Annual Report
For the year ended March 31, 2010

2010

SUBARU

Going Forward
for the Next Generation

for the Next Generation

Overview of the Medium-Term Management Plan

Operating under the management vision of being "a compelling company with strong market presence" and based on the core philosophy of "customers come first," Fuji Heavy Industry's medium-term management plan addresses five major challenges.

Major Challenges

1. To provide a distinctive Subaru experience for drivers and passengers
2. To increase sales globally
3. To strengthen competitiveness in quality and cost
4. To also grow through the business alliance with Toyota
5. And to grow the level of employees competence and so enhance the organization

2007

- Released the **Impreza** and **Forester**, which underwent full model changes and feature the **new Subaru Intelligent-Chassis**
- **Began manufacturing the Camry on an OEM basis** at Subaru of Indiana Automotive, Inc. (SIA) through a business alliance with Toyota

2008

- Released mainstay models—Legacy/Outback, Impreza and Forester—equipped with **Boxer Diesel Engines** in response to strict environmental regulations in Europe
- Released to the domestic market the new multi-passenger vehicle "**Exiga**" and the new compact car "**Dex**," which is supplied on an OEM basis by Daihatsu Motor Co., Ltd.

2009

- Released our flagship model, the new **Legacy/Outback** worldwide, which underwent a full model change, and commenced **simultaneous production in Japan and the United States**
- Launched the **Subaru Plug-in STELLA electric vehicle (EV)** for use by companies and governments


Impreza

Boxer Diesel Engine



Subaru Hybrid Tourer Concept

Going Forward

Contents

Ikuo Mori
Representative
Director of the Board,
President and CEO

Performance in fiscal 2010, ended March 31, 2010, reached a low point during the first quarter but has been rapidly improving ever since.

Under the theme of "Going Forward," we set a sales volume target of 630 thousand units for fiscal 2011, the final year of the Fuji Heavy Industries Ltd. (FHI)'s medium-term management plan. This is the highest-on-record unit sales target since consolidated financial account settlements were instituted in fiscal 2000. Furthermore, following the stable dividend policy outlined in our medium-term management plan, we will resume the payment of annual dividends, at ¥9 per share annually. To this end, we will push forward with structural improvements in order to take the next step forward.

Sales in the United States were very robust, while sales in China were increasing rapidly.

Experiencing a Rapid Recovery Following the Low Point Reached in the First Quarter of Fiscal 2010

During the fiscal year under review, unit sales stood at 563 thousand units, net sales were ¥1,428.7 billion, operating income stood at ¥27.4 billion and there was a net loss of ¥16.5 billion. From the perspective of initial forecasts established for fiscal 2010, unit sales rose by over 50 thousand units and operating income recorded a profit, improving to over ¥60.0 billion. However, we regret that we suspended year-end dividends of fiscal 2010 as we recorded net loss due to the impairment loss of the Industrial Products Division and others.

We announced our financial results of fiscal 2009 in May, a situation in which FHI had to be prepared to accept losses for two consecutive fiscal years due to a substantial drop in units sold and a decrease of both revenues and earnings. Consequently, management's concern about whether or not we could be put back on a path to recovery during the fiscal year under review could not be understated.

Nevertheless, major inventory reductions and production adjustments undertaken between January 2009 and June 2009, as well as robust sales following the sequential release in each market of our new flagship, the Legacy/Outback from May 2009, were the keys to restoring performance. In July 2009, we launched the Legacy/Outback in United States, and which enjoyed sales significantly above forecasts owing to the U.S. government's implementation of their scrap incentives, an initiative to encourage automobile trade-ins, colloquially known as "cash for clunkers." FHI recorded its highest unit sales overall in the United States for two consecutive months in July and August 2009, ultimately leading to insufficient inventories during the second half of fiscal 2010. In response to this situation, we have continued to engage in full production since that time.

Examining trends in net sales and operating income for each quarter over the last two years, FHI experienced ongoing declines in revenue and earnings during the consecutive three quarters since the onset of the "Lehman Shock" in the third quarter of the fiscal 2009. Despite these declines, we have recorded a rise in revenues and a positive turnaround in operating income since the second quarter of the fiscal year under review. These increases were primarily due to the introduction of the new Legacy/Outback, robust sales in such markets as the United States and China, as well as to the implementation of thorough cost-reduction efforts. During the fourth quarter, in particular, of the fiscal year under review, we recorded an operating income of ¥23.5 billion despite a foreign currency exchange rate of ¥90 to the U.S. dollar. This is the highest quarterly operating income ever recorded since FHI began to disclose its quarterly financial account settlements in fiscal 2005.

Increasing Brand Value in Global Markets

Examining the overseas market as a whole, sales in the United States were very robust, while sales in China were increasing rapidly. Such strong levels of sales were able to cover sluggish sales in Russia and Europe, where economic conditions remained severe.

Sales in the United States market have been brisk thanks to the customer popularity of such products as Subaru's global model, Legacy/Outback, and the strengthening of sales networks promoted by Subaru of America, Inc. (SOA) in recent years. Amid deteriorating economic conditions in the United States since 2008, which caused the sales volume of automobile manufacturers to experience year-on-year declines, only Subaru maintained sales above those recorded in the previous year, owing to favorable sales of Forester and other models. This result has increased dealer confidence in, and loyalty to, the Subaru brand. In fact, Subaru has been ranked second in the NADA Dealer Attitude Survey since 2008 due to a high level of brand loyalty among dealers. In light of this continuing momentum, the new Legacy/Outback was released and has been enjoying favorable sales at an accelerated pace.

At the same time, Subaru is beginning to benefit from the gradual development of a virtuous circle. This is attributable to such factors as surveys conducted by the Insurance Institute for Highway Safety (IIHS) that give all Subaru models top safety pick, an increased level of recognition for the Subaru brand and a 40–50% rise in showroom traffic (i.e. the number of customers who visit dealerships) on a year on year basis. Consequently, market share in the 2009 calendar year rose from 1.4% to 2.1%. This percentage, in turn, rose to 2.3% in terms of accumulated sale figures from January and May 2010. In order to further the momentum that has continued, we

This is the highest quarterly operating income ever recorded since FHI began to disclose its quarterly financial account settlements in fiscal 2005.

Performance Overview

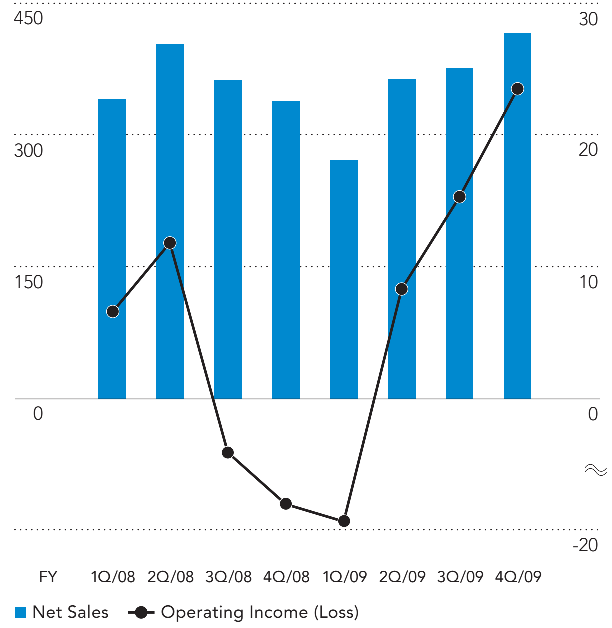
Billions of yen

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	(Forecast) FY2011
Automobiles Sales Volume (thousand units)	582	571	578	597	555	563	630
Net Sales	1,446.5	1,476.4	1,494.8	1,572.3	1,445.8	1,428.7	1,470.0
Operating Income (Loss)	42.0	58.3	47.9	45.7	(5.8)	27.4	43.0
Ordinary Income (Loss)	43.6	46.8	42.2	45.4	(4.6)	22.4	38.0
Net Income (Loss)	18.2	15.6	31.9	18.5	(69.9)	(16.5)	23.0
Capital Expenditures	85.3	56.2	59.6	56.3	58.0	56.1	56.0
Depreciation Expenses	51.1	57.5	58.9	65.5	65.1	57.1	52.0
R&D Expenses	53.0	46.9	50.7	52.0	42.8	37.2	46.0
Interest-Bearing Debt	412.2	374.1	343.9	304.5	381.7	367.6	320.0
Exchange Rate (¥/$, non-consolidated)	108	112	117	116	102	93	90
ROE	3.9	3.3	6.6	3.7	—	—	—
ROA*	3.3	4.6	3.9	3.9	—	2.4	—
Total Assets	1,357.5	1,348.4	1,316.0	1,296.4	1,165.4	1,231.4	—
Net Assets**	474.6	467.8	495.7	494.4	394.7	381.9	—

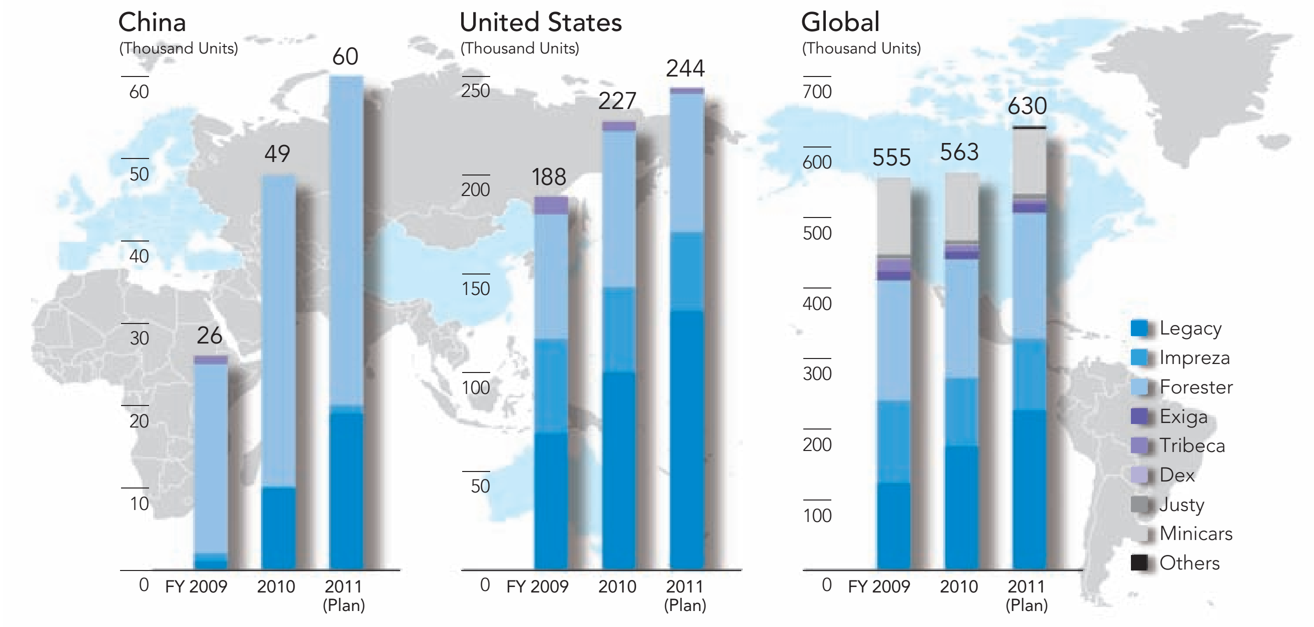
* ROA was calculated as "(operating income + interest and dividend income)/(average of assets at the beginning and end of the term)"
**Net Assets until the year ended March 2006 was the figure of total shareholders' equity.

Net Sales & Operating Income (Loss) by Quarter

(Billions of yen)



Consolidated Automobile Unit Sales



In accordance with our medium-term management plan, we reduced the per-unit cost by ¥100,000 compared to the previous model.

reformed our management structure in January 2010 to enable an even more comprehensive level of dealership administration and marketing. Rather than simply expanding dealership networks, we are working to increase the quality of services and sales at each dealership.

Unit sales to China rose by 23 thousand units in fiscal 2010 to 49 thousand units compared with the previous fiscal year, and we have set sales targets at 60 thousand units for fiscal 2011. Such a robust level of unit sales is mainly attributable to Subaru brand recognition among Chinese customers and their belief that Japanese products on the whole feature premium quality. Taking steps to upgrade our sales networks, we will further strengthen the quality of every aspect of our businesses, including after service. Although the export of completed automobiles has increased for the time being, we need to consider carrying out manufacturing locally for the next step in our business development. Because Subaru is not a company that competes by introducing entry type models with low-price to increase sales volume, however, we are investigating various methods for gradually increasing unit sales while attaining customer recognition of the value inherent in Subaru products.

The Impact of the FHI Group Efforts to Reduce Overall Costs

In accordance with our medium-term management plan, we reduced the per-unit cost of the Impreza, Forester and Legacy by ¥100,000 compared to the each previous model, leading to an increase in earnings. At the same time, FHI is aiming to control costs by reducing SG&A and personnel expenses as well as by continuing to reduce the salaries of directors and managers during fiscal 2011. We also enjoyed a high degree of success in transitioning to an integrated network of distributors in Japan. This initiative involves controlling each regional dealer through one core dealer, as we take steps to consolidate back office jobs and regionalize the sales activities of other dealers under a single corporate umbrella. The 46 dealers that existed as of April 1, 2008 have been reorganized into a structure that now consists of 22 dealers.

This reorganization has enabled FHI and domestic dealers to further clarify its management posture of making a phased withdrawal from minicar development and production in favor of focusing on the marketing of Subaru passenger cars in Japan. Although domestic sales had been severe in terms of sales volume, financial figures as early as the second quarter of fiscal 2010 began to put the domestic dealers on a path back to profitability. This was the result of reductions in fixed costs that exceeded our expectations as well as improvements in product mixture stemming from the release of the new Legacy/Outback and the level of competitiveness displayed by the Exiga.

This recovery in performance is proof positive that the direction laid out by our medium-term management plan was the correct one.

Looking towards the Next Medium-Term Management Plan

Having raised the management vision of "a compelling company with a strong market presence," our current medium-term management plan, which began in fiscal 2008, will come to an end in fiscal 2011. We are currently formulating various initiatives to prepare us for the next stage, while working on a new set of growth strategies. In addition, the fundamental direction laid by the current medium-term management plan—(1) provide a distinctive Subaru experience for drivers and passengers; (2) increase sales globally; and (3) strengthen competitiveness in quality and cost—will remain unchanged. So, what are the key issues of the next medium-term management plan? To answer this question, I would like to discuss two of the key issues now facing us: "environmental responsibility" and "downsizing the automobile."

It is undeniable that the development of hybrid and electric vehicles is one way to respond to "environmental responsibility." Aiming to "integrate the pleasure of driving with environmental friendliness," Subaru also released its own electric vehicle, the Subaru Plug-in Stella, in July 2009. In addition, we are currently devoting ourselves to the development of hybrid systems based on our distinctive horizontally opposed engine, which we plan to release in 2012.

Although electric cars have been generating a considerable amount of interest, there are still many problems to be solved. Consequently, we are continuing to undertake development initiatives regarding this technology. Moreover, we will focus on the key points of how to improve the fuel economy of gasoline engines and how such improvements can be combined with reducing automobile weight.

In terms of our efforts to improve the fuel economy of gasoline engines, we are scheduled to install the

I would like to discuss two of the key issues now facing us: "environmental responsibility" and "downsizing the automobile."

The new Impreza, Forester and Legacy/Outback feature larger bodies that **perfectly fit the size preferences of customers worldwide.**

Progress of the Medium-Term Management Plan

Product Roadmap	CY2007	CY2008	CY2009	CY2010
Core models (Further Globalize)	• IMPREZA • FORESTER		• LEGACY/OUTBACK	
Subcompact	• JUSTY (OEM)	• DEX (OEM)		• NEW CAR (OEM)
Multi Passenger Vehicle		• EXIGA		
Minicars			• DIAS (OEM)	• LUCRA (OEM) • PLEO (OEM)

Technology Roadmap	CY2007	CY2008	CY2009	CY2010
SI Chassis	• IMPREZA • FORESTER		• LEGACY/OUTBACK	
Diesel Engine in Europe		• LEGACY/OUTBACK • IMPREZA • FORESTER		
CVT			• LEGACY/OUTBACK • EXIGA	
Electric Vehicle			• Plag-in STELLA	

third-generation horizontally opposed engine in Subaru automobiles by the end of 2010. This engine, which features the first design-improvement in 21 years, realizes an improvement of approximately 10% in fuel economy owing to a radical revamping of the basic engine design and manufacturing processes. Moreover, we aim to increase the fuel economy of Subaru vehicles further by coupling this engine with such technology as CVT.

Closely connected to "environmental responsibility" is the issue of "downsizing," a trend which appears to be gaining in strength.

Based on the current medium-term management plan, Subaru has made efforts to globalize its main models since implementing a full model change to the Impreza in 2007. Intended to effectively compete in each model's target segment, the new Impreza, Forester and Legacy/Outback feature larger bodies that perfectly fit the size preferences of customers worldwide. The success of this series of global-oriented model-design changes is evident in the brisk level of sales these three models have been enjoying. However, in devising our concept for the next stage, we cannot avoid focusing on new segments, which involves developing compact cars. To this end, we will investigate what types of measures we will be able to implement as we take the next step, and that includes the mutual complementary relationship we have forged through our alliance with Toyota Motor Corporation.

Concerning our alliance with the Toyota Group, I believe that we must promote measures beyond those taken to date, which include the manufacturing on an OEM basis of the Toyota Camry in Subaru of Indiana Automotive, Inc. (SIA) and being supplied minicars on an OEM basis by Daihatsu Motor Co., Ltd. In addition, we are steadily completing joint development of a sporty, compact FR (front engine, rear drive) car with Toyota, which we aim to release at the end of 2011. Recognizing the well-balanced relationship we currently have with the Toyota Group as a result of this alliance, we wish to maintain this relationship in the years ahead. In the next medium-term management plan, we will undertake the full-scale development of a new type of compact car—a vehicle that is unique to Subaru—in order to compete in global markets.

The Types of Automobile Manufacturing that Subaru is Pursuing

We have recently been made aware of an opinion that claims that once the era of electric vehicles becomes a reality, the role of the automobile manufactures will come to an end. I could not disagree with this idea more, because regardless of the change made to the power train, automobiles must remain balanced and safe in all aspects of operation, including driving, stopping and turning. The combination of technology and expertise involved in the full functioning of automobiles cannot be easily duplicated by manufacturers in other industries.

Dedicated to honing its technologies and expertise, for over 50 years Subaru has taken great pride in exhaustively pursuing driving pleasure and comfort, thereby gaining the trust of customers.

We will solidify our foothold as "a compelling company with a strong market presence" by producing products that bring real pleasure to customers, no matter what changes take place in the automotive market.

In Conclusion

As I mentioned in the beginning, the theme of fiscal 2011 can be summed up in the phrase "Going Forward." Given that the direction promoted in the current medium-term management plan was ultimately the correct one, I firmly believe that Subaru is poised at present to achieve a significant breakthrough. Having recently cleared the hurdle of selling 200 thousand units and achieving a new sales record of 217 thousand units in the United States, I am more certain than ever that Subaru will experience a growth breakthrough in the near future.

With this in mind, we have set the consolidated sales target of 630 thousand units for fiscal 2011, the highest on record since consolidated financial account settlements were instituted in fiscal 2000. We are endeavoring to expand sales globally. At the same time, we will strengthen our operating base through the reduction of costs and expenses as well as by once again providing stable dividends to our shareholders in fiscal 2011, in accordance with the current medium-term management plan. By undertaking these initiatives, we will establish a foundation under the next medium-term management plan to take the next step.

Continuing to progress as an automobile manufacturer, expect us to create products and pursue business endeavors that utilize the distinctiveness and spirit of innovation found only in Subaru.

Ikuo Mori
Representative Director of the Board, President and CEO

The Fuji Heavy Industries Group has achieved a rapid recovery in operating income through across-the-board reductions in costs and the strong sales of the new Legacy/Outback.

Mitsuru Takahashi
Executive Vice President
Chief Financial Officer

FHI's financial accounts settlement for fiscal 2010 is notable because of the rapid recovery in operating income. Please explain the reasons underlying this recovery.

When we announced an operating loss of ¥5.8 billion for fiscal 2009, we had no choice but to forecast an operating loss of ¥35.0 billion for fiscal 2010. In response, we were able to overcome a ¥30.4 billion loss due to foreign currency exchange and instead record an operating income of ¥27.4 billion. This is attributable to thorough cost-reduction efforts undertaken Groupwide as well as to the strong sales of the new Legacy/Outback. Reaching a low point in the first quarter of fiscal 2010, FHI experienced a ¥33.2 billion rise in earnings compared to fiscal 2009 for the following reasons.

To begin with, overall cost reductions totaling ¥54.9 billion were composed of a ¥26.0 billion reduction in costs of parts and materials, a ¥23.2 billion cut in SG&A and other expenses and a ¥5.7 billion decrease in R&D expenses. Reductions in costs of parts and materials included approximately ¥12.0 billion that was caused by a renewed fall in prices for such raw materials as iron and aluminum to the level recorded before a worldwide stagnation in production took place in the wake of the "Lehman Shock."

Next, a reduction in sales administration costs significantly contributed to lower SG&A and other expenses. In the United States, FHI's most important market, we were able to keep sales administration costs extremely low. This is due to robust sales of Forester and the new Legacy/Outback in combination with a U.S. $500 year-on-year decrease of incentives to $1,100 per automobile in fiscal 2010. This drop in incentives was thanks to the effects of the scrap incentive programs "cash for clunkers" to subsidize the purchase of new, more fuel-efficient vehicles. We also achieved a decrease in fixed costs in Japan by integrating distributors' strategy including the scrap and build of dealerships.

More specifically, what resulted from FHI's Value Analysis (VA) activities, which formed part of its cost-reduction efforts?

Previously, Subaru's cost-reduction efforts involved undertaking VA activities following the release of a new model. However, the current medium-term management plan has set a goal of reducing costs by ¥100,000 per unit compared with previous models, starting from the model-design stage onward. In terms of the full model changes made to the Impreza, Forester and Legacy/Outback such actions have been yielding steady results since 2007. The aforementioned ¥26.0 billion reduction in costs of parts and materials—which excludes ¥12.0 billion stemming from a renewed decrease in the prices of raw materials—is the result of dedicated efforts in such areas as VA. After the ¥100,000-per unit cost reduction is achieved through the launch of these new models, it will be difficult to advance such reductions further. However, we will continue to steadfastly conduct VA activities as the vital theme of the manufacturer.

Please tell us more about the restructuring of distributors in Japan.

In fiscal 2010, we continued across-the-board cost reductions with the aim of creating a leaner corporate structure. Amid an ongoing drop in unit sales due to an overall contraction in domestic demand, we restructured our sales networks in Japan based on the belief that we cannot continue the type of automobile-business activities that we have engaged in thus far. To begin with, we took steps to decrease expenses in the back offices and improve efficiency in inventory costs by establishing some core distributors to control each regional distributor under their umbrella. In addition, we decreased dealerships by approximately 10%, leading to a cost reduction of about ¥10.0 billion annually. Such results are due to initiatives we took to decrease the number of dealerships in rural areas in favor of boosting urban-based ones in order to consolidate sales activities in urban areas, which offer more suitable driving conditions for Subaru models. Consequently, Japanese distributors have experienced a return to profitability despite domestic sales volume dropping by 8 thousand units, or 4.2%, year-on-year to 171 thousand units. Because improvements to sales volume and mixture owing to the release of the new Legacy/Outback have significantly contributed to FHI's performance, we need to continue such improvements in order to maintain profitability, even two or three years after a new model has been released. For this reason, we need to find innovative methods to take cost reductions in Japan a step further.

What measures is Subaru undertaking in response to foreign currency exchange rates, which have been a factor in earnings decreases?

Responding to fluctuations in foreign currency markets is a major management issue for us. One reason for this is the Company's high degree of sensitivity to currency exchange fluctuations resulting from its low percentage of overseas production, which is below 20%, compared to other automobile manufacturers. The best way to address this issue is by increasing foreign production. However, Subaru cannot easily increase production locally given that its annual sales volume stands at approximately 600 thousand units. To start, it is imperative that we achieve cost reductions through complete cooperation between the R&D and manufacturing divisions.

Amid favorable sales in the United States, the supply of products and components to North American distributors and manufacturer based in dollars is rising. Therefore, we are aiming to increase U.S. dollar-based purchase by switching to dollar-based procurement of high-priced platinum, rhodium and palladium, which are used in muffler catalysts.

Furthermore, we are focusing on increasing our exposure to the Euro and Australian dollar, whose correlative values are relatively low compared with the U.S. dollar. I believe that expanding our exposure in non-U.S. dollar foreign currencies is not only beneficial in terms of currency exchange rates, but is also useful when doing business in China.

What is your thought on the soundness of FHI's balance sheets in fiscal 2010? In particular, please explain the reasons why there was an improvement in cash flows and a significant positive turnaround in free cash flow.

Although net losses unfortunately caused FHI's balance sheets to contract in fiscal 2010, we deserve high marks for being able to retain a sound financial position by recording a shareholders' equity ratio of 30.9% and a 0.9 D/E ratio. We will strive to restore FHI's balance sheets by building the profitability of our main business between fiscal 2011, the final year of the current medium-term management plan, and fiscal 2012. Given FHI's robust sales at present and having reached bottom in fiscal 2010, I believe the improvement of FHI's financial position is in sight.

The Company recorded ¥114.0 billion in free cash flow in fiscal 2010. Although working capital decreased due to a fall in production in the wake of the "Lehman Shock" in fiscal 2009, production has recovered significantly since the first half of fiscal 2010. In this free cash flow of ¥114.0 billion, approximately ¥100.0 billion is contributing to a recovery in working capital. From fiscal 2011 onward, we do not forecast an improvement in working capital to the level experienced last fiscal year; however, funds will be required to expand the scope of FHI's production activities. Despite these factors, we expect to obtain a suitable level of free cash flow based on earnings from our main business as well as by depreciation and amortization.

Capital expenditures of fiscal 2011 are forecasted to reach ¥56.0 billion, almost the same amount recorded in fiscal 2010. We are keeping capital expenditures to a necessary minimum for the time being.

Medium-Term Management Plan (from FY2008 to FY2011) Billions of Yen

	Original plan	As of July, 2010	Difference
R&D	¥230.0	¥178.0	¥ (52.0)
Capex	270.0	226.4	(43.6)
Depreciation	250.0	239.7	(10.3)
Total	¥750.0	¥644.1	¥(105.9)

What type of financial strategies will be instituted in the next medium-term management plan, set to begin in fiscal 2012?

We will work to restore FHI's financial base by fiscal 2012 by increasing earnings in its main business, and by achieving a shareholders' equity ratio above 30% and a D/E ratio under 1.0. Our future goal is to bolster the Company's net cash position by reducing interest-bearing debt, which currently stands at about ¥80.0 billion* net, through an improvement of cash flows. I believe these measures will ultimately lead to an improvement of FHI's credit rating. FHI's future financial standing is based on our emphasis on maintaining a balance between costs and financial stability. We will build optimal balance sheets while giving full consideration to shareholder equity ratio, D/E ratio and other factors.

At present, the exchange rate of ¥90 to U.S. $1.00, which was forecasted for fiscal 2011, is a major change compared with the exchange rate of ¥110, which was recorded during the formulation the Company's medium-term management plan announced in February 2007. In turn, an operating income ratio of 2.9%, which was forecasted in fiscal 2011, differs greatly from the target of 5% set in the current medium-term management plan. Through such actions as reducing costs during fiscal 2010, however, we are able to formulate a profitable grand design based on an exchange rate of ¥90 to U.S. $1.00. Consequently, we will prudently and aggressively set financial targets for the next medium-term management plan based on this grand design.

* Excluding the captive portions of financial subsidiaries

About 217,000 unit sales in U.S.

For the past two years, Subaru has been the best-performing brand in the entire U.S. automobile industry. Against a backdrop of severe market conditions in 2008 and 2009, Subaru of America, Inc. (SOA) saw year-on-year sales increases, recording a high of approximately 217 thousand unit sales in fiscal 2010.

Thomas J. Doll
Subaru of America
Executive Vice President,
COO and CFO

Solid Results Backed by Savvy Marketing and a Fresh Approach

SOA's solid results over the last two years — sales rising an average of 15% — are particularly remarkable given that the U.S. auto market has been down about 40% over the same period. The roots of this success lie in a new set of strategies that were started in 2006 and were executed over the last three years.

Brand Asset-Based Marketing

One of the first things SOA did was to change its marketing approach. Prior to 2006, SOA's competitive focus was on the price front, but SOA wanted to change this to marketing based on Subaru's brand assets. So, SOA examined its product lineup, considering not only pricing but also its target markets and product image.

In 2006, SOA repositioned the pricing of its best-selling Legacy, Outback and Forester models, which account for between 70% and 75% of what is sold in the U.S. market. Recognizing the importance of this approach, SOA applied strategic pricing to each new line as it was introduced, starting with the '08 model year Impreza and continuing with the introduction of the '09 model year Forester and '10 model year Legacy and Outback models. This strategy has paid off — Dealer and customer focus has shifted from selling Subaru products based on low price to selling our products based on the value they represent in the market.

At the same time, SOA needed further market development and this task began with obtaining a better understanding of dealership operations.

A New Field Organization — Supporting Dealers

Previously, SOA had five regional offices which had to manage a large number of dealers in diverse geographical areas of the country. For example, a single regional office might have been doing business with up to 125 dealers in different geographical markets (i.e. Northern vs. Southern markets). As a result, medium-sized and small dealers were not getting the help and attention they needed to grow their business opportunity. In addition, the issues effecting dealers in the Northern part of the country were different from those issues dealers faced in the Southern markets. SOA needed to work on securing the success of all dealers because the success of us depends on the success of its retail organization.

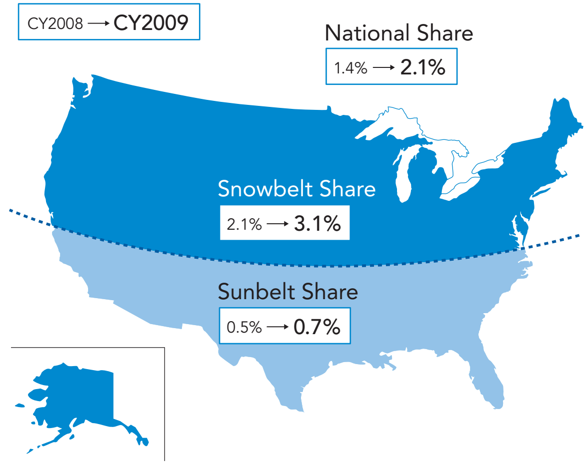
SOA restructured its field organization, establishing three regions under which 12 zone offices were established, each managing between 55 to 60 dealers in similar geographic markets. This allowed SOA to concentrate its efforts and resources on medium-sized and smaller dealers while at the same time allowing the company to maintain its focus on its larger dealers all within similar geographical markets. By focusing its efforts into smaller marketing areas, this allowed SOA to focus more on dealer/market development activities. Those dealers who were unable or unwilling to improve their market penetration were replaced by new dealers with greater potential to increase sales in those markets. Currently, SOA has replaced approximately 20% of its dealers as a result of this process. In addition, with Subaru products now sized, styled and properly priced for the U.S. market, the Subaru dealer body has improved its profitability dramatically over the past two years with over 90% of its dealers being profitable and with the average Subaru dealer forecasting to earn approximately $1 million in operating profit in 2010.

SOA would not have been able to accomplish this reorganization if it had not discussed with the dealers its strategies and really listened to their concerns and opinions. SOA set out to change its relationship with its dealers by working with, rather than against them, and was able to identify those issues that are most important to the success of the franchise.

One of the major initiatives SOA undertook was to work with its dealers to revitalize its dealer co-op advertising program. This revised co-op advertising program helps both larger and smaller dealers lower their advertising costs and lets medium-sized and smaller dealers who previously had difficulty affording advertising, to advertise in a cost effective manner. Advertising is crucial — there have always been customers out there who wanted to buy Subaru products from a local dealer, but there may not have been enough local advertising to provide customers with the information they needed at the time the customer was in the market to purchase a new vehicle. This new co-op advertising program ensures dealers are able to advertise their business during the entire year thus improving customer awareness and leveraging SOA's national advertising investment.

Dealers are loyal to Subaru because they know SOA understands and cares about their business. SOA looks at the entire dealership operation, not just new car sales. SOA has developed programs that support every area of dealership operations, such as used cars, parts, service, finance, insurance, advertising, as well as new car sales. Even though new car sales are important, SOA looks at the entire dealership operation because ultimately, if the dealers are not profitable, SOA cannot be profitable. This holistic approach to dealer operations and openness to dealer input has helped to not only raise dealer profitability and enthusiasm, but win dealer loyalty. SOA's partnership with its dealers is working and the Subaru brand currently ranks 2nd among all manufacturers in the National Automobile Dealers Association (NADA) Dealer Attitude Survey, but Subaru ranks #1 in brand value in the entire industry based on this survey.

Market Share in U.S.



Shifting the Perception of Subaru Styling and Performance

One of Subaru's strongest selling points has been the fact that every one of its vehicles — from the entry-level Impreza to the top-of-line Tribeca — features the safety, security, handling, and reliability of Subaru all-wheel drive. But to break out of this niche market, SOA needed to shift the perception of Subaru vehicles as being small and lacking proper styling. Starting with the 2009 model year Forester, and continuing with the Legacy and Outback, Subaru vehicles are now built with the size and style that U.S. customer's demand. And the new products also receive excellent fuel economy—for example, the 2010 model year Legacy sedan receives 31 miles per gallon and the Outback receives 29 miles per gallon on the highway.

Moreover, Subaru's safety ratings are at the top of the industry. Not only are Subaru vehicles rated No. 1 in crash test safety by the Insurance Institute for Highway Safety (IIHS), but Subaru is the only manufacturer to have every model rated as a top safety pick by the Insurance Institute. In terms of retained value, in their annual residual value survey, Automotive Lease Guide ranks the Subaru brand as #1 in residual value in the entire industry, with Forester rated #1 in residual value in the small SUV category and Outback rated #1 in residual value in the mid-size SUV segment.

"Love. It's what makes a Subaru a Subaru"

Attesting to their value, both the Subaru Forester and Outback have been named *Motor Trend Magazine* "Sport/Utility of the Year" in consecutive years... Forester for the 2009 model year and Outback for the 2010 model year. In fact, Subaru is the only brand to have won the Motor Trend Sport/Utility of the Year award for two consecutive years.

The advertising slogan, "Love. It's what makes a Subaru a Subaru," captures the Subaru experience. The Subaru franchise holds itself to a high standard and tries to ensure that every customer feels special. Subaru is winning over the hearts and minds of customers. With a whole new set of customers aware of the Subaru brand—there are now 17 million more households that are aware of the Subaru brand than just two years ago—the number and variety of potential customers visiting Subaru showrooms is rising, drawn by our superior quality and reputation.

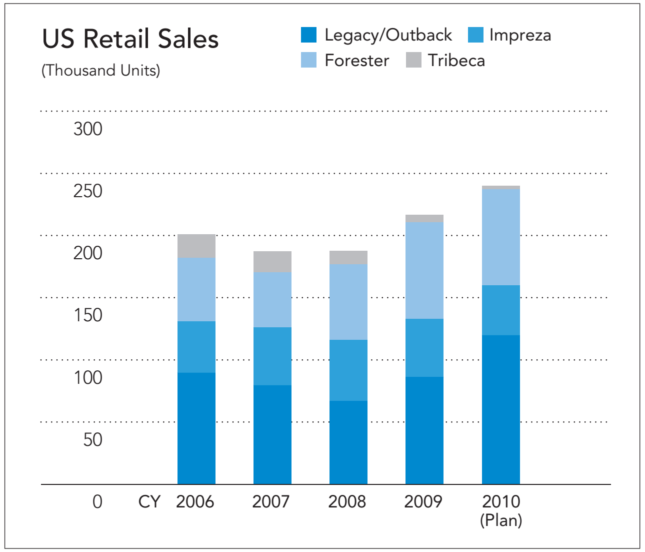
Subaru's outstanding value is backed by excellent customer service. Dealers want customers to love their dealership, so they make both the sales and service experience special. Subaru dealers understand the customer pays comparatively more for a Subaru than for a competitors' product so the Subaru brand has to carry special meaning. As a result, the "Love" theme allows the Subaru franchise to appeal to the emotions of the entire U.S. organization including SIA, SOA and dealers to make the customer want to love our brand. Everyone in the organization strives for the highest possible level of customer satisfaction. Everyone in the Subaru organization is trying to have the customer "love" their experience with Subaru.

Moving in the Right Direction

The challenge that lies before Subaru of America now is to maintain the momentum it has gained over the last two of years and to expand its market share. SOA will do this by stressing the outstanding value proposition Subaru vehicles represent in the market.

SOA has made solid gains in all market areas in the U. S. market, but SOA is particularly pleased with the inroads made within the Sunbelt markets—the fastest-growing population markets in the U.S. Subaru's new product offerings are properly sized, styled, and priced, and are leading the way, backed by SOA's outstanding national advertising/marketing messages and locally targeted advertising using its dealer co-op program mentioned previously.

SOA is generating approximately 50,000 internet sales leads per month, and the volume of applications coming through the company's captive finance company, Subaru Motors Finance, suggests that SOA could sell additional vehicles if they were available. Currently, SOA is targeting annual sales of approximately 240,000 units in calendar year 2010. As always, the challenge for Subaru of America is generating sales and continuing to move in the right direction. Subaru continues to have a huge opportunity in the U.S. market despite its recent sales gains. Current Subaru sales represent just over 2% of total U.S. automobile sales, which means there are still 98% of customers in the market that are purchasing something else. This gives the Subaru franchise a tremendous amount of market potential.



Raise Subaru Brand Awareness

Subaru of China Ltd. is steadily increasing sales in the Chinese market, which is showing exceptional growth. We are improving our comprehensive strengths in areas that include after services in order to grow in this vast market.

Kazunari Suzuki
Subaru of China
President

Subaru's Development in the World's No. 1 Growth Market

Subaru's sales in China are favorable. As of March 31, 2010, the Company had recorded 58 consecutive months in which sales increased compared with the same period of the previous fiscal year. Thus Subaru experienced rapid growth, with sales volume (based on the calendar year) rising from 19 thousand to 35 thousand units. People's trust in the Subaru vehicle manufacturing way and its brand image serve as the dynamic force of our growth.

Displaying our Presence in the Quickly Expanding Chinese Market

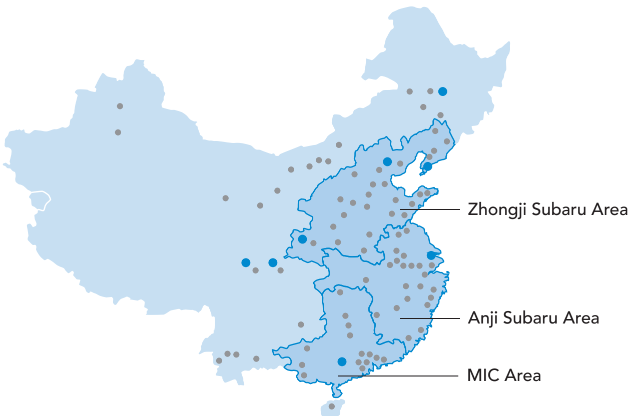
Total demand of automobiles in China rapidly surged from 9.38 million units in 2008 to 13.64 million units in 2009. But during this period, sales suddenly fell due to the onset of the global recession in the autumn of 2008 in the wake of the "Lehman Shock." However, the Chinese market experienced a brisk recovery in demand owing to government-sponsored reduction of tax on the purchase of new cars with engines under 1,600cc. As a result, Chinese market became the world's leader in unit sales of new automobiles in 2009. Subject to these tax reductions, cars equipped with engines under 1,600cc presently account for approximately 70% of overall sales in China for automobiles priced less than 140,000 CNY (approximately ¥1.85 million).

In the Chinese market, Subaru automobiles are classified as imported vehicles; such vehicles account for 4% of overall new automobile demand. Subaru automobiles are evaluated between Japanese automobiles manufactured locally and European luxury vehicles. Furthermore, our models are subject to a 25% customs duty and range in price from 210,000 to 590,000 CNY.

Amid expansion in the Chinese market, although the number of imported passenger cars in 2009 increased a little less than 30% year on year, sales for the Forester—which Subaru released in 2008 and which has garnered a good reputation—nearly doubled from 19 thousand in 2008 to 35 thousand units in 2009. Such a boost in sales has enabled Subaru to grow rapidly in China.

The Chinese market consists of 81 vehicle brands that are manufactured locally and 58 that are imported. In this market, Subaru has received responses from many customers who felt that "although they are bland, Subaru's automobiles are manufactured to be very reliable, very safe and feature excellent drivability." When we entered the Chinese market in 2004, Subaru automobiles were associated with the image of the Fuji Heavy Industries vehicle that participated in the Hong Kong–Beijing Rally. The Subaru brand now stands for "distinctiveness" and "novelty" in the Chinese market. Added to this is the strong impression among Chinese consumers that Japanese products bear premium quality.

Subaru's Dealer Network in China

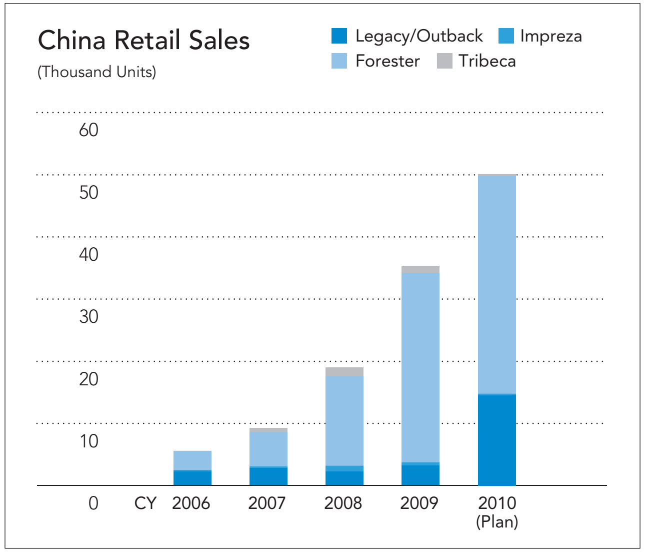


Building a Dealer Network That Values Brand Image

Our dealership structure in China is represented solely by Subaru of China, Ltd. (SOC), under which three distributors are exclusive local dealerships for Subaru. Each of these distributors has formed a dealership network throughout China that consists of 61 dealers in the north, 23 in the east and 21 in the south. Starting with seven dealerships in 2004, we have grown to 105 dealerships at present. Our dealership network is fully capable of providing what we refer to as the 3S's: "sales," "service" and "spare parts." We plan to expand to 120 dealerships by the end of 2010.

Various concerned parties are participating in the planning of Subaru's sales activities in China, including distributors and the local partnerships that they have developed. Distributors and their local partners are building distinctively Subaru dealerships while creating information-sharing links that strengthen awareness of the Subaru brand.

Our dealerships in China have a grand and luxurious appearance. For example, we have dealerships that feature AV rooms equipped with large screens reminiscent of movie theaters, as well as massage rooms. At the same time, the customers and staff of each dealership meet once a month (this is referred to as the "user



club") and hold events that include trips for the purpose of deepening communications among them. Through these activities, we are engaging in increasing of the customer satisfaction through our hospitality on both the software and the hardware sides.

I believe that now more than ever we require after-the-sale service capabilities as Subaru sales increase rapidly. Given that numerous customers take their vehicles for inspections and maintenance after 5,000km, it is vital that we constantly increase the number and skill level of service staff. Such actions are carried out with the purpose of quickly expanding the number of automobiles that can be accommodated by Subaru service centers to keep pace with unit sales. In order to increase the level of service quality locally, in 2009 we began cooperating with Subaru Customer Center of FHI while upgrading our technical training system for employees in China. At the same time, we are promoting the standardization of service operations, which are currently being developed at a fast pace.

Using the Release of the New Legacy as an Opportunity to Expand Attention-Grabbing Advertising

The long-awaited release of the new Legacy in the Chinese market took place in September 2009. In China, the previous generation Legacy was eclipsed by the highly popular Forester, which accounts for nearly 90% of Subaru sales there. Taking advantage of the much-demanded increase in size realized in the new Legacy, we expanded advertising intended to raise the level of awareness of this new model.

In 2008, SOC sponsored the Chinese romantic comedy, *If You Are the One*, which became a major hit and the second biggest box-office earner in China. A previous generation Outback that we provided for the film was included in a scene driving through the natural splendor of Hokkaido in Japan. This scene drew considerable attention and has led to an increase in Chinese tourists visiting Hokkaido. Featuring the lead actors and director of *If You Are the One*, we produced three-minute commercials centered on a story that is intended to make viewers think that they are watching a continuation of the film. Gaining notoriety throughout China, this series of commercials has not only increased awareness of the new Legacy, but was also successful in conveying our integrity and earnestness as an automobile manufacturer. For the future, we plan to expand advertising that will further increase the Subaru brand image while undertaking measures targeting the natural environment.

Improving our comprehensive strengths, including after-the-sale service, is the only way to utilize our limited business resources to undertake growth in the vast Chinese market. First, it is important that we reinforce our foundation by developing dealerships and soft sales that convey Subaru's integrity while cultivating a brand that values contact with customers. More specifically, we need to realize our philosophy, "customers come first." The role of SOC is to support the development of a dealership network that prioritizes customer satisfaction, take steps to improve the Subaru brand image through quality advertising, and make efforts to contribute to society by undertaking operations firmly rooted in China.

Mr. Suzuki, President of SOC, receives a gift in response to monetary donations made by SOC to the victims of the Great Sichuan Earthquake

Subaru's Production Structure Responds Flexibly to Change

Jun Kondo
Director of the Board
Executive Vice President

Subaru's domestic automobile production is undertaken by the Yajima Plant, which manufactures passenger cars, and the Main Plant, which produces minicars. Phasing out minicar production to be supplied on an OEM basis by Daihatsu instead, FHI is scheduled to commence production of automobiles developed jointly with Toyota at our existing plant. Furthermore, the Oizumi Plant engages in the manufacture of horizontally opposed engines and transmissions, and undertakes uniform automobile production in all phases, from engines to final assembly.

Overseas, Subaru of Indiana Automotive, Inc. (SIA), which is based in the United States, produces the Legacy/Outback and Tribeca. SIA has also been manufacturing the Toyota Camry on an OEM basis since 2007.

Please tell us more about the characteristics of Subaru's production process.

Given that Subaru's annual unit sales is in the 500- to 600-thousand unit range, the number of units produced of each model is not that high. However, the fluctuation of production volume, resulting mainly from the impact of a full model change of a limited lineup of cars, is one characteristic feature of Subaru's manufacturing process. Although the number of automobiles produced per month in 2009 reached a low point in April, at 27 thousand units, production began to increase almost in tandem with the domestic release of the new Legacy/Outback in May. From September 2009 into 2010 (excluding January), full production has continued to surpass 50 thousand units per month. Subaru has honed its skills to enable it to flexibly respond to these types of production volume changes at the Yajima Plant and the SIA plant in the United States.

For example, Subaru develops a specific model that the two production lines at the Yajima Plant are able to produce. This configuration makes it possible to respond to the fluctuation of production volume. To keep pace with the rise in orders that began last year, we continue to use a two-shift work system in combination with overtime and holiday work.

Undertaking slight expansion of its production capacity, SIA has raised its annual production volume of Subaru cars from 100 thousand units to 131 thousand units. Subaru plans to increase production volume for fiscal 2011 of all passenger car models by 14.7% year on year to 529 thousand units. By maintaining operational responsiveness with overtime and holiday work, these two plants can achieve a 10% increase in production.

What are your thoughts on the capability of FHI's global production structure to keep pace with further increases in sales volume?

In order for Subaru to maintain stable growth, we need to increase sales volume further while focusing our attention on undertaking production in regions where our sales are strong, such as China. It is essential that we conduct marketing activities that address the question:

How many of what type of cars can be sold in which markets? To this end, we are currently investigating where we should establish automobile production bases, as we prepare for the next medium-term management plan, set to commence in the next fiscal year.

How is SIA utilizing the experience gained from producing the Toyota Camry?

In 2007, SIA was able to launch production of the Camry within eleven and half months after we decided on this project. Almost all of Toyota's Camry production lines were emulated by SIA in order to commence operations in this short period of time, and this, in turn, enabled us to learn Toyota's manufacturing way. The communication between workplaces is also organized to reinforce our knowledge of Toyota's superior production system.

The impressiveness of Toyota's *monozukuri* ("manufacturing products") is found in their high level of thoroughness. Undertaking manufacturing in a painstaking manner helps to identify problems and find the corresponding answers. This ultimately facilitates raising productivity. With production facilities worldwide, Toyota is able to manufacture products in the same manner regardless of location, thanks to the meticulous nature of its production lines. Although both Toyota and Subaru send products to post-production based on quality checks undertaken by employees in charge of individual production phases (referred to as "in process quality assurance"), Toyota strives for even greater thoroughness by placing inspectors at each stage of the production process to ensure overall quality. In addition, a management who participated in the establishment of Camry production at SIA has been promoted to Chief General Manager of the Gunma Plant in order to disseminate his expertise within the Yajima Plant.

Please provide more details about the new thinking behind the production lines for Subaru's third-generation, horizontally opposed engine, which received its first design-innovation in 21 years.

The Oizumi Plant's existing production line has been structured into one long processing line in order to increase the level of productivity required to undertake production on a mass scale. However, despite being geared towards low-cost operations, this production line configuration lacks flexibility. The new engine production line is designed based on the theme, "Flexible Manufacturing" (Short lead-time manufacturing with Variable Type and Quantity), in order to fundamentally readjust costs associated with manufacturing horizontally opposed engines. In particular, we install flexible production lines capable of manufacturing any type of engine, not only specialized lines that make mass-production equipment. In other words, this production line is capable of undertaking a "model and volume change." Given the periodic advances in production lines for car bodies that have occurred in tandem with full model changes, we are developing lines for the third-generation, horizontally opposed engine that can flexibly respond to future changes in the power train.

What measures are being taken to ensure quality during the production phase?

Subaru employees have been consistently undertaking Total Production Maintenance (TPM) activities, which involve on-site improvements in areas that include facility maintenance, since 1992. Such actions have resulted in a workplace where the desire among employees to improve production is highly valued.

Handling 30,000 different components, Subaru production facilities are subject to constant change, including personnel turnovers. There is no magic bullet for maintaining quality in this environment. Instead, we have no choice but to ceaselessly work hard to improve. The moment we settle on maintaining the status quo, our rivals in the fiercely competitive automobile industry will overtake us. Thus, the key to quality and safety can be found in the productive desire and motivation of our employees. To this end, foremen and managers hold meetings when production is commenced in an effort to fully grasp the condition of our employees one by one.

Moreover, it is important to ceaselessly cultivate an amenable workplace and dedicated employees in terms of maintaining quality during production. This includes employees who are able to quickly report irregularities in the components they are handling, even in terms of weight. Although we manufacture the same car models, working at Subaru production facilities is always exciting because every day has something different to offer.

Gunma Plant

CSR Policy

As a corporate entity that carries out *monozukuri* ("manufacturing products") to bring enjoyment to its customers, the FHI Group has revised its CSR policy. The purpose of the revision, which has received the approval of the CSR and Environmental Committee, was to clarify the requirements for approaches at the corporate organizational level: (1) CSR centered on upholding the Corporate Code of Conduct and respect of critical items, and (2) aggressive CSR centered on contributing to social issues through business activities as a good corporate citizen.

1. Based on FHI's Corporate Code of Conduct, we shall respect the law, human rights, international codes of conduct and stakeholder rights as well as uphold standards of moral behavior.
2. As a good corporate citizen, the FHI Group shall work toward rectifying the global social problems facing modern society.

In addition to focusing on relationships with various stakeholders, our CSR activities emphasize the FHI Group's mission, which is to contribute to society's ongoing development through our global business activities.

CSR Management

One aspect of our management vision in the medium-term management plan is stated as: "A corporation that fulfills its social responsibility." In conjunction with the basic "customers come first" philosophy that represents our indispensable policy in realizing our long-term vision of becoming "a compelling company with a strong market presence," this plan aims for FHI to retain the trust of each and every stakeholder, to contribute to the development of a sustainable society and to improve FHI's corporate value.

CSR Activities

The common themes of CSR activities undertaken within the FHI Group, both in Japan and overseas, are based on three pillars: the environment, traffic safety and contributing to local communities.

Safety

ALL-AROUND SAFETY

As well as naturally striving to ensure that the driver and passengers in a Subaru vehicle enjoy a safe and comfortable ride from a variety of driving scenarios, Subaru aims to improve the overall safety of the mobility society from such perspectives as the surrounding environments and people's safety.

Pre-Crash Safety: Working to Realize a Society without Automobile Accidents

Released domestically in May 2010, the Legacy is equipped with the "EyeSight" Active Driving Assist System (version 2), based on the idea of predicting accidents and minimizing the damage caused by collisions. The "EyeSight" was developed with the aim of providing an ultimate level of safety, referred to as "Collisions-free cars." The "EyeSight" features pre-collision braking control that uses automatic brakes to avoid collisions; adaptive cruise control with all-speed-range tracking functions that helps to maintain a safe distance between vehicles; and a creep suspension and control system that guards against sudden acceleration due to driver's error of automatic transmission.

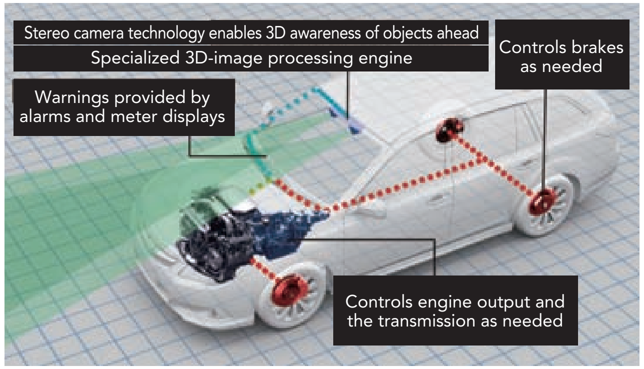


Image of "EyeSight"

Active Safety: Safe Driving Capabilities

Subaru is pursuing the fundamental functions of a car "drive, turn and stop," which eventually leads to the avoidance of hazards.

Featuring superior weight balance by lowering the center of gravity of Subaru automobiles, Symmetrical All Wheel Drive (AWD) is the core technology that increases driving pleasure while enabling safe operation. Owing to the optimal handling it provides in various circumstances, Symmetrical AWD creates leeway that allows drivers to make composed decisions just in time, and then lead them to be able to avoid hazards.

Passive Safety: Collision Safety Capabilities

In the event of an accident, Subaru is continuing to pursue next-generation collision safety performance that will reduce damages not only to drivers and passengers, but to pedestrians as well. Consequently, Subaru automobiles have achieved the world's highest ratings in collision safety performance.

- Legacy received an award in the Car Assessment Grand Prix 2009/2010 as a result of the Japan New Car Assessment Program (JNCAP) held in fiscal 2009 by Japan's Ministry of Land, Infrastructure, Transport and Tourism and the National Agency for Automobile Safety & Victims (NASVA)

- All Subaru models received the U.S. Insurance Institute for Highway Safety's (IIHS) top safety pick

- All Subaru models were given the highest safety ratings by the U.S. National Highway Traffic Safety Administration (NHTSA)

- Legacy was awarded the highest safety ratings by the European New Car Assessment Programme (Euro NCAP)

- Legacy/Outback was awarded the highest safety ratings by the Australasian New Car Assessment Program (ANCAP) based in Australia and New Zealand

The Environment

Environmental Initiatives

FHI regards global environmental matters as one of its most pressing management issues. On that basis, FHI has established an "Environmental Policy," formulated "Operating Criteria for Environmental Conservation" for specific actions to achieve that policy and encourages environmental activities.

Environmental Policy

FHI recognizes the integral relationship between the environment and its business activities and strives to provide products that are friendly to the earth, society, and people. FHI is protecting the environment to ensure our future.

Corporate Activities and Environmental Impacts

Subaru is a transportation manufacturer focusing on automobiles. Automobiles, which are a convenient and comfortable form of transportation, are now indispensable for living in a modern society. On the other hand, automobiles require global resources such as materials and fuels that are limited. They also emit carbon dioxide (CO_2), which causes global warming, as well as other air pollutants. Profoundly aware of these two sides to the automobile, Subaru accepts the task of aiming for the fusion of the global environment response (drastically improving fuel economy and reducing gas emissions) and the benefits of automobiles (driving pleasure, comfort and reliance).

Product Development Activities

Subaru aims to achieve compatibility between an automobile-based society and an abundant global environment.

- Subaru launched the Subaru Plug-in STELLA electric vehicle (EV) in the summer of 2009 as a city commuter car for use by companies, local governments and other organizations.

- Subaru released Legacy/Outback, Impreza and Forester equipped with the world's first Boxer Diesel Engine in Europe beginning in 2008. Presently, approximately half of Subaru automobiles sold in Europe feature diesel engines.

- Eco Technologies Company is developing wind-power generation that makes full use of this renewable natural energy source.

Corporate Governance

Basic Approach to Corporate Governance

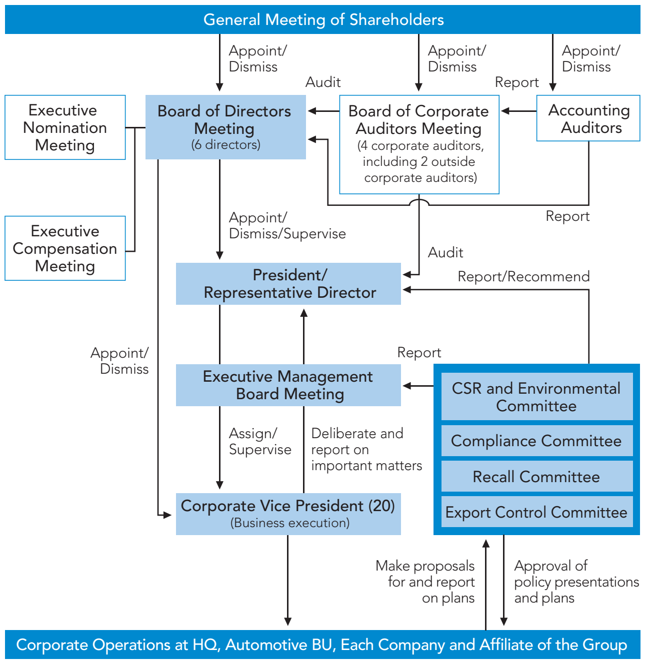
In line with its Corporate Philosophy, FHI views the strengthening of corporate governance as one of management's highest priorities, so that it can measure up to the trust and confidence placed in the Company by all of its shareholders, customers and other stakeholders. In the pursuit of more efficient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

Directors and Corporate Auditors

FHI adopts an audit system that encompasses the decision-making process, supervision and audit of matters of importance to business execution made by the Board of Directors and Board of Corporate Auditors. Comprising six members, the Board of Directors works to make decisions related to business affairs accelerated and more streamlined.

Management oversight functions are enhanced by the appointment of two outside corporate auditors. Possessing no inherent interest in the Company and completely independent from management, outside corporate auditors possess sufficient credentials, abilities and experience to provide opinions from a legal and fair perspective. Outside corporate auditors attend meetings of the Board of Directors, Board of Corporate Auditors and other important company meetings while providing appropriate advice and direction from a wide-ranging perspective. Specifically, the Company's outside corporate auditor, Giichi Miyakawa, is fully qualified for this position owing to his management experience and wealth of knowledge as an executive in the manufacturing industry, and his credentials and abilities to undertake audits in an objective manner. In light of his

Corporate Governance System



background, and with no possibility of a conflict of interest arising with regular shareholders, Mr. Miyakawa has been also appointed as an independent executive.

Although the Company does not appoint outside directors, the aforementioned contribution of outside corporate auditors ensures the highly effective monitoring of directors. Consequently, the Company maintains business soundness with greater effectiveness through useful monitoring mechanisms.

Overview of Compensation for Directors and Corporate Auditors

In fiscal 2010, compensation for directors and corporate auditors was as follows:

Millions of Yen

Classification	Number	Basic compensation		Total
		Fixed	Performance-based	
Directors	9	253	42	295
Corporate Auditors (CA)	5	72	—	72
(Outside CA)	(2)	(29)	—	(29)
Total	14	325	42	367

(Policy related to determining the amount of compensation for directors and corporate auditors and calculation methods)
The total amount of compensation paid to directors in one year is ¥600 million or below, an amount that was approved at the 75th Ordinary General Meeting of Shareholders, held on June 27, 2006. Approved by the Board of Directors, this compensation, which is the basic amount paid to directors, is divided into a fixed amount (the specific amount is decided upon in consideration of the business environment and other factors based on position) and a performance-based amount (the specific amount decided upon in consideration of the business environment and other factors based on consolidated ordinary income for the fiscal year under review).

The total amount of compensation paid to corporate auditors in one year is ¥100 million or below, which was approved at the 75th Ordinary General Meeting of Shareholders, held on June 27, 2006. In consultation with corporate auditors, this compensation, which is the basic amount paid to corporate auditors, consists of an amount that is decided upon in consideration of the business environment and other factors based on position.

Corresponding to the Quality Assurance

Subaru's quality improvement activities, based on information gathered from customers worldwide, lead directly to better-qualified products and the refinement of the Subaru brand name. Using specialized internet networks, fax, telephone and other resources, quality-related information on Subaru automobiles is collected from dealerships worldwide. Based on this information as well as survey results of vehicles and components:

(1) We make determinations in accordance with domestic and overseas laws, placing the highest priority on ensuring that customers ride in safety.

(2) We provide notifications to customers through a wide array of media including announcements placed in newspapers and journals, direct mail, telephone calls, visitations and the Company's website.

Management

(As of June 25, 2010)

Representative Director of the Board, President and CEO

❶ **Ikuo Mori**

Representative Directors of the Board, Deputy Presidents

❷ **Kazushige Okuhara**

❸ **Masatsugu Nagato**

Directors of the Board, Executive Vice Presidents

❹ **Jun Kondo**

❺ **Yasuyuki Yoshinaga**

❻ **Akira Mabuchi**

Executive Vice Presidents

Yoshio Hasunuma

Naoto Muto

Mitsuru Takahashi (CFO)

Senior Vice Presidents

Tamaki Kamogawa

Tomohiko Ikeda

Hisashi Nagano

Motohisa Miyawaki

Mitsuru Takada

Takeshi Tachimori

Masahiro Kasai

Vice Presidents

Motokiyo Nomura

Yasuo Ueno

Hidetoshi Kobayashi

Yoshio Hirakawa

Ryoichi Shimokawa

Tatsuhiko Mukawa

Yasuo Kosakai

Tsuyoshi Nakai

Yasunobu Nogai

Masashi Takahashi

Standing Corporate Auditors

Shunsuke Takagi

Hiroyuki Oikawa

Nobushige Imai

Corporate Auditor

Giichi Miyakawa

Consolidated Ten-Year Financial Summary

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

										Millions of Yen	Thousands of U.S. dollars*
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010
For the Year:											
Net sales	¥1,311,887	¥1,362,493	¥1,372,337	¥1,439,451	¥1,446,491	¥1,476,368	¥1,494,817	¥1,572,346	¥1,445,790	¥1,428,690	$15,355,653
Cost of sales	978,841	992,950	1,011,582	1,085,716	1,107,718	1,125,293	1,142,674	1,217,662	1,164,564	1,152,763	12,389,972
Gross profit	333,046	369,543	360,755	353,735	338,773	351,075	352,143	354,684	281,226	275,927	2,965,681
Selling, general and administrative expenses	251,373	281,063	293,234	303,411	296,756	292,736	304,237	309,004	287,029	248,577	2,671,722
Operating income (loss)	81,673	88,480	67,521	50,324	42,017	58,339	47,906	45,680	(5,803)	27,350	293,959
Income (loss) before income taxes and minority interests	21,291	56,136	46,970	56,266	21,066	28,674	45,589	31,906	(21,517)	(443)	(4,761)
Net income (loss)	22,628	30,283	33,484	38,649	18,238	15,611	31,899	18,481	(69,933)	(16,450)	(176,806)
At Year-End:											
Net assets**	¥ 363,199	¥ 399,598	¥ 414,614	¥ 457,027	¥ 474,616	¥ 467,786	¥ 495,703	¥ 494,423	¥ 394,719	¥ 381,893	$ 4,104,611
Shareholders' equity	357,455	396,112	411,252	453,708	471,149	465,522	494,004	493,397	393,946	380,587	4,090,574
Total assets	1,168,501	1,269,558	1,344,072	1,349,727	1,357,459	1,348,400	1,316,041	1,296,388	1,165,431	1,231,367	13,234,813
Ratio of net assets to total assets (%)	30.6%	31.2%	30.6%	33.6%	34.7%	34.5%	37.5%	38.1%	33.8%	30.9%	
Per Share (in yen and U.S. dollars):											
Net income or net loss:											
Basic	¥30.44	¥40.74	¥44.84	¥50.62	¥23.27	¥20.66	¥44.46	¥25.73	¥(91.97)	¥(21.11)	$(0.23)
Diluted	29.06	38.83	42.91	49.66	23.27	20.66	44.44	25.73	—	—	—
Net assets	480.86	532.88	553.90	582.60	604.51	649.41	687.81	687.02	505.59	488.58	5.25
Other Information:											
Automobile inventory (thousand units):											
Japan	29.7	33.5	22.9	28.4	24.5	18.5	16.5	12.4	13.5	10.5	
United States	40.0	41.2	44.7	48.1	51.2	55.6	46.3	49.5	54.2	41.8	
Depreciation/amortization expenses	¥ 64,070	¥ 63,964	¥ 67,896	¥ 71,112	¥ 71,010	¥ 80,073	¥ 81,454	¥ 87,164	¥ 74,036	¥ 65,785	$ 707,061
Capital expenditures (addition to fixed assets)	102,301	118,376	119,423	128,026	147,759	119,289	126,329	118,869	95,153	89,077	957,405
R&D expenses	46,622	54,903	60,110	57,541	52,962	46,893	50,709	52,020	42,831	37,175	399,559
Number of shares issued (thousands of shares)***	746,502	746,506	746,521	782,865	782,865	782,865	782,865	782,865	782,865	782,865	
Number of shareholders***	32,996	33,094	35,584	34,704	34,558	46,367	42,920	44,484	40,839	39,223	
Number of employees***:											
Parent only	13,603	13,374	13,064	12,928	12,703	11,998	11,752	11,909	12,137	12,483	
Consolidated	26,502	26,483	27,478	27,296	26,989	26,115	25,598	26,404	27,659	27,586	

* U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥93.04 to US$1.00, the approximate rate of exchange at March 31, 2010.
** Prior year amounts have been reclassified to conform to the current year presentation.
*** As of March 31

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

The Fuji Heavy Industries Ltd. Group

The Fuji Heavy Industries Ltd. ("FHI") Group is engaged in production and sales activities across a wide range of business sectors. These activities are conducted under four business divisions: Automobiles (the Group's core operating domain that accounts for over 90% of consolidated net sales), Aerospace, Industrial Products and Other.

On a consolidated settlement of accounts basis, FHI and 71 subsidiaries (a year-on-year increase of three) as well as 9 equity-method affiliated companies (a year-on-year decrease of six) were included in the scope of the FHI Group's consolidation as of March 31, 2010, the end of fiscal 2010 ("the fiscal year under review"). To date, some of FHI's equity-method subsidiaries were reclassified as consolidated subsidiaries due to their growing importance.

Overview

During fiscal 2010, ended March 31, 2010, the economic climate in which FHI operates was initially very severe due to the impact of the global recession that started in the previous fiscal year. However, the economy began to recover from the second quarter onward owing to improved economic conditions in the United States, increased exports following robust growth in China and other emerging markets and the impact of a series of economic countermeasures implemented by individual countries.

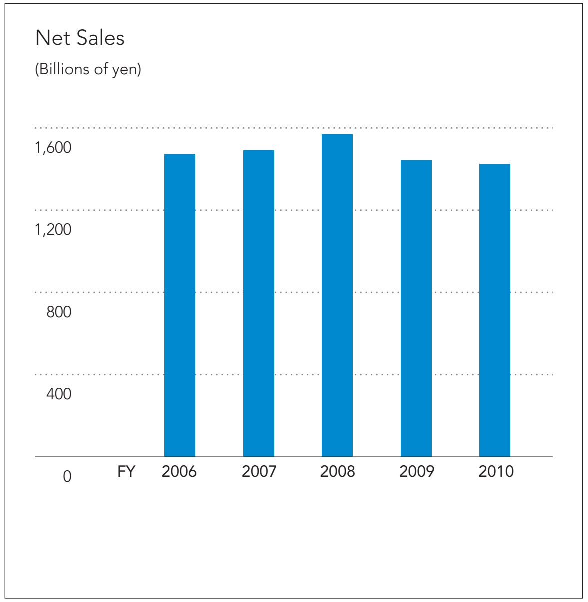
Against this backdrop, the FHI Group undertook a full model change of its mainstay Legacy/Outback in May 2009 to facilitate a recovery in performance as early as possible. The redesigned Legacy is a new product that embodies the key words of the medium-term management plan announced in February 2007: "customers come first." The new Legacy was started to be manufactured in Japan and North America almost simultaneously which was the first trial at FHI's production bases and initially released in those markets. Following the release, FHI focused on increasing sales by releasing the new Legacy sequentially in markets worldwide.

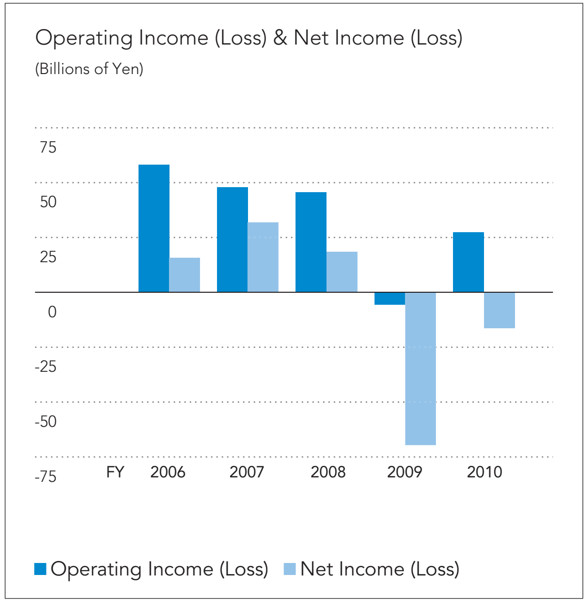
Amid the rapid economic deterioration that took place during the previous fiscal year, FHI continued to implement emergency measures that focused on reducing costs across the board. At the same time, the Company implemented internal reforms through structural improvement measures aimed at maintaining profits despite severe economic conditions.

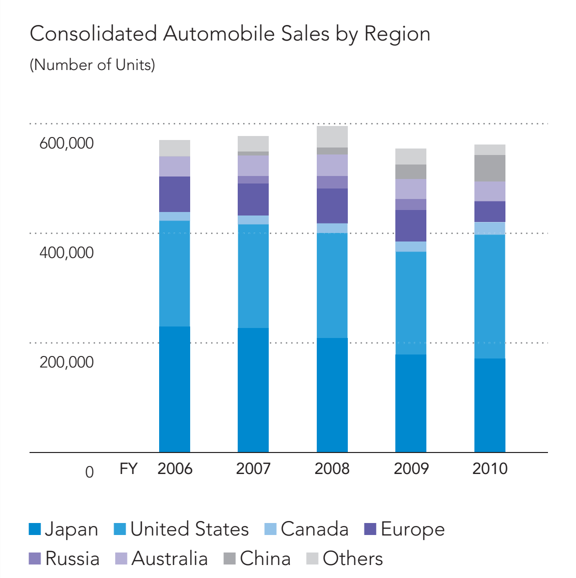
Owing to these initiatives, consolidated settlement of accounts for the consolidated fiscal year under review is as follows.

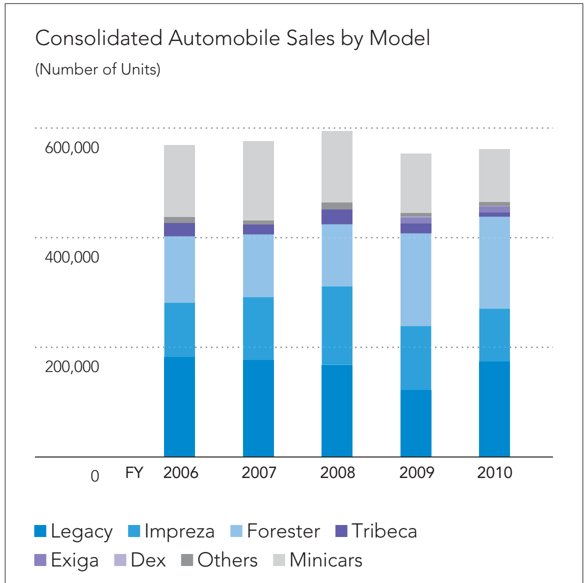
Sales increased primarily in the Automobiles division, which experienced strong sales in the North American and Chinese markets, and the Aerospace division, which enjoyed favorable product sales to Boeing. Despite this, consolidated net sales in fiscal 2010 were ¥1,428.7 billion, down ¥17.1 billion, or 1.2%, compared with in the fiscal year ended March 31, 2009. This was primarily attributable to the impact of yen appreciation in foreign currency exchange markets year on year. On a geographic basis, net sales in Japan increased 2.6% to ¥520.8 billion compared with the previous fiscal year owing to such factors as the effect on sales of the new Legacy. Overseas sales, however, dropped 3.2% to ¥907.9 billion year on year due to the impact of the strong yen on foreign currency exchange markets, in spite of robust sales in the United States, Canada and China.

From a profit perspective, the FHI Group reported an operating income of ¥27.4 billion despite the strong yen. This represented a gain of ¥33.2 billion from an operating loss of ¥5.8 billion recorded in the previous fiscal year. This increase was mainly attributable to robust sales trends and efforts to reduce costs, including material cost, SG&A and other expenses. In the fiscal year under review, although the FHI Group incurred an impairment loss of ¥10.5 billion in the Industrial Products division, it reported a net loss of ¥16.5 billion, an improvement of ¥53.5 billion from net loss of ¥69.9 billion in the fiscal year ended March 31, 2009. This improvement was the result of not reversing a portion of its deferred tax assets during the previous fiscal year. (Please refer to "Cost of Sales, Expenses and Operating Income" [page 29] for more details.)









Consolidated Automobile Sales

Number of Units

	2006	2007	2008	2009	2010
Domestic Units:					
Legacy	50,619	43,951	31,079	20,415	28,862
Impreza	26,911	24,135	29,678	19,733	21,721
Forester	17,405	11,807	16,863	16,424	11,879
Exiga	—	—	—	11,126	10,789
Dex	—	—	—	2,034	1,523
Others	2,747	1,308	435	363	323
Subtotal	97,682	81,201	78,055	70,095	75,097
Minicars	132,483	145,610	130,635	108,694	96,175
Domestic Total	230,165	226,811	208,690	178,789	171,272
Overseas Units by Region:					
United States	193,562	190,276	192,760	188,240	227,028
Canada	16,384	16,247	17,587	18,873	22,828
Europe	64,724	58,475	63,373	56,764	37,340
Russia	—	12,929	22,622	20,711	1,563
Australia	36,506	38,136	40,210	36,716	34,992
China	—	7,454	12,621	26,184	48,938
Others	30,034	27,610	38,802	29,056	18,876
Subtotal	341,210	351,127	387,975	376,544	391,565
Overseas Units by Model:					
Legacy	132,236	133,720	137,829	102,106	146,099
Impreza	72,790	90,927	113,777	97,472	74,998
Forester	104,059	102,969	96,839	153,289	156,288
Tribeca	24,187	18,268	27,327	17,658	7,564
Others	7,938	5,243	12,203	6,019	6,616
Subtotal	341,210	351,127	387,975	376,544	391,565
Total	571,375	577,938	596,665	555,333	562,837

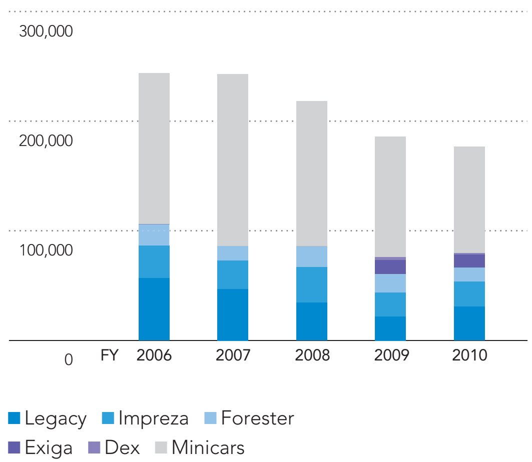
Non-Consolidated Automobile Sales

Number of Units

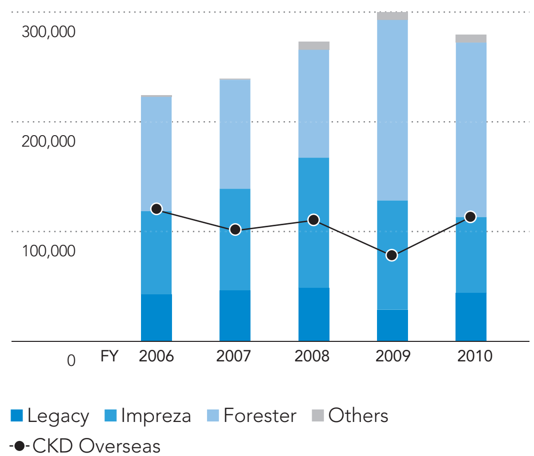
	2006	2007	2008	2009	2010
Domestic Units:					
Legacy	57,013	47,176	34,634	22,059	30,927
Impreza	30,063	26,159	32,873	21,935	23,316
Forester	19,256	12,946	18,740	16,954	12,542
Exiga	—	—	—	12,787	11,893
Dex	—	—	—	2,651	1,575
Others	—	—	—	—	—
Subtotal	106,332	86,281	86,247	76,386	80,253
Minicars	138,398	157,453	132,872	110,043	97,230
Domestic Total	244,730	243,734	219,119	186,429	177,483
Export Units:					
Legacy	42,809	46,410	48,568	28,787	43,937
Impreza	75,935	92,782	119,000	99,688	69,386
Forester	104,425	99,637	98,602	164,960	159,463
Others	1,554	894	7,533	6,978	6,934
Export total	224,723	239,723	273,703	300,413	279,720
U.S. Retail Sales*:					
Legacy	87,788	84,442	78,428	66,878	86,330
Impreza	33,637	41,148	46,329	49,098	46,611
Forester	53,541	51,258	44,534	60,748	77,781
Baja	6,239	5,241	1,127	—	—
Tribeca	14,797	18,614	16,790	10,975	5,930
Total	196,002	200,703	187,208	187,699	216,652
CKD** Overseas	119,784	100,972	110,363	77,871	113,605
(SIA Portion)	119,784	100,972	110,363	77,871	113,605
SIA Production Units***					
Legacy	91,510	89,351	84,960	73,473	100,149
Tribeca	27,481	21,022	24,218	18,108	4,197

* U.S. Retail Sales are the aggregate figures for the calendar year from January through December.
** CKD: Completely Knocked Down
*** SIA Production Units are the aggregate figures for the calendar year from January through December until 2009.

Non-Consolidated Domestic Automobile Sales by Model
(Number of Units)



Non-Consolidated Automobile Export Units by Model
(Number of Units)



Segment Information

Automobiles Division

In the fiscal year under review, global sales volume stood at 563 thousand units, up 8 thousand units, or 1.4%, compared with the previous fiscal year. This was attributable to the positive impact received from the release of the new Legacy in Japan and strong sales in the United States and China.

In Japan, overall demand for automobiles rose 3.8% to 488 million units year on year, the first increase in four years, thanks to the success of the eco-car tax rebate and eco-car subsidy systems that were introduced at the beginning of 2009. In this circumstance, the sales volume of Subaru passenger cars in Japan rose 5 thousand units, or 7.1%, to 75 thousand units. This occurred thanks a full model change of the Legacy in May 2009, which subsequently drove up overall sales on the back of an 8-thousand unit, or 41.4%, increase in Legacy sales to 29 thousand units year on year as well as the aforementioned eco-car tax rebate and subsidy system.

Turning to minicars, FHI's mainstay car model, Stella, experienced a reduction in units sold amid a fall in overall demand due to its prolonged operating life, while production of the Pleo van was halted during the fiscal year under review. As a result of these factors, sales volume fell 13 thousand units, or 11.5%, to 96 thousand units year on year.

Consequently, domestic sales volume in decreased 8 thousand units, or 4.2%, compared with the previous fiscal year, to 171 thousand units.

Overseas, increases in sales volume resulted from improved sales owing to the release of the new Legacy in the United States and strong sales in China. Moreover, signs of a recovery in other markets were beginning to be seen during the second half of fiscal 2010. As a result of these factors, overseas sales volume rose 15 thousand units, or 4.0%, to 392 thousand units compared with the previous fiscal year.

By region, units sold in North America were up 43 thousand units, or 20.6%, to 250 thousand units. This is the result of such factors as increased sales of the new Legacy and Forester by FHI's American subsidiary, Subaru of America, Inc. (SOA), and "Cash for Clunkers" introduced in the United States to subsidize the purchase of new, more fuel-efficient vehicles. In China, sales volume surged 23 thousand units, or 86.9%, to 49 thousand units year on year owing to robust sales of the Forester that began last year and the release of the new Legacy. In Europe and Russia, despite measures of scrap incentives introduced by individual governments to support automobile replacement, sales volume decreased 39 thousand units, or 49.8%, year on year to 39 thousand units. This was caused by production adjustments made to reduce inventories in the first half of fiscal 2010 amid severe market conditions. In addition, year-on-year sales in Australia dipped 2-thousand units, or 4.7%, to 35 thousand units, while sales in other regions were down 10 thousand units, or 35.0%, to 19 thousand units.

As a result, net sales in the Automobile division decreased ¥21.9 billion, or 1.7%, to ¥1,294.5 billion compared with the previous fiscal year, buffeted by the impact of the yen's appreciation in foreign currency exchange markets. Operating income in the fiscal year ended March 31, 2010 increased ¥30.9 billion to ¥21.7 billion compared with an operating loss of ¥9.2 billion recorded in fiscal 2009. This rise was primarily attributable to efforts to reduce costs, including material costs, SG&A and other expenses.

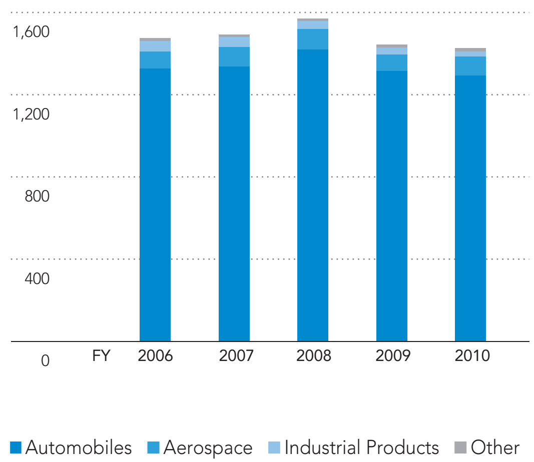
Aerospace Division

On an individual product basis, overall net sales rose year on year thanks to net sales increases for such products as an unmanned aerial vehicle system and the "Forward Field Observation System" produced for the Japan Ministry of Defense.

In the commercial sector, net sales rose compared with the previous fiscal year thanks to a recovery of sales of the Boeing 777, which was affected by a strike that took place in the previous fiscal year, as well as increased sales for mass production equipment used for manufacturing the Boeing 787.

Based on these factors, net sales in the Aerospace division rose ¥12.3 billion, or 15.3%, compared with the previous fiscal year, to ¥93.2 billion. Operating income jumped ¥3.2 billion, or 205.5%, to ¥4.8 billion.

Net Sales by Division (Excluding intersegment sales)
(Billions of Yen)



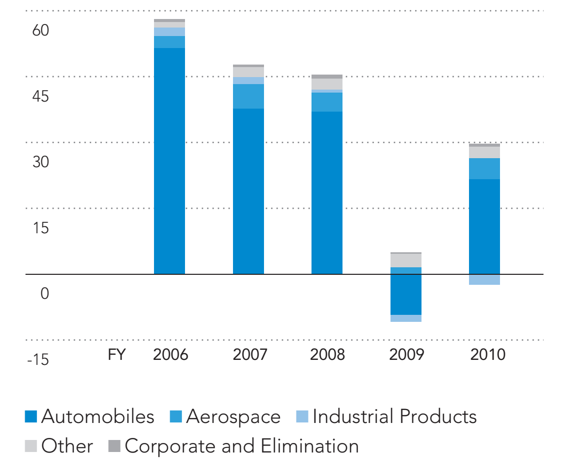
Net Sales by Division (Excluding intersegment sales) Billions of Yen

	2006	2007	2008	2009	2010
Automobiles	¥1,329.2	¥1,339.3	¥1,421.2	¥1,316.3	¥1,294.5
Aerospace	81.8	94.0	99.7	80.9	93.2
Industrial Products	52.4	49.7	40.7	34.9	23.9
Other	13.0	11.8	10.8	13.7	17.1
Total	¥1,476.4	¥1,494.8	¥1,572.3	¥1,445.8	¥1,428.7

Industrial Products Division

Net sales in this division increased following the inclusion of two subsidiaries in the scope of consolidation. However, industrial engine sales in Japan, Europe and the Middle East dropped due to a slump in demand sparked by the financial crisis that took place in the previous fiscal year. Furthermore, the impact of the strong yen in foreign currency exchange markets led to a year-on-year decline in net sales.

Operating Income (Loss) by Division
(Billions of Yen)



Operating Income (Loss) by Division — Billions of Yen

	2006	2007	2008	2009	2010
Automobiles	¥51.6	¥37.8	¥37.1	¥(9.2)	¥21.7
Aerospace	2.8	5.7	4.4	1.6	4.8
Industrial Products	2.0	1.5	0.7	(1.6)	(2.4)
Other	1.2	2.3	2.5	3.1	2.6
Corporate and Elimination	0.7	0.6	0.9	0.3	0.7
Total	¥58.3	¥47.9	¥45.7	¥(5.8)	¥27.4

As a result, net sales in the Industrial Products division fell ¥11.0 billion, or 31.5%, compared with the previous fiscal year, to ¥23.9 billion. In the fiscal year under review, the division reported an operating loss of ¥2.4 billion. This represented a further deterioration of ¥0.8 billion from the operating loss of ¥1.6 billion reported in the previous fiscal year.

Other Division

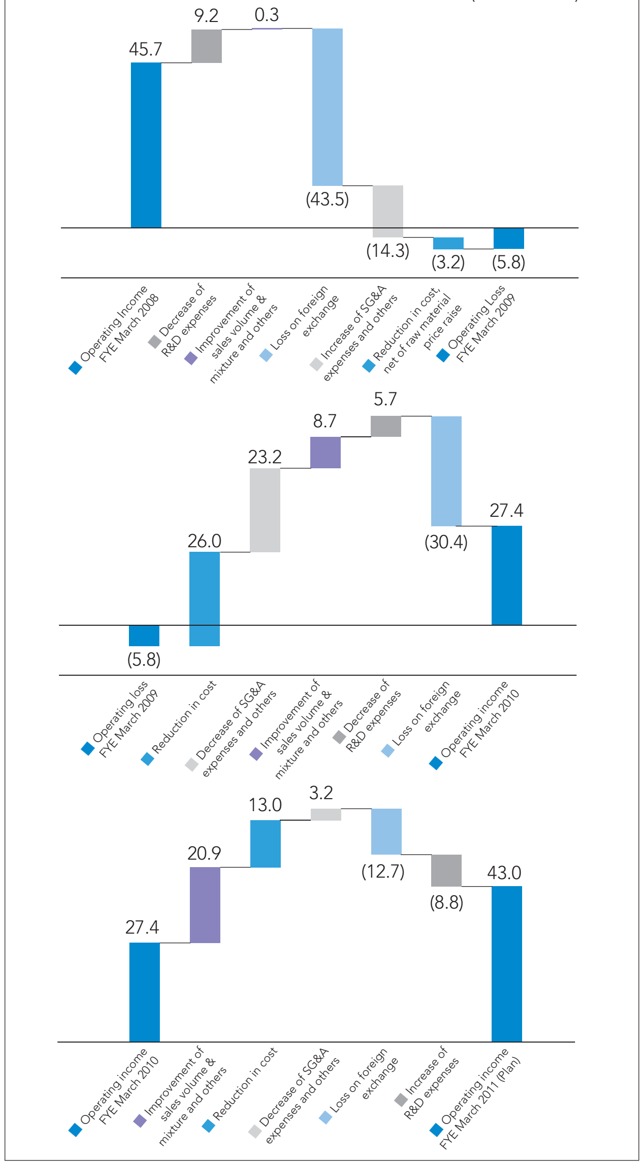
Sales volume for Fuji Mighty sanitation trucks, which are used for collecting refuse, decreased. However, in addition to deliveries of large-scale wind turbine generator systems, the inclusion of one subsidiary within the Group's scope of consolidation contributed to the increase in sales. As a result, net sales in the Other division climbed ¥3.4 billion, or 24.9%, compared with the previous fiscal year, to ¥17.1 billion. By contrast, operating income decreased ¥0.6 billion, or 17.9%, year on year, to ¥2.6 billion.

Cost of Sales, Expenses and Operating Income

Operating income, as mentioned above, increased ¥33.2 billion year on year to ¥27.4 billion. Although the appreciation of the yen in foreign currency exchange markets was a factor in a ¥30.4 billion reduction in income, there were a number of factors that offset this loss. These include: a reduction in costs totaling ¥26.0 billion and a ¥23.2 billion decline in SG&A and other expenses due to decreases in administration and fixed manufacturing costs; an ¥8.7 billion improvement in sales volume and mix, primarily owing to the release of the new Legacy and an increase in sales volume in the United States and China; and a ¥5.7 billion reduction in R&D expenses stemming from the finalizing of new model development and the efficient conduct of experimental research.

Turning to other income and expenses, net expenses recorded in fiscal 2009 increased ¥12.1 billion to ¥27.8 billion in the fiscal year under review. Despite a reduction in such items as loss on valuation of investment securities and provision of allowance for doubtful accounts, this year-on-year increase in net expenses reflects the increase

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



in interest expenses paid and the recording of impairment loss on fixed assets in the Industrial Products division and the integration of domestic dealerships in the Automobiles division.

Taking into account the aforementioned factors, the FHI Group recorded a loss before income taxes and minority interests of ¥0.4 billion, an improvement of ¥21.1 billion year on year. As mentioned above, net loss for the period amounted to ¥16.5 billion. This was a ¥53.5 billion improvement compared with the previous fiscal year.

Liquidity and Financing

Securing Liquidity

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

Interest-bearing debt as of the end of fiscal 2010 totaled ¥367.6 billion, ¥14.1 billion lower than the end of the previous fiscal year. As a result, the debt/equity ratio remained unchanged since March 31, 2009 at 0.97.

Financial Position

Total assets as of March 31, 2010 stood at ¥1,231.4 billion, an increase of ¥65.9 billion compared with the previous fiscal year-end.

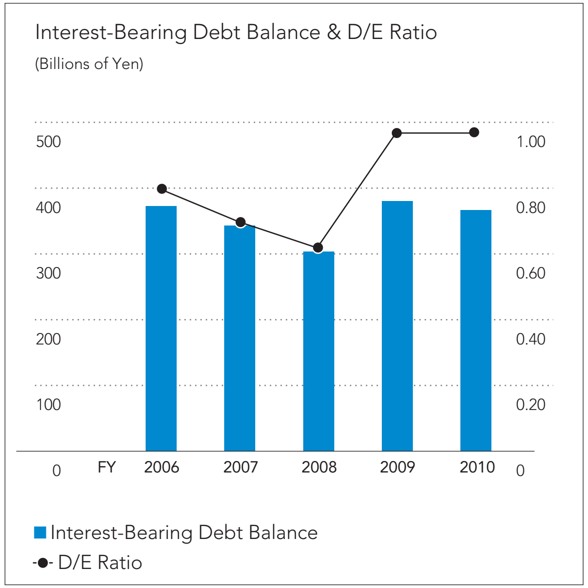
Of this total, current assets stood at ¥638.9 billion, up ¥52.9 billion compared with March 31, 2009. Despite a fall in inventories stemming from a contraction in stock volume that occurred amid robust automobile sales in the United States, this increase is attributable to a rise in notes and accounts receivable—trade caused by such factors as an increase in cash and cash equivalents corresponding to growth in working capital as well as higher sales of the Boeing 787.

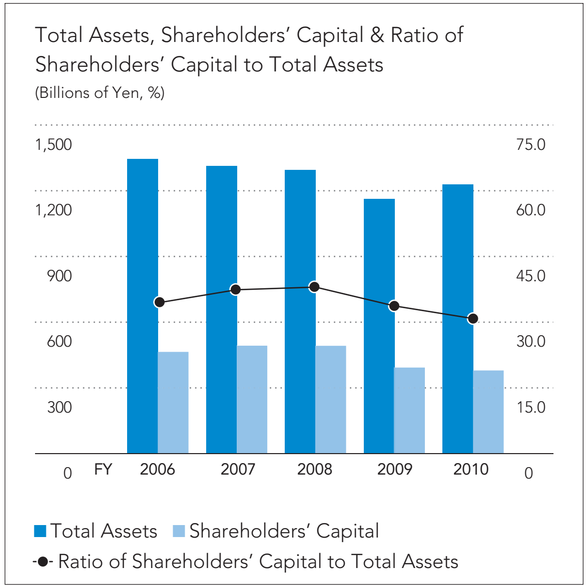
Total property, plant and equipment increased ¥13.1 billion year on year to ¥592.5 billion, an upswing primarily due to an increase in the value of investment securities and the reclassification of other assets including license fees for the AH-64D undertaken by the Aerospace division, which until now was recorded under inventories. As is mentioned below, FHI undertook capital expenditure of ¥56.1 billion in the fiscal year under review, a decrease of ¥1.8 billion compared with the fiscal year ended March 31, 2009.

Total liabilities were up ¥78.8 billion year on year, to ¥849.5 billion. Despite a rise in notes and accounts payable—trade resulting from a higher automobile production volume, current liabilities declined ¥6.2 billion to ¥555.1 billion mostly as a result of a decrease in short-term borrowings. Total long-term liabilities stood at ¥294.4 billion, ¥84.9 billion higher than at the end of the previous fiscal year. This was mainly attributable to an upswing in long-term debt.

As mentioned above, interest-bearing debt amounted to ¥367.6 billion as of March 31, 2010, down ¥14.1 billion compared with the end of the previous fiscal year. This reflected payments of a portion of short-term loans payable, the refinancing of long-term loans payable and the redemption of the outstanding balance of commercial paper.

Net assets totaled ¥381.9 billion, down ¥12.8 billion compared with the end of the previous fiscal year. This was primarily attributable to the decrease in retained earnings of ¥16.4 billion to ¥110.2 billion caused by the recording of a net loss. As a result, net assets per share as of the end of the fiscal year under review totaled ¥488.58, down ¥17.1 from ¥505.59 as of the end of the previous fiscal year.





Cash Flows

In the fiscal year under review, net cash provided by operating activities was ¥176.7 billion. In comparison, net cash used in operating activities of ¥26.9 billion had been recorded in the previous fiscal year. This mainly reflects a significant improvement in working capital owing to strong automobile sales.

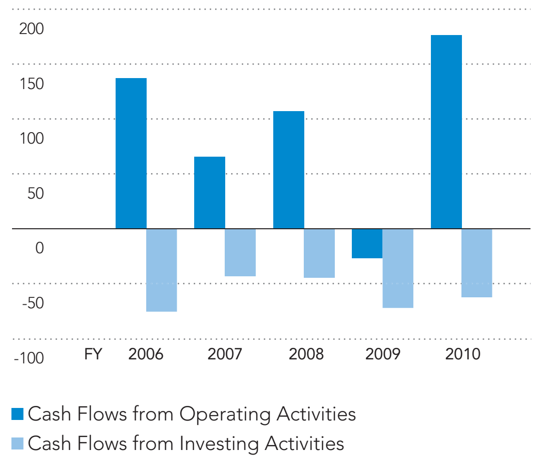
Net cash used in investing activities declined from ¥72.4 billion in fiscal 2009 to ¥62.7 billion in the fiscal year under review, primarily due to reductions in cash outflows related to the acquisition of property, plant and equipment and investment securities more of the same level of the previous fiscal year.

As a result, free cash flow amounted to ¥114.1 billion. This was a positive turnaround of ¥213.4 billion from the negative figure of ¥99.3 billion in the previous fiscal year.

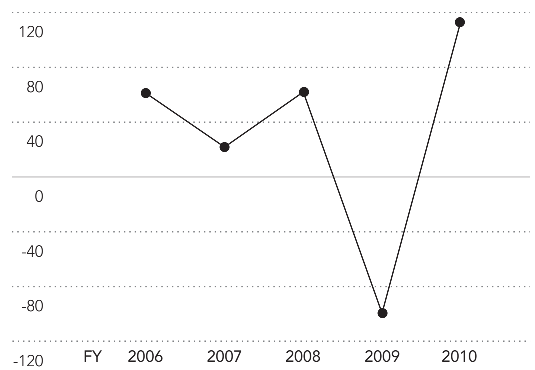
Net cash used in financing activities totaled ¥18.6 billion in the fiscal year ended March 31, 2010. In comparison, net cash provided by financing activities stood at ¥80.4 billion in fiscal 2009. This result was largely attributable to a drop in interest-bearing debt.

Accounting for the aforementioned activities and the effect of exchange rate fluctuations, the net increase in cash and cash equivalents amounted to ¥94.7 billion. After taking into consideration the increases or decreases in cash and cash equivalents resulting from the change in the scope of consolidation and in accounting period of consolidated subsidiaries, cash and cash equivalents as of the end of the fiscal year under review stood at ¥191.5 billion, up ¥95.0 billion year on year.

Cash Flows from Operating Activities &
Cash Flows from Investing Activities
(Billions of Yen)



Free Cash Flow
(Billions of Yen)



Research and Development Expenses

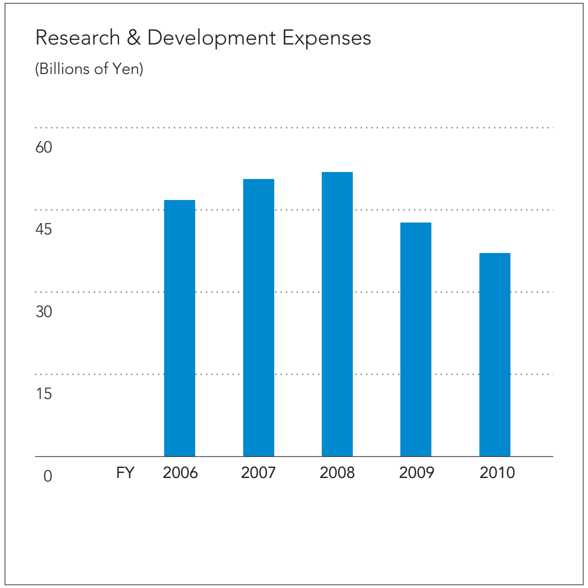
As the temporary lull in new model development was occurred after the full model change of the new Legacy and FHI took steps to further increase efficiency. As a result of these factors, R&D expenses declined ¥5.7 billion, or 13.2%, year on year, to ¥37.2 billion.

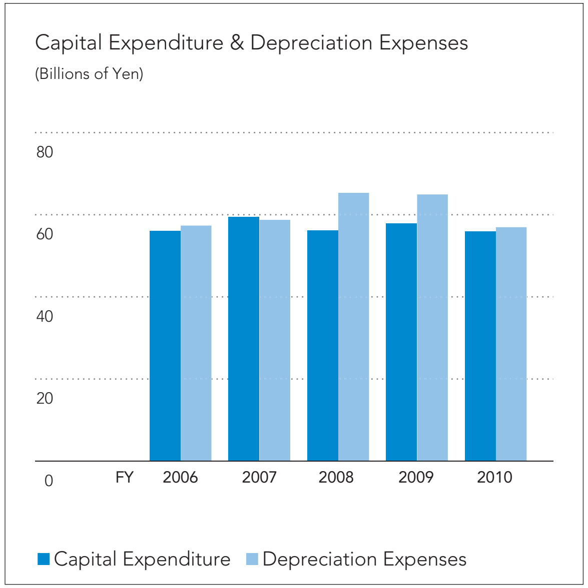
Capital Expenditures and Depreciation

Despite investing in the launch of the Yajima Plant and FHI's U.S. subsidiary, Subaru of Indiana Automotive, Inc. (SIA) in order to initiate first-ever simultaneous production in Japan and the United States accompanying the release of the new Legacy, capital expenditures declined ¥1.8 billion compared with the previous fiscal year, to ¥56.1 billion. This was primarily attributable to the integration of domestic dealerships and the curbing of investments in sales activities. Although depreciation increased as a result of the domestic release of the new Legacy, total depreciation fell ¥8.0 billion year on year, to ¥57.1 billion. This was mainly attributable to a decline in mold cost depreciation on expenses related to older models produced by SIA.

Billions of Yen

	2006	2007	2008	2009	2010
R&D Expenses	¥46.9	¥50.7	¥52.0	¥42.8	¥37.2
Capital Expenditures	56.2	59.6	56.3	58.0	56.1
Depreciation Expenses	57.5	58.9	65.5	65.1	57.1





Basic Policy Regarding the Distribution of Profits

FHI views the return of profits to shareholders as a critical task for management and follows a basic policy of maintaining stable long-term dividends, while taking into consideration a wide range of factors, including its earnings performance and dividend payout ratio. Despite performance entering a recovery trend, however, no dividends were paid for the fiscal period under review due to the recording of a net loss since 2009. Although uncertainties remain in the business environment, dividend payments for fiscal 2011 are expected to resume in light of a forecasted recovery in net income. Consequently, interim and fiscal year-end dividends are scheduled to be ¥4.50 per share, for an annual dividend of ¥9.00.

Outlook

In spite of movement towards an economic recovery, FHI expects the business environment to remain uncertain due to such factors as ongoing instability in foreign currency exchange rates and increasing raw materials prices.

Against this backdrop, the FHI Group is forecasting (as of May 2010) net sales of ¥1,470.0 billion in the fiscal year ending March 31, 2011. This represents a year-on-year increase of ¥41.3 billion, or 2.9%, and is mainly attributable to the rise in automobile sales volume overseas. On the earnings front, the Group's consolidated operating income is projected to increase ¥15.6 billion, or 57.2%, compared with the fiscal year under review, to ¥43.0 billion. Despite forecasts of such negative factors as high raw materials prices, foreign exchange losses caused by the yen's appreciation and increasing R&D expenses, FHI expects to offset these elements through such positive factors as the improvement of sales volume and mix, following increases in unit sales in overseas markets, and a reduction of costs, SG&A and other expenses. Net income in the fiscal year ending March 31, 2011 is expected to total ¥23.0 billion, a year-on-year improvement of ¥39.5 billion, the first time in two years that FHI has reported a profit.

These forecasts are based on average annual exchange rates of ¥90 to U.S. $1.00 and ¥120 to €1.

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

Medium- to Long-Term Management Strategies

FHI continues to engage in business activities underpinned by its four-year, medium-term management plan covering the period from April 2007 to March 2011. Centered on the philosophy that "customers come first," this plan seeks to (1) provide a distinctive Subaru experience for drivers and passengers, (2) increase sales globally, (3) strengthen competitiveness in quality and cost, (4) grow through the business alliance with Toyota, and (5) grow the level of employee competence and so enhance the organization. As a result of the rapid deterioration of global economic conditions since 2008, targets listed in the medium-term plan, including unit sales, operating income, management indicators and shareholder returns, have been suspended. However, key initiatives and directions outlined in this plan remain unchanged. Thus, the recovery in performance that occurred during the fiscal year under review has given us a strong sense of confidence that we are moving in the right direction.

FHI will do its utmost to come as close as possible to meet targets set for the fiscal year ending March 31, 2011, the final year of the medium-term management plan, while taking steps to formulate the next medium-term management plan.

Integrate the Pleasure of Driving and Environmental Responsibility

Introducing the Impreza, Forester and Legacy as global models, we aim to produce automobiles that offer a pleasurable driving experience for not only drivers but also for all passengers. Looking forward, FHI will promote the development of products and technologies that emphasize greater environmental responsibility and safety.

1. Equipped the new Legacy with CVT (Continuously Variable Transmission) in 2009 and will sequentially introduce this technology to other models
2. Introduce the new, third-generation, horizontally opposed engine in 2010, which improves fuel economy by over 10% and will promote further improvements in fuel economy by such means as combining this technology with CVT
3. Supplied the Plug-In STELLA electric vehicle to the corporate and public sectors since July 2009
4. Release of a hybrid automobile scheduled for 2012
5. Continue to accelerate the development of safety technology through measures that include the introduction of models equipped with "EyeSight"*1 Subaru's Unique Advanced Driving Assist system, which augments pre-collision safety*2 functions

*1. Utilizing stereo camera technology, this proprietary system developed by Subaru realizes high-level collision avoidance functions by enabling a wide degree of awareness while driving.
*2. Technology reduces the risk of collision or collision damages by detecting vehicles and objects on the road

Increase Sales Globally

Based on the expansion of its global models, FHI will take steps to increase unit sales in North America, its most important market, and such emerging markets as China. At the same time, we aim to secure earnings by shifting to the sale of passenger cars in Japan.

1. Instituted a comprehensive assistance structure for dealerships in January 2010 by shifting its sales structure in the United States from five regions to three and by increasing zone offices from three to twelve; improve the quality of dealerships through scrap and build operations
2. Upgrade sales networks in such emerging markets as China, along with the mainstay European market and other regions
3. Pursue increased profitability and strengthened marketing capability by transitioning to an integrated network of distributors in Japan and by shifting to passenger car sales

Establish a Production System in Tandem with Robust Sales

1. Undertake efficient capital expenditures in 2010 to augment the production capability of FHI's North American production base, SIA, with the aim of meeting higher demand for the new Legacy in this market
2. Increase production capacity through the amalgamation of domestic production bases in order to meet growing demand for such parts as the new horizontally opposed engine as well as engines and transmissions for individual markets such as the robust North American market
3. Investigate new production systems following reductions of minicar manufacturing at FHI's Gunma Main Plant
4. Consider the possibility of the establishment of a local production base in China where sales are favorable

Alliance with the Toyota Group

1. Smooth transition of manufacturing of the Toyota Camry on an OEM basis in SIA
2. Full-scale OEM supply for minicars from Daihatsu Motor Co., Ltd. to FHI
3. OEM supply for a compact car from Toyota Motor Corporation to FHI in fiscal 2010
4. Joint development of a sporty, compact FR (front engine, rear drive) car with Toyota (scheduled to be introduced at the end of 2011)

Through each of the aforementioned measures, the Group will combine the knowledge and talents of all employees through the key word, "Going Forward," with the aim of achieving further growth. Furthermore, we will establish a new base for growth in anticipation of the next medium-term management plan.

Forecast for Global Automobile Sales — Thousand Units

	2010	2011	Change
Japan:			
Passenger cars	75.1	69.0	(6.1)
Minicars	96.2	92.4	(3.8)
Subtotal	171.3	161.4	(9.9)
Overseas:			
United States	227.0	243.7	16.7
Canada	22.8	26.5	3.7
Europe	37.3	52.2	14.8
Russia	1.6	8.1	6.5
Australia	35.0	39.9	5.0
China	48.9	60.0	11.1
Other	18.9	38.2	19.3
Subtotal	391.6	468.6	77.0
Total	562.8	630.0	67.1

Principal Risks

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

Consolidated Subsidiaries and Affiliates

(As of March 31, 2010)

Japan

Fuji Machinery Co., Ltd. (100.0%)

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

Ichitan Co., Ltd. (51.0%)

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

Kiryu Industrial Co., Ltd. (97.5%)

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

Subaru Tecnica International Inc. (100.0%)

Management of SUBARU Motorsport Activities, Development and manufacture of competition parts, tuning parts and accessories for SUBARU cars
http://www.subaru-sti.co.jp/

Subaru Kosan Co., Ltd. (100.0%)

Leasing of real estate, shopping mall managements and travel agency operations
http://www.subaru-kohsan.co.jp/index.asp

Subaru Finance Co., Ltd. (100.0%)

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

Yusoki Kogyo K.K. (100.0%)

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

TOKYO SUBARU INC. (100.0%)

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

Overseas

Subaru of America, Inc. (100.0%)

Subaru Plaza, 2235 Route 70 West, Cherry Hill,
NJ 08002, U.S.A.
Phone: +1-856-488-8500
Fax: +1-856-488-0485
Distribution and sales of Subaru automobiles and parts
http://www.subaru.com

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

c/o Subaru of America, Inc.
Subaru Plaza, 2235 Route 70 West, Cherry Hill,
NJ 08002, U.S.A.
Phone: +1-856-488-8743
Fax: +1-856-488-8517
Engineering research of Subaru automobiles in North America Market

Subaru Research & Development, Inc.

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

Subaru of Indiana Automotive, Inc. (100.0%)

5500 State Road 38 East, Lafayette, IN 47905, U.S.A.
Phone: +1-765-449-1111
Fax: +1-765-449-6952
Manufacture of Subaru automobiles and contracted manufacture of Toyota automobiles
http://www.subaru-sia.com/

Subaru Canada, Inc. (100.0%)

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

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

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

Subaru of China, Ltd. (100.0%)

Beijing Landmark Towers Office Building 2-1501,
8 North Dongsanhuan Road, Chaoyang District,
Beijing 100004, China
Phone: +86-10-6590-0725
Fax: +86-10-6590-0729
Distribution, sales and marketing of Subaru automobiles and parts
http://www.subaru-china.cn/Home.html

Investor Information

(As of March 31, 2010)

Head Office

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

Investor Relations Office

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

Established

July 15, 1953

Paid-in Capital

¥153,795 million

Number of Shareholders

48,940

Number of Common Stock Issued

782,865,873

Domestic Manufacturing Divisions

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

Major Shareholders

1. Toyota Motor Corporation
2. Japan Trustee Services Bank, Ltd. (Trust account)
3. The Master Trust Bank of Japan, Ltd. (Trust account)
4. Nippon Life Insurance Company
5. Suzuki Motor Corporation
6. The Bank of New York Mellon as Depositary Bank for DR Holders
7. Mizuho Corporate Bank, Ltd.
8. Mizuho Bank, Ltd.
9. FHI's Client Stock Ownership
10. Sompo Japan Insurance Inc.

Stock Exchange Listing

Tokyo Stock Exchange

Transfer Agent

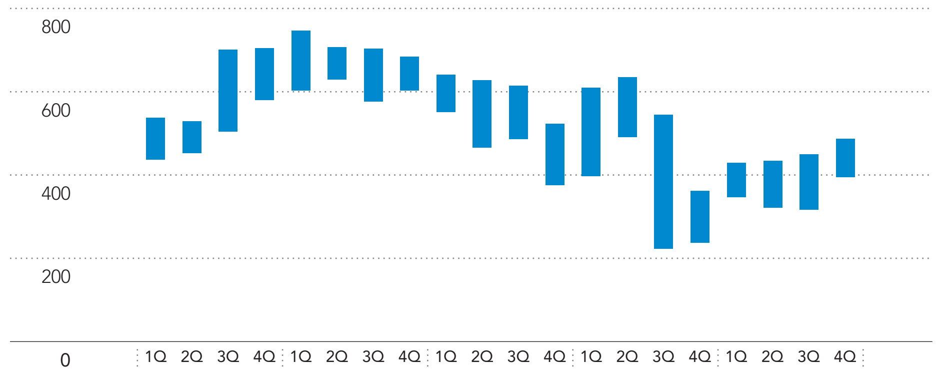
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-0028, Japan

Website Address

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

Quarterly Common Stock Price Range (Tokyo Stock Exchange)

(Yen)



	FY2006	FY2007	FY2008	FY2009	FY2010
High	704	747	641	635	487
Low	437	577	376	223	317

LEGACY

Based on the product concept of "Grand Touring Innovation," the new Legacy provides new value in terms of evolving driver's fun (which has been a traditional source of worth), passenger's fun (which pursues comfort and reliability for all passengers to enjoy while driving), and eco performance in step with the times. Acknowledged by numerous customers worldwide, the value embodied by the new Legacy has led to very robust sales since its release in May 2009.

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

Fuji Heavy Industries Ltd.

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Printed in Japan

Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2010**	2009	**2010**
Current assets:			
Cash and deposits (Note 3 and 4)	**¥168,643**	¥78,151	**$1,812,586**
Notes and accounts receivable-trade (Note 4 and 6)	**103,521**	82,352	**$1,112,650**
Lease investment assets (Note 4 and 22)	**27,788**	27,074	**$298,667**
Short-term investment securities (Notes 3, 4 and 5)	**12,458**	11,439	**$133,899**
Merchandise and finished goods	**101,351**	128,645	**$1,089,327**
Work in process	**59,596**	96,425	**$640,542**
Raw materials and supplies	**35,672**	34,249	**$383,405**
Deferred tax assets (Note 11)	**15,549**	15,918	**$167,122**
Short-term loans receivable (Note 3 and 4)	**75,780**	59,434	**$814,488**
Other current assets	**40,216**	53,845	**$432,245**
Allowance for doubtful accounts	**(1,686)**	(1,509)	**($18,121)**
Total assets	**638,888**	586,023	**6,866,810**
Property, plant and equipment (Notes 6, 8 and 15)	**1,241,606**	1,223,798	**13,344,862**
Accumulated depreciation	**(759,073)**	(739,586)	**(8,158,566)**
Accumulated impairment loss	**(33,006)**	(16,153)	**(354,750)**
Total property, plant and equipment	**449,527**	468,059	**4,831,546**
Investments and other assets:			
Intangible assets	**11,999**	13,972	**128,966**
Investment securities (Note 4 and 5)	**61,616**	45,792	**662,253**
Investments in non-consolidated subsidiaries and affiliated companies	**6,167**	10,589	**66,283**
Deferred tax assets (Note 11)	**5,742**	10,702	**61,715**
Other assets (Note 30)	**62,577**	36,219	**672,582**
Allowance for doubtful accounts	**(5,149)**	(5,925)	**(55,342)**
Total investments and other assets	**142,952**	111,349	**1,536,457**
Total assets	**¥1,231,367**	¥1,165,431	**$13,234,813**

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2010**	2009	**2010**
Current liabilities:			
Notes and accounts payable-trade (Note 4)	**¥217,051**	¥148,015	**$2,332,878**
Short-term loans payable (Note 4 and 6)	**142,121**	249,149	**1,527,526**
Current portion of long-term debts (Note 4 and 6)	**33,922**	21,956	**364,596**
Accrued expenses (Note 4)	**56,244**	50,524	**604,514**
Provision for bonuses (Note 2)	**15,348**	14,141	**164,961**
Provision for product warranties (Note 2)	**19,999**	17,934	**214,951**
Accrued income taxes (Note 4 and 11)	**2,873**	2,062	**30,879**
Other current liabilities (Note 4 and 6)	**67,503**	57,467	**725,527**
Total current liabilities	**555,061**	561,248	**5,965,832**
Long-term liabilities:			
Long-term debts (Note 4 and 6)	**191,569**	110,583	**2,058,996**
Accrued pension and severance liability (Note 10)	**34,867**	36,997	**374,753**
Deferred tax liabilities (Note 11)	**13,541**	7,448	**145,540**
Other long-term liabilities (Note 6)	**54,436**	54,436	**585,081**
Total long-term liabilities	**294,413**	209,464	**3,164,370**
Contingent liabilities (Note 24)			
Net assets: (Note 1 and 12)			
Shareholders' equity:			
Capital stock			
Authorized– 1,500,000,000 shares			
Issued — 782,865,873 shares	**153,795**	153,795	**1,652,999**
Capital surplus	**160,071**	160,071	**1,720,454**
Retained earnings	**110,172**	126,593	**1,184,136**
Less－treasury stock, at cost,	**(2,173)**	(2,086)	**(23,356)**
2010— 3,901,219 shares			
2009— 3,682,316 shares			
Total shareholders' equity	**421,865**	438,373	**4,534,233**
Total valuation and translation adjustments:			
Valuation difference on available-for-sale securities	**10,309**	3,002	**110,802**
Foreign currency translation adjustment	**(51,587)**	(47,429)	**(554,461)**
Total valuation and translation adjustments	**(41,278)**	(44,427)	**(443,659)**
Minority interests	**1,306**	773	**14,037**
Total net assets	**381,893**	394,719	**4,104,611**
Total liabilities and net assets	**¥1,231,367**	¥1,165,431	**$13,234,813**

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

Consolidated Statements of Operations

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Net sales	**¥1,428,690**	¥1,445,790	**$15,355,653**
Cost of sales (Note 13)	**1,152,763**	1,164,564	**12,389,972**
Gross profit	**275,927**	281,226	**2,965,681**
Selling, general and administrative expenses (Note 14)	**248,577**	287,029	**2,671,722**
Operating income (loss)	**27,350**	(5,803)	**293,959**
Other income (expenses):			
Interest and dividend income	**1,719**	3,743	**18,476**
Interest expenses	**(4,947)**	(3,315)	**(53,171)**
Equity in earnings of affiliates	**1,070**	926	**11,500**
Real estate rent	**573**	586	**6,159**
Foreign exchange gains (losses)	**98**	7,769	**1,053**
Gain (loss) on valuation of derivatives	**(165)**	(5,296)	**(1,773)**
Gain (loss) on sales and retirement of noncurrent assets (Note 17)	**(3,000)**	(3,452)	**(32,244)**
Gain (loss) on sales of investment securities	**20**	205	**215**
Loss on valuation of investment securities (Note 18)	**(520)**	(1,072)	**(5,589)**
Reversal of allowance for doubtful accounts	**283**	112	**3,042**
Depreciation	**(1,289)**	(1,004)	**(13,854)**
Impairment loss (Note 8, 15 and 17)	**(17,906)**	(1,045)	**(192,455)**
Gain on sales of loans receivable	**294**	837	**3,160**
Loss on abandonment of inventories (Note 16)	**(1,191)**	-	**(12,801)**
Gain on revision of retirement benefit plan (Note 10)	**-**	845	**-**
Provision of allowance for doubtful accounts (Note 18)	**-**	(2,640)	**-**
Provision for loss on construction contracts (Note 2)	**-**	(2,901)	**-**
Other, net (Note 17, 18 and 19)	**(2,832)**	(10,012)	**(30,438)**
	(27,793)	(15,714)	**(298,720)**
Income (loss) before income taxes and minority interests	**(443)**	(21,517)	**(4,761)**
Income taxes (Note 11):			
Current	**10,504**	6,637	**112,898**
Deferred	**5,629**	41,961	**60,501**
	16,133	48,598	**173,399**
Income (loss) before minority interests	**(16,576)**	(70,115)	**(178,160)**
Minority interests in income (loss)	**(126)**	(182)	**(1,354)**
Net income (loss)	**(¥16,450)**	(¥69,933)	**($176,806)**

		Yen	U.S. dollars
Per share data (Note 2) :			
Net income (loss) —Basic	**(¥21.11)**	(¥91.97)	**($0.23)**
—Diluted *	**-**	-	**-**
Net assets	**488.58**	505.59	**5.25**
Cash dividends (Note 12)	**0.00**	4.50	**0.00**

The accompanying notes are an integral part of these statements.

***** For the year ended March 31, 2010 and 2009, diluted information is not presented although potentially dilutive securities exist and net loss is recorded.

Consolidated Statements of Changes in Net Assets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Shareholders' equity			
Capital stock			
Balance at the end of previous period	**153,795**	153,795	**1,652,999**
Balance at the end of current period	**153,795**	153,795	**1,652,999**
Capital surplus			
Balance at the end of previous period	**160,071**	160,098	**1,720,454**
Changes of items during the period			
Disposal of treasury stock	**-**	(27)	**-**
Total changes of items during the period	**-**	(27)	**-**
Balance at the end of current period	**160,071**	160,071	**1,720,454**
Retained earnings			
Balance at the end of previous period	**126,593**	227,789	**1,360,630**
Effect of changes in accounting policies applied to foreign subsidiaries	**-**	(12,115)	**-**
Changes of items during the period			
Dividends from surplus	**-**	(6,742)	**-**
Net income (loss)	**(16,450)**	(69,933)	**(176,806)**
Disposal of treasury stock	**(3)**	(7,309)	**(32)**
Change of scope of consolidation	**-**	(43)	**-**
Change of scope of equity method	**-**	72	**-**
Other	**32**	(5,126)	**344**
Total changes of items during the period	**(16,421)**	(89,081)	**(176,494)**
Balance at the end of current period	**110,172**	126,593	**1,184,136**
Treasury stock			
Balance at the end of previous period	**(2,086)**	(40,538)	**(22,420)**
Changes of items during the period			
Purchase of treasury stock	**(93)**	(50)	**(1,000)**
Disposal of treasury stock	**6**	38,502	**64**
Total changes of items during the period	**(87)**	38,452	**(936)**
Balance at the end of current period	**(2,173)**	(2,086)	**(23,356)**
Total shareholders' equity			
Balance at the end of previous period	**438,373**	501,144	**4,711,663**
Effect of changes in accounting policies applied to foreign subsidiaries	**-**	(12,115)	**-**
Changes of items during the period			
Dividends from surplus	**-**	(6,742)	**-**
Net income (loss)	**(16,450)**	(69,933)	**(176,806)**
Purchase of treasury stock	**(93)**	(50)	**(1,000)**
Disposal of treasury stock	**3**	31,166	**32**
Change of scope of consolidation	**-**	(43)	**-**
Change of scope of equity method	**-**	72	**-**
Other	**32**	(5,126)	**344**
Total changes of items during the period	**(16,508)**	(50,656)	**(177,430)**
Balance at the end of current period	**421,865**	438,373	**4,534,233**

Consolidated Statements of Changes in Net Assets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Valuation and translation adjustments			
Valuation difference on available-for-sale securities			
Balance at the end of previous period	**3,002**	13,716	**32,266**
Changes of items during the period			
Net changes of items other than shareholders' equity	**7,307**	(10,714)	**78,536**
Total changes of items during the period	**7,307**	(10,714)	**78,536**
Balance at the end of current period	**10,309**	3,002	**110,802**
Foreign currency translation adjustment			
Balance at the end of previous period	**(47,429)**	(21,463)	**(509,771)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(4,158)**	(25,966)	**(44,690)**
Total changes of items during the period	**(4,158)**	(25,966)	**(44,690)**
Balance at the end of current period	**(51,587)**	(47,429)	**(554,461)**
Total valuation and translation adjustments			
Balance at the end of previous period	**(44,427)**	(7,747)	**(477,505)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**3,149**	(36,680)	**33,846**
Total changes of items during the period	**3,149**	(36,680)	**33,846**
Balance at the end of current period	**(41,278)**	(44,427)	**(443,659)**
Minority interests			
Balance at the end of previous period	**773**	1,026	**8,308**
Changes of items during the period			
Net changes of items other than shareholders' equity	**533**	(253)	**5,729**
Total changes of items during the period	**533**	(253)	**5,729**
Balance at the end of current period	**1,306**	773	**14,037**
Total net assets			
Balance at the end of previous period	**394,719**	494,423	**4,242,466**
Effect of changes in accounting policies applied to foreign subsidiaries*	**-**	(12,115)	**-**
Changes of items during the period			
Dividends from surplus	**-**	(6,742)	**-**
Net income (loss)	**(16,450)**	(69,933)	**(176,806)**
Purchase of treasury stock	**(93)**	(50)	**(1,000)**
Disposal of treasury stock	**3**	31,166	**32**
Change of scope of consolidation	**-**	(43)	**-**
Change of scope of equity method	**-**	72	**-**
Other	**32**	(5,126)	**344**
Net changes of items other than shareholders' equity	**3,682**	(36,933)	**39,575**
Total changes of items during the period	**(12,826)**	(87,589)	**(137,855)**
Balance at the end of current period	**381,893**	394,719	**4,104,611**

The accompanying notes are an integral part of these statements.

***** “Effect of changes in accounting policies applied to foreign subsidiaries” was related to amortization of goodwill that had not amortized up to the prior financial year.
The breakdown of “Other” in “ Retained earnings” was as follows.

	(Unit: Million of yen)	
	FY2009	FY2010
Comprehensive income of foreign subsidiaries	52	32
Impact of fiscal closing date changes of foreign subsidiaries	(5,178)	-

Consolidated Statements of Cash Flows

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	**(¥443)**	(¥21,517)	**($4,761)**
Depreciation and amortization	**65,785**	74,036	**707,061**
Impairment loss	**17,906**	1,045	**192,455**
Increase (decrease) in allowance for doubtful accounts	**(630)**	2,956	**(6,771)**
Increase (decrease) in provision for bonuses	**1,168**	(2,037)	**12,554**
Increase (decrease) in provision for product warranties	**1,708**	(533)	**18,358**
Increase (decrease) in provision for loss on construction contracts	**639**	760	**6,868**
Increase (decrease) in provision for retirement benefits	**(2,292)**	(5,053)	**(24,635)**
Interest and dividends income	**(1,719)**	(3,743)	**(18,476)**
Interest expenses	**4,947**	3,315	**53,171**
Loss (gain) on valuation of derivatives	**165**	5,296	**1,773**
Equity in (earnings) losses of affiliates	**(1,070)**	(926)	**(11,500)**
Loss (gain) on sales and retirement of noncurrent assets	**3,000**	3,452	**32,244**
Loss (gain) on sales and valuation of investment securities	**500**	867	**5,374**
Decrease (increase) in notes and accounts receivable-trade	**(18,305)**	5,938	**(196,743)**
Decrease (increase) in inventories	**56,491**	(18,717)	**607,169**
Increase (decrease) in notes and accounts payable-trade	**67,557**	(73,159)	**726,107**
Decrease (increase) in lease investment assets	**(575)**	(1,539)	**(6,180)**
Decrease (increase) in operating loans receivable	**(12,154)**	9,127	**(130,632)**
Decrease (increase) in vehicles and equipment on operating leases	**(2,867)**	(417)	**(30,815)**
Increase (decrease) in deposits received	**3,293**	(4,757)	**35,393**
Other	**3,155**	12,819	**33,910**
Sub total	**186,259**	(12,787)	**2,001,924**
Interest and dividends income received	**1,722**	3,738	**18,508**
Interest expenses paid	**(5,203)**	(3,062)	**(55,922)**
Income taxes paid	**(6,044)**	(14,781)	**(64,961)**
Net cash provided by (used in) operating activities	**176,734**	(26,892)	**1,899,549**
Net cash provided by (used in) investing activities			
Purchase of short-term investment securities	**(703)**	(2,265)	**(7,556)**
Proceeds from sales of short-term investment securities	**1,055**	5,326	**11,339**
Purchase of property, plant and equipment	**(53,087)**	(58,415)	**(570,583)**
Proceeds from sales of property, plant and equipment	**2,390**	830	**25,688**
Purchase of intangible assets	**(2,894)**	(2,713)	**(31,105)**
Purchase of investment securities	**(15,050)**	(20,433)	**(161,758)**
Proceeds from sales of investment securities	**6,386**	11,848	**68,637**
Payments of loans receivable	**(59,057)**	(64,188)	**(634,748)**
Collection of loans receivable	**58,721**	60,155	**631,137**
Other, net	**(417)**	(2,530)	**(4,482)**
Net cash provided by (used in) investing activities	**(62,656)**	(72,385)	**(673,431)**
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	**(81,922)**	51,517	**(880,503)**
Increase (decrease) in commercial papers	**(24,000)**	18,000	**(257,954)**
Proceeds from long-term loans payable	**110,472**	37,063	**1,187,360**
Repayment of long-term loans payable	**(26,118)**	(20,500)	**(280,718)**
Proceeds from issuance of bonds	**4,100**	-	**44,067**
Redemption of bonds	**-**	(30,000)	**-**
Cash dividends paid	**-**	(6,744)	**-**
Repayment of lease obligations	**(960)**	-	**(10,318)**
Other,net	**(132)**	31,113	**(1,419)**
Net cash provided by (used in) financing activities	**(18,560)**	80,449	**(199,485)**
Effect of exchange rate change on cash and cash equivalents	**(816)**	(15,614)	**(8,770)**
Net increase (decrease) in cash and cash equivalents	**94,702**	(34,442)	**1,017,863**
Cash and cash equivalents at beginning of period	**96,515**	114,649	**1,037,350**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**249**	2,045	**2,676**
Increase by change in accounting period of consolidated subsidiaries	**-**	14,263	**-**
Cash and cash equivalents at end of period (Note 3)	**¥191,466**	¥96,515	**$2,057,889**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presentation of the Financial Statements

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 to U.S.$1. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

[1] The Scope of Consolidation and Application of the Equity Method

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The fiscal year-end of consolidated domestic subsidiaries and main foreign subsidiaries is the same as that of the parent company, while the fiscal year-end of the nine consolidated foreign subsidiaries is December 31.The operating results of those subsidiaries that have fiscal year-ends different from that of the parent company are consolidated by using the financial statements as of each subsidiary's respective fiscal year-end, the necessary adjustments being made in consolidation if there are any significant transactions between January 1 and March 31.

The consolidated financial statements include the accounts of the Company and 71 subsidiaries in fiscal 2010 (68 subsidiaries in fiscal 2009).

In addition, 8 non-consolidated subsidiaries and one affiliated companies were accounted for by the equity method in fiscal 2010; 13 non-consolidated subsidiaries and two affiliated companies had been accounted for by the equity method in fiscal 2009.

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

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

(Fiscal 2009)

Until the fiscal year ended March 31, 2008, since the difference between the fiscal year-end of the parent company and that of 19 consolidated subsidiaries was within three months, the operating results of those subsidiaries were consolidated by using the financial statements as of each subsidiary's respective fiscal year-end, and the necessary adjustments made in consolidation to reflect any significant transactions between January 1 and March 31.

The accounting date for the fiscal year-end of 12 consolidated subsidiaries was changed to March 31 in order to make the disclosures of the consolidated financial statements more meaningful by unifying the fiscal year.

Consolidated subsidiaries whose fiscal closing date has been changed

・Subaru of America, Inc. and nine consolidated subsidiaries

・Subaru of Indiana Automotive, Inc. and one consolidated subsidiary

[2] Short-Term Investment Securities and Investment Securities

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

[3] Inventories

Inventories for regular sales are stated at cost, determined mainly by the moving-average cost method. (Book value on the consolidated balance sheet is measured based on the lower of cost or market value.)

(Change in accounting policy)

(Fiscal 2009)

Up to and including fiscal 2008, inventories for regular sales were stated at cost, determined mainly by the moving-average cost method. In fiscal 2009, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan [ASBJ] Statement No. 9). Inventories for regular sales are now stated at cost, determined mainly by the moving-average cost method. (Book value on the consolidated balance sheet is measured based on the lower of cost or market value.)

This change resulted in an increase in operating loss, ordinary loss and loss before income taxes and minority interests of ¥3,220 million.

The impact of this change on segment information is explained in the relevant portion of these documents.

[4] Property, Plant and Equipment (Excluding Leased Assets)

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

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

Estimated useful lives for depreciable assets are as follows:

(Fiscal 2010)

Buildings and structures: 6–50 years

Machinery, equipment and vehicles:2–15 years

(Fiscal 2009)

Buildings and structures: 8–50 years

Machinery, equipment and vehicles: 2–12 years

(Fiscal 2009)

(Additional Information)

In fiscal 2009, the Company and its domestic consolidated subsidiaries revised the estimated useful lives of fixed assets (machinery) in accordance with the enacted revisions to the tax depreciation schedules under the Corporate Tax Law and related tax regulations.

This change resulted in an increase in operating loss of ¥1,595 million and an increase in ordinary loss and loss before income taxes and minority interest of ¥1,609 million.

The impact of this change on segment information is explained in the relevant portion of these documents.

[5] Intangible Assets (Excluding Leased Assets)

Computer software used internally by the Company and consolidated subsidiaries is amortized by the straight-line method over the relevant economic useful lives of three or five years.

[6] Leased Assets

For leased assets under finance lease transactions in which the ownership is transferred to the lessee:The leased assets are depreciated by the same method as used for other property, plant and equipment.

For leased assets under finance lease transactions in which the ownership is not transferred to the lessee: The leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

In addition, finance lease transactions in which the ownership is not transferred to the lessee on or before March 31, 2008 are recorded as regular rental transactions.

[7] Allowance for Doubtful Accounts

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

[8] Provision for Bonuses

Employee's bonus is recognized as expenses for the period in which it is incurred.

[9] Provision for Product Warranties

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

[10] Provision for Loss on Construction Contracts

The provision for losses on uncompleted construction of contracts in the Aerospace segment is made when substantial losses on the contracts are anticipated at the fiscal year-end for the next fiscal year and beyond and such losses can be reasonably estimated.

(Change in accounting policy)

(Fiscal 2009)

In fiscal 2009, the Company started accounting for the provision for losses on uncompleted construction of contracts in the Aerospace segment when substantial losses on the contracts were anticipated at the fiscal year-end for the next fiscal year and beyond and such losses could be reasonably estimated. The reason for this accounting change is that its estimated loss has became more significant, so the Company reflected it properly in the financial statements and disclosed it in a timely manner.

This change resulted in a decrease in operating loss and ordinary loss of ¥433 million, and an increase in loss before income taxes and minority interest of ¥2,468 million.

The impact of this change on segment information is explained in the relevant portion of these documents.

[11] Accrued Pension and Severance Liability

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

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

The Company has applied Partial Amendments to Accounting Standard for Retirement Benefits (Part3) (ASBJ Statement No.19, July 31, 2008) since the beginning of fiscal year 2010.

Under the Japanese accounting standards for pension and severance benefits, accrued pension and severance liability for employees is provided based on the estimated amounts of projected pension and severance obligation and the fair value of plan assets at the end of the fiscal year. Prior service cost is being amortized by the straight-line method over a period (11-18 years) that is shorter than the average remaining service period of the eligible employees. Actuarial gains and losses are amortized from the following fiscal year by the straight-line method over a period (primarily 16 years and 18 years for fiscal years 2010 and 2009, respectively) that is shorter than the average remaining service period of the eligible employees.

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

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

(Change in accounting policy)

(Fiscal 2010)

The Company has applied Partial Amendments to Accounting Standard for Retirement Benefits (Part3) (ASBJ Statement No.19, July 31, 2008) since the beginning of fiscal 2010.

Since accumulated actuarial loss is amortized from next fiscal year, this change resulted in no effect on operating income, ordinary income and loss before income taxes and minority interests.

Also, the amount of retirement benefit obligation which is accrued with this change is ¥1,447 million (US$15,552 thousand).

[12] Translation of Foreign Currency-Denominated Accounts

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

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

[13] Revenue Recognition

The percentage-of-completion method of revenue from Aerospace division production has been applied to construction contracts for which certain elements were determinable with certainty at the end of fiscal year. (The percentage of completion is estimated with the proportion-of-cost method). The completed-contract method was applied to other works.

(Change in accounting policy)

(Fiscal 2010)

The Company previously used the percentage-of-completion method for accounting revenues associated with construction contracts with a contract amount of ¥5,000 million (US$53,740 thousand) or more and a construction period of over one year, and other construction work was accounted for using the completed-contract method. Since the beginning of fiscal year 2010, in conjunction with adoption of the Accounting Standard for Construction Contracts (ASBJ Statement No.15, December 27, 2007) and its accompanying Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No.18, December 27, 2007), the percentage-of-completion method has been applied to construction contracts that were started during the fiscal year 2010, for which certain elements were determinable with certainty at the end of fiscal year 2010. (The percentage of completion is estimated with the proportion-of-cost method). The completed-contract method was applied to other works.

This change resulted in an increase in net sales of ¥2,361 million (US$25,376 thousand), an increase in operating income and ordinary income of ¥215 million (US$2,311 thousand) and a decrease in loss before income taxes and minority interests of ¥215 million (US$2,311 thousand) in the year ended March 31, 2010.

[14] Accounting for Lease Transactions

A part of its domestic consolidated subsidiaries recognizes revenue for financial lease transactions on the effective date of each lease contract.

(Change in accounting policy)

(Fiscal 2009)

Up to and including fiscal 2008, the Company and its domestic consolidated subsidiaries applied the accounting treatment for operating lease transactions to finance lease transactions in which the ownership was not transferred to the lessee.

In fiscal 2009, the Company and its domestic consolidated subsidiaries adopted “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13), and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16).

However, those finance lease transactions in which the ownership had not been transferred to the lessee and that occurred before the application of the revised “Accounting Standard for Lease Transactions” were treated as regular rental transactions.

This change resulted in a decrease in operating loss, ordinary loss and loss before income taxes and minority interests of ¥2,513 million.

The impact of this change on segment information is explained in the relevant portion of these documents.

For the reasons above, this change resulted in an increase in "lease investment assets" of "Current assets" of ¥27,074 million and a decrease in "lease assets, net" of "Property, plant and equipment" of ¥27,074 million, on the consolidated balance sheets.

The Company applies the disclosure model that the Japan Leasing Association created for leasing companies, and cash flow from finance lease transactions of captive finance companies and sales on credit were reclassified from "Net cash provided by (used in) investing activities" to "Net cash provided by (used in) operating activities."

Net cash provided by (used in) operating activities

	Millions of yen
Decrease (increase) in lease investment assets	(¥1,539)
Decrease (increase) in operating loans receivable	9,127
Decrease (increase) in vehicles and equipment on operating leases	(417)
Total	¥7,171

[15] Derivative Financial Instruments and Hedge Accounting

The Japanese accounting standards for financial instruments require that the Company and its consolidated domestic subsidiaries state derivative financial instruments at their fair value and recognize changes in the fair value as a gain or loss, unless such derivative financial instruments are used for hedging purposes.

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

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

Financial Instrument	Transactions, assets and liabilities
Interest swaps	Borrowings

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

[16] Goodwill and Negative Goodwill

Goodwill and negative goodwill are principally amortized by the straight-line method over five years in accordance with accounting principles generally accepted in the countries where such goodwill is recorded.

[17] Cash and 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.

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

[19] Research and Development Expenses
Research and development costs are expensed as incurred and amounted to ¥37,175 million (US$ 399,559 thousand) and ¥42,831 million for fiscal years 2010 and 2009, respectively.

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

[21] Reclassification and Restatement
Financial statements in fiscal 2009 have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported results of operations or retained earnings.

[22] Other Changes in Accounting Policy

(Fiscal 2009)
Change in Recognition of Sales or Interest Revenue on Credit
In fiscal 2009, the Company's financial subsidiary changed the recognition of sales or interest revenue on credit from the equal installment method to the seven-eight allocation method. The reason for this change was to make it possible for the Company to closely manage the interest revenue by improving its credit system and reflecting the results more accurately.

The impact of this change on net sales, operating loss and ordinary loss in the year ended March 31, 2009 was immaterial, whereas the impact on loss before income taxes and minority interest was a ¥1,043 million decrease.

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
In fiscal 2009, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial statements" (the Practical Issues Task Force No.18) and made necessary adjustments to the consolidated accounts.

The impact of this change on profit and loss was immaterial.

The impact of this change on shareholders' equity is described in "Consolidated statement of changes in net assets."

3. Additional Cash Flow Information

Cash and cash equivalents as of March 31, 2010, and 2009, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash and deposits	**¥168,643**	¥78,151	**$1,812,586**
Short-term investment securities	**12,458**	11,439	**133,899**
Short-term loans receivable	**75,780**	59,434	**814,488**
	256,881	149,024	**2,760,973**
Less maturity over three months	**(65,415)**	(52,509)	**(703,084)**
Cash and cash equivalents	**¥191,466**	¥96,515	**$2,057,889**

4. Financial Instruments

The Company has applied "Accounting Standard for Financial Instruments and its Implementation Guidance (ASBJ Statement No.10, March 10, 2008)" and "Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19, March 10,2008)" since the beginning of fiscal 2010.

(1) Summary of Financial Instruments Status

[1] Action Policy with Regard to Financial Instruments

With regard to planned capital expenditure to support Fuji Heavy Industries Ltd., its consolidated subsidiaries and affiliated companies (the “FHI Group”) in their main operations of automobile manufacturing and sales, the Company is financed mainly by bank loans and the issue of corporate bonds. Temporary surpluses are invested in highly secure financial assets, and bank loans and liquidation of accounts receivable provide short-term working capital. It is the Company's policy to use derivatives as a way to avoid the below-stated risks and to not conduct speculative transactions.

[2] Details of Financial Instruments and Respective Risks

Operating receivables such as notes and accounts receivable-trade and lease investment assets are subject to customer credit risks. Moreover, because the Company works to expand its business globally, operating receivables denominated in foreign currencies are subject to the risk of changes in foreign exchange rates. As a general rule, however, forward foreign exchange contracts are used to hedge the foreign exchange rate risk, considering the net amount of operating receivables denominated in foreign currencies that exceed foreign currency denominated operating liabilities. Available-for-sale securities and investment securities are mainly stocks associated with business and capital alliances with principal business partners, and are subject to risk of market price fluctuation.

Notes and accounts payable-trade that are included in operating liabilities usually have a payment date of within one year. Furthermore, a certain portion of such liabilities involves foreign currency denominated transactions associated with the import of raw materials and is thus subject to exchange rate fluctuation risk, although it is consistently less than accounts receivable balance of the same foreign currency. The FHI Group’s liabilities associated with debt and bonds are set specifically for the acquisition of essential funds, mainly for capital expenditure, whose redemption dates come within 14 years after March 31, 2010 at the latest. A certain portion of said liabilities may have adjustable rates and are therefore subject to the risk of changes in interest rates, although in such cases derivative transactions (interest rate swap transactions) are used.

Derivative transactions are foreign exchange forward contracts to hedge against exchange rate fluctuations associated with accounts receivables and liabilities denominated in foreign currencies, and interest rate swap contracts with the objective of hedging against the risk of change in interest rates to be paid on loans. With regard to hedging instruments and hedged items, hedge policy, the method of evaluation of hedge effectiveness and other related items, please refer to “2-[15] Derivative Financial Instruments and Hedge Accounting”.

[3] Risk Management System with Regard to Financial Instruments

(a) Management of Credit Risk (Risk Associated with Business Partner’s Breach of Contract)

Credit control departments at each FHI division and its consolidated subsidiaries regularly monitor the financial status of key customers with regard to accounts receivables and lease investment assets. Together with keeping an eye on deadlines and balances of each customer, these departments identify and mitigate the risk of potential problem in collection due to deterioration in financial status or other factors.

(b) Management of Market Risk (Risk Associated with Fluctuations in Exchange or Interest Rates)

With regard to operating assets and liabilities denominated in foreign currencies, as a general rule, the Company uses foreign exchange forward contracts to hedge against risks of exchange rate fluctuation on a monthly basis by each currency. Depending on the status of exchange rates, foreign exchange forward contracts, that is no longer than six months, are used to hedge against the risk of exchange rate fluctuation to which net position of accounts receivable and accounts payable dominated in foreign currency is exposed. Moreover, the Company and certain consolidated subsidiaries use interest rate swap transactions to limit exposure to the risk of fluctuation in interest rates payable on loans or corporate bonds. The Company also regularly check the market values of securities and investment securities as well as the financial conditions of issuers (business partner companies), and constantly reviews its investment position taking into consideration its relationships with respective business partner companies. Basic policies with regard to derivative transactions are approved by the Executive Management Board. Derivative transactions are handled in line with regulations and are conducted by the Finance & Accounting Department. The results of these transactions are without exception reported to officers concerned.

(c) Management of Liquidity Risk (Risk of Becoming Unable to Make Payments by the Due Date) Associated with Funds Procurement

The Company secures liquidity at a level sufficient to satisfy its current needs through the use of commitment lines contracted with major banks in combination with cash and cash equivalents.

[4] Supplemental Explanation of Items with Regard to Fair Value of Financial Instruments

Fair value includes the fair market value of financial instruments and, in the event market-based prices are not available, prices that are calculated on a rational basis. Because the factors incorporated into the calculation of these prices are subject to change, differing assumptions may result in differing fair values. In addition, the values of contracts with regard to derivative transactions as stated in “(2) Items with Regard to Fair Value of Financial Instruments” do not by themselves indicate the market risk associated with the respective derivative transaction.

(2) Items with Regard to Fair Value of Financial Instruments

The consolidated balance sheet, the fair value and difference as of March 31, 2010 were as follows:

The items whose fair values were extremely difficult to measure were not included in the table below (refer to Note 2).

As of March 31, 2010

	Millions of yen		
	Consolidated balance sheet amounts (*1)	Fair Value (*1)	Difference
Cash and deposits	**¥168,643**	**¥168,643**	**-**
Notes and accounts receivable-trade	**103,521**	**103,521**	**-**
Lease investment assets	**27,788**	**26,040**	**(1,748)**
Short-term loans receivable	**75,780**	**75,844**	**64**
Short-term investment securities, Investment securities and Other securities	**58,132**	**58,132**	**-**
Notes and accounts payable-trade	**(217,051)**	**(217,051)**	**-**
Short-term loans payable	**(142,121)**	**(142,121)**	**-**
Current portion of long-term loans payable	**(13,912)**	**(13,912)**	**-**
Current portion of bonds	**(20,010)**	**(20,010)**	**-**
Accrued income taxes	**(2,873)**	**(2,873)**	**-**
Accrued expenses	**(56,244)**	**(56,244)**	**-**
Bonds payable	**(44,090)**	**(44,447)**	**(357)**
Long-term loans payable	**(147,479)**	**(146,994)**	**485**
Derivative transactions (*2)			
hedge accounting is not applied	**(¥1,879)**	**(¥1,879)**	**-**
hedge accounting is applied	**-**	**-**	**-**

As of March 31, 2010

	Thousands of U.S. dollars		
	Consolidated balance sheet amounts (*1)	Fair Value (*1)	Difference
Cash and deposits	**$1,812,586**	**$1,812,586**	**-**
Notes and accounts receivable-trade	**1,112,650**	**1,112,650**	**-**
Lease investment assets	**298,667**	**279,880**	**(18,787)**
Short-term loans receivable	**814,488**	**815,176**	**688**
Short-term investment securities, Investment securities and Other securities	**624,807**	**624,807**	**-**
Notes and accounts payable-trade	**(2,332,878)**	**(2,332,878)**	**-**
Short-term loans payable	**(1,527,526)**	**(1,527,526)**	**-**
Current portion of long-term loans payable	**(149,527)**	**(149,527)**	**-**
Current portion of bonds	**(215,069)**	**(215,069)**	**-**
Accrued income taxes	**(30,879)**	**(30,879)**	**-**
Accrued expenses	**(604,514)**	**(604,514)**	**-**
Bonds payable	**(473,882)**	**(477,719)**	**(3,837)**
Long-term loans payable	**(1,585,114)**	**(1,579,901)**	**5,213**
Derivative transactions (*2)	**-**	**-**	**-**
hedge accounting is not applied	**(20,196)**	**(20,196)**	**-**
hedge accounting is applied	**-**	**-**	**-**

*1. Liabilities are indicated in ( ).

*2. Indicated are the net amounts of assets and liabilities results from derivative transactions, with the total net liabilities indicated in ( ).

[1] The calculation methods of financial instrument fair value together with securities and derivative transactions

Assets

Cash and deposits and Notes and accounts receivable-trade

Because these are settled in the short-term, the fair value is mostly the same as the book value and as such the book value is deemed as fair value.

Lease investment assets and Short-term loans receivable

Fair value is the present value calculated by discounting relevant cash flows by each category of the assets and timing of cash flow, where discount rates were adopted taking into consideration the period until maturity and credit risks. In addition, the estimated residual value is included in the balance of Lease investment assets.

Short-term investment securities and investment securities

Fair value is determined by the stock exchange price, while bonds are determined by the stock exchange price or by quotations received from financial institutions. Please refer to the note entitled "5.Short-term investment securities and investment securities" regarding to respective objectives for holding securities.

Liabilities

Notes and accounts payable-trade, Short-term loan payable, Current portion of long-term loans payable, Current portion of bonds, Accrued income taxes and Accrued expenses

Because these are settled in the short-term, the fair value is mostly the same as the book value and as such the book value is deemed as fair value.

Bonds payable

The fair value of bonds issued by the Company is based on market prices if available. For bonds with no available market price, fair value is measured using the present value that is calculated as discounted cash flow of the total amount of principal and interest by, where discount rates are adopted taking into consideration the remaining redemption period and credit risks.

Long-term loans payable

Fair value is measured based on the present value that is calculated as discounted cash flow of the total amount of principal and interest, where the interest would be set, if the Company concluded a brand new loan agreement with the same condition at the date of measurement.

Derivative transactions

Fair value of interest rate swap that meets certain hedging criteria is included in the fair value of long-term debt as a hedged item, because they are treated as a unit.

[2] Financial instruments whose fair value is extremely difficult to measure

Consolidated balance sheet amount as of March 31, 2010:

Other securities (available-for-sale securities)	Millions of yen	Thousands of U.S. dollars
Money management fund	**¥11,498**	**$123,581**
Unlisted stocks (excluding over-the-counter stocks)	**¥4,444**	**$47,764**

They have no available market price and are expected to entail excessive costs in the estimation of future cash flows. Consequently, estimating their fair value is recognized as extremely difficult and they are not included in "Short-term investment securities, Investment securities and Other securities".

[3] Scheduled redemption of monetary assets and securities with maturity

As of March 31, 2010:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	**¥168,643**	**-**	**-**	**-**
Notes and accounts receivable-trade	**99,867**	**3,654**	**-**	**-**
Lease investment assets	**8,756**	**18,777**	**255**	**-**
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	**610**	**6,121**	**1,333**	**1,693**
Corporate bonds	**324**	**6,413**	**1,810**	**195**
Other	**26**	**217**	**92**	**1,476**
Short-term loans receivable	**¥36,713**	**¥39,001**	**¥66**	**-**

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	**$1,812,586**	**-**	**-**	**-**
Notes and accounts receivable-trade	**1,073,377**	**39,273**	**-**	**-**
Lease investment assets	**94,110**	**201,816**	**2,741**	**-**
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	**6,556**	**65,789**	**14,327**	**18,196**
Corporate bonds	**3,482**	**68,927**	**19,454**	**2,096**
Other	**279**	**2,332**	**989**	**15,864**
Short-term loans receivable	**$394,594**	**$419,185**	**$709**	**-**

[4] Amount of repayment for long-term debt and other interest-bearing debt
As of March 31, 2010:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Bonds payable	**¥20,010**	**¥44,090**	**-**	**-**
Long-term loans payable	**13,912**	**136,349**	**10,265**	**865**

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Bonds payable	**$215,069**	**$473,882**	**-**	**-**
Long-term loans payable	**149,527**	**1,465,488**	**110,329**	**9,297**

5. Short-Term Investment Securities and Investment Securities

Information on the value of short-term investment securities and investment securities as of March 31, 2010 and 2009 was as follows:

(fiscal 2010)

(1) Other securities (available-for-sale securities) for which fair market value was available:
As of March 31, 2010:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	**¥35,028**	**¥17,936**	**¥17,092**
Debt securities			
Government and municipal bonds	**6,350**	**6,223**	**127**
Corporate bonds	**7,960**	**7,618**	**342**
Other	**1,115**	**1,082**	**33**
Sub-total	**50,453**	**32,859**	**17,594**
Book value not exceeding acquisition cost:			
Equity securities	**2,791**	**3,087**	**(296)**
Debt securities			
Government and municipal bonds	**3,407**	**3,437**	**(30)**
Corporate bonds	**782**	**785**	**(3)**
Other	**699**	**710**	**(11)**
Sub-total	**7,679**	**8,019**	**(340)**
Total	**¥58,132**	**¥40,878**	**¥17,254**

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	**$376,483**	**$192,777**	**$183,706**
Debt securities			
Government and municipal bonds	**68,250**	**66,885**	**1,365**
Corporate bonds	**85,555**	**81,879**	**3,676**
Other	**11,984**	**11,629**	**355**
Sub-total	**542,272**	**353,170**	**189,102**
Book value not exceeding acquisition cost:			
Equity securities	**29,998**	**33,179**	**(3,181)**
Debt securities			
Government and municipal bonds	**36,619**	**36,941**	**(322)**
Corporate bonds	**8,405**	**8,437**	**(32)**
Other	**7,513**	**7,631**	**(118)**
Sub-total	**82,535**	**86,188**	**(3,653)**
Total	**$624,807**	**$439,358**	**$185,449**

(2) Other securities (available-for-sale securities) sold during fiscal years 2010 :
For the year ended March 31, 2010:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	**¥1,320**	**¥106**	**¥106**
Debt securities			
Government and municipal bonds	**4,144**	**50**	**43**
Corporate bonds	**1,699**	**41**	**-**
Other	**195**	**5**	**6**
Other	**63,287**	**-**	**27**
Total	**¥70,645**	**¥202**	**¥182**

	Thousands of U.S. dollars		
	Sales amount	Total gains	Total losses
Equity securities	**$14,187**	**$1,139**	**$1,139**
Debt securities			
Government and municipal bonds	**44,540**	**537**	**462**
Corporate bonds	**18,261**	**441**	**-**
Other	**2,096**	**54**	**64**
Other	**680,213**	**-**	**290**
Total	**$759,297**	**$2,171**	**$1,955**

(3)The Company and consolidated subsidiaries recognized ¥520 million(US$5,589 thousand) in loss on devaluation of securities for fiscal years 2010.
For the purpose of recording a loss on devaluation of securities, the Company and its consolidated subsidiaries consider all the securities whose fair market value has fallen below 50% of the acquisition cost to be permanently impaired, and record the relevant loss on devaluation. For securities whose fair market value has declined by between 30% and 50% in relation to their acquisition costs, the Company and its consolidated subsidiaries specifically consider the probability of recovery of the fair value and record a loss on devaluation to the amount deemed permanently impaired.

(fiscal 2009)

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

As of March 31, 2009:

			Millions of yen
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity securities	¥15,077	¥20,579	¥5,502
Debt securities			
Government and municipal bonds	7,510	7,717	207
Corporate bonds	4,055	4,162	107
Other	1,567	1,592	25
Sub-total	28,209	34,050	5,841
Book value not exceeding acquisition cost:			
Equity securities	4,937	4,190	(747)
Debt securities			
Government and municipal bonds	521	465	(56)
Corporate bonds	2,398	2,196	(202)
Other	841	781	(60)
Sub-total	8,697	7,632	(1,065)
Total	¥36,906	¥41,682	¥4,776

(2) Other securities (available-for-sale securities) sold during fiscal years 2009 :

For the year ended March 31, 2009:

Sales amount	Total gains	Total losses
¥32,312 million	¥673 million	¥468 millon

The above sales amount included sales of short-term investments in commercial paper and other amounting to ¥15,138 million.

(3) Book value of major securities without available fair market value as of March 31, 2009:

Other securities (available-for-sale securities)	Millions of yen
	2009
Money management fund	¥10,953
Unlisted stocks (excluding over-the-counter stocks)	4,596

Note: The Company and consolidated subsidiaries recognized ¥1,072 million in loss on devaluation of securities for fiscal years 2009.

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

(4) Scheduled redemption of other securities (available-for-sale securities) with maturity and held-to-maturity debt securities as of March 31, 2009:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Debt securities				
Government and municipal bonds	¥19	¥4,913	¥1,455	¥1,795
Corporate bonds	349	4,609	1,216	184
Other	118	437	75	1,742
Total	¥486	¥9,959	¥2,746	¥3,721

6. Short-Term Borrowings and Long-Term Debts

Short-term borrowings as of March 31, 2010 and 2009, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Bank loans with average interest rate of 0.97 % and 0.81% per annum as of March 31, 2010 and 2009, respectively	**¥142,121**	¥225,149	**$1,527,526**
Commercial paper with average interest rate of 1.50% per annum as of March 31, 2009.	**0**	24,000	**0**
Total	**¥142,121**	¥249,149	**$1,527,526**

Long-term debts as of March 31, 2010and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Loans principally from banks and insurance companies due through 2024 with average interest rate of 1.44% and 2.35% per annum as of March 31, 2010 and 2009, respectively	**¥161,391**	¥72,539	**$1,734,642**
Unsecured 0.68% bonds due June 18, 2010	**20,000**	20,000	**214,961**
Unsecured 0.93% bonds due March 31, 2011	**10**	-	**108**
Unsecured 1.31% bonds due April 28, 2011	**20,000**	20,000	**214,961**
Unsecured 2.01% bonds dueMay 31, 2012	**20,000**	20,000	**214,961**
Unsecured 1.62 % bonds due July 10, 2014	**4,000**	-	**42,992**
Unsecured 0.93% bonds due March 31, 2015	**90**	-	**967**
Subtotal	**225,491**	132,539	**2,423,592**
Less—Portion due within one year	**(33,922)**	(21,956)	**(364,596)**
Total	**¥191,569**	¥110,583	**$2,058,996**

Annual maturities of long-term loans payable and bonds payable as of March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
2011	¥33,922	$364,596
2012	39,574	425,344
2013	70,259	755,148
2014	31,054	333,770
2015	39,552	425,108
2016 and thereafter	11,130	119,626
Total	¥225,491	$2,423,592

Lease obligations as of March 31, 2010 and 2009, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Lease obligations due within one year as of March 31, 2010 and 2009	**¥1,123**	¥87	**$12,070**
Lease obligations due after one year as of March 31, 2010 and 2009	**720**	288	**7,739**
Total	**¥1,843**	375	**$19,809**

Annual maturities of lease obligations as of March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
2011	**¥1,123**	**$12,070**
2012	**341**	**3,665**
2013	**192**	**2,064**
2014	**113**	**1,215**
2015	**52**	**559**
2016 and thereafter	**22**	**236**
Total	**¥1,843**	**$19,809**

The following assets as of March 31, 2010 and 2009, were pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Notes and accounts receivable-trade	**¥69**	¥79	**$742**
Property, plant and equipment	**65,584**	51,277	**704,901**
Total	**¥65,653**	¥51,356	**$705,643**

For efficient procurement of operating fund, the group concludes the commitment-line contracts as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Total commitments	**¥74,956**	¥68,739	**$805,632**
Unused balance	**-**	-	**-**

7. Derivative transactions

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 exposures to fluctuations in foreign currency exchange rates and interest rates. The Company and consolidated subsidiaries do not use derivatives for speculative or trading purposes.

The fair value information of derivative financial instruments as of March 31, 2010 and 2009, was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

(a) As of March 31, 2010:

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Fair value	Valuation gain (loss)	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:						
Sell—						
U.S. dollar	**¥61,590**	**(¥1,361)**	**(¥1,361)**	**$661,973**	**($14,628)**	**($14,628)**
Euro	**8,899**	**58**	**58**	**95,647**	**623**	**623**
Canadian dollar	**13,184**	**(576)**	**(576)**	**141,702**	**(6,191)**	**(6,191)**
Australian dollar	**¥25**	**0**	**0**	**$269**	**0**	**0**

(b) As of March 31, 2009:

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Sell—			
U.S. dollar	**¥33,928**	**¥35,379**	**(¥1,451)**
Euro	**4,923**	**5,138**	**(215)**
Canadian dollar	**2,300**	**2,338**	**(38)**
Buy—			
U.S. dollar	**59**	**59**	**0**

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

(2) Interest rate contracts:

(a) As of March 31, 2010:

None

(b) As of March 31, 2009:

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Interest rate swap contracts:			
Receive floating rate pay fixed rate	¥498	(¥12)	(¥12)

Note: The method to determine the fair value is based on quotations obtained from financial institutions. Derivative financial instruments that qualify as a hedge and are accounted for using the deferred hedge accounting method are excluded from the above table according to the disclosure requirements.

Derivative transactions to which hedge accounting is applied

(1) Interest rate contracts:

(a) As of March 31, 2010:

Accounting treatment : Exception processing of interest rate swap

Hedge item : Long-term loans payable

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Over 1 year	Fair value	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:						
Receive floating rate pay fixed rate	**¥36,945**	**¥36,115**	**(*)**	**$397,087**	**$388,166**	**(*)**

Note: Fair value of interest rate swap that meets certain hedging criteria is included in the fair value of long-term debt as a hedged item, because they are treated as a unit.

8. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2010 and 2009, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Buildings and structures	**¥318,236**	¥304,620	**$3,420,421**
Machinery, equipment and vehicles	**452,122**	456,832	**4,859,437**
Vehicles and equipment on operating leases, net	**27,207**	20,421	**292,423**
Other	**239,985**	242,846	**2,579,374**
Subtotal	**1,037,550**	1,024,719	**11,151,655**
Accumulated depreciation	**(759,073)**	(739,586)	**(8,158,566)**
Accumulated impairment loss	**(33,006)**	(16,153)	**(354,750)**
Land	**191,384**	186,792	**2,057,008**
Construction in progress	**12,672**	12,287	**136,199**
Total	**¥449,527**	¥468,059	**$4,831,546**

9. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at a consolidated subsidiary (Subaru Finance Co., Ltd.) as of March 31, 2010 and 2009, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Total overdraft facilities and lending commitments	**¥5,010**	¥6,020	**$53,848**
Less amounts currently executed	**808**	1,166	**8,684**
Unexecuted balance	**¥4,202**	¥4,854	**$45,164**

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

10. Pension and Severance Plans

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

In fiscal 2009, the Company transferred 80% of prescribed retirement benefits from qualified retirement pension plans to defined benefits pension plans and transferred 20% of prescribed retirement benefits from qualified retirement pension plans to defined contribution plans.

As of March 31, 2010, the Company and 50 of its consolidated domestic subsidiaries, which add up to a total of 51 companies, have lump-sum retirement payment plans. Within the group, there are also 15 qualified retirement pension plans, six defined contribution plans, and four defined benefits pension plans. In addition, there are 13 single-employer employees' welfare pension funds subject to the provisions of Article 33 of "Practice Guidelines of Accounting for Retirement Benefits."

Certain insignificant consolidated subsidiaries calculated their pension liability using the simplified method. Under the simplified method, an accrued pension and severance liability is provided at the amount that would have been payable had all the employees voluntarily retired at the end of the fiscal year, less an amount to be covered from the plan assets, while the Company and significant subsidiaries provide an accrued pension and severance liability based on the estimated amount of pension and severance obligation (projected benefit obligations), less the fair value of plan assets at the end of the fiscal year under the actuarial method.
Certain information concerning the multi-employer pension plan, which requires contributions that are expensed as they become due as pension and severance costs, is as follows:

(1) Overall funded status of the multi-employer pension plan (mainly as of March 31, 2009)

	Millions of yen	Thousands of U.S. dollars
	2009	**2009**
Plan assets	**¥191,805**	**$2,061,533**
Projected benefit obligation	**231,986**	**2,493,401**
Funded status	**(¥40,181)**	**($431,868)**

(2) Contributions by the Company and consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan (mainly from April 1, 2008 to March 31, 2009): 10%

A reconciliation between the projected pension and severance obligation and accrued pension and severance liability as of March 31, 2010 and 2009, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
a. Projected pension and severance obligation	**¥103,286**	¥103,456	**$1,110,125**
b. Plan assets	**(47,129)**	(42,201)	**(506,546)**
c. Unfunded pension and severance obligations	**56,157**	61,255	**603,579**
d. Unamortized actuarial loss	**(21,073)**	(23,821)	**(226,494)**
e. Unamortized prior service cost	**(269)**	(492)	**(2,891)**
f. Net amount recorded in balance sheet	**34,815**	36,942	**374,194**
g. Prepaid pension cost	**(52)**	(55)	**(559)**
h. Accrued pension and severance liability	**¥34,867**	¥36,997	**$374,753**

Notes: 1. The above amounts include the substitutional portion of the government pension plan funded by social security taxes paid by employees and employers.
2. Certain insignificant consolidated subsidiaries calculated the liability using the simplified method.

Periodic pension and severance costs for the fiscal years 2010, and 2009, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
a. Service cost	**¥8,541**	¥7,677	**$91,799**
b. Interest cost	**1,920**	1,929	**20,636**
c. Expected return on plan assets	**(1,440)**	(2,228)	**(15,477)**
d. Amortization of actuarial gain/loss	**1,976**	948	**21,238**
e. Amortization of prior service cost	**35**	35	**376**
f. Pension and severance cost	**11,032**	8,361	**118,572**
g. Gain on transfer of the substitutional portion of the employee's pension fund	**-**	(845)	**-**
h. Total	**¥11,032**	¥7,516	**$118,572**

Notes:1. The above amounts do not include the social security taxes paid by employees.

2. The service cost of consolidated subsidiaries using the simplified method is included in the service cost above.

3. The service cost above includes required funding for the multi-employer pension plan amounting to ¥726 million (US$7,803 thousand) and ¥742 million for fiscal years 2010 and 2009, respectively, for which plan assets could not be allocated to each participating employer.

4. The service cost above includes contributions for the defined contribution plans of the Company and certain consolidated subsidiaries amounting to ¥2,184 million (US$23,474 thousand) and ¥2,415 million for fiscal years 2010 and 2009, respectively.

5. In addition to the pension and severance cost above, additional retirement payments amounting to ¥174 million (US$1,870 thousand) and ¥216 million were made for fiscal years 2010 and 2009, respectively. For fiscal years 2010 and 2009, the entire ¥174 million (US$1,870 thousand) of additional retirement payments and ¥216 million of additional retirement payments is included in cost of sales and selling, general and administrative expenses, respectively.

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

	2010	2009
a. Attribution of expected benefit obligation	The straight-line method	The straight-line method
b. Discount rate	1.4%–2.0%	2.0%–2.5%
c. Expected rate of return on plan assets	1.4%–4.0%	0.8%–4.5%
d. Amortization of actuarial gain/loss	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)	Primarily 18 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)
e. Amortization of prior service cost	11 to 18 years	11 to 18 years

11. Income Taxes

The Company and its consolidated subsidiaries were subject to a number of taxes based on income, which in the aggregate resulted in a normal statutory income tax rate of approximately 40.5% for fiscal years 2010 and 2009. For fiscal 2010 and 2009, such reconciliation is not presented herein because the consolidated financial results recorded a net loss.

Significant components of the deferred tax assets and liabilities as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Accrued pension and severance liabilities	**¥13,847**	¥14,710	**$148,828**
Depreciation and amortization expenses	**13,191**	7,545	**141,778**
Accrued expenses	**8,836**	8,667	**94,970**
Loss on devaluation of inventories	**8,340**	8,552	**89,639**
Accrued warranty claims	**7,324**	6,566	**78,719**
Accrued bonus	**6,255**	5,782	**67,229**
Long-term accounts payable, other	**4,681**	3,865	**50,312**
Allowance for doubtful accounts	**2,882**	2,774	**30,976**
Net operating loss carryforwards	**53,878**	49,036	**579,084**
Other	**11,818**	13,385	**127,020**
Total deferred tax assets	**131,052**	120,882	**1,408,555**
Valuation allowance	**(101,750)**	(87,638)	**(1,093,615)**
Total deferred tax assets, net of valuation allowance	**29,302**	33,244	**314,940**
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	**(6,648)**	(2,105)	**(71,453)**
Depreciation and amortization expenses	**(7,780)**	(4,310)	**(83,620)**
Advanced depreciation reserve	**(510)**	(510)	**(5,482)**
Other	**(6,614)**	(7,147)	**(71,088)**
Total deferred tax liabilities	**(21,552)**	(14,072)	**(231,643)**
Net deferred tax assets	**¥7,750**	¥19,172	**$83,297**

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current assets—Deferred tax assets	**¥15,549**	¥15,918	**$167,122**
Investments and other assets—Deferred tax assets	**5,742**	10,702	**61,715**
Long-term liabilities—Deferred tax liabilities	**(13,541)**	(7,448)	**(145,540)**
Total net deferred tax assets	**¥7,750**	¥19,172	**$83,297**

(Fiscal 2009)

Income taxes-deferred

A reversal of deferred tax assets of ¥39,408 million was made, as a result of careful evaluation of realizability.

12. Net Assets

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

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

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

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

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

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

13. Ending Inventories

Book value of ending inventory is measured based on the lower of cost or market value.
¥836 million (US$8,985 thousand) and ¥3,812 million as "Loss on valuation of inventories" is included in "Cost of sales" for fiscal years 2010 and 2009,respectively. And ¥494 million(US$5,310 thousand) as "Provision for loss on construction contracts" is included in "Cost of sales" for fiscal year 2010.

14. Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal years 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Freightage and packing expenses	**¥17,439**	¥17,489	**$187,436**
Advertising expenses	**41,082**	45,765	**441,552**
Sales incentives	**32,995**	42,658	**354,632**
Salaries and bonuses	**44,723**	46,798	**480,686**
Research and development expenses	**37,041**	42,416	**398,119**
Other	**75,297**	91,903	**809,297**
Total	**¥248,577**	287,029	**$2,671,722**

15. Impairment Loss on Property, Plant and Equipment

In the fiscal year ended March 31, 2010, the Company recorded an impairment loss with regard to the following asset groups:

Use	Location	Category
Production facility	Saitama Prefecture and Gunma Prefecture	Buildings and structures, Machinery, equipment and vehicles, land and other
Assets for dealership business	Tokyo, Gifu Prefecture and 7 other location	Buildings and structures, land and other
Idle assets	Osaka Prefecture, Chiba Prefecture and 11 other location	Buildings and structures, land and other

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

In automobiles businesses, the supply business of CVT (gearless transmission) unit for minicar significantly dropped after July, 2010,and the change that remarkably decreases recoverable amounts that can be collected is expected to take place. As a result, at the Company and its subsidiaries, production facilities were written down to their recoverable amounts.

Because industrial products company has continuously experienced profit loss on operating activities and it is predicted that future cash flow falls below book value of related facilities, the book value of those assets was written down to the their recoverable amounts.

A recoverable amount is determined by a value in use. A value in use is calculated based on future cash flows discounted principally at 7.58%.

As a part of the rationalization, the company is performing restructuring of dealership network in Japan gradually. At the Company and its subsidiaries, assets for dealership business were written down to their recoverable amounts.

As a result, the Company and its consolidated subsidiaries recognized a total of ¥17,906 million (US$192,455 thousand) in impairment loss.

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

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Buildings and structures	**¥4,700**	**$50,516**
Machinery, equipment and vehicles	**3,694**	**39,703**
Land	**9,435**	**101,408**
Other	**77**	**828**
Total	**¥17,906**	**$192,455**

A recoverable amount is the higher of net realizable value or value in use. A net realizable value is determined based on the government-published land valuation index prices or values used for real estate tax purposes, less cost of disposal. A value in use is calculated based on future cash flows discounted principally at 7.58%.

In the fiscal year ended March 31, 2009, the Company recorded an impairment loss with regard to the following asset groups:

Use	Location	Category
Assets for dealership business	Nagano Prefecture and Shimane Prefecture	Buildings, land and other
Idle assets	Hokkaido Prefecture and three other locations	Buildings and structures, and land

The assets on which impairment loss was recognized are grouped as follows: The assets for dealership business are grouped by each dealership, and the idle assets are grouped on a property-by-property basis.

At the Company and its subsidiaries, certain assets were written down to their recoverable amounts due to a recent decline in the real estate market and their decreased profitability.

As a result, the Company and its consolidated subsidiaries recognized a total of ¥1,045 million in impairment loss.

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

	Millions of yen
	2009
Buildings and structures	¥288
Land	706
Other	51
Total	¥1,045

A recoverable amount is the higher of net realizable value or value in use. A net realizable value is determined based on the government-published land valuation index prices or values used for real estate tax purposes, less cost of disposal. A value in use is calculated based on projected future cash flows discounted principally at 6.3%.

16. Loss on Abandonment of Inventories

The Company conducted a business field review in the industrial products segment in fiscal 2010. As a result, the Company abandoned obsolete inventories and recorded an extraordinary loss of ¥1,191 million (US$12,801 thousand) in fiscal 2010.

17. Loss on Sales and Retirement of Noncurrent Assets and Other

After assessing the severe business environment for domestic distributors, such as the sluggish automobile market caused by a business slowdown, and the response to sophisticated and diversified customer needs, the Company has determined that it was necessary to quickly implement regional business activities while simultaneously establishing a rational management system. Therefore, the transition from Subaru distributors to the integrated system was performed sequentially from October, 2008. As a part of the rationalization,the Company is performing a gradual restructuring of the dealership network in Japan.

Furthermore, regarding dealerships that the Company had closed (or, had decided to close) by the end of fiscal 2010, it recorded an extraordinary loss in the fiscal year under review as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Loss on sales and retirement of noncurrent assets	**¥902**	**$9,695**
Impairment loss	**3,639**	**39,112**
Other	**815**	**8,760**
Total	**¥5,356**	**$57,567**

18. Loss on Valuation of Investment Securities

(Fiscal 2009)

On November 25, 2008, Eclipse Aviation Corporation ("Eclipse"), a trading partner of FHI, filed an application under Chapter 11 of the United States Bankruptcy Code. However, Eclipse's creditors submitted a motion for an order converting the Chapter 11 Bankruptcy cases to cases under Chapter 7 on February 24, 2009, and this was granted with the selection of a trustee on March 5, 2009. Therefore, the Company recorded an extraordinary loss (as detailed below) because the Company would incur uncollectible receivables or the delayed collection of receivables and damage to assets that the Company holds for or in Eclipse.

	Millions of yen
	2009
Loss on valuation of investment securities	**¥521**
Provision of allowance for doubtful accounts	**¥2,640**
Other (Loss on valuation of inventories)	**¥5,737**

19.Other Extraordinary Income (Loss)

(Fiscal 2009)

[1] ¥1,001 million among "Other, net," representing the impact of the "Change in recognition of sales or interest revenue on credit" from the equal installment method to the seven-eight allocation method.

[2] ¥3,030 million among "Other, net," representing the impact of loss on the withdrawal from the FIA World Rally Championship (WRC).

20. Business Combinations

(Fiscal 2009)

The Company has integrated certain Subaru dealer subsidiaries to enhance their sales forces and improve their profitability.

These integrated companies are consolidated subsidiaries included in the Automobiles segment, and the integration has been accounted for as a reorganization of entities under common control.

October 1, 2008, merger by surviving companies

Area	Integrated companies	New company
Nagano Prefecture	Shin Nagano Subaru, Inc. ※ Matsumoto Subaru Motors Co.	Subaru Shinsyu, Inc.

※ Surviving company

21. Stock Option Plans

(Fiscal 2010)

1. Descriptions, volume, and movement of stock options

(1) Descriptions of stock option plans

	Fiscal 2002 Stock option plan	Fiscal 2004 Stock option plan
Position and number of grantees	Directors, Executive Officers, Corporate Auditors and employees: 303	Directors, Executive Officers, Corporate Auditors and employees: 320
Class and number of stock (shares)	Common Stock 1,029,000	Common Stock 1,917,000
Date of grant	September 9, 2002	September 6, 2004
Vesting conditions	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted. Should an employee under 50 years of age retire by voluntary termination, the employee's right to exercise his/her claim will expire.	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted. Should an employee under 50 years of age retire by voluntary termination, the employee's right to exercise his/her claim will expire.
Required service period	From September 9, 2002, to July 31, 2004	From September 6, 2004, to July 31, 2006
Exercise period	From August 1, 2004, to July 31, 2009	From August 1, 2006, to July 31, 2011

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

(2) Volume and movement of stock options

The stock options outstanding in the fiscal year 2010 are summarized as follows:

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

	Fiscal 2002 Stock option plan	Fiscal 2004 Stock option plan
Nonexercisable stock options (shares):		
At the end of the fiscal year 2009	-	-
Stock options granted	-	-
Forfeitures	-	-
Conversion to exercisable stock options	-	-
Stock options outstanding	-	-
Exercisable stock options (shares):		
At the end of the fiscal year 2009	734,000	1,863,000
Conversion from nonexercisable stock options	-	-
Stock options exercised	-	-
Forfeitures	734,000	-
Stock options outstanding	-	1,863,000

[2] Price information of stock options

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

(Fiscal 2009)

1. Descriptions, volume, and movement of stock options

(1) Descriptions of stock option plans

	Fiscal 2002 Stock option plan	Fiscal 2004 Stock option plan
Position and number of grantee	Directors, Executive Officers, Corporate Auditors and employees: 303	Directors, Executive Officers, Corporate Auditors and employees: 320
Class and number of stock (shares)	Common Stock 1,029,000	Common Stock 1,917,000
Date of grant	September 9, 2002	September 6, 2004
Vesting conditions	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted. Should an employee under 50 years of age retire by voluntary termination, the employee's right to exercise his/her claim will expire.	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted. Should an employee under 50 years of age retire by voluntary termination, the employee's right to exercise his/her claim will expire.
Required service period	From September 9, 2002, to July 31, 2004	From September 6, 2004, to July 31, 2006
Exercise period	From August 1, 2004, to July 31, 2009	From August 1, 2006, to July 31, 2011

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

(2) Volume and movement of stock options

The stock options outstanding in fiscal 2009 are summarized as follows:

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

	Fiscal 2002 Stock option plan	Fiscal 2004 Stock option plan
Nonexercisable stock options (shares):		
At the end of the fiscal year 2008	-	-
Stock options granted	-	-
Forfeitures	-	-
Conversion to exercisable stock options	-	-
Stock options outstanding	-	-
Exercisable stock options (shares):		
At the end of the fiscal year 2008	813,000	1,863,000
Conversion from nonexercisable stock options	-	-
Stock options exercised	79,000	-
Forfeitures	-	-
Stock options outstanding	734,000	1,863,000

[2] Price information of stock options

	Fiscal 2002 Stock option	Fiscal 2004 Stock option
Exercise price (Yen)	¥498,000	¥594,000
Average market price of the stock at the time of exercise (Yen)	569	-
Fair value (date of grant) (Yen)	-	-

22. Finance Leases

As allowed under the Japanese accounting standards, the Company and its consolidated subsidiaries in Japan account for finance leases.

Information as Lessee

(1) Transfer of title through finance lease transaction

[1] Leased assets

Mainly implements of production in the automotive business

[2] Depreciation method for leased assets

Leased assets are depreciated by the same method as used for other property, plant and equipment.

(2) Finance leases which do not transfer ownership title

[1] Leased assets

Mainly network equipment and terminal units (Other tangible assets) in the automotive business

[2] Depreciation method for leased assets

Leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

(3) Those finance lease transactions that had not had their ownership transferred on or before March 31, 2008, are recorded based on the same method as used for regular rental transactions.

[1] Pro forma information of such leases as of March 31, 2010 and 2009, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Machinery, equipment and vehicles	**¥334**	¥729	**$3,590**
Other tangible assets	**1,426**	2,078	**15,327**
Intangible assets	**141**	146	**1,515**
	1,901	2,953	**20,432**
Accumulated depreciation/amortization	**(1,261)**	(1,740)	**(13,553)**
Net	**¥640**	¥1,213	**$6,879**

[2] The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Finance leases:			
Due within one year	**¥345**	¥513	**$3,708**
Due after one year	**322**	797	**3,461**
Total	**¥667**	¥1,310	**$7,169**

[3] Pro forma information related to finance leases for fiscal years 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Lease payment	**¥456**	¥711	**$4,901**
Depreciation and amortization expenses	**420**	645	**4,514**
Interest expense portion	**¥20**	37	**$215**

Information as Lessor

(1) The details of lease investment assets as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Obligation of lease fee receivable	**¥29,568**	¥32,957	**$317,798**
Estimated residual value	**303**	327	**3,257**
Interest expense portion	**(2,083)**	(6,210)	**(22,388)**
Lease investment assets	**¥27,788**	¥27,074	**$298,667**

(2) Lease revenue related to lease investment assets

Amounts of collections on lease receivable after the fiscal year ended March 31, 2010 and 2009, were as follows;

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Within 1 year	**¥9,650**	¥12,491	**$103,719**
1 to 2 years	**7,290**	8,045	**78,353**
2 to 3 years	**5,913**	6,215	**63,553**
3 to 4 years	**4,100**	4,712	**44,067**
4 to 5 years	**2,370**	1,269	**25,473**
Over 5 years	**¥245**	225	**$2,633**

23. Operating Lease

Information as Lessee

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Operating leases:			
Due within one year	**¥1,233**	¥1,001	**$13,252**
Due after one year	**4,839**	3,385	**52,010**
Total	**¥6,072**	¥4,386	**$65,262**

Information as Lessor

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Operating leases:			
Due within one year	**¥1,682**	¥2,229	**$18,078**
Due after one year	**276**	510	**2,966**
Total	**¥1,958**	¥2,739	**$21,044**

24. Contingent Liabilities

Contingent liabilities as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
As guarantor of third-party indebtedness from financial institutions	**¥32,330**	¥33,668	**$347,485**

25. The Amount of Discount of Export Bill

The amount of discount of export bill as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
The amount of discount of export bill	**¥19,637**	¥4,379	**$211,060**

26. Property for Transfer Balance to Special Purpose Company

Property for transfer balance to special purpose company as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Property for transfer balance to special purpose company (loan claims of Automobiles and account receivable-trade of Aerospace)	**¥43,788**	¥63,634	**$470,636**

27. Segment Information

Information by business segment

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

A summary of net sales, operating income, assets, depreciation and amortization expenses and capital expenditures by business segment for fiscal years 2010 and 2009, was shown below:

	Millions of yen		Thousands of U.S. dollars
Net Sales:	**2010**	2009	**2010**
Automobiles—			
Outside customers	**¥1,294,451**	¥1,316,305	**$13,912,844**
Inter-segment	**2,304**	2,641	**24,763**
Sub-total	**1,296,755**	1,318,946	**13,937,607**
Aerospace—			
Outside customers	**93,216**	80,872	**1,001,892**
Inter-segment	**-**	1	**-**
Sub-total	**93,216**	80,873	**1,001,892**
Industrial products—			
Outside customers	**23,913**	34,912	**257,018**
Inter-segment	**63**	18	**678**
Sub-total	**23,976**	34,930	**257,696**
Other—			
Outside customers	**17,110**	13,701	**183,899**
Inter-segment	**12,678**	12,420	**136,264**
Sub-total	**29,788**	26,121	**320,163**
Total	**1,443,735**	1,460,870	**15,517,358**
Corporate and elimination	**(15,045)**	(15,080)	**(161,705)**
Consolidated total	**¥1,428,690**	¥1,445,790	**$15,355,653**

	Millions of yen		Thousands of U.S. dollars
Operating Income or Loss:	**2010**	2009	**2010**
Operating income:			
Automobiles	**¥21,716**	(¥9,201)	**$233,405**
Aerospace	**4,812**	1,575	**51,720**
Industrial products	**(2,437)**	(1,643)	**(26,193)**
Other	**2,560**	3,118	**27,515**
Total	**26,651**	(6,151)	**286,447**
Corporate and elimination	**699**	348	**7,512**
Consolidated total	**¥27,350**	(¥5,803)	**$293,959**

Assets:	2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Total assets:			
Automobiles	**¥989,462**	¥910,250	**$10,634,802**
Aerospace	**166,492**	174,062	**1,789,467**
Industrial products	**31,591**	39,856	**339,542**
Other	**77,895**	70,089	**837,221**
Total	**1,265,440**	1,194,257	**13,601,032**
Corporate and elimination	**(34,073)**	(28,826)	**(366,219)**
Consolidated total	**¥1,231,367**	¥1,165,431	**$13,234,813**

Other Significant Items:	2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Depreciation and amortization expenses:			
Automobiles	**¥59,155**	¥66,395	**$635,802**
Aerospace	**3,709**	4,479	**39,865**
Industrial products	**1,228**	1,421	**13,199**
Other	**1,693**	1,741	**18,195**
Total	**65,785**	74,036	**707,061**
Corporate and elimination	**-**	-	**-**
Consolidated total	**¥65,785**	¥74,036	**$707,061**
Impairment loss on property, plant and equipment:			
Automobiles	**¥7,389**	¥1,045	**$79,417**
Aerospace	**-**	-	**-**
Industrial products	**10,517**	-	**113,038**
Other	**-**	-	**-**
Total	**17,906**	1,045	**192,455**
Corporate and elimination	**-**	-	**-**
Consolidated total	**¥17,906**	¥1,045	**$192,455**
Capital expenditures for segment assets:			
Automobiles	**¥84,085**	¥90,723	**$903,751**
Aerospace	**1,347**	1,787	**14,478**
Industrial products	**433**	1,187	**4,654**
Other	**3,212**	1,480	**34,522**
Total	**89,077**	95,177	**957,405**
Corporate and elimination	**-**	(24)	**-**
Consolidated total	**¥89,077**	¥95,153	**$957,405**

Notes:1. Definition of business segments

Business segments are defined based on their product line and market.

2. Main products by each business segment

Business segments' main products:

Automobiles: Legacy, Impreza, Forester, Exiga,Tribeca, Stella, R1, R2, Pleo, Samber

Industrial products; Robin engines, power generators, pumps

Aerospace: Aircraft, parts of space-related devices

Other: Garbage collection vehicles, specialized vehicles, real estate lease

3. All operating costs and expenses are allocated to each business segment.
4. All figures in corporate and elimination represent elimination.
5. Changes in accounting policies:

(Fiscal 2010)

Change in accounting standard for construction revenue and cost
As described in "2-[13] Revenue Recognition", since fiscal 2010, the Company and its domestic consolidated subsidiaries have applied "the Accounting Standard for Construction Contracts (ASBJ Statement No.15, December 27, 2007) " and its accompanying "Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No.18, December 27, 2007) ", the percentage-of-completion method was applied to construction contracts that were started during the fiscal 2010, for which certain elements were determinable with certainty at the end of fiscal 2010. (The percentage of completion is estimated with the proportion-of-cost method). The completed-contract method was applied to other works.

This change resulted in an increase in sales of ¥2,361 million (US$25,376 thousand) and increase in operating income of ¥215 million (US$2,311 thousand) in "Aerospace", compared with corresponding amounts calculated under method used in previous year.

(Fiscal 2009)

[1] Accounting Standard for Measurement of Inventories
As described in "2-[3] Inventories," in fiscal 2009 the Company and its domestic consolidated subsidiaries applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9).

This change resulted in an increase in operating loss of ¥3,061 million in "Automobiles" and an increase in operating loss of ¥146 million in "Industrial products."

The effects of those changes on other business segments were immaterial.

[2] Provision for loss on construction contracts
As described in "2-[10] Provision for Loss on Construction Contracts," in fiscal 2009 the Company started accounting for the provision for losses on uncompleted construction of contracts in the Aerospace segment when substantial losses on the contracts were anticipated at the fiscal year-end for the next fiscal year and beyond and such losses can be reasonably estimated.

The Company recorded ¥2,901 million of "Provision for loss on construction contracts" in the first quarter of fiscal 2009 as "Extraordinary loss," and a part of the provision corresponding to recognized sales related to construction were reclassified in cost of sales along with additional cost for construction since the second quarter of fiscal year 2009.

This change resulted in an increase in operating income of ¥433 million in "Aerospace."

[3] Change in recognition of sales or interest revenue on credit
As described in "2-[22] Other Changes in Accounting Policy," in fiscal 2009 the Company's financial subsidiary changed the recognition of sales or interest revenue on credit from the equal installment method to the seven-eight allocation method.

The impact of this change on net sales and operating loss was immaterial.

[4] Accounting for lease transactions
As described in "2-[14] Accounting for Lease Transactions," in fiscal 2009 the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13), and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16).

This change resulted in a decrease in operating loss of ¥2,513 million in "Automobiles."

[5] Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements
As described in "2-[22] Other Changes in Accounting Policy," in fiscal 2009 the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial statements" (Practical Issues Task Force No.18) .
The impact of this change on profit and loss was immaterial.

[6] Alteration of estimated useful lives of fixed assets
As described in "2-[4] Property, Plant and Equipment (Excluding Leased Assets)," in fiscal 2009 the Company and domestic consolidated subsidiaries revised the estimated useful lives of fixed assets (machinery) in accordance with the enacted revisions to the tax depreciation schedules under the Corporate Tax and Law and related tax regulations.
This change resulted in an increase in operating loss of ¥1,469 million in "Automobiles" and a decrease in operating income of ¥128 million in "Aerospace."
The impact of this change on other business segments is immaterial.

Information by Geographic Area
A summary of net sales, operating income and assets by geographic area for fiscal years 2010 and 2009 was shown below:

	Millions of yen		Thousands of U.S. dollars
Net Sales:	**2010**	2009	**2010**
Japan—			
Outside customers	**¥815,812**	¥856,188	**$8,768,401**
Inter-segment	**293,948**	280,623	**3,159,372**
Sub-total	**1,109,760**	1,136,811	**11,927,773**
North America—			
Outside customers	**577,409**	546,859	**6,206,030**
Inter-segment	**2,232**	15,380	**23,989**
Sub-total	**579,641**	562,239	**6,230,019**
Other—			
Outside customers	**35,469**	42,743	**381,223**
Inter-segment	**557**	622	**5,987**
Sub-total	**36,026**	43,365	**387,210**
Total	**1,725,427**	1,742,415	**18,545,002**
Corporate and elimination	**(296,737)**	(296,625)	**(3,189,349)**
Consolidated total	**¥1,428,690**	¥1,445,790	**$15,355,653**

Operating Income or Loss:	Millions of yen 2010	2009	Thousands of U.S. dollars 2010
Operating income:			
Japan	**¥1,844**	(¥15,840)	**19,819**
North America	**32,057**	(1,964)	**344,551**
Other	**95**	1,933	**1,021**
Total	**33,996**	(15,871)	**365,391**
Corporate and elimination	**(6,646)**	10,068	**(71,432)**
Consolidated total	**27,350**	(¥5,803)	**293,959**

Assets:	Millions of yen 2010	2009	Thousands of U.S. dollars 2010
Assets:			
Japan	**¥910,841**	¥872,342	**$9,789,779**
North America	**338,721**	297,801	**3,640,595**
Other	**18,518**	13,116	**199,033**
Total	**1,268,080**	1,183,259	**13,629,407**
Corporate and elimination	**(36,713)**	(17,828)	**(394,594)**
Consolidated total	**¥1,231,367**	¥1,165,431	**$13,234,813**

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

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

(Fiscal 2010)

Change in accounting standard for construction revenue and cost

As described in "2-[13] Revenue Recognition", since fiscal 2010, the Company and its domestic consolidated subsidiaries have applied the "Accounting Standard for Construction Contracts (ASBJ Statement No.15, December 27, 2007)" and its accompanying "Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No.18, December 27, 2007)" therefore, the percentage-of-completion method was applied to construction contracts that were started during the fiscal 2010, for which certain elements were determinable with certainty at the end of fiscal 2010. (The percentage of completion is estimated with the proportion-of-cost method). The completed-contract method was applied to other work.

This change resulted in an increase in sales of ¥2,361 million (US$25,376 thousand) and increase in operating income of ¥215 million (US$2,311 thousand) in "Japan", compared with corresponding amounts calculated under method used in previous year.

(Fiscal 2009)

[1] Accounting standard for measurement of inventories

As described in "2-[3] Inventories," in fiscal 2009, the Company and its domestic consolidated subsidiaries applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9).

This change resulted in an increase in operating loss of ¥3,220 million in “Japan.”

[2] Provision for loss on construction contracts
As described in “2-[10] Provision for Loss on Construction Contracts,” in fiscal 2009 the Company started accounting for the provision for losses on uncompleted construction of contracts in the Aerospace segment when substantial losses on the contracts were anticipated at the fiscal year-end for the next fiscal year and beyond and such losses could be reasonably estimated.
The Company recorded ¥2,901 million in “Provision for loss on construction contracts” in the first quarter of fiscal 2009 as “Extraordinary loss” and a part of the provision corresponding to recognized sales related to the construction has been reclassified in cost of sales along with additional cost for construction since the second quarter of fiscal 2009.
This change resulted in a decrease in operating loss of ¥433 million in ‘’Japan.”

[3] Change in recognition of sales or interest revenue on credit
As described in “2-[22] Other Changes in Accounting Policy,” in fiscal 2009, the Company’s financial subsidiary changed the recognition of sales or interest revenue on credit from the equal installment method to the seven-eight allocation method.
The impact of this change on net sales and operating loss was immaterial.

[4] Accounting for lease transactions
As described in “2-[14] Accounting for Lease Transactions,‘’ in fiscal 2009 the Company and its domestic consolidated subsidiaries adopted “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16).
This change resulted in a decrease in operating loss of ¥2,513 million in “Japan.”

[5] Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements
As described in “2-[22] Other Changes in Accounting Policy,” in fiscal 2009 the Company adopted “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force No.18).
The impact of this change on profit and loss was immaterial.

[6] Alteration of service life of fixed assets
As described in “2-[4] Property, Plant and Equipment (Excluding Leased Assets)”, in fiscal 2009 the Company and its domestic consolidated subsidiaries revised the estimated useful lives of fixed assets (machinery) to the enacted revisions to the tax depreciation schedules.
This change resulted in an increase in operating loss of ¥1,595 million in ‘’Japan.”

Overseas Sales

Overseas sales for the fiscal years ended March 31, 2010 and 2009, was summarized as follows:

			Millions of yen		Thousands of U.S. dollars
	2010		2009		**2010**
Overseas sales:					
North America	**¥622,126**	**43.5%**	¥582,979	40.3%	**$6,686,651**
Europe	**84,474**	**5.9%**	168,520	11.7%	**907,932**
Asia	**101,470**	**7.1%**	66,456	4.6%	**1,090,606**
Other	**99,784**	**7.0%**	120,321	8.3%	**1,072,485**
Total	**907,854**	**63.5%**	938,276	64.9%	**9,757,674**
Consolidated net sales	**¥1,428,690**	**100%**	¥1,445,790	100%	**$15,355,653**

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

2. Principal countries or districts in each geographic area:
North America: United States and Canada
Europe: Germany, Switzerland, the United Kingdom and Russia
Asia: China
Other: Australia

3. Overseas sales are sales outside of Japan by the Company and its consolidated subsidiaries.

28. Fair Value of Investment and Rental Property

From fiscal 2010, the Company has applied "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (The Accounting Standards Board of Japan (ASBJ) No. 20, November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (The Accounting Standards Board of Japan (ASBJ) No. 23, November 28, 2008).

[1] Summary of investment and rental property

The Company and certain consolidated subsidiaries own rental office buildings and rental commercial facilities with the objective of generating rental income in Saitama prefecture and other locations. Certain domestic rental office buildings in Japan are classified as properties that include ones partly used as investment and rental property, because part of them are used by the Company and certain consolidated subsidiaries.

[2] Investment and rental property consolidated balance sheet amounts, principal changes during fiscal 2010, fair value at the end of fiscal 2010 and calculation method of applicable fair value

As of March 31, 2010

				Millions of yen
	Consolidated balance sheet amounts			**Fair value as of March 31, 2010**
	As of March 31, 2009	Changes in the fiscal year 2010	**As of March 31, 2010**	
Investment and rental property	¥30,982	(¥1,144)	**¥29,838**	**¥30,834**
Properties that include ones used as investment and rental property	¥13,707	(¥173)	**¥13,534**	**¥33,561**

As of March 31, 2010

	Consolidated balance sheet amounts (Thousands of U.S. dollars)			
	As of March 31, 2009	Changes in the fiscal year 2010	**As of March 31, 2010**	**Fair value as of March 31, 2010**
Investment and rental property	$332,997	($12,296)	**$320,701**	**$331,406**
Properties that include ones used as investment and rental property	$147,324	($1,859)	**$145,465**	**$360,716**

Note 1. The balance of consolidated balance sheet excludes accumulated depreciation and accumulated impairment loss from acquisition costs.

2. Among changes in the amount of investment, rental property and properties that includes ones partly used as investment and rental property during the fiscal 2010, principal increases were properties acquisitions, which amounted to ¥653 million (US$7,018 thousand), and principal decreases were depreciation and impairment loss, which amounted to ¥966 million (US$10,383 thousand) and ¥526 million (US$5,653 thousand), respectively.

3. Fair value at the end of the fiscal year is the amount estimated by the Company based principally on land assessment value.

[3] Profit and loss concerning investment and rental property

Profit and loss in fiscal 2010 concerning investment and rental property and properties that include ones used as investment and rental property were as follows:

As of March 31, 2010

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	**¥3,297**	**¥2,275**	**¥1,022**	**(¥474)**
Properties that include ones used as investment and rental property	**¥1,685**	**¥978**	**¥707**	**¥0**

As of March 31, 2010

	Thousands of U.S. dollars			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	**$35,436**	**$24,452**	**$10,984**	**($5,095)**
Properties that include ones properties used as investment and rental property	**$18,110**	**$10,512**	**$7,598**	**$0**

Note:1. Rental income (from the properties that include ones partly used as investment and rental property) does not include the portion that the Company or certain subsidiaries use as the provision of services and business administration purposes. Rental expenses, however, include all portions of the expenses (costs related to depreciation, repairs, insurance and taxes).

2. Other profit and loss include in impairment loss.

29. Additional information

Notification with Respect to the Execution of an Agreement Regarding a Share Exchange through which Ichitan Co., Ltd. will become a Wholly Owned Subsidiary of the Company.

The Company and Ichitan Co., Ltd. ("Ichitan") resolved, at their respective meetings of the Board of Directors held on March 31, 2010, to conduct a share exchange (the "Share Exchange") through which Ichitan will become a wholly owned subsidiary of the Company and entered into an agreement concerning the Share Exchange (the "Share Exchange Agreement").

The effective date (the "Effective Date") of the Share Exchange is scheduled to be August 1, 2010, after Ichitan obtains approval for the Share Exchange Agreement at the ordinary general meeting of its shareholders scheduled to be held on June 29, 2010. The Company will implement the Share Exchange without obtaining approval for the Share Exchange Agreement at a general meeting of its shareholders in accordance with "simplified share exchange" (kan-i kabushiki kokan) procedures pursuant to Article 796, Paragraph 3 of the Companies Act of Japan. In addition, prior to August 1, 2010, the scheduled Effective Date of the Share Exchange, the shares of common stock of Ichitan will be delisted from Jasdaq Securities Exchange, Inc. ("JASDAQ") on July 28, 2010 (the final day on which the shares of common stock of Ichitan will be traded on JASDAQ is scheduled to be July 27, 2010).

30.Other

On January 15, 2010, the Company filed a lawsuit with the Tokyo District Court against the Government of Japan for the payment [totaling ¥35,124 million (US$377,515 thousand)] of uncollected initial investment fees (amount paid for customization to the Japanese specifications) for the manufacture of the AH-64D combat helicopters for the Japan Ministry of Defense.

The payment [totaling ¥23,954 million (US$257,459 thousand)] of uncollected initial investment fees the Company paid was included in "Other assets" of "Inventments and other assets".

In addition, the amount of lawsuit includes the uncollected initial investment fees paid by subcontractors, consumption tax and others.

Independent Auditors' Report

To the Board of Directors of FUJI HEAVY INDUSTRIES LTD.:

We have audited the accompanying consolidated balance sheets of FUJI HEAVY INDUSTRIES LTD. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FUJI HEAVY INDUSTRIES LTD. and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 2[1] to the consolidated financial statements, the accounting date for the fiscal year-end of 12 consolidated subsidiaries was changed to March 31.

(2) As discussed in Note 2[3] to the consolidated financial statements, effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued on July 5, 2006).

(3) As discussed in Note 2[10] to the consolidated financial statements, effective April 1, 2008, the Company started accounting for the provision for losses on uncompleted construction of contracts in the Aerospace segment when substantial losses on the contracts were anticipated at the fiscal year-end for the next fiscal year and beyond and such losses can be reasonably estimated.

(4) As discussed in Note 2[22] to the consolidated financial statements, effective April 1, 2008, the Company's financial subsidiary changed the recognition of sales or interest revenue on credit from the equal installment method to the seven-eight allocation method.

(5) As discussed in Note 2[14] to the consolidated financial statements, effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued on June 17, 1993, revised on March 30, 2007), and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, issued on January 18, 1994, revised on March 30, 2007)

(6) As discussed in Note 2[22] to the consolidated financial statements, effective April 1, 2008, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial statements" (the Practical Issues Task Force No.18, issued on May 17, 2006)

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 28, 2010