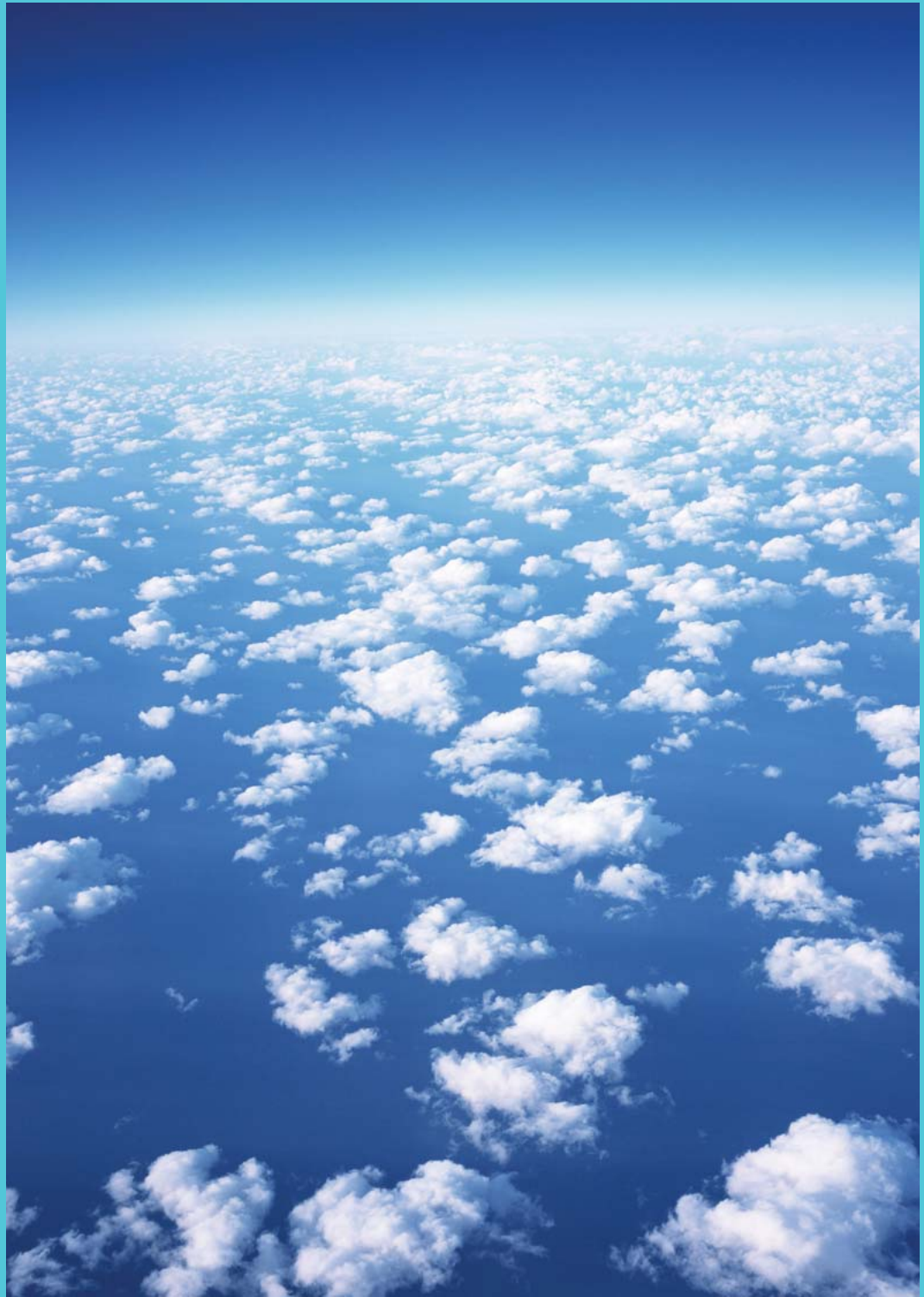


Environmental Report



FHI began its Environmental Action Project in 1990 and since then has proceeded with voluntary efforts for the environment with plans in 1993 (the First), 1996 (the Second) and 2002 (the Third). In fiscal 2006, we completed the five-year Third Voluntary Plan for the Environment.

In this report, we would like to introduce the results of the five-year Third Voluntary Plan by focusing on our activities in fiscal 2006.

In fiscal 2007, the Fourth Voluntary Plan for the Environment (the new FHI Environmental Conservation Program for fiscal 2007 thru 2011) began, and as a group we have been actively working to achieve the targets of the Plan in order to reduce the environmental impact of our corporate activities.

Environmental Management

We are making every effort throughout our entire corporate group to tackle global environmental issues

POINT

- (1) We reduced CO₂ emissions, water consumption and the use of PRTR chemical substances in fiscal 2006.
- (2) We are conducting several activities based on our Environmental Management System (EMS), including running emergency response drills and holding Case Study Presentations on improving operations.
- (3) At present, we are making a group-wide effort to achieve the targets of the Fourth Voluntary Plan for the Environment.

Environmental Policy

FHI believes that responding to the problems of the global environment is one of the important tasks of management. Based on its corporate philosophy, FHI has established an Environmental Policy, a policy for carrying out environmental conservation. FHI has also established guidelines for specific actions—the Operating Criteria for Environmental Conservation in order to promote the Policy. Involving all of the employees, FHI is moving its activities forward.

Environmental Policy (Established in April 1998)

FHI 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.

Operating Criteria for Environmental Conservation

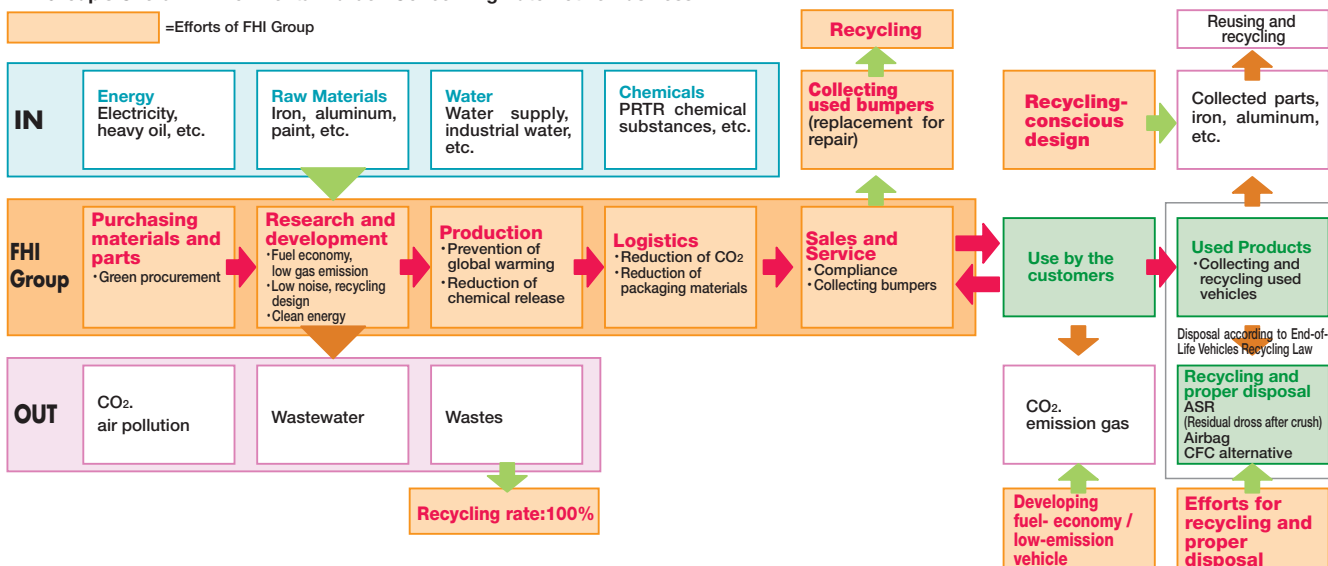
- (1) FHI is committed to environmental conservation and gives consideration to environmental impacts at every step of product development, design, manufacture, sales, service, and disposal.
- (2) FHI observes relevant laws, regulations and agreements with communities and industries, while also promoting voluntary activities in accordance with its own environmental objectives and targets as determined by the Company.
- (3) FHI recognizes the importance of continual improvement and efforts to prevent pollution and encourages every employee to act with self-awareness and responsibility.
- (4) FHI endeavors to raise environmental consciousness by providing educational opportunities for its employees according to their job status and job description.
- (5) FHI regularly performs audits and inspections to improve its environmental conservation activities.
- (6) FHI is committed to interacting within the community and engaging in joint activities to further environmental conservation.

Corporate Activities and Environmental Impacts

FHI is a transportation manufacturer focusing on automobiles. Automobiles, which are a convenient and comfortable form of transportation, are now indispensable for living in a modern society. On the other hand, however, automobiles require limited global resources as materials and fuels. Consequently, they emit CO₂, which causes global warming, as well as other air pollutants. We believe that automobiles make life more pleasant and reflect an affluent society but fully understand that automo-

biles have such disadvantages, as well as advantages. With these in mind, we must work hard for a better future. FHI accepts the task to aim for fusion of the global environmental response (improving fuel economy) and the benefits of automobiles (pleasant driving, comfort and reliance) by considering the environmental impacts and reducing the environmental burden through the lifecycle of development, production, use, disposal, and recycling of automobiles.

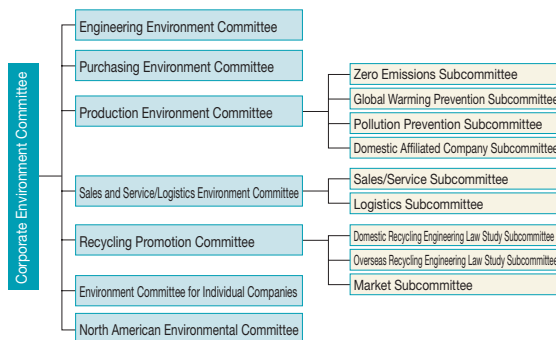
FHI Group's Overall Environmental Burden Concerning Automotive Business



Environmental Management

Organization

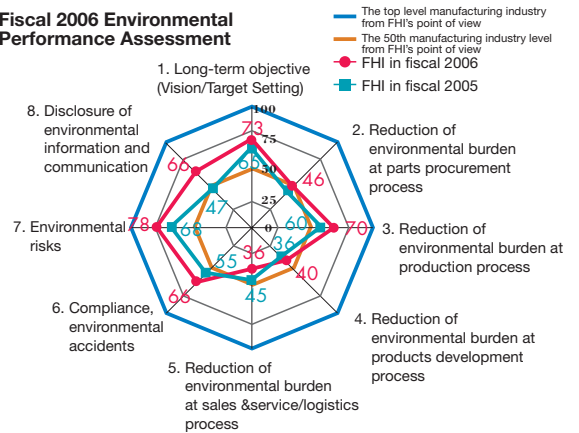
FHI established the Corporate Environment Committee to realize the Environmental Policy, the Operating Criteria for Environmental Conservation and the New Voluntary Plan for the Environment. The Committee is chaired by the officer in charge of the environment and administered by representatives from all business sites. At the Committee meeting held in May 2007, there were discussions of the overall achievement of the Third Voluntary Plan for the Environment and the method of voluntary activities of the Fourth Voluntary Plan for the Environment.



Environmental Performance Assessment System

We introduced the Environmental Performance Assessment System in fiscal 2002 and are working on further improvement of the environmental performance. The assessment results of fiscal 2006 are shown in the following chart. Challenge we need to meet in the future includes strengthening the reduction of environmental burden at the process of sales, service and products development.

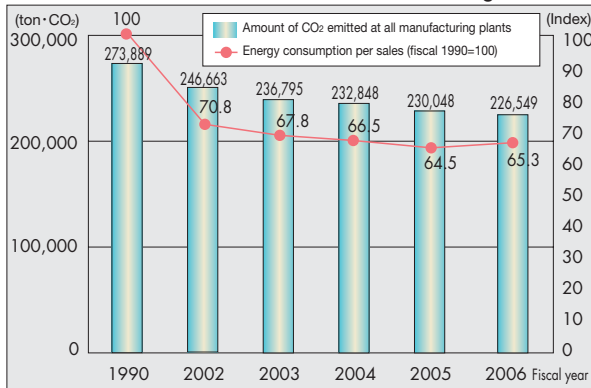
Fiscal 2006 Environmental Performance Assessment



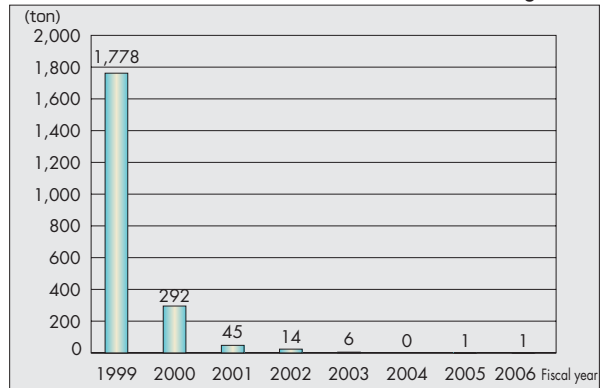
Environmental Performance

The main aspects of our environmental performance in fiscal 2006 are as shown in the following graphs. CO₂ emissions, water consumption and use of PRTR chemical substances were all reduced. We also achieved zero emissions*1 in terms of landfilled waste.

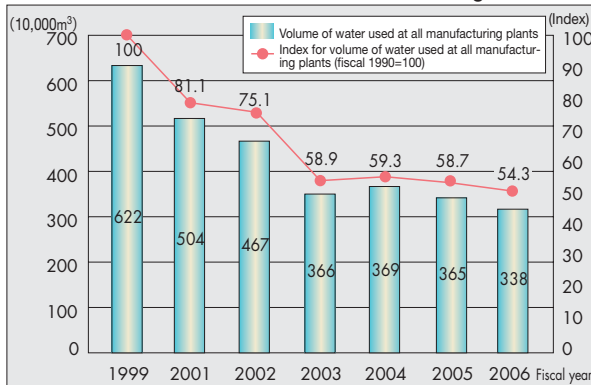
Trends in Amount of CO₂ Emitted at All Manufacturing Plants



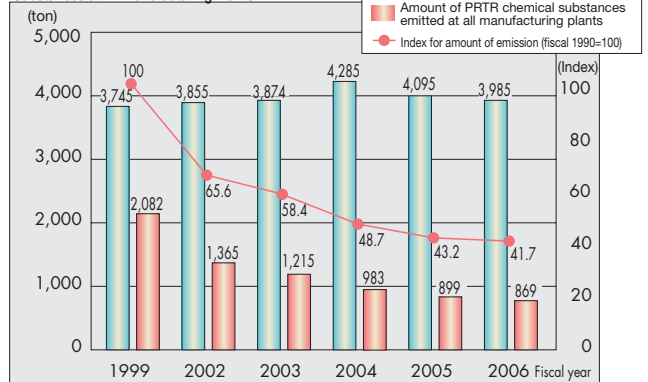
Trends in Amount of Landfilled Waste at All Manufacturing Plants



Trends in Volume of Water Used at All Manufacturing Plants



Trends in Amount of Used and Emitted PRTR Chemical Substances at All Manufacturing Plants



*1: FHI's definition of zero emissions: The total amount of landfilled waste (waste materials directly landfilled + waste materials landfilled after treated intermediately) is less than 0.5% of the total amount of waste materials excluding scrap metal (industrial waste + industrial waste subject to special control + general waste from business operations).

Establishing an Environmental Management System

FHI already acquired ISO14001 certification for all of its businesses, including the head office, by fiscal 2004. In fiscal 2006, SIA, SOA and RMI, FHI's overseas affiliated companies, acquired integrated certification. Additionally, Subaru Kumakoto Corporation, FHI's domestic dealer, also acquired ISO14001 certification. Now, six of FHI's dealers in Japan have the certification. We also conduct an environmental audit regularly every year to measure the effectiveness of the Environmental Management System.

Environmental Accounting

In fiscal 2000 we introduced environmental accounting. Our environmental costs in fiscal 2006 were 15.9 billion yen, an increase of 350 million yen compared to the previous fiscal year. This was due to an increase in R&D spending. We were able to cut production costs by 50 million yen. On the other hand, economic benefits from our environmental activities totaled 1.9 billion yen, which represents an increase of 100 million yen compared to the previous fiscal year. This was mainly due to rising unit prices for valuable resources being sold.

For more details on our environmental accounting, please refer to p. 11 of our Supplementary Volume for Data related to the 2007 S & E Report, which can be found on our website.

Environmental Education and Enlightenment

In fiscal 2004, we prepared company-wide unified textbooks for environmental education. We have continued educating different levels of employees, ranging from new recruits to those receiving promotions by internal acquiring certification every year. In addition, we are trying to carry out activities according to the plan, including emergency drilling based on the Environmental Management System (EMS), Operations Improvement Case Study Presentation and educational support to business partners.

Environmental Communication

FHI has arranged contact channels to maintain communication with local residents in each business area, and distributed environmental information in a variety of ways. In the Subaru Visitor Center in the Gunma Manufacturing Division, we have a recycling lab to introduce our approaches to tackle environmental issues. In fiscal 2006, 82,130 visitors visited the Center. (elementary schoolchildren: 69,031 from 875 schools, general visitors: 13,099)



The recycling lab introducing the flow of recycling

Cases Where Limits Set in Environment-Related Laws Were Exceeded, Environmental Accidents, and Complaints

The following table shows the number, in fiscal 2006, of cases where the legal limits set in environment-related laws were exceeded (including cases where the limits from voluntary standards or limits agreed with the local area were exceeded) as well as the number of environmental accidents and environment-related complaints, plus all related detail. By investigating the causes of these events or complaints and by implementing countermeasures, we are proceeding with our effort, to achieve our goal of zero cases.

Fiscal 2006 The Number of Cases Where Limits Set in Environment-Related Laws were Exceeded and Details

Name of manufacturing division:	Number of cases:	Details:	Main corrective measures:
Gunma Manufacturing Division	1 (noise)	Some of the noise levels measured at the Yajima Plant exceeded acceptable levels as defined by the voluntary standards.	Countermeasures were taken by installing inverters in exhaust fans in the plant and by changing the angle of the exhaust outlet. As a result, values dropped to within the voluntary standards.
Saitama Manufacturing Division	1 (noise)	The noise levels measured at the Akabori river bed, northeast of the plant, exceeded the acceptable levels stipulated by law.	This has been reported to the government, and is being managed in an appropriate manner. No complaints have been made regarding this matter.
	2 (water pollution)	The BOD and pH levels measured in sewage discharge water exceeded the acceptable levels set in the voluntary standards.	Consumable items such as wastewater treatment equipment were regularly changed and pipes were cleaned, since these together were considered to be the source of the problem.

FHI established voluntary standards, which are 20% stricter than environment-related laws, and is working to achieve zero cases where these standards are exceeded.

Fiscal 2006 The Number of Environmental Accidents and Details

Name of manufacturing division:	Number of cases:	Details:	Main corrective measures:
Gunma Manufacturing Division	5, of which 1 involved water flowing off the premises.	A total of five accidents occurred, including an incident where there was white water (muddy water) runoff from the site of plant foundation construction.	Although accident prevention training is provided to constructors every year, cautions and instructions were reissued to constructors and work procedures were revised in order to ensure accidents do not reoccur.
Aerospace Company (Utsunomiya Manufacturing Division)	4	Four accidents occurred, including one involving leakage of chromium waste liquid.	Countermeasures, including issuing instructions to constructors and revising work procedures, were taken.
Tokyo Office	2	Two oil leaks occurred.	To prevent the same accidents from reoccurring work procedures were revised following each incident.

FHI is working to reduce the number of incidents by keeping count of environmental accidents (including those solved internally by the relevant office or division) and by taking proactive measures so that accidents, which can have an environmental impact that extends beyond our premises, do not occur.

Fiscal 2006 The Number of Environment-Related Complaints and Details

Name of manufacturing division:	Number of cases:	Details:	Main corrective measures:
Aerospace Company (Utsunomiya Manufacturing Division)	6 (noise)	We received a total of six complaints, including three regarding noise from aircraft.	Various countermeasures were taken, including arranging the time schedule to prevent aircraft engine operations on weekday nights and all day on holidays and implementing noise reduction measures
Eco Technologies Company (Utsunomiya Manufacturing Division)	1 (odor)	One complaint regarding the odor of paint was received from a local resident living west of the plant.	Although an investigation was conducted, the cause could not be determined. We will continue to be very careful about air emissions.
	1 (noise)	We received one complaint regarding the noise generated by forklifts from a local resident living west of the plant.	We carried out a training program for forklift drivers.