

Social Report

FHI has the philosophy that we must be responsible for not only directly meeting customer needs in our operations by providing products and services but also that we must take responsibility throughout all our corporate activities, which includes compliance with laws and regulations, environmental protection, human rights protection, and consumer protection.

In addition, we think that the economic and social/human aspects of corporate activities cannot be separated, and thus taking social responsibility should be fundamental to our operations. So we would like to be a better corporate citizen who continuously contributes to the sound, sustainable development of our society, which includes customers, local communities, shareholders and investors, affiliate companies stakeholders and employees.

CSR (Corporate Social Responsibility) Activities

We are pursuing our CSR activities with the philosophy that FHI's corporate philosophy and FHI's CSR policy are one and the same. Our CSR activities target a variety of

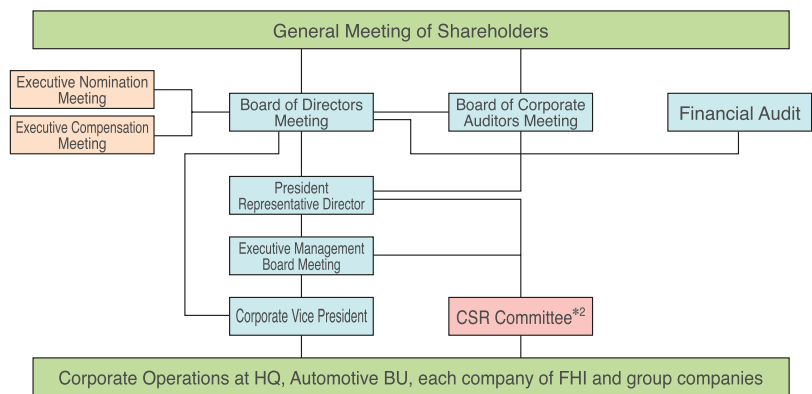
issues including corporate governance, compliance with laws and regulations, dealing with products and customers, environmental conservation, information disclosure and commu-

nication with investors, response to suppliers, management of employees, and contributions to society. In 2005, we established the CSR Committee, and a department in charge of CSR to promote our activities even further.

Corporate Governance Policy

FHI is working to strengthen its corporate governance policies to ensure that it can measure up to the trust and confidence placed in the Company by all its shareholders, customers, and other stakeholders. Since June 1999, FHI has employed an executive officer system that helps clarify responsibilities for operational execution in each division. Since June 2003, the terms of directors and executive officers have been reduced from two years to one. Also, since June 2004, according to the decision of the Board of Directors*, FHI has given responsibility for the nomination of corporate officers to its Executive Nomination Meeting and given responsibility for evaluating performance and determining the remuneration of corporate officers to its Executive Compensation Meeting. All these measures are designed to clarify management decision-making and operational execution functions, increase management transparency, and accelerate management functions.

The Board of Corporate Auditors Meeting consists of four corporate auditors*, including two outside corporate auditors, and is responsible for receiving reports on important auditing issues and deliberates accordingly. FHI will be taking various measures to further strengthen its internal control systems and auditing systems while also considering whether to recruit outside directors.



Column

Plant Tour for Individual Shareholders

We invited our shareholders to a plant tour at the Gunma Manufacturing Division on March 4, 2006. It was the third such occasion and this year 97 individual shareholders participated in the event, which allowed them to better understand the status quo and manufacturing activities at FHI, to actively exchange opinions at the Q&A session, and to participate in many other activities as well.



Compliance

Fundamental Philosophy

Basic Compliance Policy

FHI's basic compliance policy is provided for by the Compliance Regulations as follows.

"We regard corporate compliance as one of the most important tasks for management. We strongly recognize that our company-wide efforts toward regulatory compliance make for a solid management foundation, and therefore, we carry out open and fair corporate activities in compliance with social norms, as well as all laws and regulatory requirements and internal regulations for corporate activities.

Corporate Code of Conduct and Conduct Guidelines

FHI has established a Corporate Code of Conduct and Conduct Guidelines as the standards to ensure compliance with laws and regulations. These are

described in detail in the Compliance Manual, which all officials and employees carry in order to ensure legal and regulatory compliance in their daily actions.

Compliance Declaration

In order to maintain strict compliance, it is essential for corporate leaders to declare the stance personally. In May 2003 FHI's then president, Kyoji

Takenaka, issued a declaration entitled "Toward further enhancement of company-wide compliance activities." In the message, he declared that he would take the initiative to ensure that he and all officials and employees comply with laws and regulations in order that FHI will continuously grow to become a company that has earned society's trust.



Compliance Manual



100 Case Studies of Compliance Issues



Internal Compliance Training

* 1 : The Board of Directors Meeting consists of 6 executives. The board of Corporate Auditors Meeting consists of 4 auditors, including two outside corporate auditors, to observe the corporate management objectively (as of May 31, 2006).

* 2 : Other than CSR Committee, we have Compliance Committee, Corporate Environment Committee, Recall Committee, and Export Control Committee.

System and Administration

Compliance Regulations

FHI established the Compliance Regulations in 2001 after approval of the board of directors. These regulations contain basic compliance policies, which provide for the system, organization, and operational methods related to corporate compliance.

FHI's Compliance System/Organization and Administration

A Compliance Committee has been established as a company-wide committee organization to promote corporate compliance. The committee conducts deliberations and discussions, renders determinations, and exchanges information on key compliance issues. Every year, each department devises a compliance implementation plan (compliance program) to enhance corporate compliance and takes the initiative to advance continuous and systematic implementation activities.

Compliance Hotline System

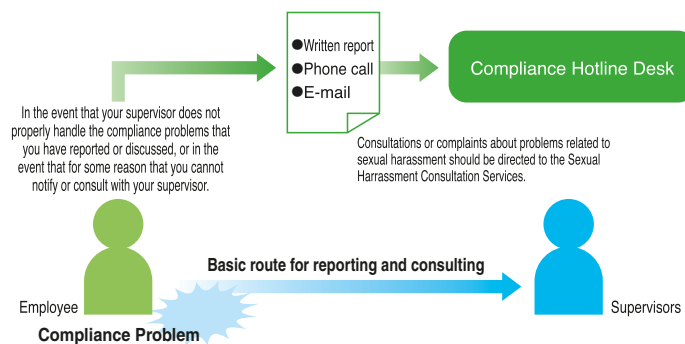
FHI established the Compliance Hotline System in February 2003 as an alternative communication route,

providing employees with a direct route to report any problems detected concerning compliance. The Compliance Hotline Desk set up in our company receives reports directly from the employees involved and then investigates and deals with the matter. The name and department of the employee who reports the matter are kept under strict rules of confidentiality, unless the employee agrees otherwise. Due consideration is given to

ensure that the employee does not suffer any disadvantage as a result of reporting a compliance problem.

In fiscal 2005, we prepared to expand the range of people eligible to use the system to include temporary employees, employees of domestic group companies and employees of our suppliers having a long business history with us, in accordance with the Whistleblower Protection Act which came into effect in April 2006.

Compliance Hotline



Fiscal 2005 Results of Compliance Activities

Providing Compliance Education and Training Programs

In fiscal 2005, we offered an educational program of compliance and legal training through a variety of educational courses organized by our legal and personnel and training departments. More than 3,800 officials and employees in our group companies took these courses throughout the year. In addition, as voluntary activities by each department or the affiliated companies, there were workshops on laws and regulations with deep repercussions for each department or those companies and educational activities on compliance, utilizing the booklet titled "100 Case Studies of Compliance Issues" or "Personal Information Protection Handbook for Subaru Dealer Staff" as texts.

Our efforts for Personal Information Protection

In response to enforcement of the Personal Information Protection Act in April 2005, we enhanced our previous efforts to protect personal information under our codes of conduct by reviewing

our internal system and regulations and announcing our personal information protection policy (privacy policy). For domestic Subaru dealerships, because they directly handle a large amount of our customers' personal information, we managed to thoroughly overhaul our internal system for each dealer and prepared and made use of the Personal Information Protection Handbook for Subaru Dealer Staff to help each staff member properly understand personal information protection.

Activities toward Group Compliance

In order to ensure compliance with laws and regulations, not only FHI but also all our group companies must join forces and work in harmony. For this reason, we dispatch compliance training instructors to each of the companies in our group as well as domestic Subaru dealers and also provide handbooks and textbooks in an effort to promote group-wide compliance with laws and regulations. As stated above, we prepared to expand the range

of employees eligible to use the Compliance Hotline System in fiscal 2005 to include employees of our domestic group companies and some employees of domestic Subaru dealers and to upgrade the system so that the Compliance Hotline Desk could handle compliance issues reported by any employee working at any relevant company (operation of the new system started in April 2006). The new system will provide a better self-regulating function than ever before throughout the entire group of companies and dealers, further enhancing group compliance.



Compliance Training at Fuji Machinery Co., Ltd. in January 2006

Relationship with Employees

FHI is seeking to reinvigorate our corporate culture, focusing on development of a free, openhearted, and proactively creative group that can cope with the latest significant changes to the business environment. Aiming at establishing a highly original, vigorous organization, we approach the development of systems from a wide range of perspectives, including the wages system, career planning programs, training programs, and benefit programs, so that employees can take on a higher level of challenges.

Employment

Downsizing the Company Structure

FHI has prepared a five year mid-term management plan, FDR-1, to be applied towards the end of fiscal 2007, and is making efforts in respect of total cost reduction, reinforcement of product planning functions, restructuring of the sales process and network, increasing asset turnover, and organizational reforms. In order to produce meaningful results with the plan and to focus on improvements in our profit-earning capacity, organizational revitalization by means of an altered labor structure, and the reinvigoration of our corporate culture through the improvement of the employee mindset, we offered employees voluntary retirement in December 2005, and reduced the number of employees by about 700. The number of FHI's employees*1 was 13,111 as of March 2006.

Employment of People with Disabilities

FHI has been working on eliminating discrimination against people with disabilities, or "Normalization*2". The activities of the Universal Design Project Team, organized at the Gunma Manufacturing Division in 1999, were reported and favorably evaluated at the Third International Conference on Universal Design, held in Rio de Janeiro, Brazil in December 2004. Currently, employment efforts have been developed into efforts to create an attractive corporation where all motivated and competent people are given opportunities to contribute. The proportion of employees with disabilities*1 throughout FHI was 1.8% as of March 2006.

Labor-Management Relations

FHI and the FHI Workers' Union have established a labor-management council for the promotion of smooth business operations and mutual communication. In recent

years, labor and management have maintained good relations, and no disputes between labor and management have arisen during the past four years. The number of FHI Workers' Union members*1 was 12,676 as of July 2005.

Development of Human Resources

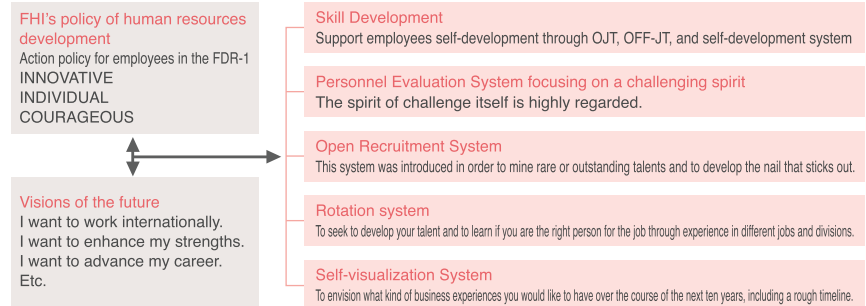
FHI's personnel system aims that each employee is fully aware of his/her mission, capable of making his/her career plan for self-realization independently. The basis of the development of human resources is the On-the Job Training (OJT) in daily operation. We are making effort to create a system to develop individual ability more efficiently and effectively by combining company's support to

employee's voluntary self-enlightenment and OJT. New employee performance evaluation system and internal open recruitment system also support our total development of human resources.

Benefits Package

Starting in October 2003, FHI introduced a new cafeteria-style program for the benefits package called My Vision. Our employees enjoy a wide range of options with this program, which is designed to help them with parenting, nursing care, self-development and leisure ISSUES. (For an outline of the My Vision program, please refer to page 60 in the 2005 Environmental & Social Report.)

Providing Motivated Employees with Opportunities to Grow



Open Recruitment System



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Handing Down Manufacturing Technologies and Skills

The Gunma Manufacturing Division has been participating in the Skills Competition since 1998, with the purpose of nurturing manufacturing specialists, raising basic skill levels within the entire division, and nurturing competent personnel. 13 employees participated at the 43rd National Skills Competition Championship, Kirara Yamaguchi 2005, held in Yamaguchi Prefecture in October 2005, in five events including lathe turning, die drawing and automobile fabrication, and successfully achieved record-high scores. In addition, the Gunma Manufacturing Division won a gold medal in the database event at the 28th Abilitylympics, held at the same time. The division will participate in the 2007 Universal World Skills Competition which is scheduled for 2007 in Shizuoka Prefecture.



Prize winners (from the left): Mr. Mori (automobile fabrication), Mr. Anzai (lathe turning), Ms. Hagiwara (drafting), Mr. Iwasaki (auto-body painting) and Ms. Idei (drafting)



Mr. Kakiki, winner of the gold medal (for the database event)



Mr. Anzai turning a lathe

* 1 : Please refer to the "Supplementary Volume for Data Related to the 2006 Environmental & Social Report", for the number of FHI employees and new recruits, the composition ratio of male and female employees, the proportion of employees with disabilities, and the number of FHI Workers' Union members. (<http://www.fhi.co.jp>)

* 2 : Normalization: One of the concepts for a welfare society or preparations to realize the concepts; i.e. socially vulnerable groups, including disabled people and senior citizens, should be given the same living opportunities as those enjoyed by other people.

Health and Safety

FHI strives to create safe, comfortable workplaces for employees and supports each employee in staying healthy mentally and physically. In addition, we continue to make efforts to prevent traffic accidents as one of our responsibilities as an automobile manufacturer, not only for the sake of our employees but also for the people in local communities.

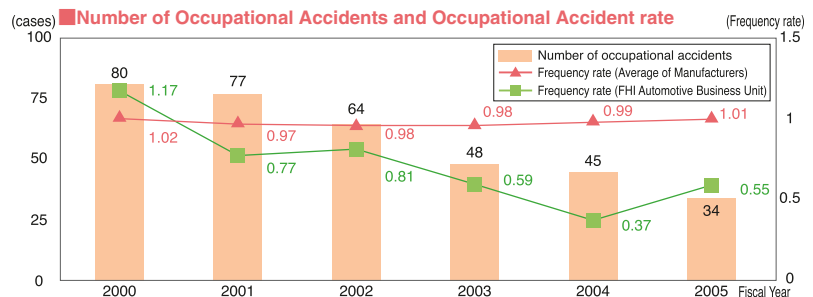
Basic Philosophy, Basic Policy and system for implementation

Basic Philosophy of Health and Safety

Health and Safety take priority in any business

Basic Policy of Health and Safety

Aiming for no disasters regarding occupational accidents, traffic accidents, diseases, and fire disasters; all employees recognize the importance of health and safety; improve the equipment, environment, and working methods; and improve management and awareness in order to create safe and comfortable workplaces.



Occupational Safety

FHI has been conducting activities to help raise each employee's safety awareness, improve management of the workplace, and eliminate risks.

To raise awareness, KYT*1 and the Hiyari Hatto*2 Activity were implemented. To improve management of the workplace, a self-management activity called TSZ*3 was introduced at an early stage in each workplace. In addition, in 2000, FHI introduced a unique small-group risk assessment system to improve each employee's safety and to eliminate risks.

FHI also makes efforts to further improve occupational health and safety levels and prevent on-the-job injuries. Towards these ends, we introduced a new risk assessment system to the offices where the Occupational Health and Safety Management System*4 had already been implemented, and are constantly working on improving the Management System by internal auditing.

With regard to asbestos-related disease, former employees of the Rolling Stock Department (the business was discontinued in fiscal 2002) qualified for worker's compensation. We will continue to communicate with the government and industry groups, and make the utmost efforts on this issue. FHI does not presently use asbestos for any of its products.

Health Care

To revitalize our business activities, it is important that employees are always in good physical and mental condition and can use their skills and abilities to the full. To help reduce the amount of employee sick leave, we have been working on the early detection and treatment of disease by adding extra items to the list of legally mandatory diagnostic items. In addition, we take measures to care for employees' mental health according to the four items advised by the government. One example is the Mental Health Counseling Consultation Services we established at all our business sites, where

employees can consult clinical psychotherapists in person.

Traffic Safety

FHI makes various efforts at each business site to prevent traffic accidents that could occur in the course of business activities, commuting, and private time. The Tokyo Office held the Safe Motorcycle Driving Classes in cooperation with the Mitaka Police Department and the Metropolitan Police Department's motorcycle policemen team, to provide our employees with basic lectures and driving lessons. In addition, the office held a class where local seniors could experience ABS (Anti-lock braking system) four-wheel vehicles.

The Utsunomiya Manufacturing Division has been implementing the Education with Real-life Experience of Dangerous Accidents since fiscal 2000 using a driving course in Kanuma City, and 1,521 people have taken part in the course to date.

Creation of a Comfortable Working Environment

In order to implement the government guidelines for a comfortable workplace, FHI has been systematically working to improve every item addressed by the guidelines, including working environment, working methods, and environmental equipment. Also, in order to create a more comfortable workplace for employees, we have been working on improving lounges, restrooms, and dining halls and adopting universal-access designs in our facilities.



Safe Motorcycle Driving Class (Tokyo Office)



Education with Real-life Experience of Dangerous Accidents (Utsunomiya Manufacturing Division)



An example of improvements in its plant operations at Oizumi Plant
Before: Employees used to load and unload heavy items manually



After: They introduced a cyclical transfer carriages to transfer heavy items, eliminating the manual loading and unloading

Column

Mr. Takayasu Kato, General Manager of the Safety and Health Promotion Division, Toyota Motor Corporation, gave a lecture on Toyota's efforts regarding health and safety, at the 30th Company-wide Health and Safety Congress. He lectured that visualization of human movement, facilities and management contribute not only to preventing on-the-job injuries but also to improving product quality and productivity.

Mr. Kato, the then General Manager of Toyota Motor Corp., giving a lecture



* 1 : KYT: Training for predicting dangers; K: Kiken (Danger); Y: Yochi (Prediction); T: Training

* 2 : Hiyari Hatto: Activity to collect cases of near-miss incidents.

* 3 : TSZ: Total Section Zero (related departments and sections make combined efforts to attain zero disasters).

* 4 : A system to promote the organized, stable management of health and safety, aiming at creating a workplace with zero disasters and zero danger through a clear set of processes: "planning, implementation, evaluation and improvement."

Social Involvement

FHI has established a Social Contribution Policy under its CSR policy and is actively promoting social contribution activities.

Social Contribution Policy (Established in March 2005)

- We will contribute to the development of science and technology and automobile culture and to the diffusion of road safety.
- We will contribute to the fostering of human resources who understand the pleasure, importance and preciousness of creative manufacturing.
- We will contribute to the development of the communities we operate in.
- We will support each other in contributing to society as good citizens.

Contributions and Development and Promotion of the Vehicle Culture

FHI participates in several automobile championships at home and abroad, such as the World Rally Championship (WRC) held mainly in Europe, where automotive culture was born, to contribute to the development and promotion of automotive culture. The technologies we have cultivated through such motor sport competitions are utilized in the cars we sell on the open market.

Backup for Employee Volunteer Activities

The motivation and daily activities of each employee are the foundation on which we implement social contribution activities. At all of our business sites, we collect used postage stamps, prepaid cards, bellmark tokens and pull-tabs, and allow organizations to collect blood donations from our employees at each business site. In addition, we support employees who make efforts in volunteer activities by offering awards using the Employee Commendation System.

Furthermore, in cooperation with the Federation of Fuji Heavy Industry Labor Unions, we continue to hold several events every year, such as a charity show where a drama is enacted in front of people at welfare facilities, and a donation of Subaru TransCare to welfare facilities made possible through the fund-raising of union members.

Coexistence with Local Communities

To coexist in harmony with local communities, employees at each business site actively participate in local events, and hold special events every year. Fuji Heavy Industries Ltd. Health Insurance Society Ota General Hospital, which is operated by the Fuji Heavy Industries Health Insurance Society, plays an important role in maintaining and improving the health of people in local communities, and practices community-oriented medicine.

Support to Disaster-Stricken Areas

Major natural disasters occurred in 2005 as they did in the previous year. To support the victims of Hurricane Katrina, which struck the southern U.S. in August 2005, FHI donated money through the Japanese Red Cross Society, and SOA and SIA made donations as well. We also donated products such as power generators to areas hit by the Northern Pakistan Earthquake.

Support for NGOs, Environment-related Funds

In fiscal 2005, we supported or sponsored a total of six events in our efforts to support environmental and social activities such as the promotion of science and technology.



Subaru World Rally Team got the 3rd prize in the 13th WRC Rally Japan of World Rally Championship



FHI intranet has a homepage dedicated to provide volunteering activities to employees



Subaru Friendship Concert



Fuji Heavy Industries Ltd. Health Insurance Society Ota General Hospital



Subaru Cup rubber-ball Baseball Tournament for Children

Major Events FHI Participated in, Sponsored and Hosted in Fiscal 2005

Division/Office	Events	Cleanup Activities
Gunma Manufacturing Division	Subaru Appreciation Festival was held at the Yajima Plant Friendship and Appreciation Festival for locals and employees' families was held at the Oizumi Plant Supported the Ota City Firework Show Supported the Subaru Cup Baseball Tournament for Children Supported the Joshu Ota Subaru Marathon Participated in the Ota Festival and the Oizumi Festival	Cleanup of Kanayama, Ota City (Organized by the Subaru Community Exchange Association, May, about 1,000 participants) Cleanup around the plants
Saitama Manufacturing Division	Summer Evening Festival Participated in the Kitamoto Festival	Clean up around the plants Kitamoto-city Voluntary Cleanup Program (Pikapika Kitamoto Omakase Program) (Total 8 times, 1,130 participants in total)
Utsunomiya Manufacturing Division	Friendship Festival for locals and employees' families The Bon Dance Festival for locals and employees' families Supported local summer festivals	Clean up campaign around the plants (Held in May, 359 participants in total)
Tokyo Office / Headquarter Area	Summer evening festival was held	—