

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

---

### The Fuji Heavy Industries Ltd. Group

---

The Fuji Heavy Industries Ltd. ("FHI") Group is engaged in production and sales activities across a wide range of business sectors. These activities are conducted under four business divisions: Automobiles, the Group's core operating domain, Aerospace, Industrial Products and Other.

On a consolidated financial accounts settlement basis, FHI and 68 subsidiaries (a year-on-year increase of six) as well as 15 equity-method affiliated companies (a year-on-year decrease of six) were included in the scope of the FHI Group's consolidation as of March 31, 2009, the end of fiscal 2009 ("the fiscal year under review"). During fiscal 2009, seven of FHI's equity-method subsidiaries were reclassified as consolidated subsidiaries due to their growing importance.

---

### Overview

---

Triggered by subprime loan issues in the United States, the effects of the ensuing global financial crisis spilled over rapidly into the real economy. This was particularly evident from the second half of the fiscal year under review. Conditions were extremely difficult in the industries in which FHI operates. In addition to sluggish demand for such products as automobiles, continued appreciation in the value of the yen exacerbated the overall negative trend.

Guided by its medium-term management plan, which was launched in April 2007, as well as the underlying key words "customers come first," the FHI Group worked diligently to overcome these conditions by bringing to market a succession of new products that pinpoint customer needs. In specific terms, FHI introduced to the domestic market the "Exiga," a new type of multi-passenger vehicle, in June 2008 and the new compact car "Dex" in November 2008 supplied on an OEM basis by Daihatsu Motor Co., Ltd.

Confronted by a volatile economic environment, FHI also implemented emergency measures aimed at reducing costs across the board. Endeavoring to establish a stable profit stream immune to fluctuations in operating conditions, FHI introduced a number of structural improvements while focusing on internal reform.

Despite these initiatives, the Group was unable to offset the impact of the harsh operating environment. Consolidated net sales in fiscal 2009 were ¥1,445.8 billion, down ¥126.6 billion, or 8.0%, from ¥1,572.3 billion in the fiscal year ended March 31, 2008. This was primarily attributable to a weak performance by the mainstay Automobiles division, reflecting lower sales volume on the back of sluggish demand for automobiles and appreciation in the value of the yen, as well as revenue downturns in both the Aerospace and Industrial Products divisions. On a geographic basis, sales in Japan declined 6.7% compared with the previous fiscal year to ¥507.5 billion, due mainly to stagnant consumer demand. Despite higher sales in China, overseas sales decreased 8.8% year on year to ¥938.3 billion, owing to lower sales in North America, Europe and other regions.

From a profit perspective, the FHI Group reported an operating loss of ¥5.8 billion. This represented a negative turnaround of ¥51.5 billion from the operating income of ¥45.7 billion recorded in the previous fiscal year. In addition to the drop in sales and the impact from the stronger yen, this downturn was attributable to the increase in fixed costs associated with the launch of new car models. In the fiscal year under review, FHI incurred an extraordinary loss, namely the write-off of uncollectible business partner receivables while reversing a portion of its deferred tax assets. Accounting for the aforementioned factors, the FHI Group reported a net loss of ¥69.9 billion, down ¥88.4 billion from net income of ¥18.5 billion in the fiscal year ended March 31, 2008.

---

### Segment Information

---

#### Automobiles Division

In the fiscal year under review, most overseas economies weakened, impacted by a slump in demand and Japan's economy was no exception. As a result, global sales volume was 555 thousand units, down 41 thousand units, or 6.9%, compared with the previous fiscal year.

On the domestic front, passenger car sales benefitted from the release of such new models as the Exiga and Dex. The number of passenger cars sold, however, decreased eight thousand units, or 10.2%, year on year to 70 thousand units. The reason for this decrease can be attributed to a combination of two main factors:

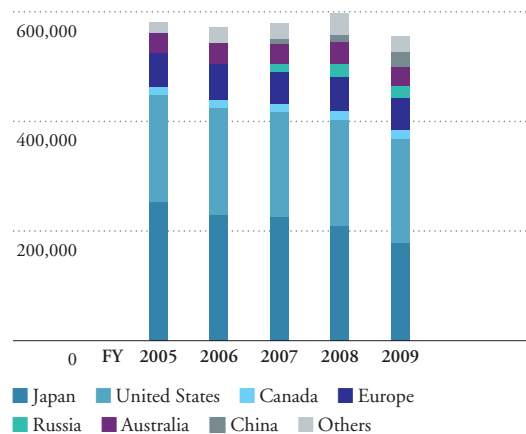
diminishing new car effects of Impreza and Forester, and declining sales volume of the existing Legacy, which had effectively reached the end of its lifecycle. Similarly, minicar sales declined 22 thousand units, or 16.8%, to 109 thousand units, reflecting the absence of any new model release and the prolonged life of existing models. Accounting for each of the aforementioned factors, total sales volume in Japan contracted 30 thousand units, or 14.3%, compared with the previous fiscal year, to 179 thousand units.

Overseas sales were firm during the first half of the fiscal year under review. Reeling from the effects of the broadening economic downturn as well as the abrupt and sharp appreciation in the value of the yen in the second half, the FHI Group was forced to implement inventory adjustments. As a result, overseas sales volume decreased 11 thousand units, or 3.0%, to 377 thousand units. By region, sales in North America were down three thousand units, or 1.5%, to 207 thousand units. Although the Impreza, which was released in 2007, and the recently launched new Forester made strong contributions, these were insufficient to compensate for declining sales of the Legacy, ahead of its full model change, and the Tribeca. The new Forester and the Legacy diesel launched in Europe in 2008 boosted sales volume particularly in the first half of the fiscal year. Taking into account the drop in other model sales and inventory adjustments implemented in the fourth quarter, however, sales volume in Europe decreased nine thousand units, or 9.9%, year on year to 77 thousand units. In China, where Forester sales were robust, sales volume surged 14 thousand units, or 107.5%, to 26 thousand units. Buffeted by the drop in sales of the Legacy and Impreza in the Middle East, sales volume in other regions declined 10 thousand units, or 25.1%, to 29 thousand units.

Consequently, net sales in the Automobiles division decreased ¥104.9 billion, or 7.4%, compared with the previous fiscal year, to ¥1,316.3 billion. From operating income in the fiscal year ended March 31, 2008, earnings declined ¥46.3 billion. As a result, the Automobiles division reported an operating loss of ¥9.2 billion due mainly to lower sales, the impact of foreign currency exchange rates and particularly appreciation in the value of the yen and an increase in fixed costs.

### Consolidated Automobile Sales by Region\*\*

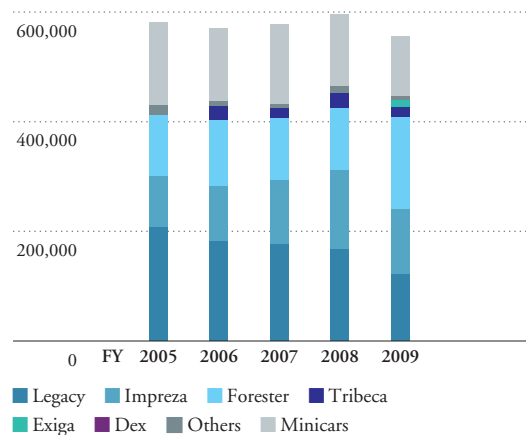
(Number of Units)



\*\* Excluding CKD Overseas

### Consolidated Automobile Sales by Model\*\*

(Number of Units)



\*\* Excluding CKD Overseas

### Consolidated Automobile Sales

Number of Units

	2005	2006	2007	2008	2009
<b>Domestic Units:</b>					
Legacy	56,977	50,619	43,951	31,079	20,415
Impreza	25,194	26,911	24,135	29,678	19,733
Forester	17,709	17,405	11,807	16,863	16,424
Exiga	—	—	—	—	11,126
Dex	—	—	—	—	2,034
Others	4,138	2,747	1,308	435	363
Subtotal	104,018	97,682	81,201	78,055	70,095
Minicars	150,021	132,483	145,610	130,635	108,694
Domestic Total	254,039	230,165	226,811	208,690	178,789
<b>Overseas Units by Region:</b>					
United States	193,917	193,562	190,276	192,760	188,240
Canada	16,506	16,384	16,247	17,587	18,873
Europe	60,517	64,724	58,475	63,373	56,764
Russia	—	—	12,929	22,622	20,711
Australia	35,414	36,506	38,136	40,210	36,716
China	—	—	7,454	12,621	26,184
Others	21,241	30,034	27,610	38,802	29,056
Subtotal	327,595	341,210	351,127	387,975	376,544
<b>Overseas Units by Model:</b>					
Legacy	150,987	132,236	133,720	137,829	102,106
Impreza	66,670	72,790	90,927	113,777	97,472
Forester	95,173	104,059	102,969	96,839	153,289
Tribeca	—	24,187	18,268	27,327	17,658
Others	14,765	7,938	5,243	12,203	6,019
Subtotal	327,595	341,210	351,127	387,975	376,544
Total	581,634	571,375	577,938	596,665	555,333

## Non-Consolidated Automobile Sales

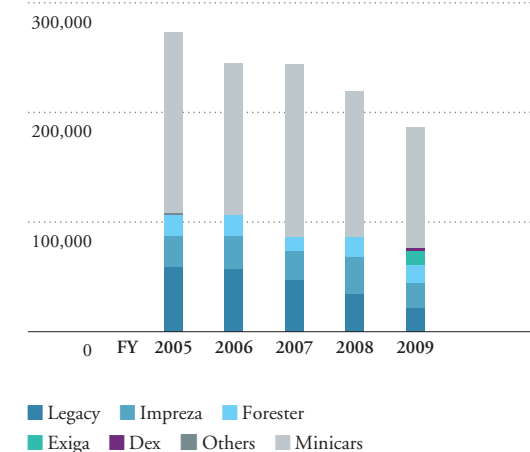
	Number of Units				
	2005	2006	2007	2008	2009
<b>Domestic Units:</b>					
Legacy	59,843	57,013	47,176	34,634	22,059
Impreza	27,437	30,063	26,159	32,873	21,935
Forester	19,457	19,256	12,946	18,740	16,954
Exiga	—	—	—	—	12,787
Dex	—	—	—	—	2,651
Others	1,397	—	—	—	—
Subtotal	108,134	106,332	86,281	86,247	76,386
Minicars	164,624	138,398	157,453	132,872	110,043
Domestic Total	272,758	244,730	243,734	219,119	186,429
<b>Export Units:</b>					
Legacy	44,101	42,809	46,410	48,568	28,787
Impreza	69,946	75,935	92,782	119,000	99,688
Forester	90,131	104,425	99,637	98,602	164,960
Others	8,324	1,554	894	7,533	6,978
Export total	212,502	224,723	239,723	273,703	300,413
<b>U.S. Retail Sales*:</b>					
Legacy	89,453	87,788	84,442	78,428	66,878
Impreza	32,209	33,637	41,148	46,329	49,098
Forester	58,424	53,541	51,258	44,534	60,748
Baja	7,316	6,239	5,241	1,127	—
Tribeca	—	14,797	18,614	16,790	10,975
Total	187,402	196,002	200,703	187,208	187,699
<b>CKD** Overseas</b>					
(SIA Portion)	115,317	119,784	100,972	110,363	77,871
<b>SIA Production Units*</b>					
Legacy	105,550	91,510	89,351	84,960	73,473
Tribeca	—	27,481	21,022	24,218	18,108

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

\*\* CKD: Complete Knocked Down

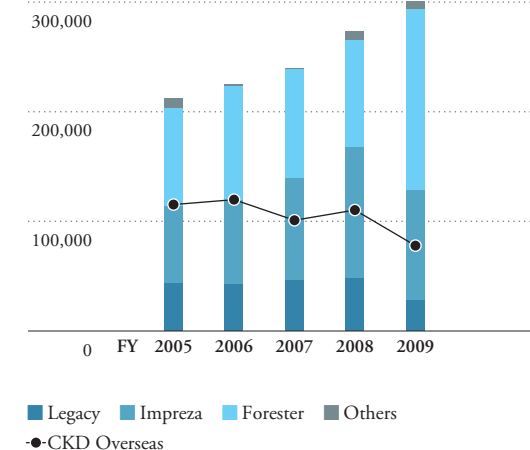
## Non-Consolidated Domestic Automobile Sales by Model

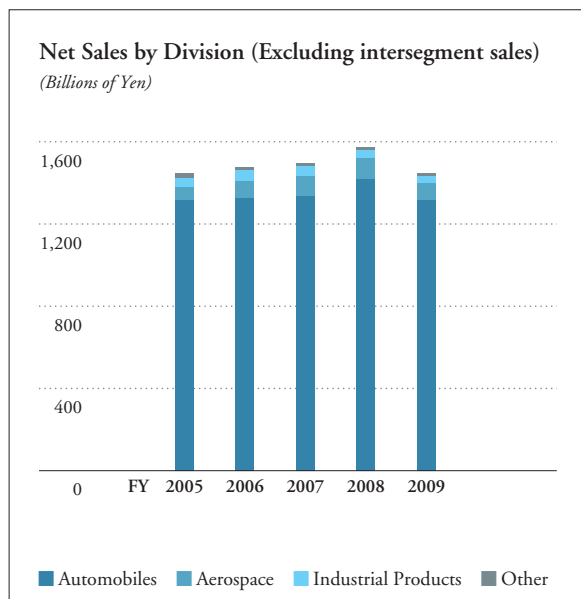
(Number of Units)



## Non-Consolidated Automobile Export Units by Model

(Number of Units)





Net Sales by Division (Excluding intersegment sales)					Billions of Yen
	2005	2006	2007	2008	2009
Automobiles	¥1,319.6	¥1,329.2	¥1,339.3	¥1,421.2	¥1,316.3
Aerospace	59.4	81.8	94.0	99.7	80.9
Industrial Products	46.8	52.4	49.7	40.7	34.9
Other	20.6	13.0	11.8	10.8	13.7
<b>Total</b>	<b>¥1,446.5</b>	<b>¥1,476.4</b>	<b>¥1,494.8</b>	<b>¥1,572.3</b>	<b>¥1,445.8</b>

### Aerospace Division

On an individual product basis, steady progress was made with the delivery of unmanned aircraft research systems to the Japan Ministry of Defense. On the other hand, sales decreased in the case of the “XP-1/CX” next-generation fixed-wing Maritime Patrol Aircraft and Cargo Transport Aircraft and the AH-64D combat helicopter. As a result, sales were lower than the previous fiscal year.

In the commercial sector, deliveries of center wing sections for the Boeing 787 and main wings for the H4000 mid-sized business jet increased. Year-on-year sales decreased, however, due to a strike at Boeing that led to decreased aircraft production, the cessation of Eclipse 500 light business jet production and foreign exchange losses caused by the strong yen.

Based on these factors, sales in the Aerospace division contracted ¥18.8 billion, or 18.9%, compared with the previous fiscal year, to ¥80.9 billion. Operating income was down ¥2.9 billion, or 64.5%, to ¥1.6 billion.

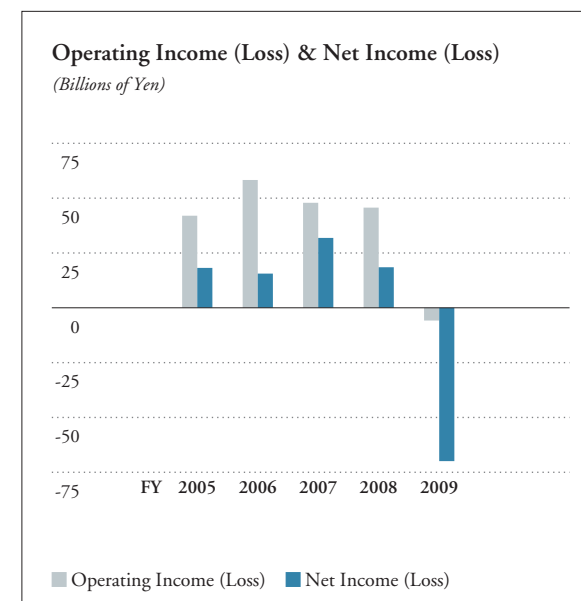
### Industrial Products Division

In the domestic market, sales of finished power generators increased in the fiscal year ended March 31, 2009. This was more than offset, however, by a slump in sales of engines for construction machinery. As a result, overall industrial product sales in Japan decreased year on year. Overseas, the FHI Group recorded the highest number of engines sold to the European market on the back of robust orders through to the end of the first half. In similar fashion to results in Japan, however, an overall year-on-year decrease in overseas sales was recorded due to the strong impact of lackluster economic activity in the North American market.

As a result, sales in the Industrial Products division declined ¥5.8 billion, or 14.2%, compared with the previous fiscal year, to ¥34.9 billion. In the fiscal year under review, the division reported an operating loss of ¥1.6 billion. This represented a negative turnaround of ¥2.3 billion from the operating income reported in the previous fiscal year.

### Other Division

In addition to deliveries of large-scale wind turbine generator systems, the inclusion of two wholly owned subsidiaries within the Group’s scope of consolidation contributed to the increase in sales. As a result, sales in the Other division climbed ¥2.9 billion, or 26.7% compared with the previous fiscal year, to ¥13.7 billion. Operating income also rose ¥0.6 billion, or 23.5%, year on year, to ¥3.1 billion.



Billions of Yen					
	2005	2006	2007	2008	2009
Operating Income (Loss)	¥42.0	¥58.3	¥47.9	¥45.7	¥ (5.8)
Net Income (Loss)	18.2	15.6	31.9	18.5	(69.9)

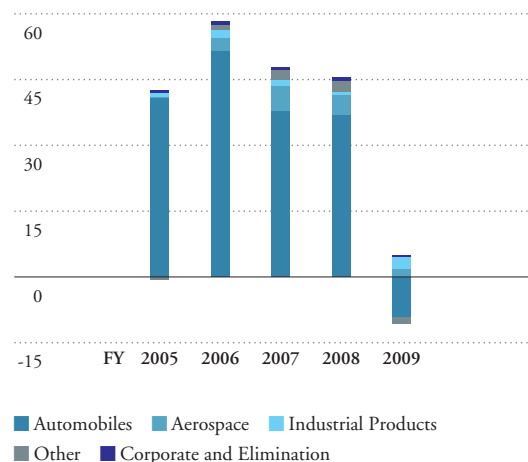
### Cost of Sales, Expenses and Operating Income

Compared with the previous fiscal year, the cost of sales decreased 4.4%, to ¥1,164.6 billion. On the other hand, the cost of sales ratio increased 3.1 percentage points, to 80.5%. This was mainly attributable to the combined impact of the strong yen, which served to drive down sales, the increase in fixed cost and the Group's inability to fully offset sharp hikes in raw material prices. From an operating income in fiscal 2008, the FHI Group posted an operating loss of ¥5.8 billion in the fiscal year under review. This represented a negative year-on-year turnaround of ¥51.5 billion. Despite research and development expenses declining to ¥9.2 billion, reflecting the periodic lull in new model development, and a positive contribution of ¥0.3 billion owing to improvements in the sales volume and mix, this significant deterioration in earnings was mainly attributable to foreign exchange losses totaling ¥43.5 billion, the increase in SG&A and other expenses of ¥14.3 billion and the aforementioned sharp increase in raw material prices, which exceeded cost reduction efforts by ¥3.2 billion.

Turning to other income and expenses, net expenses recorded in fiscal 2008 increased ¥1.9 billion to ¥15.7 billion in the fiscal year under review. Despite a reduction in the impairment loss on manufacturing property, plant and equipment, this year-on-year increase in net expenses reflects the loss on valuation of investment securities and increase in provision of allowance for doubtful accounts following the collapse of Eclipse Aviation Corporation, which was an Aerospace division business partner, loss on valuation of inventories and expenses incurred due to withdrawal from the FIA World Rally Championship (WRC). Taking into account the aforementioned factors, the FHI Group recorded a loss before income taxes and minority interests of ¥21.5 billion, down ¥53.4 billion from income before income taxes and minority interests of ¥31.9 billion in the previous fiscal year. Impacted by the ¥39.4 billion reversal of deferred tax assets, net loss for the period amounted to ¥69.9 billion. This was a ¥88.4 billion turnaround from net income of ¥18.5 billion in fiscal 2008.

#### Operating Income (Loss) by Division

(Billions of Yen)



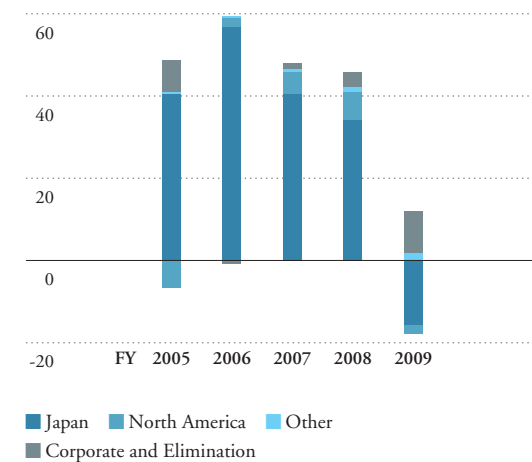
#### Operating Income (Loss) by Division

Billions of Yen

	2005	2006	2007	2008	2009
Automobiles	¥40.9	¥51.6	¥37.8	¥37.1	¥(9.2)
Aerospace	0.2	2.8	5.7	4.4	1.6
Industrial Products	0.8	2.0	1.5	0.7	(1.6)
Other	(0.6)	1.2	2.3	2.5	3.1
Corporate and Elimination	0.6	0.7	0.6	0.9	0.3
<b>Total</b>	<b>¥42.0</b>	<b>¥58.3</b>	<b>¥47.9</b>	<b>¥45.7</b>	<b>¥(5.8)</b>

#### Operating Income (Loss) by Region

(Billions of Yen)



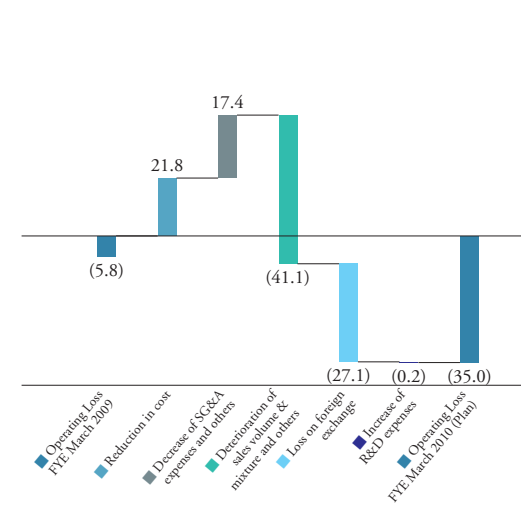
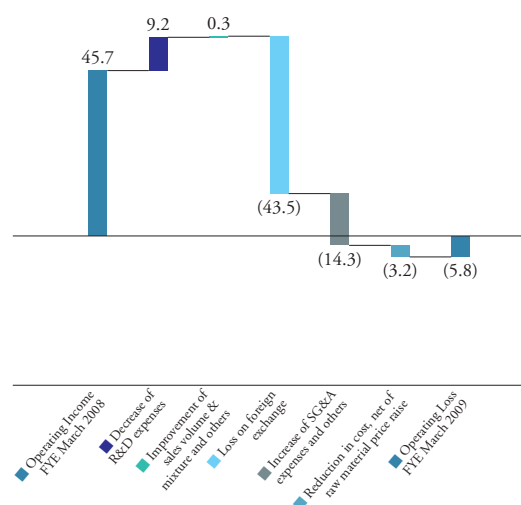
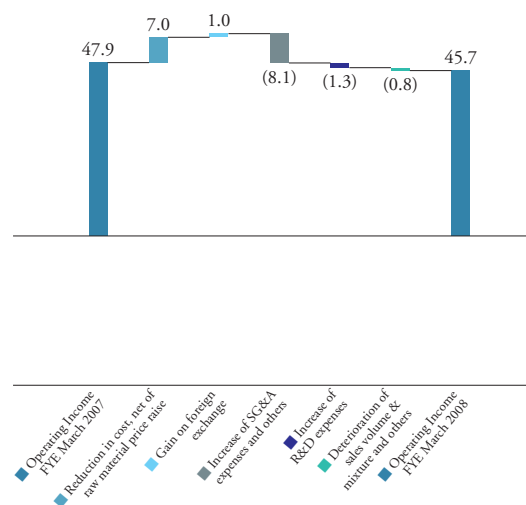
#### Operating Income (Loss) by Region

Billions of Yen

	2005	2006	2007	2008	2009
Japan	¥40.5	¥57.0	¥40.6	¥34.2	¥(15.8)
North America	(6.7)	2.0	5.2	6.6	(2.0)
Other	0.4	0.3	0.8	1.4	1.9
Corporate and Elimination	7.8	(0.9)	1.3	3.5	10.1
<b>Total</b>	<b>¥42.0</b>	<b>¥58.3</b>	<b>¥47.9</b>	<b>¥45.7</b>	<b>¥ (5.8)</b>

### Analysis of Increases and Decreases in Operating Income (Consolidated, Three-Year YoY Comparison)

(Billions of Yen)



## Liquidity and Financing

### Securing Liquidity

FHI believes that it has secured liquidity at a level sufficient to satisfy its current needs through the use of commitment lines contracted with major banks, combined with cash and cash equivalents.

Taking into account increases in short-term borrowings and long-term debt, interest-bearing debt as of the end of fiscal 2009 totaled ¥381.7 billion, ¥77.1 billion higher than the end of the previous fiscal year. As a result, the debt/equity ratio deteriorated 0.35 of a point, to 0.97.

### Financial Position

Total assets as of March 31, 2009 stood at ¥1,165.4 billion, a decrease of ¥131.0 billion compared with the previous fiscal year-end. This was mainly due to foreign exchange losses arising from the conversion of overseas subsidiary assets and reversals of both short- and long-term deferred tax assets.

Of this total, current assets stood at ¥586.0 billion, down ¥36.8 billion compared with March 31, 2008. This change largely reflected decreases in notes and accounts receivable-trade and short-term loans receivable as well as a reversal of short-term deferred tax assets.

Total property, plant and equipment decreased ¥43.6 billion year on year to ¥468.1 billion, a downturn primarily attributable to a transfer of a portion of lease assets, net to current assets following the application of accounting standards as they relate to lease transactions. While there was no material year-on-year movement in the Company's buildings, land and facilities held, FHI undertook capital expenditure of ¥58.0 billion in the fiscal year under review, an increase of ¥1.7 billion compared with the fiscal year ended March 31, 2008.

Investment and other assets totaled ¥111.3 billion, a drop of ¥50.5 billion compared with the previous fiscal year-end. This was largely attributable to the decrease in long-term deferred tax assets and investment securities, in addition to the decline of goodwill

because of amortization owing to the change of accounting treatment for overseas subsidiaries.

Total liabilities were down ¥31.3 billion year on year, to ¥770.7 billion. Current liabilities declined ¥36.8 billion to ¥561.2 billion mostly as a result of decreases in notes and accounts payable, trade and accrued expenses. Total long-term liabilities stood at ¥209.5 billion, ¥5.5 billion higher than the end of the previous fiscal year. This was mainly attributable to an upswing in long-term debt.

As of March 31, 2009, interest-bearing debt amounted to ¥381.7 billion, up ¥77.1 billion compared with March 31, 2008. This reflected increases in short-term borrowings, commercial paper and long-term debts.

Net assets totaled ¥394.7 billion, down ¥99.7 billion compared with the end of the previous fiscal year. This was mainly due to the decrease in retained earnings of ¥101.2 billion to ¥126.6 billion, the drop in valuation difference on available-for-sale securities and the foreign currency translation adjustment of ¥10.7 billion and ¥26.0 billion, respectively. Accounting for the aforementioned

factors, net assets per share as of the end of the fiscal year under review was ¥505.59, down ¥181.43 from ¥687.02 as of the end of the previous fiscal year.

### Cash Flows

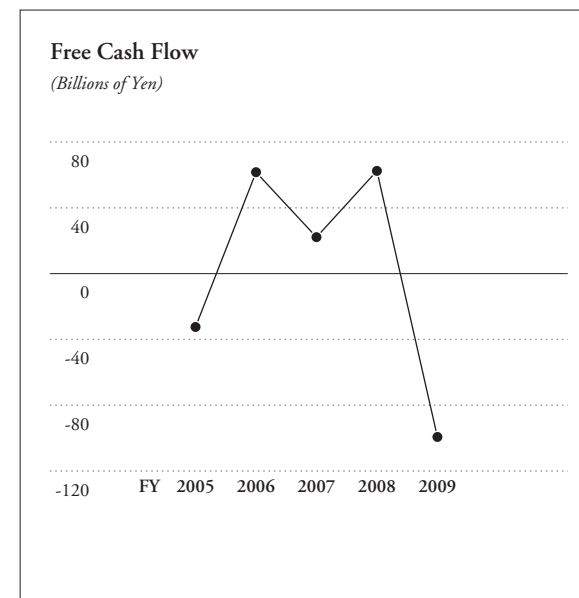
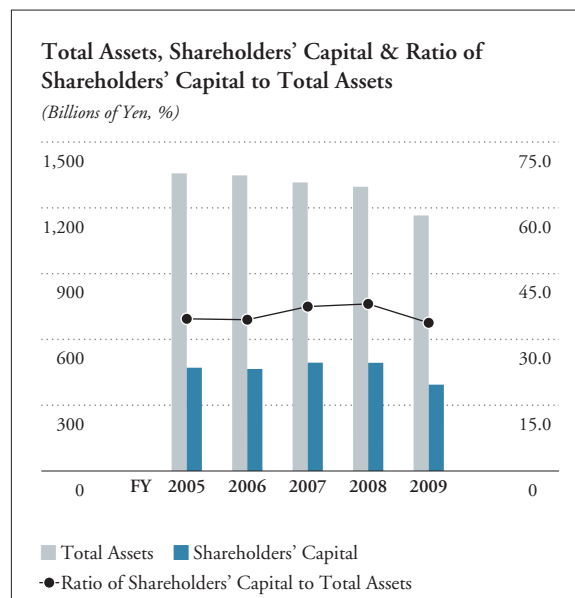
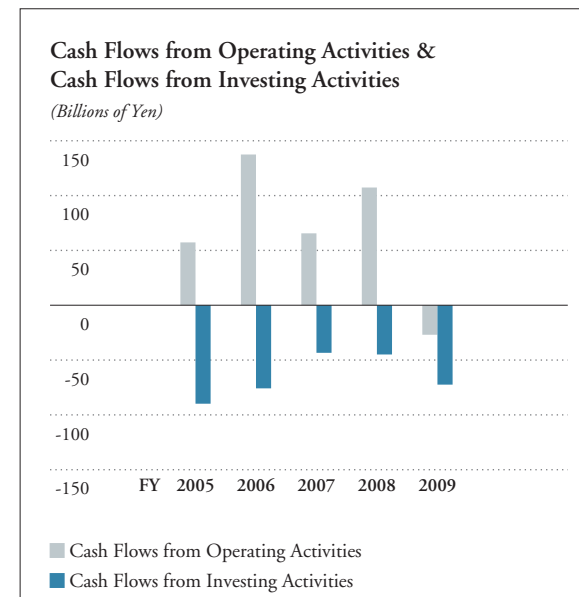
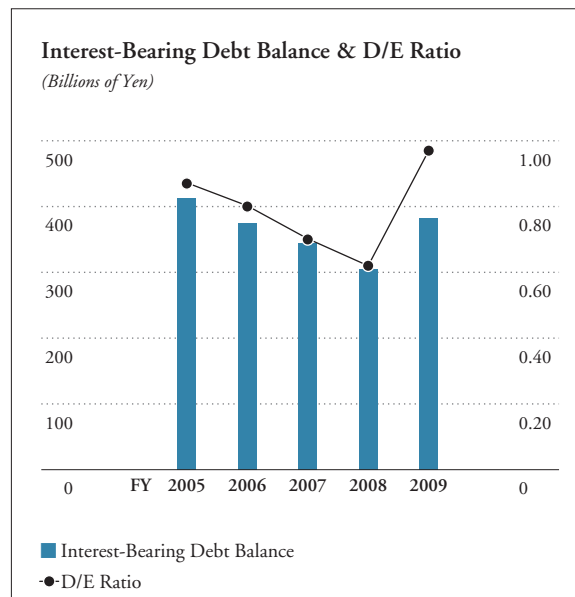
In the fiscal year under review, net cash used in operating activities was ¥26.9 billion. In comparison, net cash provided by operating activities of ¥107.4 billion had been recorded in the previous fiscal year. This came largely as the result of a decrease in working capital and the loss before income taxes and minority interests of ¥21.5 billion posted in the fiscal year ended March 31, 2009.

Net cash used in investing activities rose from ¥44.9 billion in fiscal 2008 to ¥72.4 billion in the fiscal year under review, mainly reflecting net increases in property, plant and equipment as well as investment securities (after deducting proceeds from property, plant and equipment and investment security sales).

As a result, free cash flow amounted to negative ¥99.3 billion. This was a turnaround of ¥161.8 billion from ¥62.5 billion in the previous fiscal year.

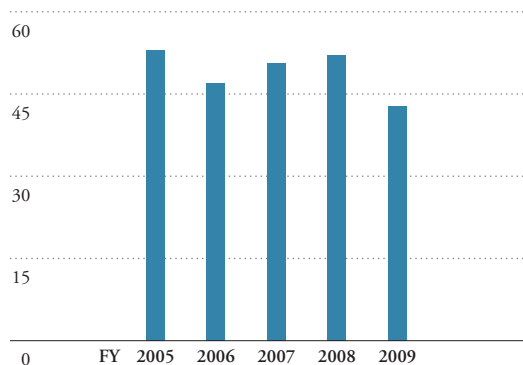
Net cash provided by financing activities totaled ¥80.4 billion, compared with net cash used in financing activities of ¥45.1 billion in the fiscal year ended March 31, 2008. While FHI redeemed bonds to the tune of ¥30.0 billion, this result was largely attributable to the net increase in short-term loans-payable, upswings in proceeds from long-term loans payable and commercial paper as well as proceeds from sales of treasury stock (net of cash outflows for the purchase of treasury stock).

Accounting for the aforementioned activities and the effect of exchange rate changes, the net decrease in cash and cash equivalents amounted to ¥34.4 billion. After taking into consideration the increases or decreases in cash and cash equivalents resulting from the change in the scope of consolidation and in the accounting period of consolidated subsidiaries, cash and cash equivalents as of the end of the fiscal year under review stood at ¥96.5 billion, down ¥18.1 billion year on year.



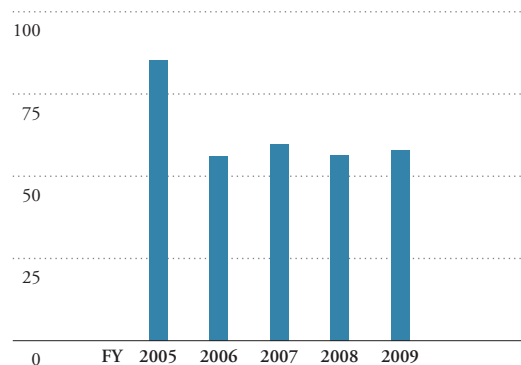
### Research & Development Expenses

(Billions of Yen)



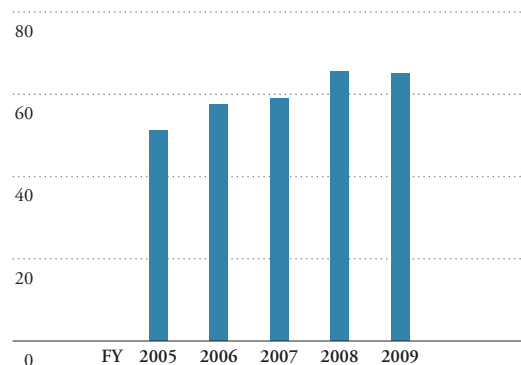
### Capital Expenditures

(Billions of Yen)



### Depreciation Expenses

(Billions of Yen)



	Billions of Yen				
	2005	2006	2007	2008	2009
R&D Expenses	¥53.0	¥46.9	¥50.7	¥52.0	¥42.8
Capital Expenditures	85.3	56.2	59.6	56.3	58.0
Depreciation Expenses	51.1	57.5	58.9	65.5	65.1

### Research and Development Expenses

Having completed a round of R&D activity with respect to Forester and Legacy new model changes, FHI concentrated on improving efficiencies in its advanced development organization. As a result, R&D expenses declined ¥9.2 billion, or 17.7%, year on year, to ¥42.8 billion.

### Capital Expenditures and Depreciation

Capital expenditures edged up ¥1.7 billion compared with the previous fiscal year, to ¥58.0 billion. In addition to expenditure aimed at boosting production capacity at FHI's Gunma manufacturing plant prompted by robust Forester sales in the first half of the fiscal year, funds were utilized to acquire land for domestic dealers and for the Subaru of America, Inc. (SOA)-related site control project. Despite an increase in FHI non-consolidated depreciation expense, total depreciation edged down ¥0.4 billion year on year, to ¥65.1 billion. This was mainly attributable to a decline in mold cost depreciation at Subaru of Indiana Automotive, Inc. (SIA).

### Basic Policy Regarding the Distribution of Profits

FHI views the return of profits to shareholders as a critical task for management, and follows a basic policy of maintaining stable long-term dividends while taking into consideration a wide range of factors, including its earnings performance and dividend payout ratio. Based on this policy, FHI declared an interim dividend of ¥4.50 per share, unchanged from the corresponding period of the previous fiscal year. Impacted by the sudden and sharp deterioration in its operating environment from the second half of the fiscal year under review, which resulted in a downturn in the Group's overall performance, and in the likelihood that difficult operating conditions will continue for the foreseeable future, it is with deep regret that FHI has decided to suspend payment of a fiscal year-end dividend and the interim dividend for the following term. While a decision regarding the period-end dividend for fiscal 2010 has not been made, FHI will work diligently to secure improved performance and a return to a stable growth trajectory.

## Outlook

Japan's automobile market is expected to confront increasingly bleak conditions. Buffeted by a further downturn in the real global economy, demand for automobiles is anticipated to remain weak. With trends in foreign currency exchange rates shrouded in uncertainty, FHI envisages little room for complacency with regard to its future operating environment.

Against this backdrop, the FHI Group is forecasting (as of May 2009) net sales of ¥1,320.0 billion in the fiscal year ending March 31, 2010. This represents a year-on-year downturn of ¥125.8 billion, or 8.7%, and is mainly attributable to the decline in automobile sales volume. On the earnings front, the Group's consolidated operating loss is projected to increase ¥29.2 billion compared with the fiscal year under review, to ¥35.0 billion. With expectations that contributions from the launch of the new Legacy will emerge from the second half of the fiscal year, and despite concerted efforts to reduce cost as well as SG&A and other expenses, this downturn in FHI's consolidated business performance is largely due to projected foreign exchange losses on the back of a strong yen and deterioration in the Group's sales volume and mix reflecting lower automobile sales volume. Buoyed by the absence of reversals of deferred tax assets implemented in the fiscal year under review, net loss in the fiscal year ending March 31, 2010 is expected to total ¥55.0 billion, a year-on-year improvement of ¥14.9 billion.

These forecasts are based on average annual exchange rates of ¥95 to U.S.\$1 and ¥125 to €1.

Note: Performance forecasts and medium- to long-term management strategies are based on information available to management as of the date of this report. Accordingly, actual results may differ materially due to a variety of factors.

## Medium- to Long-Term Management Strategies

FHI continues to engage in business activities underpinned by its four-year, medium-term management plan covering the period from April 2007 to March 2011. Centered on the philosophy that "Customers come first," this 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. Looking back at the Group's progress over the first two years of the plan, FHI is convinced of the validity of its current direction. Taking into consideration the rapid downturn in the economy and difficulties in realizing a performance recovery over the short term, FHI has decided to temporarily defer the sales volume, operating income, management indicator and shareholder return targets identified in its medium-term management plan. Instead, the FHI Group is implementing the following specific emergency measures.

### Implementation of Emergency Measures

1. Review of and reductions in existing capital expenditure plans by more than 20%, placing the utmost priority on urgency and investment efficacy
2. Zero-based review of all expenses with a view to cutbacks
3. Response to rapid changes in automobile demand, prompt inventory correction and production adjustment

### New Product Launch and Experimental R&D

1. Systematic global release of the new Legacy, essentially the culmination of the medium-term management plan
2. Supply the Plug-In STELLA electric vehicle to the corporate and public sectors from July 2009
3. Accelerated development of safety technologies as well as environmental technologies for a wide range of products, including electric vehicle

### Alliance with the Toyota Group

1. OEM supply for minicars from Daihatsu Motor Co., Ltd. to FHI
2. OEM supply for a compact car from Toyota Motor Corporation to FHI
3. Joint development of a compact FR (front engine rear drive) sporty car
4. Renewal of the existing plant for the production of the jointly developed car

### Domestic Sales Structure Reform

1. Transition toward an integrated network of distributors in Japan (structural rationalization, from 46 to 22 distributors)
2. Accelerated efforts to implement community-centric marketing activities
3. Establishment of an optimal and effective management structure

In conjunction with its medium-term management plan, the FHI Group will promote each of the aforementioned emergency measures with a heightened sense of confidence and speed. Endeavoring to overcome a harsh operating environment, the Group is committed to realizing performance recovery by the fiscal year ending March 31, 2011.

Forecast for Global Automobile Sales	1,000 Units		
	2009	2010	Change
Japan:			
Passenger cars	70.1	73.4	3.3
Minicars	108.7	87.0	(21.7)
Subtotal	178.8	160.3	(18.5)
Overseas:			
United States	188.2	194.4	6.2
Canada	18.9	20.5	1.6
Europe	56.8	47.3	(9.5)
Russia	20.7	8.4	(12.4)
Australia	36.7	34.4	(2.4)
China	26.2	22.1	(4.1)
Other	29.1	20.5	(8.5)
Subtotal	376.5	347.6	(29.0)
Total	555.3	507.9	(47.4)

### 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/>