**2008**	2007	2006	**2008**
Japan—				
Outside customers	**¥901,091**	¥881,102	¥888,117	**$8,992,924**
Inter-segment	**270,514**	244,896	257,456	**2,699,741**
Sub-total	**1,171,605**	1,125,998	1,145,573	**11,692,665**
North America—				
Outside customers	**617,718**	576,053	572,412	**6,164,850**
Inter-segment	**20,860**	14,222	2,298	**208,184**
Sub-total	**638,578**	590,275	574,710	**6,373,034**
Other—				
Outside customers	**53,537**	37,662	15,839	**534,301**
Inter-segment	**501**	283	313	**5,000**
Sub-total	**54,038**	37,945	16,152	**539,301**
Total	**1,864,221**	1,754,218	1,736,435	**18,605,000**
Corporate and elimination	**(291,875)**	(259,401)	(260,067)	**(2,912,925)**
Consolidated total	**¥1,572,346**	¥1,494,817	¥1,476,368	**$15,692,075**

			Millions of yen	Thousands of U.S. dollars
Operating income or loss:	**2008**	2007	2006	**2008**
Operating income:				
Japan	**¥34,188**	¥40,622	¥56,989	**$341,197**
North America	**6,575**	5,171	1,970	**65,619**
Other	**1,402**	831	309	**13,992**
Total	**42,165**	46,624	59,268	**420,808**
Corporate and elimination	**3,515**	1,282	(929)	**35,080**
Consolidated total	**¥45,680**	¥47,906	¥58,339	**$455,888**

Assets:	2008	2007	2006	2008
			Millions of yen	Thousands of U.S. dollars
Assets:				
Japan	**¥962,886**	¥985,335	¥1,006,951	**$9,609,641**
North America	**347,205**	347,770	368,541	**3,465,120**
Other	**12,221**	8,063	2,716	**121,966**
Total	**1,322,312**	1,341,168	1,378,208	**13,196,727**
Corporate and elimination	**(25,924)**	(25,127)	(29,808)	**(258,723)**
Consolidated total	**¥1,296,388**	¥1,316,041	¥1,348,400	**$12,938,004**

Notes: 1. Geographic areas are based on geographical proximity.
2. Principal countries or districts in each geographic area:
North America: United States and Canada
Other: Europe
3. All operating costs and expenses are allocated to each segment.
4. All figures in corporate and elimination represent elimination.
5. Changes in accounting policies

(Fiscal 2006)

Impairment loss on property, plant and equipment

The Company and domestic consolidated subsidiaries adopted the accounting standards for impairment of fixed assets in the fiscal year 2006. As a result of this change, the assets of the Japan segment decreased by ¥3,263 million.

(Fiscal 2007)

Directors' bonus

The adoption of the accounting standard for directors' bonus had no material effect on segment results.

(Fiscal 2008)

Depreciation method of fixed assets

The Company and domestic consolidated subsidiaries changed their depreciation method in the fiscal year 2008 as mentioned in "2. Summary of Significant Accounting Policies". The effect of this change was to decrease operating income of "Japan" by ¥2,308 million (US$23,034 thousand). In addition, the change in the depreciation method for the residual book value during the fiscal year 2008 resulted in a decrease in operating income of "Japan" of ¥2,298 million (US$22,934 thousand).

Overseas sales

Overseas sales for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

	2008		2007		2006		2008
					Millions of yen		Thousands of U.S. dollars
Overseas sales:							
North America	**¥667,310**	**42.5%**	¥622,149	41.6%	¥616,437	41.8%	**$6,659,780**
Europe	**181,333**	**11.5%**	152,458	10.2%	128,777	8.7%	**1,809,711**
Other	**179,716**	**11.4%**	143,994	9.7%	127,016	8.6%	**1,793,573**
Total	**¥1,028,359**	**65.4%**	¥918,601	61.5%	¥872,230	59.1%	**10,263,064**
Consolidated net sales	**¥1,572,346**	**100.0%**	¥1,494,817	100.0%	¥1,476,368	100.0%	**$15,692,075**

Notes: 1. Geographic areas are based on geographical proximity.

2. Principal countries or districts in each geographic area:
North America: United States and Canada
Europe: Germany, Switzerland and the United Kingdom
Other: Australia
3. Overseas sales are sales outside of Japan by the Company and consolidated subsidiaries.
4. Changes in accounting policies
(Fiscal 2006)
None
(Fiscal 2007)
None
(Fiscal 2008)
None

25. Subsequent Event

(Fiscal 2007)

The sale of all the shares of Fuji Robin Industries Ltd.

In response to a takeover bid for the shares of Fuji Robin Industries Ltd. (a consolidated subsidiary) by Makita Corporation, the Company has tendered all the shares (7,525 thousand shares) of Fuji Robin owned by the Company.

Makita Corporation, by making Fuji Robin a subsidiary, intends to pursue synergies from the mutually complementary businesses of the two companies. Based on its judgment that this acquisition will enhance the corporate value of the two companies from a long-term viewpoint, and it will also serve to improve the efficiency of the Company's asset utilization, the Company tendered and sold the shares on May 15, 2007.

As a result, a gain on sale of subsidiary's shares of ¥1,380 million (sale proceeds: ¥1,957 million) will be recognized in the fiscal year 2008.

(Fiscal 2008)

Development of a business alliance

The Company at its board of directors' meeting on April 10, 2008 resolved to enter into an alliance in the development and production of cars, the disposition of its own shares in treasury stock, and the construction of a new assembly plant to give effect to such a business alliance.

1. Alliance partners: Toyota Motor Corporation (TMC) and Daihatsu Motor Co., Ltd. (Daihatsu)
2. Alliance contents:
(1) TMC and FHI jointly develop a compact, rear-wheel-drive sports car, and market the new model through the sales channels of both companies.
(2) TMC supplies a sub-compact car to FHI under an OEM arrangement.
(3) Daihatsu supplies a mini car and a sub-compact car "COO" to FHI under an OEM arrangement.
3. Disposition of treasury stock

The Company sells its treasury stock to TMC in order to further strengthen its relationship with TMC.

(1) Class of stocks	: Common stock
(2) Method of sale of treasury stock	: Private placement to a designated third party
(3) Total number of shares	: 61,000,000 shares
(4) Sale price	: ¥510 (US$5) per share (Total: ¥31,110 million (US$310,479 thousand))
(5) The basis for calculation of the sale price	: The sale price of ¥510 (US$5) was determined in reference to the average closing price of FHI shares of ¥462 (US$5) at the Tokyo Stock Exchange from December 11, 2007 to March 10, 2008. (Plus 10% premium, rounded up to the nearest whole yen)
(6) Placement period	: From May 2, 2008 to May 1, 2009

4. Construction of a new assembly plant
The Company plans to build a new vehicle assembly plant in Oizumimachi, Ora-gun, Gunma, in connection with the development of the business alliance with TMC and Daihatsu. Details of the plan, such as the amount of investment, are yet to be determined through a discussion with TMC.

Change of the retirement benefit scheme

Effective April 1, 2008, the Company restructured part of its retirement benefit scheme and has introduced a defined benefit plan and a defined contribution pension, in order to contribute to the wellbeing of its retired employees as well as to improve the Company's financial position by reducing the retirement benefit liabilities.

Contents of change:
(1) Introduction of a point system
(2) Transfer of its qualified pension plan to a defined benefit plan and a defined contribution pension

The Company is to account for this change in accordance with Corporate Accounting Implementation Guidelines No. 1, "Accounting for Transfers Between Retirement Benefit Plans" (Accounting Standards Board of Japan, January 31, 2002), and recognizes a gain of ¥653 million (US$6,517 thousand) as a result of a reduction in retirement benefit liabilities.