FUJI HEAVY INDUSTRIES LTD.

ANNUAL REPORT 2001

For the year ended March 31, 2001

SUBARU

BRAND

Subaru: Adopted in March 1958, Subaru refers to a group of stars also known by its original Japanese name *mutsura-boshi,* or series of six stars. This group of stars—known in Western countries as the Pleiades—belongs to the Taurus constellation and is the basis of the Subaru trademark. Subaru automobiles were the first to bear a name derived from the Japanese language.

CORPORATE PROFILE

Established 48 years ago, Fuji Heavy Industries Ltd. (FHI) is one of Japan's leading industrial manufacturers, best known for distributing automobiles under the Subaru brand. The Company has a long history of technological expertise dating back to its days as an aircraft manufacturer. FHI is recognized internationally for its all-wheel drive (AWD) and horizontally-opposed engine technologies as well as its sophisticated, small-size continuously variable transmission (CVT).

FHI's corporate philosophy is to achieve a perfect balance between society and its own individuality as a manufacturer. Throughout the fields of automotive engineering, aerospace, industrial products, ecology and transport systems, and bus manufacturing and prefabricated housing, the Company strives to promote full-scale global environmental preservation through the development of distinctive products under stringent safety standards. FHI will continue with these endeavors in the pursuit of its commitment to supply products that please the customer. In addition, the Company focuses on contributing to the prosperity of society.

CONTENTS

Innovation to Creation 1
Consolidated Financial Highlights 2
To the Stakeholders of Fuji Heavy Industries 3
New TQF21 01 Rolling Plan 7
Special Section 10
Operational Review 12
Corporate Responsibilities 17
Management 18
Financial Section 19
Consolidated Subsidiaries and Affiliates 51
Investor Information 52

COVER:

New Age IMPREZA WRX

Innovation to Creation

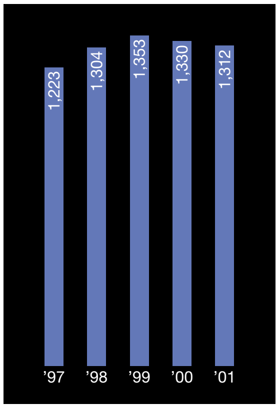
"Our objective is to be a 21st century global player with premium brands."

Consolidated Financial Highlights

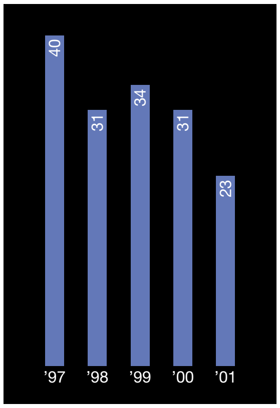
FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2001, 2000 and 1999

	Millions of yen	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars (Note)*
	2001	*2000*	*1999*	***2001***
For the Year:				
Net sales	**¥1,311,887**	¥1,330,125	¥1,352,520	**$10,579,734**
Operating income	**81,673**	91,401	89,932	**658,653**
Net income	**22,628**	31,348	33,706	**182,484**
At Year-End:				
Shareholders' equity	**¥ 357,455**	¥ 206,404	¥ 200,220	**$ 2,882,702**
Total assets	**1,168,501**	1,038,558	981,256	**9,423,395**
Per Share (in yen and U.S. dollars):				
Net income	**¥ 30.44**	¥ 51.90	¥ 56.18	**$ 0.25**
Return on equity (ROE)	**8.0%**	15.4%	18.3%	

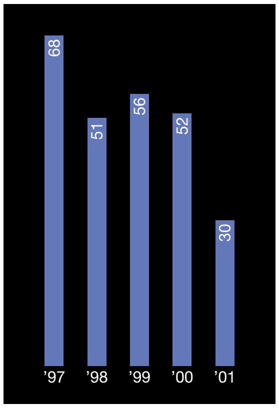
Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥124.00 to US$1.00, the approximate rate of exchange at March 31, 2001.



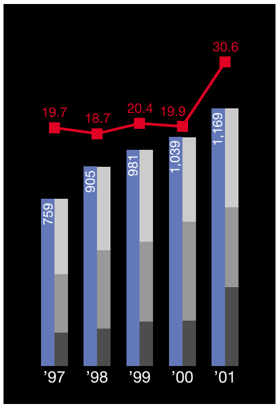
Net Sales (Billions of yen)



Net Income (Billions of yen)



Net Income per Share (Yen)



Composition of Total Capital Employed

(Billions of yen, %)

- Shareholders' Equity
- Interest-Bearing Debt
- Other Liabilities (Other Sources)
- Total Capital Employed
- Equity Ratio

►►► To the Stakeholders of Fuji Heavy Industries

We would like to preface this report by announcing changes to the upper management of Fuji Heavy Industries Ltd. (FHI) that took effect on June 27, 2001. Former President and CEO Takeshi Tanaka has been promoted to Chairman and CEO, and former Senior Vice President Kyoji Takenaka has been promoted to President and COO. This selection reflects the Company's decision to appoint a young and aggressive leader as president to help the Company prevail over global competition and prosper in the radically changing automotive industry. The new management team will promote FHI's vision of being "an appealing company with strong market presence," enhance customer trust through unique Subaru and FHI products, and strengthen the Company's operational foundations so it may fulfill the expectations of its shareholders, customers, and all other stakeholders.

Business conditions surrounding FHI during fiscal 2001, ended March 31, 2001, remained severe. Although the U.S. economy remained strong during the first half of the year, it entered a stage of deceleration during the second half of the year. Conditions were stable in the major EU economies, and further indications of recovery were observed in Asia. However, the Japanese economy continued to stagnate amid weak consumer spending and subdued private-sector capital investment. Moreover, despite a weaker yen during the first half of the year, the Japanese currency gained strength against the U.S. dollar and the euro in the second half of the year, resulting in a less than favorable environment for exports.

OVERVIEW OF OPERATIONAL RESULTS

Against this backdrop, Subaru's consolidated unit sales in the United States rose a strong 9.7% compared with a 2.7% increase in total automobile demand. However, performance in European markets declined, largely as a result of the depreciation of the euro, and the Company was not able to fully compensate for weakness in its non-automobile operations. Consequently, consolidated net sales for fiscal 2001 amounted to ¥1,311.9 billion (US$10,580 million), a 1.4% decline compared with the previous fiscal year.

Operating income declined 10.6% from the previous fiscal year, to ¥81.7 billion (US$659 million). This was due to the substantial influence of such factors as the decline in sales in European markets and unfavorable foreign exchange rate movements, which canceled out the beneficial effects of increased automobile unit sales in the United States and cost-cutting measures implemented by the Company.

Largely as a result of a full amortization of net pension and severance obligation at transition of ¥44.5 billion (US$359 million) and such other factors as taxes, net income for the term amounted to ¥22.6 billion (US$182 million).

NEW TQF21 01 ROLLING PLAN

The Company has drawn up its New TQF21 (Total Quality Fuji 21) 01 Rolling Plan for the five-year period from April 1, 2001, to March 31, 2006, based on a reconsideration of its TQF21 Plan, the strategic five-year medium-term business plan announced in 2000. In consideration of such factors as continued weakness in overall domestic demand, uncertainty in European markets due to exchange rate volatility, the achievement of fiscal 2001 goals in the U.S. market (where sales have been consistently strong), and the realization of synergistic benefits from our alliance with General Motors Corporation (GM), the New TQF21 01 Rolling Plan sets the strategies and numerical goals to be met by the year ending March 31, 2006. Thus, we have extended the original plan, which was intended for conclusion in the year ending March 31, 2005, by one year.

Specifically, under the New TQF21 Challenge 30 initiative, which targets a 30% increase in consolidated net sales and a 30% improvement in productivity, the Company will focus its resources on achieving ¥1,770 billion in consolidated net sales by the year ending March 31, 2006. This represents a 35% improvement from fiscal 2001 results. Other targets include ¥134 billion in operating income (a 64% increase), ¥128 billion in recurring profit (a 79% increase), ¥71 billion in net income (a 214% increase), and sales totaling 800,000 units (a 38% increase). The plan also sets a total of 640 quantifiable goals encompassing all departments as well as action plans to achieve those goals.

The positive impact of FHI's alliance with GM will be an important factor in realizing the objectives of this plan, and initiatives are under way in a wide range of areas. As implementation proceeds, maximum emphasis is being placed on truly "win/win" items, ensuring management independence and the individuality of our brands.

The plan encompasses FHI's management vision of being a "21st century global player with premium brands" as well as the enhancement of corporate value, with a focus on working in harmony with society and the environment, while establishing a solid position within the GM Group by providing unique and original products.

CONTINUING POTENTIAL FOR BRAND-DRIVEN GROWTH

FHI consistently strives to establish distinctive brands. Based on products that have unique characteristics, FHI continues to be a pioneer by creating brands that bear the stamp of individuality. We are able to maintain growth by expanding the scope of this brand-driven approach, an integral part of which are our technology and product strategies. We have won customer support by applying our core technologies, especially the all-wheel drive (AWD) and the horizontally-opposed engine, to develop and introduce a series of individualistic automobiles that other car manufacturers cannot duplicate. Moreover, we adopted a philosophy of "Active Driving, Active Safety" at an early date, combining aggressive safety measures with high standards of drivability, an approach that also contributed significantly to gaining customer support and increasing customer satisfaction. Looking ahead, we will actively take up new challenges in technologies and products to develop automobiles that meet newly emerging customer values.

Another crucial element of our brand-driven approach is our communications strategy. We believe a broad range of factors contribute to building strong brands, including glimpses of Subaru cars driving through the streets, vehicle design, our advertising and publicity, and participation in motor shows and motor sports activities. As an automobile manufacturer aiming to be a global

Takeshi Tanaka
Chairman and CEO

Kyoji Takenaka
President and COO

player, we believe we must create and project a strong brand image throughout the world. Global branding is a next-stage challenge for international corporations, and we are implementing strategic initiatives to reach this objective. As it works to realize its vision of being a 21st century global player with premium brands, FHI is entering a new and challenging era.

OUTLOOK

The FHI Group will work to reap the synergistic benefits of its alliances with GM and Suzuki Motor Corporation at the earliest possible stage and strive for greater growth and development. Specifically, in the Automobile Division, to further strengthen the Subaru brand and cement our position within the GM Group, we will implement a brand identity strategy at all our sales branches throughout Japan and strive to maintain our image as a premium brand manufacturer. Also, regarding joint vehicle development with GM, we are working to promote the AWD technology and perfect a jointly developed automobile at the earliest possible opportunity. In the domestic market, we will put into place an advanced information technology (IT) infrastructure and establish a comprehensive nationwide customer service framework. At the same time, in overseas markets, we will strive to expand sales in North America, enhance Subaru's presence in Europe, and secure revenues despite the yen's appreciation.

Also, particularly in the Automobile Division, the Company will make concerted efforts to stay abreast of developments in IT. We will establish a customer management system, implement a highly efficient, fully functional system for the combined management of production and sales, and enable information sharing through the consolidation of internal data. Regarding environmental responsibility, we will further strengthen our efforts to reduce environmental impact in all our processes from product development through production, distribution, sales, after-sales service, and final disposal. We will also continue to take a comprehensive approach to safety enhancement by further advancing the balance between basic vehicle operation and safety through our horizontally-opposed engine, AWD, and symmetrical layout technologies, while simultaneously developing technologies to ensure greater protection for pedestrians.

Furthermore, to strengthen our operational foundations, we will reorganize the FHI Group, including affiliates, consolidate underperforming segments, unify intermediary operations, and strive to reduce costs.

We would like to thank all FHI stakeholders for their encouragement up to now and look forward to their continued support in the future.

Takeshi Tanaka
Chairman and CEO

Kyoji Takenaka
President and COO

NEW TQF21 01 ROLLING PLAN

"To grow into a distinctive and attractive corporation in the 21st century"

AUTOMOBILES

We will further develop Subaru DNA, with the elements of horizontally-opposed engine and AWD technologies at its core, and establish a sound position as part of the GM Group. At the same time, we will address strategic preparations for the next generation of Subaru products through cooperative research with GM on state-of-the-art technologies and establish a production capacity of 800,000 units in our global manufacturing network.

Progress of Alliances with GM and Suzuki: Items included in this plan are shown below. The status of items varies from those in the planning stage to those already under way.

1. Products

Multipassenger Wagon for the Japanese Market ■ In cooperation with GM, Subaru launched a new vehicle into Japan's rapidly growing multipassenger vehicle market in August 2001. The new vehicle was developed by a GM subsidiary and will be assembled at GM's Thailand plant for sale under the Subaru brand in Japan, with features unique to Subaru.

Joint Development Program in Taiwan ■ We are studying a joint development program for the Taiwanese market based on the *Impreza* assembled at Ta Ching Motors Co., Ltd., in Taiwan. The new product could be distributed under both the Subaru and GM brands.

Joint Minicar Program in China ■ We are studying a possible business collaboration with GM in China, including local production of minicars.

New-Concept Multipassenger SUV Joint Development Project ■ FHI and GM are jointly developing a new-concept multipassenger SUV for possible launch in 2005. The product will use a Subaru platform, and differentiated versions will be manufactured and distributed under both the Subaru and GM brands. The Subaru version will first be launched in North America, followed by expansion into other international markets.

Introducing OnStar ■ In the U.S. market, Subaru is planning to introduce OnStar, a telematics service provided by GM's OnStar subsidiary, starting with the 2003 Model Year (03MY) service.

New Vehicle Development Initiative for European Markets ■ In cooperation with the other members of the GM Group, FHI is considering the development of compact, lightweight, highly fuel-efficient vehicles for European markets utilizing FHI's CVT technology.

2. Engineering

AWD-CoE (All-Wheel Drive-Center of Expertise) ■ FHI has already placed engineers at GM both in Europe and the United States and started collaborative engineering projects to develop AWD systems for GM's next-generation vehicles. In Japan, FHI has opened an AWD-CoE Center at its Tokyo R&D facility with 20 engineering staff to support the AWD programs at GM.

CVT-CoE (Continuously Variable Transmission-Center of Expertise) ■ FHI has been providing manufacturing support to Fiat-GM Powertrain in Hungary and studying the possible Groupwide expansion of its CVT businesses, including CVT local production by FHI.

Joint R&D for Environmental Issues ■ GM and FHI have agreed to jointly work on medium-to-long-term advanced-technology projects in exhaust-gas reduction and exchange technologies in this rapidly developing field.

Joint R&D for Advanced Technologies ■ FHI and GM are cooperating in more than 30 technology areas, including integrated vehicle control, such alternative propulsion methods as fuel cells and hybrid powertrain, lightweight structures, safety, and manufacturing. This cooperation will result in ongoing joint R&D activities, where each partner will utilize its strengths to avoid the duplication of investment costs.

3. Manufacturing

Contributing to Quality Improvements in the Asian Region ■ FHI has been supporting quality improvements at the GM Thailand plant in connection with the introduction of a new multipassenger vehicle into the Japanese market.

Subaru Vehicle CKD Assembly ■ We are studying CKD assembly of Subaru vehicles at the GM Thailand plant and the sale of vehicles under the Subaru brand in Thailand and neighboring markets. CKD assembly in South America is also under consideration.

4. Sales

Sales Expansion of Subaru Vehicles in the Asian Region ■ As already announced, FHI is marketing the *Forester* in the Philippines through GM AutoWorld. As a follow-up to this initiative, FHI is considering the use of the GM AutoWorld network to expand sales of Subaru vehicles in Asian markets.

Sales Expansion of Subaru Vehicles in North America ■ FHI is working to improve the Subaru sales network and accelerate Subaru vehicle sales in the U.S. market with the collaboration of GM. FHI is strengthening sales to corporate customers through participation in the GM commercial fleet sales programs.

Improving Financial Services Using GMAC ■ In Taiwan, local Subaru dealerships have started to provide sales financing through General Motors Acceptance Corporation (GMAC). In Europe, Subaru Italy began using GMAC in July 2001. FHI is considering the further utilization of GMAC to improve financial services in other areas of FHI's business.

5. Purchasing

Cost Reductions through the WWP (GM Worldwide Purchasing Process) ■ Since 2000, FHI's Purchasing Division has assigned dedicated staff to work with GM Group purchasing operations, undertaking joint price negotiations with business partners. Actual costs have already been reduced in 10 categories of purchased parts and materials. It is expected that 10% of total annual purchases during the current year will be through the WWP, and the final goal is to raise this proportion to 30%.

Parts Commonization with Suzuki Motor Corporation ■ FHI and Suzuki are studying parts commonization following a study of the development schedules of each company.

6. Logistics

Subaru Ota Parts Center to Provide Service Parts Support to GM Japan ■ Subaru Ota Parts Center is to provide handling services in Japan for GM service parts on behalf of GM AutoWorld from August 2001. FHI can utilize available warehouse space, which was opened up by FHI's ongoing efforts to reduce inventory and transportation costs. GM will therefore be able to avoid significant facility investment.

Cooperation between FHI's European Logistics Subsidiary and GM European Logistics ■ To improve its logistics operations in Europe, FHI has established a European-based logistics company together with Mitsui & Co., Ltd., and a local distributor. FHI is planning to cooperate with GM Group logistics divisions to improve logistics operations in the European region.

7. IT

Network Connection ■ FHI has connected its IT network to that of GM through a dedicated line for digital data exchange, thereby improving its communications infrastructure.

Promoting Systems Compatibility ■ In accordance with the progress of each joint development project, systems compatibility is being improved in various areas, including engineering, service technology, design, purchasing, and manufacturing.

e-Business in Japan ■ FHI will work to develop e-business synergies and leverage Internet-based technologies through "Buy Power Japan," an on-line automobile buying service with GM, Suzuki Motor Corporation, and Isuzu Motors Limited.

8. Others

Motor Sports/Auto Shows ■ FHI is closely communicating with GM motor sports related groups with the goal of improving racing competitiveness and developing other brand benefits. FHI is also working with GM's global auto show team to develop closer cooperation and greater brand impact at major auto shows worldwide.

Utilizing the GM Settlement Function ■ FHI is considering utilizing GM's global settlement function to improve the hedging of foreign currency exchange risk, raise efficiency within the FHI Group, and simplify international transactions.

Takashi Tachimori

General Manager,
Total Vehicle Performance Integration Department,
Subaru Engineering Division

Aiming to Share the Excitement—Developing Cars with the Customer in Mind

Experienced in all aspects of new car development, especially body design. Based on his experience at Subaru, Takashi Tachimori aims to design cars "from the driver's perspective." Today, as the person in overall charge of the Total Vehicle Performance Integration Department, he spends each day working to create "new dimensions in driving experience" in Subaru vehicles.

Takashi Tachimori has been involved in the development of Subaru automobiles for more than 20 years. His approach is to create cars that show close attention to detail, reflect the mind of the engineer, but that are also without the slightest extravagance. This is because he regards himself as a member of the "automobile community," which consists of a broad range of interested parties, including customers, FHI engineers, designers, and other colleagues. The most important influence on his automobile development philosophy was his

The Engineers Who Create Subaru's Driving Performance

***Smoothness is the key to comfort and requires knowledge, curiosity, and sense to be obtained: The engineer who put together the horizontally-opposed engine for the new* Outback**

Repeating Driving Tests

Noriaki Sekine, who developed the 3-liter horizontally-opposed 6-cylinder engine, determined the fundamental concept for the engine.

The primary objective was to build an engine that was compact, had a low center of gravity, and was as silent as possible during operation. Other objectives included lightness, evenly distributed torque with each revolution, smooth acceleration, and such specific quantitative targets as satisfactory fuel economy.

In developing technologies for the prevention of vibration and noise—Mr. Sekine's specialty—he used the impressions of ordinary users as an important standard of judgment.

An important yardstick in this area is not only the feelings of the driver but also the impressions of passengers. This judgment standard was applied in developing

Noriaki Sekine

Manager,
Power Unit Research & Experiment Department,
Subaru Engineering Division

the new engine, and tests were conducted with people of all generations riding as passengers.

The engine and chassis development departments are separate, but the objectives of the engineers are the same. Engineers working with automobile manufacturers are members of the "automobile community," and their philosophy is to create products that are as close experience in FHI's service division in the United States. Prior to this, when he was involved in designing car bodies and other products for the U.S. market, he was unable to escape from his engineer mind-set. But when he saw how Subaru automobiles were actually used in the United States, he became convinced for the first time that "our products are finally completed when they are driven by customers." For example, the *Outback,* built for the U.S. market, was the first AWD station wagon with off-road capabilities. It was a precursor of today's passenger car based SUVs and is a good example of what he calls "a car brought up by the market."

Today, Mr. Tachimori is in overall charge of vehicle performance integration and testing. In contrast to the Planning Department, which is responsible for developing new product concepts based on ideas about automobiles, the job of the Total Vehicle Performance Integration Department is to arrive at a final "performance concept." Mr. Tachimori is the first person to drive each new Subaru car. By concentrating on overall performance, including the feeling of power, ease of handling, and quietness, he looks for strong evidence that Subaru automobiles are creating new dimensions in the driving experience that broaden human sensibilities and the drivers' view of the world. After all these tests, when new models are placed on the market, Mr. Tachimori's other important mission is to deliver the new driving concept to the market, which he does by talking with dealers and automotive journalists. Being in this key position within the automobile community is a source of pride and joy for him.

The motto of Mr. Tachimori and the car development staff who work with him is "How much of the excitement can we share with our customers?" In other words, the most important factor is not statistical data but how well and how deeply FHI can respond to the expectations of its customers. Mr. Tachimori goes about his development work every day with the thought that "Without some fervent supporters cheering us on, we would never be able to gain a broad base of fans."

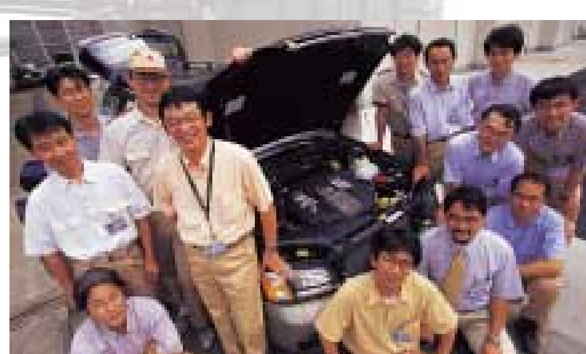
to perfect as they can be with the aim of enhancing the driving experience.

After all this was done, the 3-liter horizontally-opposed 6-cylinder engine was complete. All the performance figures that had been set as development targets were realized. Making the engine sufficiently compact proved difficult, but this was also achieved. Compared with existing 4-cylinder engines, the new 6-cylinder engine is approximately the same height and only about two centimeters (0.9 inches) longer. For the cylinder block, designers had to make repeated design changes. The result was bold technical innovations, such as using a chain drive instead of a belt drive for the valve timing and a single belt to drive auxiliary systems, such as the generator, the power steering pump, and the A/C compressor.

Keeping a Broad Perspective

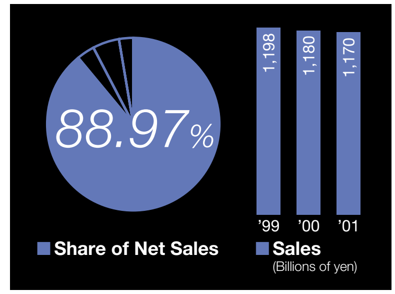
Mr. Sekine says that this illustrates how Subaru engineers work in a totally different way to their counterparts at other manufacturers.

"Each engineer presents his own ideas, researches them carefully, and pursues them with passion. If the idea is good, then the engineer who thought of it can put together the teams for design, research, and testing to turn the idea into a reality. At many other manufacturers, the engineer who thinks of an idea and the engineers who research, test, and analyze it work separately from each other. At Subaru, an engineer can see his own idea through to the end. Incorporating the ideas and results of numerous engineers into a single car really boosts the energy of the entire development project. Of course, engineers can be in charge of many projects at the same time and, naturally, they are busy. But they know how glad they will feel to see their ideas through to fruition, so they work diligently in development. This is Subaru's development style."



Subaru engineers, whose passion and devotion led to the development of the 3-liter horizontally-opposed 6-cylinder engine

Automobile Division



BUSINESS RESULTS

In fiscal 2001, total automobile sales amounted to 560,000 units, 0.2% below the previous fiscal year.

In the domestic market, sales of the mainstay *Legacy* series fell below the very strong level of fiscal 2000—achieved with the launch of the *Legacy B4* sports sedan. But sales of the *Forester* were firm as a result of model upgrades in January 2000. Unit sales of the *Impreza* climbed 15% following a highly anticipated full model change in August 2000. Total unit sales of the above two models rose 1.3% compared with the previous term, to 123,000 units. In minicars, despite firm sales of the *Sambar* series throughout the term, a decline in sales of the *Pleo* in the first half of the year resulted in a decline in overall sales, which fell to 168,000 units. This was in spite of the introduction of the *Nicot* in the second half of the year. Consequently, total domestic sales by the Automobile Division fell 1.1%, to 290,000 units.

In overseas markets, the contrast between markets with robust sales and those with difficulties became prominent. Total sales reached 187,000 units in North America and 28,000 units in Australia. Conditions varied in other overseas markets. The depreciation of the euro inevitably resulted in increases in local selling prices in Europe, and the Company faced severe competition in several other markets. As a result, overseas shipments in fiscal 2001 amounted to 270,000 units, down 2.1%, or 6,000 units, from the previous fiscal year.

Sales by the Automobile Division edged down 0.8%, to ¥1,170.3 billion (US$9,438 million), while operating income fell 10.9%, to ¥82.2 billion (US$663 million).

SPECIAL MENTION

New *Impreza* Wins the Japan Car of the Year Special Award

Recognition of Subaru's Attention to Safety

The new *Impreza* won the 2000–2001 Japan Car of the Year Special Award, one of two prestigious awards given by the respected Japan Car of the Year Committee. The *Impreza* has also been recognized as one of the year's "10 Best Cars."

The Japan Car of the Year Special Award is determined by the votes of a selection committee of 54 people, including automotive experts, critics, and journalists. Eligible vehicles were all passenger cars produced and launched in Japan between November 1, 1999, and October 31, 2000.

The Japan Car of the Year Special Award recognizes such characteristics as outstanding product concept and mechanical features.

In choosing the *Impreza* for the Special Award, the selection committee commented, "It's a sports sedan with the greatest attention to driving pleasure we've seen in recent years, and we were impressed by the safety offered by its highly rigid body."

Impreza Named Car of the Year by Major Motor Magazine

The *Impreza* was named 2000 Car of the Year by an Australian leading motor magazine, *Wheels*. The magazine strongly praised the *Impreza*, saying, "Subaru's sweetly symmetrical *Impreza* doesn't make the mistakes of inferior cars, and that's why it is the 2000 *Wheels* Car of the Year. The *Impreza* is a great all-rounder, developed with all the devotion you expect of people who build cars, not products. A bunch of passionate Japanese designed, engineered, and constructed the *Impreza* range, and it shows."

This prestigious award was announced in a spectacular ceremony at Colonial Stadium, Melbourne, giving Subaru three Car of the Year titles in the last seven years. The new *Impreza* was launched in mid-October 2000 in Australia and is already greatly sought after at Subaru dealerships.

Wheels was especially impressed with the *Impreza*'s level of innovation, "Refine, reinvent, redefine. The *Impreza* has done all three. Its incredible competence and consistency through the successful application of worthwhile technologies made it an irresistible (and in the end, overwhelming) choice as our 2000 Car of the Year. There have been stronger fields for Car of the Year, but rarely has there been a tougher contender than the *Impreza*."

Alliance with GM

In April 2001, a ceremony was held in Manila, the Philippines, to commemorate the commencement of *Forester* sales by GM's Philippines AutoWorld sales network. During the ceremony, the *Forester* was unveiled to the public, and sales targets and prices were officially announced. Sales of the *Forester* and *Impreza WRX* commenced in July 2001 in Indonesia. These accomplishments are part of our strategy to maximize the benefits of our alliance with GM, which is progressing steadily, particularly in the United States and Asia.

Eco-World 2001 (Low Emission Vehicle Fair)

Eco-World, held in June each year, is the largest low emission vehicle fair in Japan.

Impreza WRX NB

At the 2001 event, FHI displayed the *Sambar EV,* the *Pleo Nesta Hybrid,* the *Sambar CNG Bi-fuel,* and the *Legacy Lancaster 6.* The *Pleo Nesta,* which was displayed for the first time at the fair, attracted a great deal of attention from visiting technicians for its high degree of technological development.

OUTLOOK

FHI has positioned fiscal 2002 as the start of its latest five-year plan. Under this plan, we have streamlined our sales and marketing organization by merging the Domestic Sales Division and the Overseas Sales Division into a single global sales and marketing team.

Domestically, FHI upgraded the *Legacy,* its principal product, in May 2001. Improvements to the *Legacy* included upgrades in the suspension system and engine aimed at enhancing driving performance and, at the same time, reducing the car's environmental impact. Also, in August 2001, FHI started sales of the *Traviq,* a multipassenger wagon manufactured by GM and supplied to FHI on an OEM basis. Thus, FHI has entered the multipassenger wagon market, where demand is expanding, and strengthened its sales position in the domestic market. This is the first concrete result of the synergies realized in Japan between FHI and GM. In addition, FHI is continuing to work to enhance customer satisfaction through Subaru Customers Relationship Upgrade Management (SCRUM), a project aimed at further empowering the Subaru team in its basic branch operations. We will implement the Subaru Standard for quality and high levels of service on a nationwide basis, through which we will enhance our customer management operations.

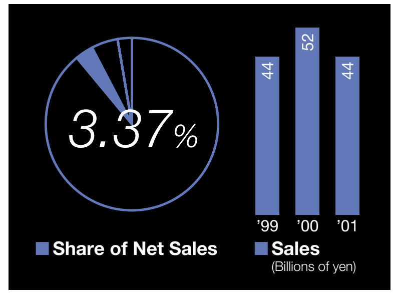
The Company will strive to further expand sales by the planned introduction of PARTNER 21, a nationwide computer network, unifying branch signboards under a uniform brand identity, and meeting market needs with appealing products that are available only from Subaru.

Overseas, in the United States, in March 2001, FHI made the first full model change of its *Impreza* in eight years, introducing the turbocharged *WRX* model. Pre-launch activities included active promotion over the Internet, which was successful in encouraging customers to place advance orders and generating interest in the market. Also, in the United States and Canada, Subaru's rally team continued to be active, and rally fans who learned of the success of the *WRC* in Europe became interested in the introduction of the *Impreza WRX* model in North America. The new *Impreza* was very well received amid these strong market expectations, and events conducted by *Impreza* fan clubs also had a positive impact.

In Europe, along with the commencement in September 2001 of operations of Subaru Vehicle Distribution B.V., a regional logistics company, FHI will work to improve the efficiency of its activities throughout the region and is joining forces with local dealers to promote a recovery in performance. Moreover, at the Frankfurt Auto Show in September 2001, FHI will announce the addition of the high-performance *Impreza STi* version to its lineup. Also overseas, FHI is cooperating with Subaru distributors in various countries to implement measures appropriate to each region to increase customer satisfaction. For example, in the United States, based on its Owner Loyalty Program, Subaru of America, Inc. (SOA), conducted its own customer satisfaction survey, analyzed weaknesses, and is now implementing specific measures for improvement.

Furthermore, we will introduce high-quality products, enhance development, production, sales, and after-sales service operations both domestically and overseas, strive to further raise the profile of the Subaru brand, and work to achieve annual sales of 800,000 units.

Industrial Products Division



BUSINESS RESULTS

In the Japanese market, although sales of small pump engines were strong during the first half of the year, the faltering economy resulted in suppressed sales of small engines for construction machinery. Overseas, sales of engines and power generators declined substantially in the United States as concern over the Y2K problem abated. Although the Company made strenuous efforts to maintain sales of these engines in Europe and Asia as well as of leisure vehicle engines in the United States, business conditions were severe. Consequently, sales by the Industrial Products Division declined 14.7% from the previous fiscal year, to ¥44.4 billion (US$358 million), and operating income fell 38.9%, to ¥0.8 billion (US$6 million).

SPECIAL MENTION

Global Development

In March 2001, FHI concluded a marketing cooperation agreement with Farymann Diesel GmbH of Germany. We plan to reap the synergistic benefits of this partnership by supplementing our own series of diesel engines—approximately 20,000 units of which are manufactured annually—with engines from Farymann. Through the agreement, we will expand sales by leveraging both companies' worldwide networks and mechanisms for supporting machinery manufacturers. Furthermore, in May 2001 FHI commenced the mass production of gasoline engines in China and predicts sales of 5,000 units in fiscal 2002.

Strategic Development

Sales Expansion: As it further strengthens its mechanisms for ascertaining market and industry trends and OEM needs, promotes greater sales activities at dealerships, enhances technical support, and strengthens service networks, FHI is steadily gaining new customers. Beginning in fiscal 2002, we will enhance our sales operations by focusing on the Robin Challenge Big 3 (RCB3) Project and strive to further expand sales through dynamic sales development efforts.

Product Development Tailored to Market Needs: Fiscal 2002 will be a crucial year in the development of the new EX series of overhead cam (OHC) gasoline engines. FHI will strive to achieve its product, quality, and cost objectives and put into mass production products that will delight its customers. We will also work to achieve prompt market penetration for the upgraded EY15 and EY20 SV (side valve) series early in the first half of fiscal 2002.

EY20

Quality and Costs: FHI continues to implement measures for achieving quality and competitiveness, including the thorough implementation of assessment technologies, cost reductions through Simultaneous Cost Innovation (SCI) and Minimum Cost Innovation (MCI) activities, the thorough implementation of manufacturing QCD (Quality, Cost, Delivery) in total productive maintenance (TPM) activities, and quality improvement on parts per million (ppm) levels. Starting in fiscal 2002, we will comprehensively implement these efforts by consolidating these initiatives in manufacturing segments under the RCx3-30 Project*.

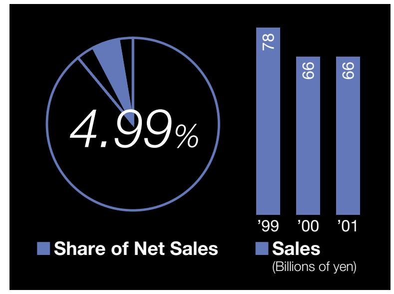
* RCx3-30 Project: Robin Challenge, Robin Change, Robin Cost Reduction

OUTLOOK

Although severe conditions are expected to persist due to weakness in the Japanese economy and uncertainty in the U.S. economy, FHI will work to ensure growth for its engine products as a truly global player with the premium Robin brand. We will strive to provide even more distinct products by upgrading existing and introducing new engine models.

Furthermore, we will complete our global Robin plan with the launch of joint venture operations in China and strive to become the world's number three manufacturer of small general-purpose industrial engines.

Aerospace Division



BUSINESS RESULTS

Sales to the Japan Defense Agency (JDA) fell below the level achieved in the previous term, due to the decline in sales of the Fire-Bee unmanned target drone and the T-4 intermediate jet trainer. This was partially offset by an increase in sales of the UH-1J utility helicopter and the F-2 support jet fighter.

Sales of commercial sector exceeded those in the previous term, due to the increase in sales on the space programs, although this was partially offset by the decline in sales for Boeing programs, reflecting the worldwide weak demand in the commercial jet transport market.

As a result, sales by the Aerospace Division were ¥65.5 billion (US$528 million), approximately the same level as in the previous term, while operating income grew 21.3%, to ¥2.5 billion (US$20 million).

SPECIAL MENTION

Defense Sector: In October 2000, FHI's T-3 Kai (a derivative of the T-3) was selected as the primary trainer by the Japan Air Self Defense Force. In December 2000, FHI successfully accomplished its delivery of the very last shipset of the AH-1S anti-tank helicopter to the Japan Ground Self Defense Force. Also, in the field of unmanned aerial vehicles (UAVs), FHI has been actively engaged in the development of a multi-purpose small UAV and is making every effort to support such development, including providing engineering support for government evaluation and testing.

FHI strives to contribute to the enhancement of the country's defense capabilities by utilizing its engineering and technical capabilities in the UAV field.

Commercial Sector: In May 2000, FHI entered into a contract with Bell Helicopter Textron, Inc., of the United States, for the manufacture of the fuselage of the BA609 tilt-rotor aircraft, which is capable of vertical takeoff and landing as well as high-speed cruising. In December 2000, FHI was appointed the primary contractor for the Scaled Supersonic Experimental Airplane (the SST jet-powered experimental airplane) by the National Aerospace Laboratory of Japan. In November 2000, FHI celebrated the unveiling of the Subaru Wind Turbine Generator System (prototype) and plans to start marketing this system in fiscal 2002.

FHI continues to aggressively develop new businesses, such as the Subaru Wind Turbine Generator System, the Commercial Simulator System, and the RPH2 large unmanned helicopter.

RPH2

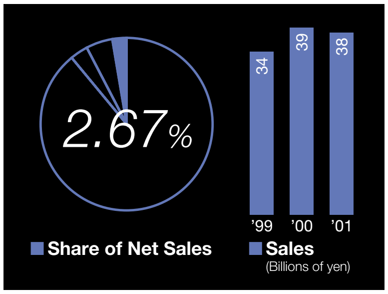
OUTLOOK

In line with the New TQF21 01 Rolling Plan, the Aerospace Division has decided on a policy of aiming for independence and growth. This policy includes the following: in the defense sector, securing a firm position under the next series of defense enhancement plan established by the JDA, and, in the commercial sector, expanding sales in scale with Boeing programs as well as other programs also evolving new businesses, such as the Subaru Wind Turbine Generator System, the RPH2, and the Commercial Simulator System.

The Aerospace Division is striving to accomplish these goals under the New TQF21 01 Rolling Plan.

In these efforts, the Aerospace Division is working to strengthen its operational foundations and raise sales to ¥100 billion, set as a medium-term objective. This will be accomplished by aggressively acquiring primary contracts and pursuing international collaboration through the promotion of positive business development and cooperative activities between the marketing and sales department and the engineering department and by reducing its assets, along with improving its productivity.

FHI Others



BUSINESS RESULTS

Demand for buses continued to be weak amid severe market conditions during fiscal 2001. Although the addition of a new model of tour bus to FHI's sales lineup in July 2000 bolstered sales in the second half of the year, poor results in the first half of the year resulted in a decline in sales for the term as a whole. Sales of prefabricated houses also decreased due to stagnation in the construction industry. Although brisk sales of the Fujimighty series of refuse collection vehicles contributed to strong sales of environmental products, a delay until fiscal 2002 of a major order for 20 railway passenger cars by Japan Rail Hokkaido Company drove down sales of railway passenger cars. Consequently, the Others segment recorded sales for fiscal 2001 of ¥37.5 billion (US$302 million), a decline of 3.4%, or ¥1.3 billion, from the previous term, and an operating loss of ¥4.1 billion (US$33 million).

SPECIAL MENTION

Ceremony to Celebrate Signing of Bus Body Technology Provision Contract with China's Dong Feng Hangzhou Motor: In May 2001, FHI reached an agreement to provide bus body technologies to Dong Feng Hangzhou Motor Co., Ltd., of China. Leveraging FHI's technologies, Dong Feng Hangzhou Motor will develop new buses for the Chinese market based on the design of tour buses used in Japan.

FHI Achieves Sales of 50,000 Units of the Fujimighty Series of Refuse Collection Vehicles: In November 2000, FHI gave its revolving compactor refuse collection vehicles a complete face-lift and started sales of the redesigned Fujimighty LP0 series. The new series features substantially reduced operating noise through the application of a new hydraulic system as well as improved environment-friendliness achieved through a higher rate of recyclability of the payload section.

Development and Marketing of the Convenience Store Recycler (CVSR), a Vehicle for Use in the Separation and Collection of Organic Waste: The Food Product Recycling Law, which obliges disposers of organic refuse to recycle such waste, came into effect in May 2001. In response, FHI has developed a specialized vehicle that separates food product cartons and organic waste for recycling.

FHI Develops Method of Eliminating Unnecessary Engine Idling of Diesel Cars: In cooperation with the East Japan Railway Company, FHI has developed a method to eliminate unnecessary engine idling for diesel cars and has confirmed its effectiveness in reducing engine emissions.

Fujimighty LP400

OUTLOOK

In buses, FHI expects continued sales expansion of its new, completely redesigned tour buses, which have won praise from customers and generated strong sales. We are also raising the efficiency of our bus production lines and enhancing plant productivity by transferring the production of Subaru replacement components from the Gunma Manufacturing Division to the Isesaki Manufacturing Division.

Although there is little chance for recovery in the demand for prefabricated houses in the near future and severe market conditions are expected to persist, we will strive to revive sales by introducing new products and developing new markets.

In environmental products, FHI has placed top priority on profitability and will strive to substantially increase net sales and achieve greater independence. In particular, the launch of the CVSR has attracted a great deal of attention from environmentalists. Finding solutions to global environmental issues will assume even greater importance as we progress into the 21st century, and FHI will strive to provide comprehensive solutions in such areas as recycling.

■ Environment

At FHI, we believe that it is important to work to reduce the environmental impact of our activities at all stages—from design to manufacturing, use, and final disposal as well as recycling—and to publicize these activities widely.

● Environmental Management

To improve our environmental management activities, we have upgraded our environmental accounting system and, beginning in fiscal 2001, began to calculate the effect of our activities on profitability. During the fiscal year under review, FHI invested ¥1.8 billion to reduce environmental impact by its production activities and ¥18.4 billion on R&D to improve the environmental performance of its products, contributing to a total of ¥21.7 billion in environment-related expenditures. This represented an increase of ¥2.4 billion from the ¥19.3 billion spent during fiscal 2000. The principal factor accounting for this rise was an additional ¥2.1 billion in R&D expenditures. The economic effect of these expenditures, which we began to calculate during the fiscal year under review, was ¥1.2 billion, and ¥3.6 billion was invested in equipment to conserve the environment. Please note that these amounts for investment and the effect on profitability were calculated according to its own standards.

● Products

We are taking advantage of each full model change and annual improvements to introduce automobiles into the market that meet the 2010 Fuel Economy Standards[1] and certified as Excellent Low Emission Vehicles[2] and Good Low Emission Vehicles[3]. In fiscal 2001, more than 45% of Subaru automobiles met the 2010 Fuel Economy Standards. In addition, the new *Impreza* compact model became the first automobile in Japan with a turbocharged engine to receive certification as a Good Low Emission Vehicle.

Moreover, the *Impreza* turbo model and all other Subaru automobiles sold in the U.S. market meet the National Low Emission Vehicle (NLEV)[4] Standards, the latest set of auto emission criteria.

Notes: 1. The 2010 Fuel Economy Standards establish objectives for energy conservation and measures to prevent global warming in gasoline-powered automobiles. These include an average 22.8% improvement in fuel economy compared with the average results for the Japanese automobile industry in 1995.
2. An Excellent Low Emission Vehicle is defined as an automobile that achieves a 50% reduction in exhaust emissions compared with 2000 regulations.
3. A Good Low Emission Vehicle must show a 25% reduction in exhaust emissions compared with 2000 regulations.
4. NLEV is a federal government program similar to the LEV Standards in California, which is in the process of being applied throughout the United States. As NLEV Standards are more stringent than the federal standards currently in effect, participation in the program is voluntary.

● Production

The level of various kinds of waste generated by FHI's production activities during fiscal 2001 was 85% below the level generated during fiscal 1991. At the Gumma Manufacturing Division, where automobiles are produced, we ceased operation of our incinerating facility in December 2000 and achieved our objective of zero emissions[1]. In addition, our usage of substances subject to PRTR[2] reporting for fiscal 2001 was 17% lower than for fiscal 2000.

Notes: 1. "Zero emissions" implies that waste that must be disposed of in landfill areas has been reduced to the zero level.
2. PRTR stands for Pollutant Release & Transfer Register.

● Recycling

Initiatives to facilitate recycling at the design, production, and final disposal stages include making Subaru automobiles easier to disassemble and employing more materials that can be recycled. The new *Impreza* model, for example, is easier to take apart at the end of its useful lifetime and incorporates a higher percentage of materials that can be recycled. Measures to reduce environmental impact incorporated in the new *Impreza* include a reduction in lead usage to less than one-third of the 1996 industry average and a 23% reduction in the use of air conditioner refrigerant.

● Subaru-Isuzu Automotive, Inc. (SIA)

SIA, the Subaru production base in the United States, acquired ISO 14001 certification in November 1998. At this company, a target for the reduction of electric power consumption at plants was set, and a results-oriented management system was put into place. SIA also carefully controls the volume of waste generated and its disposal methods.

■ Social Contribution Activity

SOA supports the nonprofit organization Leave No Trace (LNT). LNT's objective is the promotion of responsible outdoor recreation. SOA provides support for its "Traveling Trainers" program for good land stewardship. In 2000, two such teams participated in more than 600 events, delivering to many outdoors enthusiasts the message of environmental protection based on the spirit of Leave No Trace.

■ Providing Disassembly Information on ELVs (End-of-Life Vehicles)

As its response to European Union (EU) recycling laws, FHI provides disassembly information to enable the more efficient dismantling of ELVs. In 1999, 20 EU, U.S., Japanese, and Korean automakers got together and kicked off the International Dismantling Information System (IDIS), a joint effort to provide the necessary information. Subaru is, of course, a participant.

Management (As of June 27, 2001)

Seated from left: Kyoji Takenaka, Takeshi Tanaka, Teruo Hanada
Standing from left: Hideshige Gomi, Koichi Arasawa, Hiroshi Suzuki, Hideo Wada, Rudolph A. Schlais, Jr.

Executive Officers
Board of Directors

Chairman and Chief Executive Officer
Takeshi Tanaka*

President and Chief Operating Officer
Kyoji Takenaka*

Senior Executive Vice President
Teruo Hanada*

Executive Vice Presidents
Hiroshi Suzuki
Koichi Arasawa
Hideo Wada
Hideshige Gomi

Director
Rudolph A. Schlais, Jr.
President & CEO, GM Asia Pacific

* Representative Director

Senior Vice Presidents
Masayoshi Nagano
Takeo Tsumuji
Takao Tsuchiya
Hiroyuki Nakatsubo
Kunitaka Nakahara
Kiyoshi Inoh
Masaru Katsurada
Takao Saito
Hiroshi Komatsu
Shunsuke Takagi
Yuichi Masuda
Yutaka Tsukahara

Vice Presidents
Kisaburo Wani
Masatoshi Iwasaki
Edward Pasternak
William Madigan
Yoji Ishimaru
Minoru Tamura
Kazushige Okuhara
Norihisa Matsuo
Noboru Daikuhara
Toshifumi Terao
Shoichi Washizu
Hiroyuki Oikawa
Kunio Ishigami
Ichiro Kudo

Corporate Auditors
Takayoshi Yoshihashi
(standing)
Kunitake Nomura
Hiroshi Takaku
Akira Furuya

Financial Section

Consolidated Five-Year Financial Summary 20
Management's Discussion and Analysis of
Results of Operations and Financial Position 21
Consolidated Balance Sheets 26
Consolidated Statements of Income 28
Consolidated Statements of Shareholders' Equity 29
Consolidated Statements of Cash Flows 30
Notes to Consolidated Financial Statements 31
Report of Independent Certified Public Accountants 50

Consolidated Five-Year Financial Summary

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

	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	*1999*	*1998*	*1997*	***2001***
For the Year:						
Net sales	**¥1,311,887**	¥1,330,125	¥1,352,520	¥1,303,989	¥1,223,015	**$10,579,734**
Cost of sales	**978,841**	995,131	1,067,868	1,027,782	994,032	**7,893,879**
Gross profit	**333,046**	334,994	284,652	276,207	228,983	**2,685,855**
Selling, general and administrative expenses	**251,373**	243,593	194,720	195,770	171,410	**2,027,202**
Operating income	**81,673**	91,401	89,932	80,437	57,573	**658,653**
Income before income taxes and minority interest	**21,291**	64,839	68,423	56,609	47,622	**171,702**
Net income	**22,628**	31,348	33,706	30,708	39,596	**182,484**
At Year-End:						
Shareholders' equity	**¥ 357,455**	¥ 206,404	¥ 200,220	¥ 168,833	¥ 149,748	**$ 2,882,702**
Total assets	**1,168,501**	1,038,558	981,256	904,571	759,030	**9,423,395**
Equity ratio (%)	**30.6%**	19.9%	20.4%	18.7%	19.7%	
Per Share (in yen and U.S. dollars):						
Net income:						
Basic	**¥ 30.44**	¥ 51.90	¥ 56.18	¥ 51.33	¥ 67.63	**$ 0.25**
Diluted	**29.06**	48.53	51.79	47.18	66.28	**0.23**
Shareholders' equity	**480.86**	338.75	332.41	282.09	251.05	**3.88**
Other Information:						
Depreciation and amortization	**¥ 64,070**	¥ 60,190	¥ 38,708	¥ 32,574	¥ —	**$ 516,694**
Capital expenditures (additions to fixed assets)	**102,301**	103,922	57,566	56,419	—	**825,008**
R&D expenses	**46,622**	40,123	38,512	38,231	—	**375,984**
Number of shares issued at year-end (thousands of shares)	**746,502**	614,553	602,333	598,507	596,484	
Number of shareholders *	**32,996**	49,381	55,044	72,107	80,587	
Number of employees*:						
Parent only	**13,603**	13,668	13,419	13,435	13,413	
Consolidated	**26,502**	26,914	19,882	19,113	18,475	

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥124.00 to US$1.00, the approximate rate of exchange at March 31, 2001.

** As of March 31*

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

OVERVIEW

During fiscal 2001, ended March 31, 2001, trends in the world economy, the automobile industry, foreign currency rates, and market conditions were as previously discussed in the "To the Stakeholders of Fuji Heavy Industries" and "Operational Review" sections of this annual report.

Taking into account these developments in the operating environment, the FHI Group worked actively to expand its operations, with automobile manufacturing as the core. Based on its strategic five-year medium-term business plan, entitled "New TQF21" announced in fiscal 2000, which includes strengthening its ties in Japan and overseas with General Motors Corporation and Suzuki Motor Corporation, the FHI Group worked to attain its goal of becoming a "21st century global player with premium brands."

For fiscal 2001, consolidated net sales declined 1.4%, to ¥1,311.9 billion, and operating income fell 10.6%, to ¥81.7 billion. Net income declined 27.8%, to ¥22.6 billion. Factors accounting for the decline in net income included a one-time provision to accrue unfunded pension and severance obligations as computed under new rules based on a revised accounting standard. Free cash flow amounted to a ¥9.3 billion cash outflow, owing to the decline in net cash provided by operating activities accompanying the fall in net income and the investment of available cash to prepare for future capital expenditures.

The cash dividend of the parent company for fiscal 2001, including the dividend paid for the interim period, was set at ¥9.00 per common share, the same level as for fiscal 2000. The dividend for fiscal 2000 included a commemorative dividend of ¥1.00; however, in view of the strong performance of the parent company and the enhancement of shareholders' equity, the Company decided to maintain the fiscal 2001 dividend at the same level as for the previous fiscal year.

Important developments during fiscal 2001 included the receipt of ¥112.5 billion from a third-party placement of the Company's shares with General Motors of Canada Limited (GMCL), which is a wholly owned subsidiary of GM, in April 2000. This has enhanced the Company's financial position by increasing its shareholders' equity and making it possible to reduce interest-bearing debt. In addition, the FHI Group's three operating companies in North America, namely Subaru-Isuzu Automotive Inc. (SIA), Subaru of America, Inc. (SOA), and Subaru Canada, Inc. (SCI), reported strong performances and paid dividends. SIA paid dividends for the first time in fiscal 2000. In addition, at the end of fiscal 2001 the yen had depreciated against the U.S. dollar compared with the end of fiscal 2000, but, for the year as a whole, the average yen rate against the dollar was stronger.

SEGMENT INFORMATION AND CONSOLIDATION

The FHI Group conducts its business operations in four segments: Automobiles, Industrial Products, Aerospace, and Others. The Group manufactures a wide range of products. The Automobiles segment accounted for 89.0% of consolidated net sales in fiscal 2001, while the remaining three segments accounted for 11.0%.

The FHI Group comprised 126 subsidiaries, 11 affiliated companies, and 2 other related companies at the end of fiscal 2001. Of these companies, 68 were consolidated and 2 were accounted for by the equity method. The remaining unconsolidated subsidiaries do not have a material impact on the consolidated financial statements as a whole and have therefore been excluded from the scope of consolidation. Please note that four companies consolidated in the previous year were excluded from consolidation for fiscal 2001: two ceased to exist as they merged with other consolidated subsidiaries and the remaining two were liquidated. No subsidiaries were newly consolidated in fiscal 2001.

NET SALES

As mentioned previously in the "Operational Review" section of this annual report, under the operating conditions prevailing during fiscal 2001 in Japan and overseas, the Company's domestic and overseas sales volume rose slightly, boosted by higher sales of passenger cars. Overseas, sales performance was relatively favorable in the North American market, but a substantial drop in sales in the European market owing to the weakening of the euro and other developments resulted in an overall decline in net sales. As a result, consolidated net sales fell 1.4%, or ¥18.2 billion, to ¥1,311.9 billion. The principal causes of this decline included a ¥6.0 billion loss in the value of overseas sales accompanying the increase in the average value of the yen over the year and a drop of ¥8.0 billion because of price cuts in the European market and elsewhere. Thus, overseas sales were down 3.1%, or ¥20.0 billion, to ¥623.7 billion. Sales in Japan, however, rose 0.3%, or ¥1.7 billion, to ¥688.2 billion. As a result of these trends, the percentage of net sales accounted for by overseas sales declined 0.9 percentage point from 48.4% to 47.5%.

Sales for each of the Company's four segments mentioned previously, including the Automobiles segment, registered declines. Further details on performance by segment are discussed in the "Operational Review" section.

Non-Consolidated Operational Statistics (Number of vehicles)

	2001	*2000*	*1999*	*1998*	*1997*
Domestic Units:					
Legacy	**67,424**	67,972	63,499	55,001	90,980
Impreza	**32,362**	25,654	33,531	37,049	41,918
Forester	**28,994**	25,985	24,489	40,032	7,494
Others	**297**	308	1,438	2,184	4,512
Subtotal	**129,077**	119,919	122,957	134,266	144,904
Minicars	**173,754**	177,842	156,186	144,366	201,640
Total	**302,831**	297,761	279,143	278,632	346,544
Export Units:					
Legacy	**26,254**	34,304	29,530	27,857	23,816
Impreza	**54,721**	58,530	54,861	52,251	52,660
Forester	**85,453**	83,928	81,385	58,005	32
Others	**0**	0	439	819	2,085
Subtotal	**166,428**	176,762	166,215	138,932	78,593
Minicars	**108**	760	2,152	3,337	4,719
Total	**166,536**	177,522	168,367	142,269	83,312
Parts Production for Use Overseas	**111,783**	103,001	100,440	110,689	107,386
(SIA Portion)	**107,842**	98,861	98,464	105,237	104,586
U.S. Unit Sales:					
Legacy	**96,391**	87,267	88,660	92,913	94,950
Impreza	**19,220**	19,356	19,041	24,242	24,687
Forester	**56,605**	50,183	40,132	15,988	—
Others	**—**	—	—	640	1,111
Total	**172,216**	156,806	147,833	133,783	120,748
U.S. Production Units:					
Legacy	**107,955**	93,070	104,229	102,180	98,747

** U.S. Unit Sales and U.S. Production Units are the aggregate figures for the calendar year from January 2000 through December 2000.*

COSTS, EXPENSES, AND OPERATING INCOME

Cost of sales declined 1.6%, or ¥16.3 billion, to ¥978.8 billion. This rate of decline exceeded the 1.4% decline in net sales. As a result, the cost of sales ratio declined 0.2 percentage point, from 74.8% to 74.6%, thus putting a brake on the slippage in the Company's gross profit. For fiscal 2001, gross profit showed only a slight decline of 0.6%, or ¥1.9 billion, to ¥333.0 billion. Negative factors having an impact on gross profit were: (1) the appreciation in the average value of the yen for the fiscal year as a whole, (2) a relative rise in the cost of sales ratio owing to declining prices for the Company's products in Europe and other areas, (3) a decline in the number of automobile units sold, and (4) higher costs associated with specification improvements in safety and other areas. On the other hand, intensive efforts by FHI Group companies to reduce costs and implement other measures to improve performance largely offset the effect of these negative factors.

Selling, general and administrative (SG&A) expenses rose 3.2%, or ¥7.8 billion, to ¥251.4 billion. Although recurring expenses as a whole were reduced, increases in strategic and management policy related expenses resulted in an overall rise. As a result, the ratio of SG&A expenses to net sales rose 0.9 percentage point, from 18.3% to 19.2%.

R&D expenses included in cost of sales and SG&A expenses in total rose 16.2%, or ¥6.5 billion, to ¥46.6 billion; the largest component of this, or ¥43.0 billion, was R&D related to the Automobiles segment. The ratio of R&D expenses to net sales rose 0.53 percentage point, from 3.02% to 3.55%.

As a result of the aforementioned, operating income declined 10.6%, or ¥9.7 billion, to ¥81.7 billion, and the ratio of operating income to net sales fell 0.7 percentage point, from 6.9% to 6.2%.

Further details on performance by segment are discussed in the "Operational Review" section.

OTHER INCOME (EXPENSES)

Other expenses, net, increased a marked ¥33.8 billion, to ¥60.4 billion. The principal factors, negative and positive, accounting for this increase are summarized below.

The principal negative factors were:

① The Company made a lump-sum amortization of ¥44.5 billion to accrue unfunded pension and severance obligations not previously provided for, as required by a revised accounting standard.

② Gain on sale of marketable securities declined ¥9.3 billion, to ¥2.8 billion.

The principal positive factors were:

① Interest expenses declined ¥5.8 billion, to ¥4.6 billion, as a result of the repayment of interest-bearing debt and lower market interest rates on outstanding borrowings and refinancing.

② The absence of a loss on write-down of land, which amounted to ¥9.9 billion in the previous period.

③ The absence of a provision for revaluation of investment securities, which amounted to ¥4.7 billion in the previous period.

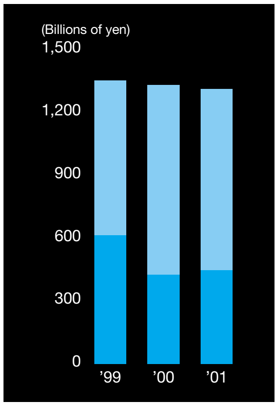
As a result, income before income taxes and minority interest declined 67.2%, or ¥43.5 billion, to ¥21.3 billion. Net income was down 27.8%, or ¥8.7 billion, to ¥22.6 billion. The difference between these percentage declines was caused by a decrease in the effective income tax rate from 51.7% in the previous period to 0.9% in the current period due mainly to the reversal of valuation allowances for subsidiaries' operating loss carryforwards in fiscal 2001.

Net income per share (basic) fell ¥21.46, from ¥51.90 to ¥30.44. Information on the cash dividend paid by the parent company is discussed on page 21.

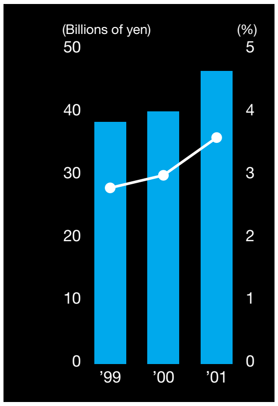
FINANCIAL POSITION

Assets

In view of the challenging operating environment, the FHI Group worked to make efficient use of total capital employed, principally through the allocation of corporate resources to priority business areas and a reduction in interest-bearing debt. These efforts, together with the proceeds from the previously mentioned third-party placement of shares with GMCL, resulted in an increase in total assets of 12.5%, or ¥129.9 billion, to ¥1,168.5 billion. By type of asset, current assets increased ¥52.7 billion, to ¥573.4 billion. Of this total, cash and time deposits fell ¥15.9 billion as a result of increased investments in securities. Based on a review of the purposes of holding marketable securities, the Company reclassified certain securities held under marketable securities to investments and other assets, thus leading to a decline of ¥21.9 billion in marketable securities; however, ¥26.6 billion in securities were newly purchased to make use of available funds. Inventories rose ¥15.1 billion because of the increased production of the new *Impreza* model in preparation for its introduction into the North American market and the impact of the decline in the value of the yen, which pushed up the translated value of overseas inventories. Other current assets rose ¥15.8 billion, mainly because of an increase in deferred income taxes.



Net Sales
Japan
Outside Japan



R&D Expenses/R&D Expenses as a Percentage of Net Sales
R&D Expenses
R&D Expenses as a Percentage of Net Sales

Net property, plant and equipment rose ¥39.9 billion, to ¥456.6 billion. Of this total, the value of land rose ¥20.1 billion. The largest part of this increase, ¥13.3 billion, was due to a gain on revaluation of land based on the fair market value in connection with the merger of subsidiaries. The remainder of the increase, or ¥6.7 billion, was due mostly to transfers to this account from the intangible asset account of rights for the use of land. The remainder of the increase in property, plant and equipment was due to new investments in production assets, which amounted to ¥43.6 billion for all segments and ¥37.9 billion for the Automobiles segment alone. Due to the increase in depreciation, however, the total for property, plant and equipment, net of accumulated depreciation (and excluding land), rose only ¥19.8 billion, to ¥436.5 billion. (For further information on capital investments, please see the "Capital Expenditures" section on page 24.)

Investments and other assets rose ¥37.3 billion, to ¥138.5 billion. This was mainly because of the aforementioned transfer of ¥21.9 billion in securities (including investments in unconsolidated subsidiaries) from marketable securities to investment securities and an increase in deferred income taxes of ¥16.4 billion.

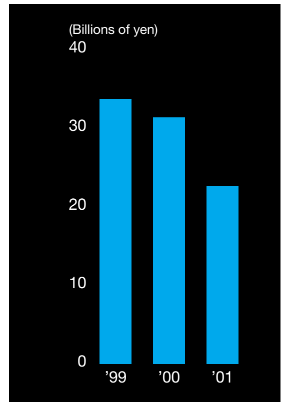
Liabilities and Shareholders' Equity

Total liabilities, on the other hand, declined ¥19.5 billion, to ¥805.3 billion. Of this total, short- and long-term interest-bearing debt fell ¥83.9 billion, to ¥365.1 billion, as repayments of loans and amortization of bonds exceeded new debt. From a cash flow perspective, cash and cash equivalents declined a net ¥89.1 billion, indicating that ¥5.5 billion was offset mainly by the increase in the translated value of foreign currency liabilities of overseas subsidiaries. On the other hand, operating liabilities and other liabilities were up ¥64.5 billion, to ¥440.2 billion. This was due to an increase in accrued pension and severance liability of ¥40.5 billion, accompanying changes in the accounting standard for employees' pension and retirement plans, a rise of ¥13.0 billion in notes and accounts payable, and a net increase of ¥10.9 billion in other liabilities.

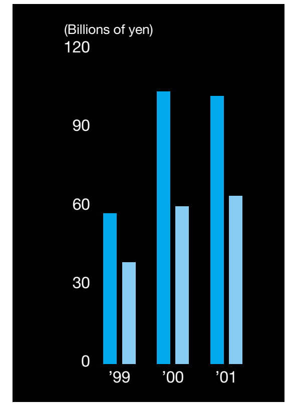
Shareholders' equity rose ¥151.1 billion, to ¥357.5 billion, thus substantially strengthening the FHI Group's financial position as the shareholders' equity ratio increased 10.7 percentage points, from 19.9% to 30.6%. This was due primarily to the previously mentioned issuance of shares to GMCL, which netted ¥112.5 billion in proceeds and resulted in increases of ¥56.3 billion and ¥56.2 billion, respectively, in common stock and additional paid-in capital. In addition, consolidated retained earnings rose ¥30.6 billion, owing to net income for the period and a ¥14.5 billion rise principally from the previously mentioned gain on revaluation of land due to the merger of subsidiaries that was partially offset by the decrease in foreign currency translation adjustments due to exchange rate changes, which were a negative ¥7.3 billion for fiscal 2001.

In addition to the aforementioned items, beginning with fiscal 2001, valuation gains and losses of securities are directly included in shareholders' equity. For fiscal 2001, this item amounted to a net gain of ¥1.7 billion.

As part of its stock option plan, the Company purchased an additional ¥2.2 billion of its own shares, which was deducted from shareholders' equity. As a result of the various factors discussed above, shareholders' equity per share rose ¥142.11, from ¥338.75 at the end of fiscal 2000 to ¥480.86 at fiscal 2001 year-end.



Net Income



Capital Expenditures and Depreciation and Amortization
Capital Expenditures
Depreciation and Amortization

Capital Expenditures

Total capital expenditures of the FHI Group in fiscal 2001 amounted to ¥43.6 billion, down ¥13.7 billion from the previous fiscal year. These expenditures were primarily for equipment related to production, R&D, and sales in the Automobile segment. Most of these investments were financed from the FHI Group's internal funds. Capital expenditures by segment were as follows:

- Total capital expenditures in the Automobile segment were ¥37.9 billion. Expenditures were made in (1) process improvements, reduction in labor inputs, improvements in quality, increases in capacity, and to meet other objectives at the Company's Gumma Plant, the facilities of SIA, and other plants; (2) R&D facilities for the development of new products and technologies; and (3) upgrading and expanding the domestic sales network.
- Total capital expenditures in the Industrial Products, Aerospace, and Others segments amounted to ¥5.7 billion. Capital expenditures by segment were as follows: ¥2.0 billion, principally used for process improvements of the production lines in the Industrial Products segment; ¥1.3 billion, mainly for maintaining and renewing equipment in the Aerospace segment; and ¥2.4 billion for maintaining and renewing industrial vehicle production facilities as well as investments in Group welfare facilities in the Others segment.
- In addition to the aforementioned capital investments, the Automobile segment reported ¥53.3 billion in investments related to the acquisition of assets for business use, including vehicles for leasing.

Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the fiscal year under review amounted to ¥120.4 billion, an increase of ¥11.7 billion compared with the previous fiscal year-end. Although free cash flow declined because of the use of available funds for the purchase of securities, the Group was able to repay a larger portion of its interest-bearing debt than in the previous fiscal year with the proceeds from the issuance of new shares to GMLC, resulting in a substantial improvement in cash flow from financing activities. The amount of cash at fiscal year-end represented approximately 1.1 months of average monthly sales of ¥109.3 billion. In addition, the Company has commitment lines with banks, which are available to raise funds efficiently and flexibly. With the exception of expenditures for special projects, management believes the Company’s cash position provides sufficient liquidity for the normal conduct of business operations.

Net cash provided by operating activities declined ¥16.0 billion, to ¥79.1 billion. This was because increased cash requirements owing to changes in operating assets and liabilities and other assets and liabilities rose ¥31.9 billion, to ¥17.0 billion, as the reduction in the cash requirement by increased accounts and notes payable was more than offset by the increase in cash required for financing accounts receivable and inventories.

On the other hand, net cash used in investing activities rose ¥10.5 billion, to ¥88.4 billion. Of this total, capital expenditures amounted to ¥91.7 billion (including capital expenditures for purchasing operating assets, such as leased vehicles), slightly below the level for the previous fiscal year. After taking into account the purchase and sale and disposal of property, plant and equipment, the net cash outlay for the fiscal year was ¥70.3 billion, ¥6.4 billion lower than in the previous fiscal year. Net cash movements related to purchase and sale of securities, taking into account available funds invested in securities with maturities of three months or more, amounted to a net cash outflow of ¥21.8 billion, which was ¥33.0 billion higher than in the previous year. Since new purchases of investment securities were small in comparison with the previous fiscal year, cash flow from purchases and sales of investment securities was a net inflow of ¥4.6 billion, an increase of ¥15.7 billion from the previous fiscal year.

As a result of these movements in operating and investing cash flows, free cash flow for the fiscal year under review amounted to a cash outflow of ¥9.3 billion compared with a cash inflow of ¥17.2 billion in the previous fiscal year.

Net cash provided by financing activities amounted to ¥18.4 billion compared with a net cash outflow of ¥74.8 billion in the previous fiscal year. The major factor on the financial cash inflow side was a ¥112.2 billion inflow in connection with the issuance of new shares to GMCL. On the financial cash outflow side, the FHI Group reported a net reduction in short- and long-term interest-bearing debt of ¥89.1 billion in fiscal 2001, up from the ¥69.7 billion in the previous fiscal year. Of this total, short- and long-term debt declined ¥49.1 billion on a net basis, commercial paper outstanding on a net basis was down ¥30.0 billion, and the balance of bonds outstanding on a net basis decreased ¥10.0 billion. The value of the yen against the dollar at the end of fiscal 2001 was lower than at fiscal 2000 year-end, but this had only a minor impact, ¥2.5 billion, on the value of foreign currency funds.

OUTLOOK

In fiscal 2002, the FHI Group expects that, although the number of automobiles sold domestically by the Group will remain approximately the same as for the previous fiscal year due to intense competition, sales in overseas markets are expected to rise, particularly in the United States, where new models were introduced in March 2001. Therefore, as a result of higher overseas sales and efforts to make further reductions in various types of expenses, currency rate movements, and a lower burden for pension and severance liability, the FHI Group expects increases in both net sales and net income. Given current information, the Group is targeting net sales of ¥1,400 billion and net income of ¥40 billion for fiscal 2002*.

*These figures are goals for performance, and the FHI Group makes no guarantee that these will be achieved. In addition, actual sales and income figures are subject to the uncertainties stated in the “Disclaimer Regarding Forward-Looking Statements” on the inside front cover.

Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2001 and 2000

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars (Note 3)*
ASSETS	***2001***	*2000*	***2001***
Current assets:			
Cash and time deposits (Notes 4 and 8)	**¥ 58,610**	¥ 74,509	**$ 472,661**
Marketable securities (Notes 4, 5 and 8)	**89,573**	63,006	**722,363**
Notes and accounts receivable, trade	**130,593**	119,448	**1,053,169**
Allowance for doubtful accounts	**(862)**	(2,159)	**(6,952)**
Inventories (Notes 6 and 8)	**169,936**	154,839	**1,370,452**
Short-term loans receivable (Notes 4 and 8)	**66,519**	70,559	**536,444**
Deferred income taxes (Note 10)	**29,891**	17,377	**241,056**
Other current assets (Note 8)	**29,174**	23,145	**235,274**
Total current assets	**573,434**	520,724	**4,624,468**
Property, plant and equipment (Notes 7 and 8)	**1,005,331**	943,934	**8,107,508**
Less accumulated depreciation	**(548,750)**	(527,296)	**(4,425,403)**
Net property, plant and equipment	**456,581**	416,638	**3,682,105**
Investments and other assets:			
Investment securities (Notes 5 and 8)	**48,185**	27,302	**388,589**
Investments in non-consolidated subsidiaries and affiliates	**7,930**	6,304	**63,952**
Long-term loans receivable	**7,910**	7,560	**63,790**
Goodwill	**20,143**	18,712	**162,444**
Intangibles, net	**11,978**	10,978	**96,597**
Deferred income taxes (Note 10)	**26,763**	10,408	**215,831**
Other assets (Note 8)	**20,478**	23,006	**165,145**
Allowance for doubtful accounts	**(4,901)**	(3,074)	**(39,524)**
	138,486	101,196	**1,116,823**
Total assets	**¥1,168,501**	¥1,038,558	**$9,423,395**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	*Millions of yen* **2001**	*Millions of yen* 2000	*Thousands of U.S. dollars (Note 3)* **2001**
Current liabilities:			
Short-term borrowings (Note 8)	**¥ 180,227**	¥ 240,331	**$1,453,444**
Current portion of long-term debt (Note 8)	**37,943**	54,221	**305,992**
Notes and accounts payable	**207,477**	194,469	**1,673,202**
Accrued expenses	**91,574**	84,055	**738,500**
Accrued income taxes (Note 10)	**6,625**	17,872	**53,427**
Other current liabilities	**34,737**	25,013	**280,137**
Total current liabilities	**558,583**	615,961	**4,504,702**
Long-term liabilities:			
Long-term debt (Note 8)	**146,931**	154,493	**1,184,927**
Accrued pension and severance liability (Note 9)	**65,674**	25,128	**529,629**
Other	**34,114**	29,170	**275,113**
	246,719	208,791	**1,989,669**
Minority interest in consolidated subsidiaries	**5,744**	7,402	**46,323**
Shareholders' equity (Note 11):			
Common stock, ¥50 par value			
Authorized—1,500,000,000 shares			
Issued 2000—614,552,540 shares	**—**	88,115	**—**
2001—746,502,402 shares	**144,449**	—	**1,164,911**
Additional paid-in capital	**150,761**	94,559	**1,215,815**
Retained earnings	**83,680**	53,129	**674,839**
Net unrealized gains on investment securities	**1,701**	—	**13,718**
Less treasury stock, at cost	**(2,215)**	(1,145)	**(17,863)**
Translation adjustments	**(20,921)**	(28,254)	**(168,718)**
	357,455	206,404	**2,882,702**
Contingent liabilities (Note 14)			
Total liabilities and shareholders' equity	**¥1,168,501**	¥1,038,558	**$9,423,395**

Consolidated Statements of Income

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2001, 2000 and 1999

	Millions of yen	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars (Note 3)*
	2001	*2000*	*1999*	***2001***
Net sales	**¥1,311,887**	¥1,330,125	¥1,352,520	**$10,579,734**
Cost of sales	**978,841**	995,131	1,067,868	**7,893,879**
Gross profit	**333,046**	334,994	284,652	**2,685,855**
Selling, general and administrative expenses (Note 12)	**251,373**	243,593	194,720	**2,027,202**
Operating income	**81,673**	91,401	89,932	**658,653**
Other income (expenses):				
Interest and dividend income	**3,663**	2,569	4,641	**29,540**
Interest expenses	**(4,623)**	(10,422)	(11,981)	**(37,282)**
Gain on sale of marketable securities	**2,815**	12,092	8	**22,702**
Foreign exchange losses	**(3,027)**	(5,356)	(2,032)	**(24,411)**
Loss on devaluation of securities	**(487)**	(6,569)	(4,019)	**(3,927)**
Loss on disposal of property, plant and equipment, net	**(2,551)**	(2,440)	(4,317)	**(20,573)**
Full amortization of net pension and severance obligation at transition	**(44,520)**	—	—	**(359,032)**
Write-down of land	**—**	(9,855)	—	**—**
Equity gains of affiliates	**—**	—	383	**—**
Other, net	**(11,652)**	(6,581)	(4,192)	**(93,968)**
	(60,382)	(26,562)	(21,509)	**(486,952)**
Income before income taxes and minority interest	**21,291**	64,839	68,423	**171,702**
Income taxes (Note 10):				
Current	**25,814**	36,151	33,772	**208,177**
Deferred	**(25,631)**	(2,621)	(4,207)	**(206,702)**
	183	33,530	29,565	**1,476**
Income before minority interest	**21,108**	31,309	38,858	**170,226**
Minority interest in consolidated subsidiaries	**1,520**	39	(5,152)	**12,258**
Net income	**¥ 22,628**	¥ 31,348	¥ 33,706	**$ 182,484**

	Yen	*Yen*	*Yen*	*U.S. dollars (Note 3)*
Per share data (Note 2):				
Net income—Basic	**¥30.44**	¥51.90	¥56.18	**$0.25**
—Diluted	**29.06**	48.53	51.79	**0.23**
Cash dividends	**9.00**	9.00	8.00	**0.07**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2001, 2000 and 1999

	Thousands							*Millions of yen*
	Number of shares issued	*Common stock*	*Additional paid-in capital*	*Retained earnings (accumulated deficit)*	*Net unrealized gains on securities*	*Treasury stock, at cost*	*Accumulated translation adjustment*	*Total shareholders' equity*
Balance at March 31, 1998	598,507	¥ 84,138	¥ 90,588	¥ (5,891)	¥ —	¥ (2)	¥ —	¥168,833
Cash dividends				(4,201)				(4,201)
Payment of bonuses to directors and statutory auditors				(212)				(212)
Shares issued upon conversion of convertible bonds	3,826	983	979					1,962
Retained earnings of subsidiaries newly included in consolidation				133				133
Net increase of treasury stock						(1)		(1)
Net income				33,706				33,706
Balance at March 31, 1999	602,333	¥ 85,121	¥ 91,567	¥23,535	¥ —	¥ (3)	¥ —	¥200,220
Accumulated foreign currency transaction adjustment transferred from assets							(26,194)	(26,194)
Foreign currency translation adjustment							(2,060)	(2,060)
Cumulative effect of changes in accounting for income taxes				6,582				6,582
Stock class change of Subaru-Isuzu Automotive Inc.				3,495				3,495
Merger of a consolidated subsidiary	740	37	46	2,199				2,282
Cash dividends				(5,122)				(5,122)
Payment of bonuses to directors and statutory auditors				(209)				(209)
Shares issued upon conversion of convertible bonds	11,480	2,957	2,946					5,903
Accumulated deficit of subsidiaries newly included in consolidation				(8,699)				(8,699)
Treasury stock held by subsidiaries newly included in consolidation						(1,142)		(1,142)
Net income				31,348				31,348
Balance at March 31, 2000	614,553	¥ 88,115	¥ 94,559	¥53,129	¥ —	¥(1,145)	¥(28,254)	¥206,404
Accumulated foreign currency transaction adjustment transferred from assets								
Foreign currency translation adjustment							**7,333**	**7,333**
Retained earnings of merger of a consolidated subsidiary				**14,484**				**14,484**
Cash dividends				**(6,394)**				**(6,394)**
Payment of bonuses to directors and statutory auditors				**(167)**				**(167)**
Shares issued to GM	**131,896**	**56,319**	**56,188**					**112,508**
Shares issued upon conversion of convertible bonds	**54**	**14**	**14**					**28**
Treasury stock held by subsidiaries newly included in consolidation						**(1,070)**		**(1,070)**
Adoption of new accounting standard for financial instruments					**1,701**			**1,701**
Net income				**22,628**				**22,628**
Balance at March 31, 2001	**746,502**	**¥144,449**	**¥150,761**	**¥83,680**	**¥1,701**	**¥(2,215)**	**¥(20,921)**	**¥357,455**

							Thousands of U.S. dollars (Note 3)
Balance at March 31, 2000	$ 710,610	$ 762,573	$428,460	$ —	$ (9,234)	$(227,855)	$1,664,548
Accumulated foreign currency transaction adjustment transferred from assets							
Foreign currency translation adjustment						**59,137**	**59,137**
Retained earnings of merger of a consolidated subsidiary			**116,806**				**116,806**
Cash dividends			**(51,565)**				**(51,565)**
Payment of bonuses to directors and statutory auditors			**(1,347)**				**(1,347)**
Shares issued to GM	**454,186**	**453,129**					**907,323**
Shares issued upon conversion of convertible bonds	**113**	**113**					**226**
Treasury stock held by subsidiaries newly included in consolidation					**(8,629)**		**(8,629)**
Adoption of new accounting standard for financial instruments				**13,718**			**13,718**
Net income			**182,484**				**182,484**
Balance at March 31, 2001	**$1,164,911**	**$1,215,815**	**$674,839**	**$13,718**	**$(17,863)**	**$(168,718)**	**$2,882,702**

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, 2001 and 2000

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars (Note 3)*
	2001	*2000*	***2001***
Cash flows from operating activities:			
Income before income taxes and minority interest	**¥ 21,291**	¥ 64,839	**$171,702**
Adjustments to reconcile income before income tax and minority interest to net cash provided by operating activities:			
Depreciation and amortization	**64,070**	60,190	**516,694**
Loss on sale and disposal of property, plant and equipment, net	**2,551**	2,440	**20,573**
Provision for pension and severance liability	**40,546**	—	**326,984**
Write-down of land	**—**	9,855	**—**
Gain on sale of marketable securities	**(2,815)**	(12,092)	**(22,702)**
Loss on devaluation of securities	**487**	6,569	**3,548**
(Increase) decrease in notes and accounts receivable, trade	**(10,231)**	12,719	**(82,508)**
(Increase) decrease in inventories	**(15,053)**	3,572	**(121,395)**
Increase (decrease) in notes and accounts payable	**8,243**	(1,440)	**66,476**
Income taxes paid	**(37,165)**	(37,774)	**(299,718)**
Other, net	**7,175**	(13,745)	**58,242**
Net cash provided by operating activities	**79,099**	95,133	**637,895**
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(91,734)**	(98,429)	**(739,790)**
Proceeds from sale and disposal of property, plant and equipment	**21,439**	21,734	**172,895**
Payment for investment securities	**(2,714)**	(11,064)	**(21,887)**
Payment for purchase of marketable securities	**(50,274)**	(1,171)	**(405,435)**
Proceeds from sales of investments in securities	**7,355**	—	**59,315**
Proceeds from sale of marketable securities	**28,423**	12,343	**229,218**
Purchase of intangible assets	**(5,992)**	(3,018)	**(48,323)**
Addition to loans receivable	**(52,216)**	(56,109)	**(421,097)**
Collection of loans receivable	**54,815**	62,647	**442,056**
Other, net	**2,520**	(4,854)	**20,323**
Net cash used in investing activities	**(88,378)**	(77,921)	**(712,726)**
Cash flows from financing activities:			
Proceeds from long-term debt	**46,443**	31,670	**374,540**
Repayment of long-term debt	**(63,677)**	(33,816)	**(513,524)**
Proceeds from issuance of bonds	**—**	10,300	**—**
Redemption of bonds	**(10,000)**	(42,474)	**(80,645)**
(Proceeds from) repayment of commercial paper	**(30,000)**	30,000	**(241,935)**
Decrease in short-term borrowings	**(31,831)**	(65,340)	**(256,702)**
Proceeds from issuance of stock	**112,224**	—	**905,032**
Payment for treasury stock	**(2,249)**	—	**(18,137)**
Proceeds from sale of treasury stock	**3,901**	—	**31,460**
Payment of cash dividends	**(6,394)**	(5,122)	**(51,565)**
Net cash provided by (used in) financing activities	**18,417**	(74,782)	**148,524**
Effect of exchange rate changes on cash and cash equivalents	**2,529**	(2,218)	**20,395**
Net increase (decrease) in cash and cash equivalents	**11,667**	(59,788)	**94,089**
Cash and cash equivalents:			
Balance at beginning of year	**108,769**	145,907	**877,169**
Decrease from exclusion of a division of a subsidiary due to conversion of the subsidiary's stock	**—**	(10,635)	**—**
Amount applicable to subsidiaries newly included in consolidation	**—**	33,285	**—**
Balance at end of year	**¥120,436**	¥108,769	**$971,258**
Supplemental information on cash flows:			
Cash paid during the period for interest	**¥ 4,573**	¥ 11,067	**$ 36,879**
Conversion of convertible bonds	**28**	5,903	**226**

The accompanying notes are an integral part of these statements.

1. Basis of Presentation of the Financial Statements

Fuji Heavy Industries Ltd. (the "Company") and its subsidiaries in Japan maintain their books of account and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, while its foreign subsidiaries maintain their books of account and prepare their financial statements in conformity with those of the countries of their domicile.

The accompanying consolidated financial statements are basically an English-translated version of those which were prepared in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards (IAS), and filed with the Japanese Ministry of Finance and the Tokyo Stock Exchange as required by the Securities and Exchange Law of Japan. Certain reclassifications of accounts and modifications have been made in the accompanying financial statements to facilitate understanding by readers outside Japan. Such reclassifications and modifications had no effect on consolidated net income. In addition, the statements of shareholders' equity and certain information in the notes to the consolidated financial statements, which are not required under accounting principles and practices generally accepted in Japan, are presented herein as additional information.

2. Summary of Significant Accounting Policies

Consolidation

The 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 consolidated domestic subsidiaries is the same as that of the parent company, while the fiscal year-end of consolidated foreign subsidiaries is December 31. Although these foreign subsidiaries are included based on their fiscal year ended December 31, significant transactions between December 31 and March 31 are reflected in the consolidated financial statements.

Until the fiscal year ended March 31, 1999, investments in non-consolidated subsidiaries and significant affiliates had been accounted for under the equity method. Consolidated net income included the Company's equity in the current net income of such companies after elimination of unrealized intercompany profits. From the fiscal year ended March 31, 2000, however, the new accounting standard for consolidation in Japan became effective and the number of consolidated subsidiaries rose to 72, of which 46 subsidiaries previously accounted for under the equity method were newly included in consolidation. The number of consolidated subsidiaries decreased to 68 at March 31, 2001 due to liquidations of and a merger between subsidiaries.

Until the fiscal year ended March 31, 1999, Subaru-Isuzu Automotive Inc. (SIA), a subsidiary in the United States of which 51% was owned by the Company and the other 49% by Isuzu Motors Ltd., had been included in the Company's consolidated financial statements on a fully consolidated basis with its profit/loss allocated to the Company based on its share of common stock (51%). From the fiscal year ended March 31, 2000, however, due to the conversion of its common stock into two classes to represent the Subaru Product Division and the Isuzu Product Division, effective January 1, 1999, only the Subaru Product Division of SIA has been consolidated by the Company. Accordingly, the Isuzu Product Division of SIA and Isuzu Transport Inc., a subsidiary of SIA, have been excluded from the Company's consolidated financial statements. As a result of this change, consolidated sales for the year ended March 31, 2000 decreased by ¥191,965 million, although consolidated retained earnings at March 31, 2000 increased by ¥3,495 million.

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

The difference between the cost and underlying net equity of investments in subsidiaries and affiliated companies is allocated to identifiable assets based on fair value at the date of acquisition. The unallocated residual value of the excess of the cost over the underlying net equity is recognized as goodwill and is amortized over a period of five years on a straight-line basis.

All assets and liabilities of subsidiaries acquired on or after April 1, 1999, which include not only the Company's interest in the subsidiary but also the minority interest portion, are valued based on fair value at the date the Company acquires control over the subsidiary. The investment cost of the Company is allocated to the identifiable assets and liabilities of the subsidiary; the unallocated cost is recorded as goodwill.

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.

Translation of foreign currency accounts

Until the fiscal year ended March 31, 1999, current and non-current accounts denominated in foreign currencies held by the Company and its subsidiaries in Japan were principally translated into yen at historical exchange rates. Revenues and expenses denominated in foreign currencies were translated at the exchange rates prevailing during the year. The resulting translation gains and losses were taken into income currently. From the fiscal year ended March 31, 2000, however, current monetary assets and liabilities denominated in foreign currencies held by the Company and its subsidiaries in Japan are translated into yen at appropriate year-end current rates. The effect of this change was minor.

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at the balance sheet date of the foreign subsidiaries, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are also translated at the exchange rates prevailing during the year. The resulting translation adjustments were reflected in the consolidated balance sheet as "Translation adjustments" in the assets category until March 31, 1999. From the fiscal year ended March 31, 2000, however, these translation adjustments have been reclassified to a component of shareholders' equity to conform with the new Japanese accounting requirements.

Revenue recognition

Revenue from sales of vehicles and parts is generally recognized when such products are shipped to dealers or customers. Provisions for sales allowances and incentives are recognized at the time of the sale.

Revenue from operating leases is recognized on a straight-line basis over the lease term.

Other costs

The Company provides for accrued warranty claims on its products sold based on past experience of warranty services performed on actual claims and estimated warranty costs to be incurred in the future at the time of sale.

Research and development costs are expensed as incurred and amounted to ¥38,512 million, ¥40,123 million and ¥46,622 million (US$375,984 thousand) for the years ended March 31, 1999, 2000 and 2001, respectively.

Marketable securities and investment securities

Prior to April 1, 2000, securities listed on stock exchanges were stated at the lower of cost or market value, cost being determined by the moving average method. Securities not listed on stock exchanges were stated at cost, as determined by the moving average method, after devaluation for any permanent impairment.

The Company adopted new Japanese accounting standards for financial instruments from the fiscal year ended March 31, 2001. In accordance with the new standards, securities for which fair value is available are stated at fair value as of the balance sheet date with unrealized holding gains and losses included as a component of shareholders' equity until realized, while securities for which fair value is not available are stated at cost as determined by the moving average method. Bonds and debentures held-to-maturity are stated using the amortized interest cost method.

As a result of such adoption, income before income taxes and minority interest increased by ¥1,759 million (US$14,185 thousand) for the year ended March 31, 2001, as compared with the amounts under the previous accounting standards. Based on the review of the purposes of holding securities at April 1, 2000, securities held-to-maturity and other securities with maturities of one year or less have been classified as marketable securities in current assets and all other securities as investment securities. As a result, marketable securities in current assets decreased by ¥21,894 million (US$176,565 thousand) and investment securities increased by the same amount as of April 1, 2000. Also, from the year ended March 31, 2001, impairment losses of ¥5,226 million (US$42,145 thousand) for investment securities previously recorded in a separate allowance account have been directly offset against the investment securities balance.

Derivative financial instruments and hedge accounting

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

Principally, the deferred hedge accounting method is applied to these derivative financial instruments qualifying as a hedge, and the gains and losses related to the derivatives are allocated to and offset against recognized gains and losses on the items hedged. Interest rate swaps which meet certain criteria are excluded from the application of hedge accounting. Derivative financial instruments qualifying as a hedge, along with the related transactions, assets and liabilities, are summarized as follows:

Financial Instrument	Transaction, Assets and Liabilities
Forward exchange contracts	Future foreign exchange transactions
Currency swaps	Foreign currency borrowings
Interest swaps	Borrowings

The risk exposures to movements in exchange rates and interest rates are hedged according to the Company's risk management policy. Evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedge instruments are the same as those of the related transactions, assets and liabilities, and therefore they are assumed to be highly effective in offsetting movements in the exchange rates and 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 and repairs, minor renewals and improvements are charged to income as incurred.

Depreciation of property, plant and equipment is principally computed by the declining-balance method for the Company and subsidiaries in Japan, and by the straight-line method for foreign subsidiaries at rates based on the estimated useful lives of the assets according to general class, type of construction and use.

Accrued pension and severance liability

On terminating employment, employees of the Company and subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pensions 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.

The Company and certain subsidiaries in Japan have non-contributory funded defined benefit pension plans. The plans of the Company cover 80% of retirement and severance benefits for employees who terminate employment at age fifty or over. The contributions to the pension plan include current service costs and amortization of prior service costs over a period of eight years. Foreign subsidiaries primarily have defined contribution plans.

Certain subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover 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 substituted non-contributory pension plan.

Retirement benefits to directors and statutory auditors are subject to approval at a meeting of shareholders and are charged to income when paid.

Prior to April 1, 2000, the Company and subsidiaries in Japan recorded the accrued severance indemnities for employees which represented 40% of the liability which would be payable if all employees voluntarily terminated their services at the balance sheet date.

Effective April 1, 2000, new Japanese accounting standards for pension and severance benefits have been adopted. In accordance with the new accounting standards, accrued pension and severance liability for employees has been provided based on the estimated amounts of projected benefit obligation and fair value of plan assets at the end of the fiscal year. The amount of ¥44,520 million (US$359,032 thousand) of net pension obligation at transition has entirely been expensed in the fiscal year ended March 31, 2001. Actuarial gains and losses will be amortized from the next fiscal year by the straight-line method over periods (5–18 years) which are less than the estimated remaining service periods of employees. As a result of such adoption, pension costs increased by ¥3,301 million (US$26,621 thousand), and income before income taxes and minority interest decreased by ¥40,934 million (US$331,113 thousand) for the year ended March 31, 2001, as compared with the amounts under the previous accounting standards.

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

Accounting for leases

Under Japanese accounting standards for leases, finance leases are, in principle, accounted for on a similar basis to sales by lessors or purchases by lessees. However, finance leases which do not transfer ownership of leased assets to lessees as stipulated in lease contracts can be accounted for as an operating lease if certain “as-if-capitalized” information is disclosed in the notes to the financial statements. Therefore, as a lessee, the Company has accounted for those leases as an operating lease and has charged periodic lease payments to expenses when paid.

Income taxes

Up to March 31, 1999, deferred income taxes pertaining to temporary differences were recognized only insofar as they related to the elimination of unrealized intercompany profit and the adjustment of allowances for doubtful accounts for consolidation purposes.

Deferred tax accounting, similar to IAS 12, has been newly adopted from the beginning of the fiscal year ended March 31, 2000 in accordance with new Japanese accounting standards. 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. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The cumulative effect, as of April 1, 1999, of the accounting change resulting from the adoption of deferred tax accounting was directly credited to retained earnings in the amount of ¥6,582 million.

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 convertible securities were converted or other contracts to issue common stock were exercised to the extent that it is not antidilutive.

Reclassifications

Certain reclassifications within the financial statements for the years ended March 31, 1999 and 2000 have been made to conform to the presentation for the year ended March 31, 2001.

3. U.S. Dollar Amounts

The U.S. dollar amounts included in the accompanying consolidated financial statements and the related notes represent a translation using the exchange rate of ¥124 to US$1, the approximate exchange rate at March 31, 2001. The U.S. dollar amounts are included solely for the convenience of the reader, and these translations should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into U.S. dollars at the above or any other rate.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2001 and 2000 consisted of the following:

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	***2001***
Cash and time deposits	**¥ 58,610**	¥ 74,509	**$ 472,661**
Marketable securities	**89,573**	63,006	**722,363**
Short-term loans receivable	**66,519**	70,559	**536,444**
	214,702	208,074	**1,731,468**
Less maturity over three months	**(94,266)**	(99,305)	**(760,210)**
Cash and cash equivalents	**¥120,436**	¥108,769	**$ 971,258**

5. Marketable Securities and Investment Securities

Information as to the value of marketable securities and investment securities at March 31, 2000 and 2001 is presented below according to the disclosure requirements applicable to the respective year:

(1) As of March 31, 2000 (presented according to the fiscal 2000 disclosure requirements):

		Millions of yen
	Carrying value	*Unrealized gains (losses)*
Current—		
Marketable equity securities	¥22,255	¥2,829
Debt securities	—	—
Other securities	257	(47)
Subtotal	22,512	2,782
Non-current—		
Marketable equity securities	14,442	2,556
Debt securities	166	4
Other securities	282	(4)
Subtotal	14,890	2,556
Total	¥37,402	¥5,338

(2) As of March 31, 2001 (presented according to the fiscal 2001 disclosure requirements):

(a) Held-to-maturity securities for which fair value is available:

			Millions of yen
	Consolidated balance sheet amount	*Fair value*	*Difference*
Fair value exceeds balance sheet amount:			
Government bonds	¥ 4	¥ 5	¥ 1
Subtotal	4	5	1
Fair value does not exceed balance sheet amount:			
Corporate bonds	5,000	4,930	(70)
Subtotal	5,000	4,930	(70)
Total	¥5,004	¥4,935	¥(69)

			Thousands of U.S. dollars
	Consolidated balance sheet amount	*Fair value*	*Difference*
Fair value exceeds balance sheet amount:			
Government bonds	$ 32	$ 40	$ 8
Subtotal	32	40	8
Fair value does not exceed balance sheet amount:			
Corporate bonds	40,323	39,758	(565)
Subtotal	40,323	39,758	(565)
Total	$40,355	$39,798	$(556)

(b) Other investment securities (available-for-sale securities):

			Millions of yen
	Cost	Consolidated balance sheet amount	Difference
Balance sheet amount exceeds cost:			
Stock	¥ 8,558	¥15,595	¥7,037
Bonds:			
Discount bank debenture	1,847	1,849	2
Other	11,160	11,166	6
Other	4,874	4,930	56
Subtotal	26,439	33,540	7,101
Balance sheet amount does not exceed cost:			
Stock	23,916	19,804	(4,112)
Bonds:			
Discount bank debenture	1	0	(1)
Other	10,098	10,097	(1)
Other	2,551	2,542	(9)
Subtotal	36,566	32,443	(4,123)
Total	¥63,005	¥65,983	¥2,978

			Thousands of U.S. dollars
	Cost	Consolidated balance sheet amount	Difference
Balance sheet amount exceeds cost:			
Stock	$ 69,016	$125,766	$56,750
Bonds:			
Discount bank debenture	14,895	14,911	16
Other	90,000	90,048	48
Other	39,306	39,758	452
Subtotal	213,218	270,484	57,266
Balance sheet amount does not exceed cost:			
Stock	192,871	159,710	(33,161)
Bonds:			
Discount bank debenture	8	0	(8)
Other	81,435	81,427	(8)
Other	20,573	20,500	(73)
Subtotal	294,887	261,637	(33,250)
Total	$508,105	$532,121	$24,016

(c) Other investment securities sold during the year ended March 31, 2001:

Sales amount	*Total gains*	*Total losses*
¥35,773 million	¥2,815 million	¥14 million
US$288,492 thousand	US$22,702 thousand	US$113 thousand

(d) Major marketable securities without available fair value included in the balance sheet amounts as of March 31, 2001:

	Millions of yen	*Thousands of U.S. dollars*
Money management fund	¥31,272	$252,194
Commercial paper	21,819	175,960
Unlisted stocks (excluding over-the-counter stocks)	6,622	53,403

(e) Marketable securities with maturities as of March 31, 2001:

	Millions of yen		*Thousands of U.S. dollars*	
	Within 1 year	*1 to 5 years*	*Within 1 year*	*1 to 5 years*
1) Debt securities:				
Government and municipal bonds	¥ 1,099	¥ 753	$ 8,863	$ 6,072
Corporate bonds	1,499	5,001	12,089	40,331
Other	41,570	10	335,242	81
2) Other	4,100	202	33,065	1,629
Total	¥48,268	¥5,966	$389,258	$48,113

6. Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	***2001***
Finished products	**¥106,061**	¥ 85,689	**$ 855,331**
Work in process	**53,244**	55,523	**429,387**
Raw materials	**8,672**	11,680	**69,935**
Supplies	**1,958**	1,947	**15,790**
	¥169,936	¥154,839	**$1,370,452**

7. Property, Plant and Equipment

Property, plant and equipment at March 31, 2001 and 2000 are summarized as follows:

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	***2001***
Buildings and structures	**¥227,437**	¥219,818	**$1,834,169**
Machinery and vehicles	**457,931**	431,062	**3,692,992**
Other	**168,521**	166,115	**1,359,040**
	853,889	816,995	**6,886,202**
Less accumulated depreciation	**(548,750)**	(527,296)	**(4,425,403)**
Land	**140,810**	120,757	**1,135,565**
Construction in progress	**10,632**	6,182	**85,742**
Total	**¥456,581**	¥416,638	**$3,682,105**

8. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	***2001***
Bank loans, with an average interest rate of 1.3% per annum	**¥180,226**	¥210,331	**$1,453,435**
Commercial paper, with an average interest rate of 0.01% per annum	**—**	30,000	**—**
	¥180,226	¥240,331	**$1,453,435**

Long-term debt at March 21, 2001 and 2000 consisted of the following:

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	***2001***
Loans principally from banks and insurance companies, due through 2026 with an average interest rate of 3.4% per annum	**¥113,762**	¥127,573	**$ 917,435**
Unsecured 1.8% convertible bonds due 2003, convertible currently at ¥633.30 ($5.10) for one common share, redeemable before due date	**2,035**	2,042	**16,411**
Unsecured 0.9% convertible bonds due 2003, convertible currently at ¥513.00 ($4.14) for one common share, redeemable before due date	**18,777**	18,799	**151,427**
Unsecured 2.25% bonds due July 31, 2002	**20,000**	20,000	**161,290**
Unsecured 2.10% bonds due January 31, 2001	**—**	10,000	**—**
Unsecured 2.10% bonds due August 29, 2003	**10,000**	10,000	**80,645**
Unsecured 2.3% bonds due September 30, 2005	**10,000**	10,000	**80,645**
Unsecured 1.76% bonds, due April 30, 2004	**10,000**	10,000	**80,645**
Secured 1.8% bonds of a consolidated subsidiary, due July 7, 2005	**300**	300	**2,419**
	184,874	208,714	**1,490,919**
Less—Portion due within one year	**37,943**	54,221	**305,992**
	¥146,931	¥154,493	**$1,184,927**

Annual maturities of long-term bank loans at March 31, 2001 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
2002	¥ 37,943	$ 305,992
2003	42,841	345,492
2004	51,360	414,194
2005	28,597	230,621
2006	21,999	177,411
2007 and thereafter	2,134	17,210
	¥184,874	$1,490,919

The following assets as of March 31, 2001 and 2000 were pledged as collateral for certain loans:

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	***2001***
Cash and time deposits	**¥ —**	¥ 300	**$ —**
Notes and accounts receivable	**2,746**	—	**22,145**
Marketable securities	**—**	542	**—**
Inventories	**—**	2,470	**—**
Short-term loans receivable	**—**	52,509	**—**
Other current assets	**1,690**	2,316	**13,629**
Property, plant and equipment	**135,247**	141,300	**1,090,702**
Investment securities	**234**	3,146	**1,887**
Other assets	**—**	1,911	**—**
	¥139,917	¥204,494	**$1,128,363**

9. Pension and Severance Plans

The Company and its consolidated domestic subsidiaries have defined benefit plans. Foreign subsidiaries primarily have defined contribution plans.

Reconciliation between the projected pension and severance obligation and allowance for pension and severance liability as of March 31, 2001 is as follows:

	Millions of yen	*Thousands of U.S. dollars*
Projected pension and severance obligation	¥122,929	$991,363
Plan assets	(50,333)	(405,911)
Unfunded pension and severance obligations	72,596	585,452
Unamortized transition liability	—	—
Unamortized actuarial gain/loss	(6,933)	(55,911)
Unamortized prior service cost	—	—
Net amount recorded in balance sheet	65,664	529,548
Prepaid pension cost	(10)	(81)
Allowance for pension and severance liability	¥ 65,674	$529,629

Notes: 1. The above amounts include the government pension plan funded by social security taxes paid by employees and employer.
2. Certain subsidiaries calculate the liability using a simplified method.
3. In addition to the above plan assets, there are plan assets of ¥18,213 million (US$146,879 thousand) for the multi-employer pension plan, which could not be allocated to each specific participating employer, which are allocated based on the number of participants.

Periodic pension and severance costs for the year ended March 31, 2001 consist of the following:

	Millions of yen	*Thousands of U.S. dollars*
Service cost	¥ 8,405	$ 59,347
Interest cost	3,187	25,702
Expected return on plan assets	(1,886)	(15,210)
Amortization of transition liability	44,520	359,032
Amortization of actuarial gain/loss	—	—
Amortization of prior service cost	—	—
Pension end severance cost	¥54,225	$428,863

Notes: 1. The above amounts do not include the social security taxes paid by employees.
2. Service costs of subsidiaries using the simplified method are included in Service cost above.
3. The above amounts include ¥704 million (US$5,677 thousand) for the multi-employer pension plan, for which plan assets could not be allocated to each specific participating employer, in Service cost.
4. There are contributions of ¥1,046 million (US$8,435 thousand) for the defined contribution plans of foreign subsidiaries which are included in Service cost.

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

a. Attribution of expected benefit obligation	Straight-line method
b. Discount rate	Primarily 3.0%
c. Expected rate of return on plan assets	Primarily 4.0%
d. Amortization of actuarial gain/loss	Primarily 18 years (will be amortized by the straight-line method starting from the next fiscal year based on periods less than the estimated average remaining service period of employees)
e. Amortization of transition liability	One year

10. Income Taxes

The Company is subject to a number of taxes based on income which, in aggregate, resulted in normal statutory tax rates of approximately 47.4% for the year ended March 31, 1999 and 41.8% for the years ended March 31, 2000 and 2001.

A reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2001 was as follows:

Statutory tax rate	41.8%
Increase (reduction) in taxes resulting from:	
Valuation allowance provided	(35.3)
Non-deductible expenses	2.1
Lower tax rates applicable to foreign subsidiaries	(2.3)
Tax credit	(4.0)
Other	(1.4)
Effective income tax rate	0.9%

Significant components of the deferred tax assets and liabilities at March 31, 2001 and 2000 were as follows:

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Operating loss carryforwards for tax purposes	**¥ 4,308**	¥ 5,221	**$ 34,742**
Inter-company profit included in inventories	**7,489**	5,255	**60,395**
Accrued pension and severance costs	**20,419**	2,211	**164,669**
Accrued expenses	**6,556**	2,787	**52,871**
Accrued enterprise tax	**697**	2,693	**5,620**
Accrued bonuses	**4,093**	2,453	**33,008**
Warranty reserve	**6,392**	5,563	**51,548**
Devaluation of land	**—**	4,119	**—**
Valuation reserve for equity investment	**2,006**	2,002	**16,177**
Inter-company profit included in property, plant and equipment	**5,683**	5,657	**45,831**
Inventory valuation losses	**1,774**	—	**14,306**
Allowance for doubtful accounts	**1,838**	—	**14,823**
Unearned revenue	**2,294**	—	**18,500**
Foreign tax credit	**1,343**	—	**10,831**
Other	**5,991**	2,932	**48,315**
Total deferred tax assets	**70,883**	40,893	**571,637**
Valuation allowance	**(7,464)**	(12,373)	**(60,194)**
Total deferred tax assets, net of valuation allowance	**63,419**	28,520	**511,444**
Deferred tax liabilities:			
Depreciation	**(10,027)**	(1,094)	**(80,863)**
Net unrealized gains on investment securities	**(1,462)**	—	**(11,790)**
Other	**(351)**	(225)	**(2,831)**
Total deferred tax liabilities	**(11,840)**	(1,319)	**(95,484)**
Net deferred tax assets	**¥51,579**	¥27,201	**$415,960**

Note: Net deferred tax assets are included in the following accounts in the accompanying consolidated balance sheets.

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2001	2000	**2001**
Current assets—Deferred income taxes	**¥29,891**	¥17,378	**$241,056**
Investments and other assets—Deferred income taxes	**26,763**	10,408	**215,831**
Long-term liabilities—Other	**(5,075)**	(585)	**(40,927)**
Net deferred tax assets	**¥51,579**	¥27,201	**$415,960**

11. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the parent company and its subsidiaries in Japan appropriated as a legal reserve. No further appropriation is required when the legal reserve equals 25% of stated capital. Legal reserves included in retained earnings as of March 31, 2000 and 2001 were ¥6,902 million and ¥7,555 million (US$60,927 thousand) and are restricted to be used as dividends.

In accordance with customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after shareholders' approval has been obtained. Retained earnings at March 31, 2000 includes amounts representing final cash dividends of ¥3,346 million (US$26,984 thousand), ¥4.5 (US$0.04) per share, and director's bonuses of ¥110 million (US$887 thousand), which were approved at the shareholders' meeting held on June 27, 2001.

12. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2001, 2000 and 1999 consisted of the following:

	Millions of yen	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	*1999*	***2001***
Transportation and packing expenses	**¥ 14,578**	¥ 13,495	¥ 17,701	**$ 117,565**
Advertising expenses	**42,633**	41,265	36,370	**343,815**
Sales incentives	**15,248**	16,696	44,295	**122,968**
Salaries and bonuses	**54,026**	55,840	20,770	**435,694**
Research and development expenses	**45,780**	40,123	38,512	**369,194**
Others	**79,108**	76,174	37,072	**637,968**
	¥251,373	¥243,593	¥194,720	**$2,027,202**

13. Leases

(1) Information as lessee

As allowed under Japanese accounting standards, the Company and subsidiaries in Japan account for finance leases that do not transfer ownership of leased assets to lessees as stipulated in lease contracts as operating leases. The "as-if-capitalized" information of such leased assets is as follows:

(a) Details of the leased assets:

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	***2001***
Machinery and vehicles	**¥1,702**	¥1,165	**$13,726**
Tools and other	**6,116**	6,046	**49,323**
Intangibles assets	**797**	824	**6,427**
	8,616	8,035	**69,484**
Accumulated depreciation	**(5,480)**	(4,578)	**(44,194)**
Net	**¥3,136**	¥3,457	**$25,290**

(b) Depreciation of the leased assets is computed by the straight-line method over the lease term. Depreciation expenses for the years ended March 31, 2000 and 2001 would have been ¥1,757 million and ¥1,725 million (US$13,911 thousand), respectively.

Actual periodic lease expenses for these finance leases, as accounted for as operating leases, were as follows:

	Millions of yen	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	*1999*	***2001***
Lease expenses	**¥1,879**	¥2,017	¥5,086	**$15,153**

Future minimum lease payments, excluding the portion of interest thereon, as of March 31, 2001 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
Finance leases:		
One year or less	¥ 1,325	$ 10,685
More than one year	1,977	15,944
	¥ 3,302	$ 26,629
Operating leases:		
One year or less	¥ 2,558	$ 20,629
More than one year	34,215	275,927
	¥36,773	$296,556

(2) Information as lessor

Capitalized lease assets for finance leases at March 31, 2001 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
Machinery and vehicles	¥13,061	$105,331
Tools and other	5,515	44,476
Intangible assets	214	1,726
	18,792	151,548
Accumulated depreciation	(6,818)	(54,984)
	¥11,973	$ 96,556

Information related to finance leases for the year ended March 31, 2001 is as follows:

	Millions of yen	*Thousands of U.S. dollars*
Lease income	¥5,086	$41,016
Depreciation expense	3,901	31,460
Interest income portion	1,286	10,371

Future minimum lease income, excluding the portion of interest thereon, as of March 31, 2001 was as follows:

	Millions of yen	*Thousands of U.S. dollars*
Finance leases:		
One year or less	¥ 4,159	$ 33,540
More than one year	7,949	64,105
	¥12,108	$ 97,645
Operating leases:		
One year or less	¥ 8,490	$ 68,468
More than one year	7,263	58,573
	¥15,754	$127,048

14. Contingent Liabilities

Contingent liabilities at March 31, 2001 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
Trade notes discounted with banks	¥ 1,326	$ 10,694
As guarantor of indebtedness of non-consolidated subsidiaries, affiliates and others	37,584	303,097

15. Derivative Financial Instruments

Fair value information of the off-balance-sheet derivative financial instruments at March 31, 2000 and 2001 is summarized below according to the disclosure requirements applicable to the respective year:

(1) As of March 31, 2000 (presented according to the fiscal 2000 disclosure requirements):

			Millions of yen
	Contract amount	*Fair value*	*Unrealized gains (losses)*
Forward exchange contracts:			
Sell—			
U.S. dollar	¥21,877	¥21,623	¥254
Foreign currency options contracts:			
Sell—			
Put U.S. dollar	1,031	7	(1)
	[6]	—	—
Call U.S. dollar	8,310	17	87
	[104]	—	—
Buy—			
Put U.S. dollar	7,907	147	37
	[110]	—	—

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

At March 31, 2000, the aggregate notional principal amount of interest rate swap contracts was ¥900 million. The estimated fair value of these contracts was a loss of ¥4 million.

(2) As of March 31, 2001 (presented according to the fiscal 2001 disclosure requirements):

			Millions of yen			*Thousands of U.S. dollars*
	Contract amount	*Fair value*	*Unrealized gains (losses)*	*Contract amount*	*Fair value*	*Unrealized gains (losses)*
Foreign currency options contracts:						
Sell—						
Call U.S. dollar	¥29,172			$235,258		
	[442]	¥926	¥(484)	(3,565)	$7,468	$(3,903)
Buy—						
Put U.S. dollar	27,931			225,250		
	[433]	240	(193)	(3,492)	1,935	(1,557)

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

Derivative financial instruments, principally forward exchange contracts and currency and interest swaps, 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 in 2001.

16. Segment Information

Information by industry segment

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

A summary of net sales, operating income, assets, depreciation and capital expenditures by industry segment for the years ended March 31, 2001, 2000 and 1999 are shown below:

Net sales:

	Millions of yen	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	*1999*	***2001***
Net sales:				
Automobiles—				
Outside customers	**¥1,167,209**	¥1,175,471	¥1,197,429	**$ 9,412,976**
Inter-segment	**3,131**	4,474	744	**25,250**
Total	**1,170,340**	1,179,945	1,198,173	**9,438,226**
Industrial products—				
Outside customers	**44,224**	51,847	43,257	**356,645**
Inter-segment	**140**	150	270	**1,129**
Total	**44,365**	51,997	43,527	**357,782**
Aerospace—				
Outside customers	**65,504**	66,144	78,268	**528,258**
Inter-segment	**118**	185	148	**952**
Total	**65,622**	66,329	78,416	**529,210**
Others—				
Outside customers	**34,951**	36,663	33,566	**281,863**
Inter-segment	**2,555**	2,172	117	**20,605**
Total	**37,505**	38,835	33,683	**302,460**
Elimination	**(5,944)**	(6,981)	(1,279)	**(47,935)**
Consolidated total	**¥1,311,887**	¥1,330,125	¥1,352,520	**$10,579,734**

Segment profit or loss:

	Millions of yen	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	*1999*	***2001***
Operating income (loss):				
Automobiles	**¥82,211**	¥92,314	¥85,410	**$662,992**
Industrial products	**784**	1,283	1,442	**6,323**
Aerospace	**2,467**	2,034	6,650	**19,895**
Others	**(4,100)**	(4,411)	(3,602)	**(33,065)**
Total	**81,362**	91,220	89,900	**656,145**
Corporate and elimination	**312**	181	32	**2,516**
Consolidated operating income	**¥81,673**	¥91,401	¥89,932	**$658,653**

Assets:

	Millions of yen	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2001	*2000*	*1999*	***2001***
Total assets:				
Automobiles	**¥ 956,131**	¥ 849,046	¥749,383	**$7,710,734**
Industrial products	**57,372**	49,478	48,330	**462,677**
Aerospace	**106,955**	98,064	117,224	**862,540**
Others	**74,851**	47,993	67,467	**603,637**
Total	**1,195,309**	1,044,581	982,404	**9,639,589**
Corporate and elimination	**(26,808)**	(6,023)	(1,148)	**(216,194)**
Consolidated total	**¥1,168,501**	¥1,038,558	¥981,256	**$9,423,395**

Other significant items:

	Millions of yen	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2001	*2000*	*1999*	***2001***
Depreciation and amortization:				
Automobiles	**¥ 57,225**	¥ 53,651	¥33,408	**$461,492**
Industrial products	**1,943**	2,024	2,044	**15,669**
Aerospace	**2,392**	2,739	2,258	**19,290**
Others	**2,510**	1,821	998	**20,242**
Total	**64,070**	60,235	38,708	**516,694**
Corporate and elimination	**—**	(45)	—	**—**
Consolidated total	**¥ 64,070**	¥ 60,190	¥38,708	**$516,694**
Capital expenditures for segment assets:				
Automobiles	**¥ 95,255**	¥ 98,428	¥54,997	**$768,185**
Industrial products	**2,155**	2,296	1,134	**17,379**
Aerospace	**1,535**	1,671	3,176	**12,379**
Others	**3,356**	3,489	800	**27,065**
Total	**102,301**	105,884	60,107	**825,008**
Corporate and elimination	**—**	(1,962)	(2,541)	**—**
Consolidated total	**¥102,301**	¥103,922	¥57,566	**$825,008**

Information by geographic area

A summary of net sales, operating income and assets by geographic areas for the years ended March 31, 2001, 2000 and 1999 is shown below:

Net sales:

	Millions of yen	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	*1999*	***2001***
Net sales:				
Japan—				
Outside customers	**¥ 866,161**	¥ 903,697	¥ 738,945	**$ 6,985,169**
Inter-segment	**218,288**	188,984	213,582	**1,760,387**
Total	**1,084,448**	1,092,681	952,527	**8,745,548**
North America—				
Outside customers	**441,566**	420,457	605,637	**3,561,016**
Inter-segment	**1,645**	1,799	1,638	**13,266**
Total	**443,211**	422,256	607,275	**3,574,282**
Other—				
Outside customers	**4,161**	5,971	7,938	**33,556**
Inter-segment	**69**	72	55	**556**
Total	**4,230**	6,043	7,993	**34,113**
Elimination	**(220,002)**	(190,855)	(215,275)	**(1,774,210)**
Consolidated total	**¥1,311,887**	¥1,330,125	¥1,352,520	**$10,579,734**

Segment profit or loss:

	Millions of yen	*Millions of yen*	*Millions of yen*	*Thousands of U.S. dollars*
	2001	*2000*	*1999*	***2001***
Operating income:				
Japan	**¥62,818**	¥61,800	¥65,761	**$506,597**
North America	**21,848**	27,154	27,509	**176,194**
Other	**62**	181	191	**500**
Total	**84,728**	89,135	93,461	**683,290**
Corporate and elimination	**(3,055)**	2,266	(3,529)	**(24,637)**
Consolidated total	**¥81,673**	¥91,401	¥89,932	**$658,653**

Assets:

	Millions of yen	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2001	2000	1999	**2001**
Assets:				
Japan	**¥ 963,528**	¥ 856,235	¥ 721,643	**$7,770,387**
North America	**244,201**	212,958	280,016	**1,969,363**
Other	**1,281**	1,918	2,191	**10,331**
Total	**1,209,010**	1,071,111	1,003,850	**9,750,081**
Corporate and elimination	**(40,509)**	(32,553)	(22,594)	**(326,685)**
Consolidated total	**¥1,168,501**	¥1,038,558	¥ 981,256	**$9,423,395**

Overseas sales

Overseas sales for the years ended March 31, 2001, 2000 and 1999 are summarized as follows:

	Millions of yen		Millions of yen		Millions of yen		Thousands of U.S. dollars
	2001		2000		1999		**2001**
Overseas sales:							
North America	**¥ 491,068**	**37.4%**	¥ 480,588	36.1%	¥ 637,780	47.2%	**$ 3,960,226**
Europe	**66,463**	**5.1**	99,192	7.5	104,628	7.7	**535,992**
Other	**66,160**	**5.0**	63,876	4.8	66,842	4.9	**533,548**
Total	**¥ 623,691**	**47.5%**	¥ 643,656	48.4%	¥ 809,250	59.8%	**$ 5,029,766**
Consolidated net sales	**¥1,311,887**	**100.0%**	¥1,330,125	100.0%	¥1,352,520	100.0%	**$10,579,734**

Report of Independent Certified Public Accountants

To the Board of Directors of
FUJI HEAVY INDUSTRIES LTD.

We have audited the accompanying consolidated balance sheets of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income and shareholders' equity for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. We have also audited the consolidated statements of cash flows for each of the two years in the period ended March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for accrued pension and severance liability and for financial instruments and a revised accounting standard for foreign currency transactions.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations for each of the three years in the period ended March 31, 2001, and their cash flows for each of the two years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in Japan.

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

Tokyo Japan
June 27, 2001

Meiji Audit Corporation

MEIJI AUDIT CORPORATION

Consolidated Subsidiaries and Affiliates (As of March 31, 2001)

JAPAN

Fuji Robin Industries Ltd. (58.1%)
Manufacture, service, and sales of agricultural/forestry equipment, engines, fire pumps, and related parts
http://www5.mediagalaxy.co.jp/fujirobin/

Fuji Machinery Co., Ltd. (56.7%)
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. (100.0%)
Manufacture of Subaru specially equipped automobiles and management of Subaru automobile parts distribution
http://www.sunfield.ne.jp/~kiryu/

Subaru Kosan Co., Ltd. (100.0%)
Sales and leasing of real estate and travel agency operations

Subaru Used Car Sales Co., Ltd. (100.0%)
Refurbishment, distribution, and sales of used Subaru cars

FICS Corporation (100.0%)
Distribution and service of Volvo automobiles

Subaru Finance Co., Ltd. (100.0%)
Leasing and rental of Subaru automobiles and industrial products and credit, financing, and sales of auto insurance
http://www.subaru-finance.co.jp/

Yusoki Kogyo K.K. (45.6%)
Manufacture and sales of parts for car trailers, crane trucks, construction machinery, and automobiles
http://www.yusoki.co.jp/

**TOKYO SUBARU INC. (100.0%)
and 40 other dealerships**
Distribution, sales, and service of Subaru automobiles
http://www.sss.ne.jp/tokyo-subaru/

NIIGATA SUBARU, Inc.* (46.7%)
Distribution, sales, and service of Subaru automobiles
http://www.niigata-subaru.co.jp/

OVERSEAS

**Subaru of America, Inc. (100.0%)
and nine subsidiaries**
Subaru Plaza, 2235 Route 70 West, Cherry Hill, NJ 08002, U.S.A.
Tel: (856) 488-8500
Fax: (856) 665-3346
Distribution and sales of Subaru automobiles
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, NJ 08002, U.S.A.
Tel: (856) 488-8532
Fax: (856) 488-9279
Distribution and sales of Subaru automobiles

Subaru Research & Development, Inc.
3995 Research Park Drive, Ann Arbor, MI 48108, U.S.A.
Tel: (734) 623-0075
Fax: (734) 623-9579
Research and development of automobiles

**Subaru-Isuzu Automotive Inc. (51.0%)
and one subsidiary**
5500 State Road 38 East, Lafayette, IN 47903, U.S.A.
Tel: (765) 449-1111
Fax: (765) 449-6952
Manufacture of Subaru and Isuzu automobiles
http://www.subaru-isuzu.com/

Ta Ching Motors Co., Ltd.* (45.0%)
337 Ta Hsi Road, Ching Hsi Lii, Piang Tung, Taiwan
Tel: (08) 753-8001
Fax: (08) 753-8021
Manufacture and sales of Subaru automobiles
http://www.subaruzone.com.tw/

**Subaru Canada, Inc. (100.0%)
and one subsidiary**
5990 Falbourne Street, Mississauga, Ontario, Canada L5R 3S7
Tel: (905) 568-4959
Fax: (905) 568-8087
Distribution and sales of Subaru automobiles
http://www.subaru.ca/

Subaru Parts Europe N.V./S.A. (100.0%)
c/o Hermesstraat 6C, 1930 Nossegem-Zaventem, Belgium
Tel: (02) 714-0400
Fax: (02) 725-7792
Distribution and sales of automobiles, parts, and accessories

Robin Manufacturing U.S.A., Inc. (60.0%)
1201 Industrial Road, Hudson, WI 54016, U.S.A.
Tel: (715) 381-5902
Fax: (715) 381-5901
Manufacture and sales of general-purpose, four-wheel buggy and golf cart engines

* Affiliates accounted for by the equity method

Investor Information (As of March 31, 2001)

Head Office
Subaru Building, 7-2, Nishi-Shinjuku 1-chome, Shinjuku-ku,
Tokyo 160-8316, Japan
Tel: (03) 3347-2111
Fax (03) 3347-2338

Investor Relations Office
Subaru Building, 7-2, Nishi-Shinjuku 1-chome, Shinjuku-ku,
Tokyo 160-8316, Japan
Tel: (03) 3347-2655
Fax: (03) 3347-2295

Established
July 15, 1953

Paid-in Capital
¥144,449 million

Number of Shareholders
32,996

Number of Common Stock Issued and Outstanding
746,502,402

Domestic Manufacturing Divisions
Gunma Manufacturing Division (Automobile Division)
Utsunomiya Manufacturing Division (Aerospace Division and Transportation & Ecology Systems Division)
Isesaki Manufacturing Division (Bus Manufacturing & House Prefabricating Division)
Saitama Manufacturing Division (Industrial Products Division)

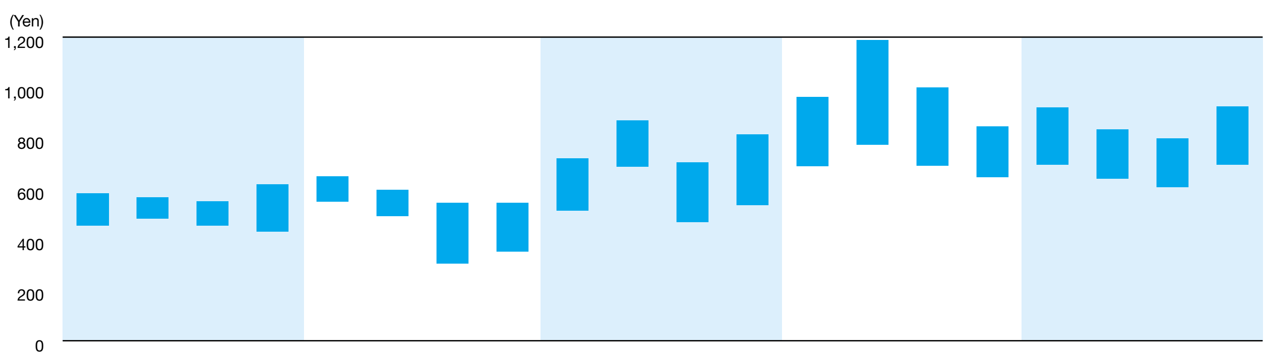
Major Shareholders
General Motors of Canada Limited
Japan Trustee Services Bank, Ltd.
The Industrial Bank of Japan, Ltd.
The Mitsubishi Trust and Banking Corporation
The Nippon Life Insurance Company
The Toyo Trust and Banking Co., Ltd.
Suzuki Motor Corporation
The Chuo Mitsui Trust and Banking Co., Ltd.
The Asahi Bank, Ltd.
Chase Manhattan Bank (London)

Stock Listings
Tokyo Stock Exchange, Osaka Securities Exchange,
Nagoya Stock Exchange

Transfer Agent
The Chuo Mitsui Trust and Banking Co., Ltd.
7-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-8345, Japan

Web Site Address
http://www.fhi.co.jp/english/

Quarterly Common Stock Price Range (Tokyo Stock Exchange)



FY	1997	1998	1999	2000	**2001**
High	¥618	¥649	¥871	¥1,189	**¥925**
Low	432	305	469	647	**608**

FUJI HEAVY INDUSTRIES LTD. Annual Report 2001

FUJI HEAVY INDUSTRIES LTD.
Subaru Building, 7-2, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8316, Japan

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

Printed on recycled paper in Japan