SUBARU®

FUJI HEAVY INDUSTRIES LTD.

Annual Report 2000

For the year ended March 31, 2000

Corporate Profile

Established 47 years ago, Fuji Heavy Industries Ltd. (FHI), is one of Japan's leading industrial manufacturers, best known for distributing automobiles under the Subaru brand. The Company has a long history of technological prowess dating back to its days as an aircraft manufacturer. FHI is recognized internationally for its all-wheel drive (AWD) and horizontally-opposed engine technologies, as well as its sophisticated, small-size continuously variable transmission (CVT). During fiscal 2000, ended March 31, 2000, FHI produced its five-millionth AWD vehicle.

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

Disclaimer Regarding Forward-Looking Statements
Statements herein concerning plans and strategies, expectations or projections about the future, FHI's remedial efforts in regard to various management issues and other statements except for historical statements are forward-looking statements. These forward-looking statements are subject to uncertainties that could cause actual results to differ materially. These uncertainties include, but are not limited to, general economic conditions, demand for and prices of FHI's products, FHI's ability to continue to develop and market advanced products, and currency exchange rates.

FHI disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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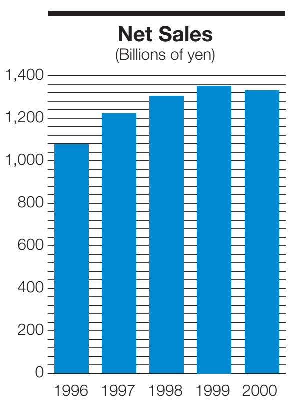
Cover:
LEGACY B4

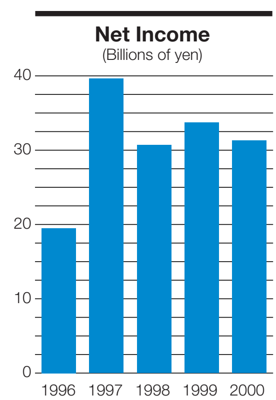
Consolidated Financial Highlights

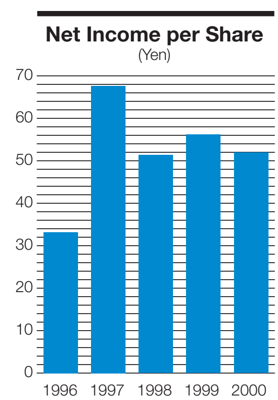
FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2000, 1999 and 1998

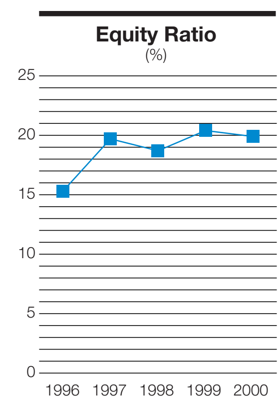
	Millions of yen			Thousands of U.S. dollars (Note 3)
	2000	1999	1998	**2000**
For the Year:				
Net sales	**¥1,330,125**	¥1,352,520	¥1,303,989	**$12,548,349**
Operating income	**91,401**	89,932	80,437	**862,274**
Net income	**31,348**	33,706	30,708	**295,736**
Year-End:				
Shareholders' equity	**¥ 206,404**	¥ 200,220	¥ 168,833	**$ 1,947,208**
Total assets	**1,038,558**	981,256	904,571	**9,797,717**
Per Share of Common Stock (Yen and U.S. Dollars)**:**				
Net income	**¥ 51.90**	¥ 56.18	¥ 51.33	**$ 0.49**
Return on equity (ROE)	**15.4%**	18.3%	19.3%	

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥106.00 to US$1, the approximate rate of exchange at March 31, 2000.









Dear Shareholders

FHI was faced with many challenges during fiscal 2000, ended March 31, 2000. We worked diligently to carry out our pledge to build a stronger Subaru image and accomplish performance goals. We believe we have fulfilled our promise in most areas in a number of significant ways. We succeeded in gaining larger followings, mainly in the United States and Japan, for our Legacy and Forester, which underwent full and minor model changes, respectively. At the same time, we integrated dealerships located throughout major Japanese prefectures to employ our assets more wisely. We also bolstered our financial position throughout the Group.

FHI continues to pursue its goal of perfecting fundamental performance areas for all models. We have never been swayed by fleeting fashions but have focused solely on creating vehicles that are long lasting and backed by Subaru's leading-edge technology. Our values and dedication continue to concentrate on achieving the ultimate in driving technology.

Takeshi Tanaka
President and Chief Executive Officer

Business Overview

In fiscal 2000, apprehension as to whether Japan's economy would make a full recovery remained, despite signs of gradual improvement. Deterrents included record-high unemployment and the yen's appreciation against the dollar. The United States and Europe continued to post growth. In contrast, sentiment in Asia was discouraging, although some countries began to rebound slowly.

FHI recorded consolidated net sales of ¥1.3 trillion, a 1.7% slip from the previous period. An increase in domestic sales of minicars and higher exports countered the adverse effects of a stronger yen and declining small-car sales. However, gains were neutralized by the transfer of Isuzu sales from Subaru-Isuzu Automotive Inc.'s (SIA's) consolidated accounts. This resulted from the reclassification of SIA's stock into two different stock classes. We also endeavored to boost efficiency and widen our profit margin through such measures as reducing cost of sales, thus succeeding in raising operating income 1.6%, to ¥91.4 billion. During the period, we wrote off property valuation losses at subsidiaries and affiliates to fortify our Group financial position. To compensate for a portion of this write-off, we sold marketable securities. Despite these efforts, net income dropped 7.0%, to ¥31.3 billion.

Operational Review

Despite lackluster economic conditions, the Japanese automotive industry benefited from a boost in production supported by higher exports and renewed private-sector capital spending. In addition, the launch of new products and full model changes for several existing vehicles sparked replacement demand. Despite a 0.3% rise in domestic automotive demand, we saw demand improve 5.6%, to 294,000 units. Sales of minicars, which have an engine displacement of under 660 cc—such as the Pleo and Sambar—climbed 14.3%, to 172,000 units. Sales of small cars, which have an engine displacement exceeding 660 cc, fell 4.7%, to 121,000 units.

In the U.S. market, Subaru sales hit a 12-year high. Record demand was also seen in Australia. The Legacy, Impreza and Forester proved popular, reflecting strong sales of our premium models including the Outback, Impreza Turbo and Forester Turbo. As a consequence, overseas Subaru sales rose 4.2%, to 275,000 units.

Returning Profits to Shareholders

During the period, we manufactured our five-millionth AWD vehicle. To commemorate this accomplishment, the parent company authorized a ¥1.00 commemorative dividend in addition to its year-end dividend of ¥4.00 per common share, raising the annual dividend for fiscal 2000 to ¥9.00.

GLOBAL GROWTH

In 1997, we initiated TQF21 (Total Quality Fuji 21), our first medium-term business plan. The plan's ultimate goal was to transform FHI into an "appealing company with strong market presence." To accomplish this, we have been working to leverage products and brand names, fortify our earnings base, realign our consolidated subsidiaries and affiliates, reform FHI management structure and develop a framework for growth strategies.

Building on the momentum of our original TQF21 plan, we launched our second medium-term business plan—dubbed New TQF21—on April 1, 2000. The plan is scheduled for completion by March 31, 2005. New TQF21 goes a step further than its predecessor, aiming to turn FHI into "a global player with a premium brand." The plan seeks to differentiate FHI from competitors through the strategic positioning of AWD products and use of hallmark technologies, such as a horizontally-opposed six-cylinder engine. From the perspective of product, New TQF21 emphasizes the refinement of the Company's AWD strategy, which encompasses hybrid utility vehicles or "crossover" sports utility vehicles (SUVs), and driving performance, with the aim of becoming a top contender in each business segment. To achieve this goal, we must develop and invest in next-generation technologies. This is an essential step and an inherent part of attaining growth, but one which comes with obvious business risks. To help alleviate such risks, we entered into an alliance with General Motors Corporation (GM).

Another integral component of New TQF21 is Challenge 30. This initiative aims to increase sales, improve quality, cut costs and raise productivity by 30% over a five-year period. These will serve as vital indices to guide FHI management toward improved operations down the road.

AN ENHANCED SALES STRUCTURE

We are implementing measures to augment sales. In addition to fortifying mainstay models, we plan to develop new products and strengthen our brand identity. In Japan, we intend to restructure our sales network, improve sales, service and customer satisfaction, and

Becoming a part of the GM family; FHI President and CEO Tanaka shakes hands with GM's President and CEO, G. Richard Wagoner, Jr.

raise the efficiency of distributorship–division management. In the United States, our distribution infrastructure will benefit from our relationship with GM.

Production increases are scheduled for SIA and the Gunma Manufacturing Division, our main plant in Japan. Our goal is to establish a production system capable of putting out 800,000 units annually. In addition, we will improve production capacity for our CVT to meet expanding demand in the automotive components business.

A STRONGER FINANCIAL POSITION

Two other goals of New TQF21 are reducing direct material costs and bolstering our financial position. We expect to bring direct materials costs down 15% by fiscal 2003 and another 7% by fiscal 2005.

FHI plans to utilize capital from GM effectively. Short-term plans include the repayment of borrowings and redemption of bonds. Over the long term, we will invest in production facilities and research and development. We also aim to reduce interest-bearing debt to ¥350 billion by March 31, 2005, from an expected ¥449 billion on March 31, 2001.

Other measures to help strengthen our financial position over the next five years include a ¥44 billion write-off of pension and severance liabilities and write-off of losses at domestic distributorships, estimated at ¥19.5 billion as of March 31, 2000. In addition, we plan to integrate the handling of leasing and credit operations, as well as fortify auto loan services domestically. We intend to centralize our fund-procurement activities to enable the low-cost acquisition of capital. To accomplish this, in March 2000 we transferred the financial operations of Subaru Kosan Co., Ltd., to Subaru Finance Co., Ltd.

EMPHASIZING PERFORMANCE

During the period we introduced a stock option plan for employees and management and a performance-based remuneration system for management-level employees, to enhance the spirit of challenge throughout the Company. To implement the stock option plan, we purchased 2,803,000 shares of our own stock from the open market. Seven directors, 24 members of the executive committee and 261 employees were eligible for stock options during the period.

ECONOMIES OF SCALE

We are working to achieve economies of scale through alliances aimed at making us a global player. On December 10, 1999, with the approval of our Board of Directors, we formed a strategic alliance with GM, who now maintains equity in FHI, following a third-party allotment and the acquisition of shares formerly held by Nissan Motor Co., Ltd., and its related group companies. In this forward-looking alliance, both companies will respect the other's autonomy in regards to management, while cooperating to achieve steady development and growth. To these ends, FHI and GM will increase the efficiency of R&D by sharing proprietary technologies, work

The new six-cylinder Outback scheduled for overseas launch in fall 2000.

together to fortify competitiveness and expand product lineup, and jointly develop sales networks and efficient production systems utilizing the facilities of both partners.

New TQF21 positions this alliance as a key strategic partnership for achieving future goals. Our objectives are to remain autonomous while participating as a member of the GM family, and to work steadily to reap the benefits of synergies with GM and Suzuki Motor Corporation.

ENVIRONMENTAL STRATEGIES

FHI has embarked upon a mission to tackle a number of environmental issues. Our Environmental Committee is taking the initiative to lead the Company in its environmental activities. We intend to earn ISO 14001 environmental management system certification for select divisions and strengthen environmental awareness throughout the Company. Our goal is to achieve zero emission levels at all factories and to improve the environmental soundness of our products.

OUTLOOK

While certain sectors of Japan's economy are picking up, it will be some time before consumer spending and private-sector capital investment recover fully. Instability in the foreign exchange market and fears that economic growth in the United States and Europe is slowing are also concerns. Accordingly, market conditions in fiscal 2001 are likely to remain harsh and the business environment riddled with uncertainty.

Nonetheless, fiscal 2001 will be a turning point for FHI. We look forward to offering a richer mix of automobiles. In key markets throughout the world, a six-cylinder engine will be added to our Outback model. Our Impreza is scheduled to undergo a full model change, first in Japan and then overseas. We also forecast sales growth for our Forester models. In addition, FHI management will continue efforts to boost operational efficiency at domestic dealerships. Fiscal 2001 is a pivotal year, not only as we look forward to the synergies from our alliance but also as we fortify the foundation of our business to carry us toward future expansion.

The stage is set for growth. In our efforts to become a global player, we are striving to extend FHI's reach worldwide. We are confident that we are on the right track; we know what needs to be done to enhance the value of the Company, and we hope that you, our shareholders, will remain confident in FHI and continue to extend your support.

August 2000

Takeshi Tanaka
President and Chief Executive Officer

NEW TQF21 and GM Alliance

Management's Vision for the 21st Century

Our vision for the 21st century previously focused on FHI becoming an "appealing company with strong market presence." Owing to recent alliances with GM and Suzuki, our new goal is to become "a global player with a premium brand." To bring a higher level of satisfaction to our customers and shareholders, we aim to establish ourselves within the GM family, supported by our hallmark technologies and superior brand power. We also intend to bolster our corporate value by focusing on such issues as environmental management and cleanup, and compliance.

Strategic Five-Year Medium-Term Business Plan

Challenge 30

Challenge 30, an integral component of New TQF21, calls for improving sales, quality, costs and productivity by 30% by the end of fiscal 2005.

Product Strategies

1. Brand Identity

Fortify Subaru's brand identity. Further promote the Subaru name in global markets.

2. Product Appeal

During the five-year period covered by New TQF21, FHI plans to launch two new versions of current model vehicles, perform full model changes on four nameplates and jointly develop new products with its alliance partners.

R&D and Production Systems

Further promote the development of a concurrent engineering system to better link R&D and production through digitization, and networking of production technologies and between manufacturing centers. This will ensure the manufacture of high-quality products exemplary of a premium brand and the establishment of a production system capable of speedily and efficiently launching new models.

Sales Strategies

Through the promotion of a Subaru brand strategy in each sales region, we will improve the quality of our sales and services to a level suited to a premium brand. In addition, we will fortify our customer relations management through the use of IT, raising customer satisfaction and Group earnings. Furthermore, we will obtain global sales support from GM.

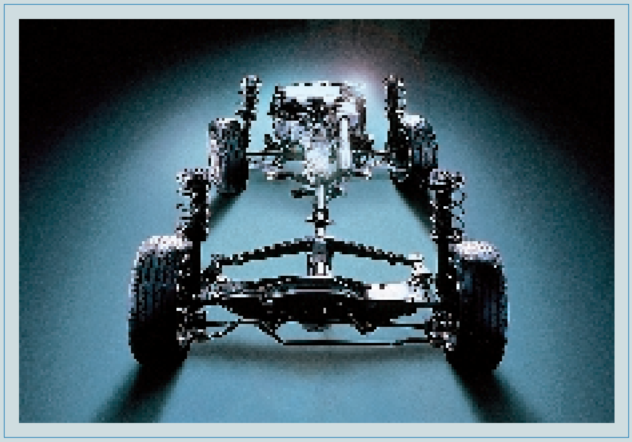
Cutting Costs

1. SCI-TC30
(Simultaneous Cost Innovation-Total Cost 30)

- Reduce direct material costs 22% by fiscal 2005.
- Lower cost of sales through increased production using shared parts with alliance partners GM and Suzuki.
- Trim parts and components costs by taking advantage of GM's worldwide purchasing process (WWP) and through joint purchasing.
- Use common parts and components with Suzuki.

2. Expenses

- Introduce a centralized purchasing system to better analyze parts procurement methods and order processing.
- Use e-commerce and GM's WWP.



Subaru AWD

Six Synergies

FHI expects to benefit in a variety of ways from its alliance with GM. We will achieve economies of scale and become more capable of dealing with global markets as a part of the GM family. We will capitalize from synergies by taking advantage of technology sharing, joint products and sales cooperation. The alliance will also make the streamlining of operations possible though the sharing of know-how and combined production.

CoE—Center of Expertise

FHI is now the GM family's center of expertise (CoE) in the areas of all-wheel drive (AWD) technologies and small-size continuously variable transmission (CVT) technologies.

GM will assume a leadership role, though family members will maintain control of their management and responsibility for R&D in their own field of expertise. This enables each company to resourcefully utilize its own assets.

Strengthen Products
- Joint R&D
- Mutual distribution of products via OEM

Sharing of Technologies
- Supply GM with AWD and CVT technologies
- Obtain next-generation environment-related technology

Sales Cooperation
- Cooperate in the development of sales networks in various markets
- Collaboration in e-commerce

IT, Financing and Other Aspects
- Work together on IT projects and auto loans
- Employee exchanges

Production
- Shared usage of production facilities

Reduce Parts Procurement Costs
- Joint usage of parts
- International teamwork in the procurement of parts

Automobile Division

RESULTS

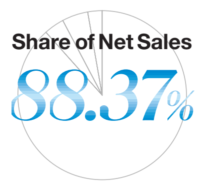
Domestic

Fiscal 2000 was the year of the Legacy B4. A product of Subaru's manufacturing excellence, this model succeeded in establishing itself as a leader among sports sedans and is positioned as a key model in FHI's lineup of high-driving performance AWD vehicles. In January 2000, the Forester underwent minor changes that significantly boosted car buyers' affinity for this model. The Impreza, another member of the Subaru small-car family, did not perform as well as its counterparts as it was due for a model change. Overall demand for small cars shrunk 4.7%, to 121,000 units. In contrast, demand for minicars rose 14.3%, to 172,000 units, supported by the continued popularity of the Pleo and Sambar. Accordingly, total domestic shipments in the Automobile division grew 5.6%, to 294,000 units.

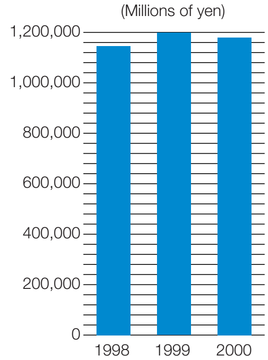
Overseas

Sales in the United States reached a 12-year high, countering the ill effects of the yen's appreciation against the dollar in the second half. In Australia, where Subaru has won many awards and the Subaru name is synonymous with driving performance, quality and safety, demand hit a record high. As a result, sales in Oceania climbed to 28,000 units. Shipments in both Europe and Asia topped the previous year. Among these nameplates, premium models such as the Outback, Impreza Turbo and Forester Turbo, recorded stable demand. Overseas sales rose 4.2%, to 275,000 units. Demand was boosted by test-drive campaigns for AWD vehicles and FHI's distinguished results at the 1999 World Rally Championships, where it scored more wins than any other manufacturer.

Worldwide, we shipped 568,000 units during the period, 4.9% higher than the previous period. Despite increased global shipments, Automobile division sales slipped 1.5%, to ¥1.2 trillion, owing to the yen's appreciation and the popularity of more affordable models. Automobile sales generated ¥92.3 billion in operating income, 8.1% more than in the previous year, thanks to cost reduction efforts.



Net Sales
(Millions of yen)



R&D

We spent ¥36.3 billion on R&D in this division, focused specifically on environmental and driving safety. In Japan in May 2000, we launched a Legacy Lancaster, sold under the Outback name in other countries, that features a horizontally-opposed six-cylinder engine certified for low exhaust emissions. The U.S. version, under the Outback nameplate, is projected to go on the market in autumn 2000.

Accomplishments in Fiscal 2000

During the period, FHI was honored with several prestigious awards from the automotive industry as well as receiving high recognition. Subaru was named the top manufacturer, rating higher than 30 other manufacturers, in the 2000 J.D. Power and Associates Top Gear UK Customer Satisfaction Study, one of the world's most respected consumer surveys for car owners. Legacy received first place, while the Impreza was second. This was the second consecutive year that Subaru claimed first and second place. In September 1999, we took home the award for "Most Improved Car Company," given by the *Financial Times Automotive World* magazine, based on the positive, sustainable turnaround in business performance and public perception. Our 2000 Subaru Legacy was labeled a "best pick" in crashworthiness evaluations by the Insurance Institute for Highway Safety (IIHS) in the United States. The NRMA/RACV, a major motoring organization in Australia, named the Legacy "Best Midsize Car."

The Legacy B4 proved popular in fiscal 2000.

Judges from this organization were impressed by Subaru's "superb steering and braking, combined with the tenacious grip of AWD sure-footed handling." *The New Zealand Herald* named the Subaru Legacy "1999 Car of the Year," having caught the eyes of New Zealand drivers for its "understated, almost modest, quality."

Marketing Strategies in Fiscal 2000

It goes without saying that our biggest challenge, and our immediate and ongoing focus, remains customer satisfaction. For this reason, fiscal 2000 was spent improving manufacturer quality and after-sales service at our dealerships to secure a leading position in both these areas. We also endeavored to fortify the Subaru sales network through integration to achieve better sales efficiency.

Overseas, we worked to promote the Subaru brand and increase the number of loyal drivers by enhancing our corporate identity. We launched a new Legacy in the United States. In addition, we realigned dealerships and heightened the quality of our sales network. In Europe, we reemphasized the brand's presence in the market and garnered a variety of awards for vehicle performance.

Outlook for Fiscal 2001

The business environment for the automotive industry is projected to remain harsh. While Japan's economy is expected to move gradually toward recovery as personal consumption and private-sector capital investment improve, the U.S. and European economies are expected to record a slowdown in growth and the yen is likely to remain strong against the dollar.

Sales strategies will focus on three key points outlined in New TQF21. The first is fortification of our corporate identity. We will aim to establish the Subaru brand worldwide by implementing a uniform brand strategy, backed by high-quality products and superior customer service. Second, we will institute full model changes for our Impreza, thereby helping increase our impact on the global market, as well as our market share. Third, we will increase the number of Subaru owners to whom we offer after-sales services. As the average period of ownership becomes longer, after-sales service will be an important factor in enabling us to communicate with customers.

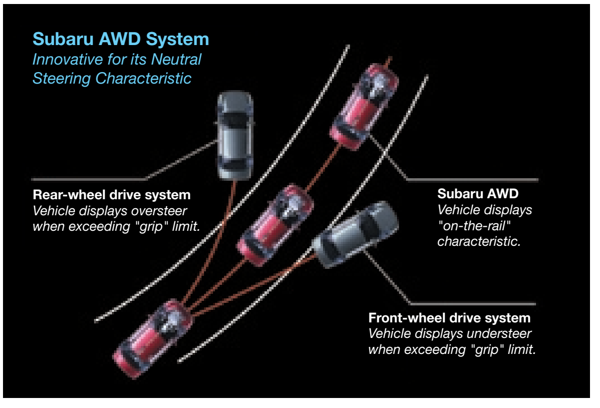
We will continue along the same lines overseas, building on the rising popularity of the Subaru brand and nurturing our innovativeness and solid presence in foreign markets. Customer satisfaction remains a key issue and we intend to strengthen our ties with local overseas distributors to enhance service. We will benefit from the introduction of new models, supported by comparison test drives, top placings in World Rally Championship races and extensive promotional activities.

The Forester 2000 underwent minor changes that significantly boosted car buyers' affinity for the model.

A significant plus for us in global markets is our new alliance with GM and Suzuki. In this age of outright mergers and acquisitions, our alliance is special in that it allows us to maintain autonomy. At the same time, it is flexibly tailored to maximize synergies, achieve economies of scale, facilitate access to new technologies and leverage the Subaru brand name.

Subaru's Automotive Design Concept

Our automotive design is backed by two key concepts, "*fueki*" and "*ryuko*". *Fueki* refers to the immutable elements of Subaru automobiles—in other words those universal technological traits that are the main elements in determining a car's driving performance and safety. *Ryuko* describes the trendy aspects of Subaru cars, such as their stylish design and optimum features. All automobile design basically follows these two concepts and the success of a product in the market depends highly on whether a keen balance can be achieved between them. Of these two concepts, we believe that to build a better vehicle, focus must center on the improvement of driving performance and safety, as opposed to becoming engrossed with transient fashions. Based on the idea that driving pleasure is a vehicle's utmost alluring feature, our automotive manufacturing stresses driving performance, safety and the environment. There is no room for compromise in pursuing these three areas, as we endeavor to bring customers an even better vehicle.



Driving Performance

Subaru aims to improve driving quality based on its AWD system.

Safety

Subaru is always striving to improve safety, an indispensable aspect of driving pleasure. By fully utilizing the superiority of our AWD system, we are able to achieve excellence in both active safety, the aspects of a car's performance that enable the driver to avoid accidents, as well as passive safety, the ability of the car to overcome accidents and protect its occupants.

The Environment

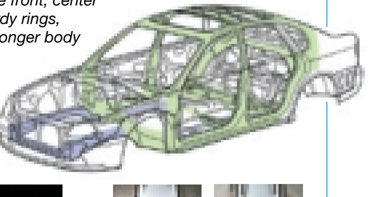
We are actively tackling environmental issues by striving for better fuel efficiency and purification of emissions.

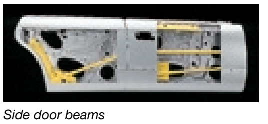
To ensure the realization of the goals above, we are making various improvements to our factories. For example, we are promoting Total Product Management (TPM) at our main manufacturing plant, the Gunma Manufacturing Division, through which we are advocating quality management, cost reduction and the nurturing of human resources.

Subaru vehicles are highly appraised in many countries around the world—recognition of our manufacturing methods. As a means of asserting our presence in markets around the world, we will continue to follow the ideal of improving driving fundamentals, paving the road for development in a day and age where there is little distinction between car models and an endless variety of car types.

New Ring-Shaped Reinforcement Frames

Achieved by connecting the front, center and rear pillars to form sturdy rings, the structure provides a stronger body and better driving safety.





Side door beams

Frontal offset collision testing

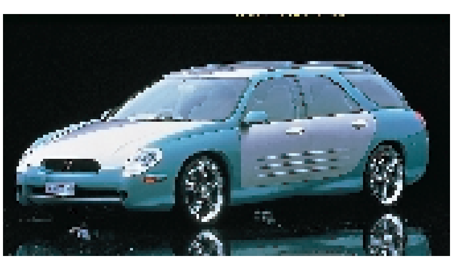
Full-frontal collision testing

The 33rd Tokyo Motor Show 1999

We showcased concept cars and particularly stylish automobile models at the 33rd Tokyo Motor Show 1999, held at the Nippon Convention Center (Makuhari Messe), from October 20 to November 3, 1999. Our booth and demonstrations gave visitors a chance to witness our dedication to providing Subaru owners with the best driving performance possible. We also outlined our car manufacturing objectives for the 21st century. Based on our leading-edge AWD technology, our manufacturing focus will be on driving pleasure and safety, as well as the environment.

We displayed two concept cars at the show. The FLEET-X was designed using select materials to achieve a lightweight automobile. The exterior paneling is aluminum, with Plexiglass rear and side windows, and a steel body frame to ensure durability. The model features a four-cylinder horizontally-opposed engine and variable torque distribution AWD.

The second concept car we showed was the EL TEN CUSTOM. This model is equipped with the Subaru hybrid power system, which consists of a highly fuel efficient in-line four-cylinder gasoline engine, an i-CVT (intelligent CVT), a built-in transmission with two motors and a torque distributor, and a nickel hydrogen fuel cell.



FLEET-X

EL TEN CUSTOM

Motor Sports

The World Rally Championship in 1999 closed with the Rally of Great Britain in November. We won a total of five victories during the season, more than any other participating manufacturer, and racked up 105 manufacturer's points in all 14 races, coming second in this area. Richard Burns and Juha Kankkunen were the key Subaru drivers. These rankings attest to the superior performance of Subaru automobiles. FHI entered its Impreza in all 14 races. The competition car resembles an Impreza found in any Subaru showroom, with a two-liter engine, based on FHI's horizontally-opposed four-cylinder power plant, that is turbo-charged and intercooled. Subaru's victories have been vital to marketing efforts, showing that FHI-manufac-tured automobiles are superior in both technology and driving performance.

Showing off Subaru performance at the World Rally Championship in 1999

Industrial Products Division

Results

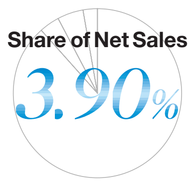
In fiscal 2000, this division posted record sales of ¥52.0 billion, a 20.2% rise from the previous year. Industrial products sold well as demand was high for small engines used in civil engineering and construction machinery, as well as for agricultural, forestry and marine equipment. Orders increased for our newly designed engines, and shipments of engines for leisure vehicles to the United States grew. Concerns over possible power failure with the dawn of year 2000 sparked demand for generators. New orders for OEM products also climbed. However, reflecting the appreciation of the yen against the dollar, divisional operating income dropped 11.0%, to ¥1.3 billion.

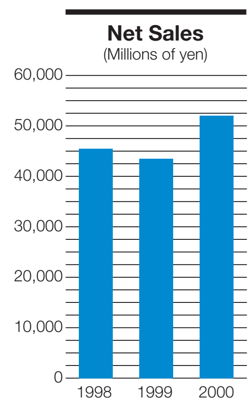
Activities during the period included the establishment of a joint venture, Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd., in the People's Republic of China (PRC), with Marubeni Auto Sales Corporation and Changchai Co., Ltd. This joint venture, in which we have a 62% equity share, is scheduled to start production in January 2001 and will manufacture and sell engines for industrial equipment.

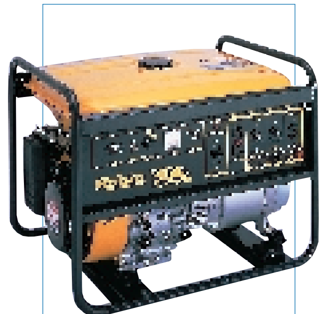
R&D spending for this division was ¥1.0 billion. We developed an ultra-low-noise 2kW power generator and a 25cc, four-stroke engine, an industry leader in terms of high output and light weight.

Strategies for Fiscal 2001

We will work to boost sales of industrial products, as well as focus on methods to boost our OEM business. The promotion of marketing campaigns at dealerships will improve technical support and overall service. In addition, we plan to cultivate new clients.







Fears of problems related to Y2K issues helped fuel power generator sales.

Fiscal 2001 will be a crucial year in the development of our next-generation general-purpose engine. We intend to trim our product portfolio by integrating product specifications, and plan to renew the EY series side valve engine.

To achieve better performance and higher quality, and improve our cost competitiveness, we will continue to implement our Simultaneous Cost Innovation (SCI) program. SCI will also call for the elimination and integration of certain parts and components. Under TPM, we intend to continuously promote enhanced quality, lower cost and speedier delivery in manufacturing.

During fiscal 2001 we plan to fortify worldwide operations starting with our sales units, Robin America Inc., Robin Europe GmbH and Fuji Heavy Industries (Singapore) Pte. Ltd, as well as our manufacturing unit, Robin Manufacturing U.S.A., Inc. Our globalization plans also include preparations for the start-up of our joint venture in the PRC. Furthermore, we will increase our overseas parts procurement.

We will tighten our working relationships with Fuji Robin Industries Ltd. and Fuji Machinery Co., Ltd., through expanded sales of OEM products. Efforts such as these will help us to further consolidate our operations with those of the Robin family, the maker of Robin-brand industrial products.

Outlook

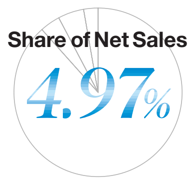
In fiscal 2001, the economies in Japan and Asia are projected to show gradual recovery, translating into more sales for FHI. However, as concern over the Year 2000 (Y2K) problem has passed, power generator sales in North America are forecast to decline. Despite a tough environment, we will expand sales of Robin-brand products and strive to become the world's third-largest manufacturer of general-purpose industrial engines.

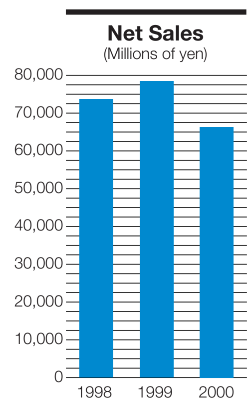
Aerospace Division

Results

A decline in orders for components used in the Boeing 777 and Boeing 737 proved detrimental to sales in this division in fiscal 2000. Demand from Japan's Defense Agency for wing and other section components for the F-2 support jet fighter were stable. We began deliveries of the wing systems for Raytheon Aircraft Company's Hawker Horizon super mid-size business jet. Overall, sales fell 15.4%, to ¥66.3 billion. Operating income for this division declined 69.4%, to ¥2.0 billion, owing mainly to the yen's appreciation.

A major new R&D project during the period consisted of an order from the New Energy Development Organization (NEDO) for innovative aircraft wing sections made from a number of low-cost composite materials. We continued R&D on compact wind-powered generator systems. Expenditures for R&D during the period were ¥138.4 million.





Strategies for Fiscal 2001

New TQF21 sets forth strategies for growth in this division. These include securing new businesses, achieving a high level of efficiency and thorough management of profit margins for individual projects. For the division to attain the goal of ¥100 billion in sales as set forth in New TQF21, we must acquire new projects by focusing on sales and technology. We plan to receive the full cooperation of our factories to launch any new projects as smoothly as possible.

We will continue to streamline operations, in particular the administrative operations handled at plants and at our headquarters. We will also work to strengthen our financial position. A reduction of assets, specifically inventories and accounts receivable, will make us more responsive to market conditions affecting sales and operations.

Outlook

In fiscal 2001, private-sector demand is expected to decline. However, several key projects, such as the Boeing 777-200X/300X, were launched in early 2000. In addition, we have contracted with Bell Helicopter TEXTRON Inc. of the United States, to manufacture fuselages for the Bell/Agusta 609 (BA609), the first tiltrotor available for private use. Delivery of fuselages is scheduled to begin in fiscal 2003.

FHI will take charge of fuselage production for Bell's BA 609 tiltrotor.

Boeing continues to be a significant part of our aerospace business.

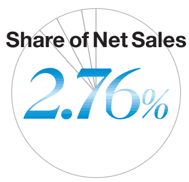
Other Fields

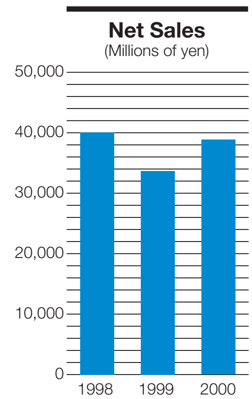
Results

This division encompasses operations in the areas of ecology and transportation systems, and bus manufacturing and prefabricated housing. Divisional sales in fiscal 2000 increased 13.3%, to ¥38.8 billion. However, operating losses expanded to ¥4.4 billion. Sales of buses suffered from an unprecedented market slump, neutralizing benefits of a richer mix of environmental and social-welfare related products. We began designing houses tailored for the elderly, which bolstered prefabricated house sales. Demand for railway passenger cars, including the sleeping car Cassiopeia, and waste disposal systems, also increased. However, refuse collection vehicle and trailer sales declined, reflecting stagnant markets for these products.

R&D in these businesses centers on three key themes: environmental preservation, Japan's aging society and automated labor. During fiscal 2000, we introduced the Fuji home-nursing-care room, a room designed specifically to facilitate home nursing care, and security/building maintenance robots which function as surveillance cameras while vacuuming floors. In addition, we developed a waste disposal/reclamation plant and robots for cleaning the water storage tanks used in nuclear power plants. R&D expenditures in this division were ¥0.9 billion.

The CNG non-step bus with features to assist the physically challenged.





A robot that can survey premises while cleaning floors.

Strategies for Fiscal 2001

The ultimate challenge in this division will be to implement our ideals of "selection and focus" to effectively determine areas of concentration. We aim to expand sales of minihousing and gable-roofed prefabricated housing. Moreover, we are planning a full-fledged entry into the home-nursing-care market.

In July 2000, we introduced a completely new tour bus which meets recently enacted emissions regulations to be introduced in 2000. In the area of buses for public transportation, we face several tasks including lowering costs, developing large-scale transportation, and handling environment and social-welfare issues. To these ends, we plan to combine our lighter-weight, low-cost bus body, with features to accommodate the physically challenged, with our compressed natural gas (CNG) technologies.

With construction demand expected to rise, we will implement an early sales drive for prefabricated housing. New sales avenues will be developed for prefabricated houses through expanded product lineup and rental units.

Thanks to the success of our R&D efforts in robotics, we plan to make further pursuits in this area. Inquiries about our recently developed surveillance/building maintenance robots and other products are steady, and we believe this business offers high potential.

Outlook

The implementation of new emissions regulations in July 2000 will likely have some effect on our bus business. The construction market is forecast to rebound, supported by an increase in public works projects. In addition, the introduction of the Nursing Insurance System is expected to support firm sales of the Fuji home-nursing-care room.

Our Role in Preserving the Environment

FHI is looking for ways to give back to society. Finding methods to preserve the environment is just one way that we can give back. Energy consumption and the impact placed on the environment have grown in tandem with global economic development. The release of carbon dioxide into the atmosphere has resulted in global warming; nitrous oxide and sulfur oxide are causing acid rain; and chlorofluorocarbons (CFCs) are responsible for damage to the ozone layer. Natural resources will be quickly depleted if we do not find ways to recycle them or alternatives.

Helping to Provide Cleaner Air

An issue of particular concern to us is air pollution. Subaru products are built to meet stricter emissions standards than those decreed in the Kanto (Tokyo) and Kansai (Osaka) regions. Government emissions standards in Japan have been toughened by 70% from the 1978 levels. Subaru's in-house standards top these standards by another 50%, but we continue to strive for improvements to help keep the environment cleaner and to provide our customers with a more ecologically sound automobile.

Clean energy vehicles are another field in which Subaru is hard at work. Technical issues that remain to be resolved include high operating costs, a short travel range and the lack of a fuel supply infrastructure. We are convinced that our development efforts will aid in finding answers to these problems and lend to the commercialization and general use of such vehicles.

ISO 14001 Certification

We are in the midst of developing an environmental management system (EMS) which meets the standards set by the International Organization of Standardization. Our Gunma Manufacturing Division, Saitama Manufacturing Division and Utsunomiya Manufacturing Division have already received ISO 14001 certification. Once we have established an EMS of our own, we will work to apply these standards throughout all FHI divisions and production facilities.

Zero Emissions

Achieving zero emission levels at our plants is another key goal we plan to achieve by March 2002. We are undertaking efforts at three plants—the Gunma Manufacturing Division, the Utsunomiya Manufacturing Division and the Saitama Manufacturing Division—and hope to attain zero emissions by the end of fiscal 2001. Based on 1997 figures, annual waste disposal by these three divisions is about 1,700 tons, 1,900 tons and 250 tons, respectively.

Recycling

FHI is active in developing techniques that make use of waste. We are also implementing a number of recycling efforts. One of our main recycling activities is collecting damaged bumpers for recycling. This program was launched seven years ago and is now nationwide. As of March 31, 2000, we had collected a cumulative total of 93,000 bumpers for recycling. The recycled materials are used in automotive parts such as trim.

The Aging Society

Japan's growing population of senior citizens is a serious issue which influences political, economic and social systems. We are responding by developing a variety of products specifically for the elderly. One of our most innovative products is the Fuji home-nursing-care room, a modular unit that can be attached to an existing one-story home, making it a lower-cost alternative to building an addition. In the future, FHI plans to develop more types of barrier-free living environments for senior citizens.

Management (As of June 29, 2000)

Board of Directors
From far left: Kazuhiro Miyake, Mamoru Morinaga, Takayoshi Yoshihashi, Takeshi Tanaka, Teruo Hanada, Fukuji Inada, Hitoshi Maeda

Executive Officers
*(* Representative Director)*

President and Chief Executive Officer
Takeshi Tanaka*

Senior Executive Vice Presidents
Takayoshi Yoshihashi*
Teruo Hanada*

Executive Vice Presidents
Mamoru Morinaga
Fukuji Inada
Kazuhiro Miyake
Hitoshi Maeda

Senior Vice Presidents
Hiromichi Muto
Masayoshi Nagano
Koichi Arasawa
Takeshi Tanaka
Masayasu Oizumi
Takeo Tsumuji
Hideo Wada
Hideshige Gomi
Takao Tsuchiya
Hiroyuki Nakatsubo
Kunitaka Nakahara
Kiyoshi Inoh

Vice Presidents
Masaru Katsurada
Akira Furuya
Takao Saito
Hiroshi Komatsu
Shunsuke Takagi
Yuichi Masuda
Yutaka Tsukahara
Kyoji Takenaka
Kisaburo Wani
Masatoshi Iwasaki
Edward Pasternak
William Madigan

Corporate Auditors

Eiichi Hongo
Toshio Hirai
Kunitake Nomura
Hiroshi Takaku

Financial Section

Consolidated Five-Year Financial Summary

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

	Millions of yen					Thousands of U.S. dollars (Note 3)
	2000	1999	1998	1997	1996	**2000**
For the Year:						
Net sales	**¥1,330,125**	¥1,352,520	¥1,303,989	¥1,223,015	¥1,077,315	**$12,548,349**
Cost of sales	**995,131**	1,067,868	1,027,782	994,032	909,255	**9,388,028**
Gross profit	**334,994**	284,652	276,207	228,983	168,060	**3,160,321**
Selling, general and administrative expenses	**243,593**	194,720	195,770	171,410	143,167	**2,298,047**
Operating income	**91,401**	89,932	80,437	57,573	24,893	**862,274**
Income before income taxes and minority interest	**64,839**	68,423	56,609	47,622	20,886	**611,689**
Net income	**31,348**	33,706	30,708	39,596	19,414	**295,736**
At Year-End:						
Shareholders' equity	**¥ 206,404**	¥ 200,220	¥ 168,833	¥ 149,748	¥ 107,448	**$ 1,947,208**
Total assets	**1,038,558**	981,256	904,571	759,030	700,859	**9,797,717**
Ratio of shareholders' equity to total assets (%)	**19.9**	20.4	18.7	19.7	15.3	
Per Share (In yen and U.S. dollars)**:**						
Net income						
Basic	**¥ 51.90**	¥ 56.18	¥ 51.33	¥ 67.63	¥ 33.17	**$ 0.49**
Diluted	**48.53**	51.79	47.18	66.28	33.04	**0.46**
Shareholders' equity	**338.75**	332.41	282.09	251.05	183.56	**3.20**
Other Information:						
Depreciation and amortization	**¥ 60,190**	¥ 38,708	¥ 32,574	—	—	**$ 567,830**
Capital expenditures (addition to fixed assets)	**103,922**	57,566	56,419	—	—	**980,396**
R&D expenses	**40,123**	38,512	38,231	—	—	**378,519**
Number of shares issued at year-end (thousands of shares)	**614,553**	602,333	598,507	596,484	585,346	
Number of shareholders*	**49,381**	55,044	72,107	80,587	83,077	
Number of employees*						
Parent only	**13,668**	13,419	13,435	13,413	13,604	
Consolidated	**26,914**	19,882	19,113	18,475	—	

* As of March 31

All information discussed in this section is either based on current information known to management, or derived from FHI's consolidated financial statements that appear hereafter in this annual report.

Disclaimer

In reading this analysis, certain factors, in particular the notable increase in consolidated subsidiaries and other key factors mentioned in the introduction to this section, must be kept in mind. Year-on-year calculations are merely comparisons with last year's fiscal results and do not take these factors into account. The Company is confident this is not indicative of fiscal 2000 performance but rather merely illustrates the transition which FHI experienced during the term.

Introduction

During fiscal 2000, ended March 31, 2000, we implemented several measures to increase investor confidence in FHI, including compliance with new accounting procedures introduced as part of Japan's financial and accounting "Big Bang." These measures also ensure time-efficient disclosure of the Group's financial position and other steps which help portray a clearer picture of our operations.

In light of the new accounting standards for consolidation which went into effect in fiscal 2000, FHI consolidated 46 subsidiaries previously accounted for under the equity method, bringing the total number of its consolidated subsidiaries and affiliates to 72. Reflecting the addition of consolidated subsidiaries to FHI's accounts and its subsequent effect on certain line items, fiscal 2000 results may vary in certain areas when compared with results in previous fiscal periods.

Another factor to consider when reviewing the financial statements in this annual report is the reclassification of SIA stock. FHI maintains 51% of SIA's equity, with the remaining 49% held by Isuzu Motor Ltd. SIA stock was converted into two categories, with Class F shares representing the Subaru Product Division. As a consequence, from the beginning of fiscal year 2000, FHI's financial statements only consolidate SIA's Subaru Product Division. This reclassification of shares resulted in a ¥192.0 billion drop in the Company's consolidated sales, but contributed ¥3.5 billion to retained earnings.

Another major accounting change implemented in the period under review was the adoption of deferred tax accounting. With deferred tax accounting, the provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Changes in consolidation also affected the Company's interest-bearing debt. In fiscal 2000, interest-bearing debt was up ¥86.0 billion, or 23.7%, to ¥449.0 billion. However, as illustrated in the Company's cash flows from financing activities, FHI's debt clearance exceeded borrowings by ¥69.7 billion during the period.

Overview of Fiscal 2000
Automotive Market Environment

The world's automotive markets are merging into a single, global market, owing to a series of major cross-border affiliations since 1998. As a consequence, ensuring cost performance and superior technology has become essential in remaining competitive in the worldwide automotive market. In line with this, Japan's automotive industry, which crucially affects the nation's economy in terms of employment and capital expenditures, is also being forced to restructure.

The U.S. automotive market continued to record high sales, though there are concerns of a slowdown. The European Union (EU) car market is comparable in size to that of the United States. The introduction of the euro is standardizing pricing throughout the region and other moves are bringing about environmental and safety

Non-Consolidated Operational Statistics (Number of vehicles)

	2000	1999	1998	1997	1996
Domestic Units:					
Legacy	**67,972**	63,499	55,001	90,980	88,791
Impreza	**25,654**	33,531	37,049	41,918	44,864
Forester	**25,985**	24,489	40,032	7,494	—
Others	**308**	1,438	2,184	4,512	6,011
Subtotal	**119,919**	122,957	134,266	144,904	139,666
Minicars	**177,842**	156,186	144,366	201,640	211,385
Total	**297,761**	279,143	278,632	346,544	351,051
Export Units:					
Legacy	**34,304**	29,530	27,857	23,816	18,875
Impreza	**58,530**	54,861	52,251	52,660	35,256
Forester	**83,928**	81,385	58,005	32	—
Others	**0**	439	819	2,085	4,428
Subtotal	**176,762**	166,215	138,932	78,593	58,559
Minicars	**760**	2,152	3,337	4,719	3,293
Total	**177,522**	168,367	142,269	83,312	61,852
Parts Production for Use Overseas	**103,001**	100,440	110,689	107,386	83,965
(SIA Portion)	**98,861**	98,464	105,237	104,586	81,445
U.S. Unit Sales:					
Legacy	**87,267**	88,660	92,913	94,950	74,191
Impreza	**19,356**	19,041	24,242	24,687	24,415
Forester	**50,183**	40,132	15,988	—	—
Others	—	—	640	1,111	1,801
Total	**156,806**	147,833	133,783	120,748	100,407
U.S. Production Units:					
Legacy	**93,070**	104,229	102,180	98,747	80,660

* Domestic and Export Units are aggregate figures for fiscal 2000.
* U.S. Unit Sales and U.S. Production Units are the aggregate figures for the calendar year from January 1999 through December 1999.

standards, making the EU a promising market for automotive manufacturers. At the same time, these changes are also expected to intensify competition. Asia is another market that the industry is watching closely, as economic recovery begins to take hold in more regions.

A common factor throughout these regions affecting automotive companies is the enactment of more stringent regulations regarding the environmental soundness and safety of products. To achieve lower emissions, automotive manufacturers will be forced to spend more on R&D. It is recognized that only companies capable of bearing the burden of higher R&D spending will be able to remain competitive.

Amid this environment, FHI automotive sales rose 4.9%, to 568,000 units, translating into ¥1.2 trillion, a 1.5% fall from a year earlier.

Toward the 21st Century

In response to the changing environment, FHI introduced its second medium-term plan, New TQF21, on April 1, 2000. Another major development during the period—one that will support the Company's accelerated growth—is its equity alliance with GM.

The future profitability of FHI's Automobile division relies on several factors, including:

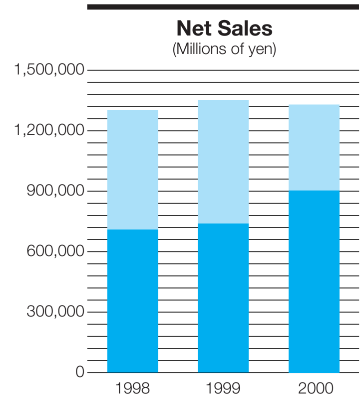
- Enhancement of brand identity and market penetration
- Increased production
- Reduced cost of sales
- Improved customer satisfaction
- Launch of new products
- Establishment of a niche market
- Efficient use of assets

Globalization and integration will continue to change the automotive industry. Consequently, competition is likely to intensify further. FHI is confident the steps it is taking and the synergies from the alliances it has formed will help it to remain competitive in the new marketplace.

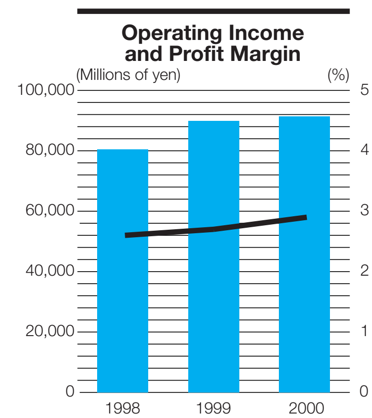
Results of Operations

FHI's performance for fiscal 2000 remained in line with the previous year. The Company posted consolidated net sales of ¥1.3 trillion, inching down 1.7% from the previous year. The decline reflects a drop in SIA sales owing to the omission of Isuzu sales following the reclassification of SIA stock. However, a 6.8% decline in cost of sales and higher unit sales contributed to a 1.6% rise in operating income, to ¥91.4 billion. Net income dipped 7.0%, to ¥31.3 billion.

Automobile division sales dropped 1.5%, to ¥1,175 billion, and operating income rose 8.1%, to ¥92.3 billion. Industrial Products sales climbed 19.5%, to ¥52.0 billion, and operating income decreased 11.0%, to ¥1.3 billion. Sales at FHI's Aerospace division fell 15.4%, to ¥66.3 billion and divisional operating income declined 69.4%, to ¥2.0 billion. Sales in Other Fields grew 15.3%, to ¥38.8 billion, but the division posted an operating loss of ¥4.4 billion.



	1998	1999	2000
Japan	708,851	738,945	903,697
Outside Japan	595,138	613,575	426,428
Total	1,303,989	1,352,520	1,330,125



	1998	1999	2000
Operating income	80,437	89,932	91,401
Operating profit margin	2.6%	2.7%	2.9%

Cost of sales for the period dropped 6.8%, to ¥995.1 billion, and accounted for 74.8% of net sales, as opposed to 79.0% in the previous year. Selling, general and administrative (SGA) expenses increased by 25.1%, to ¥243.6 billion, reflecting a 168.8% rise in salaries and bonuses, to ¥55.8 billion, and an expansion in other SGA expenses of 105.5%, to ¥76.2 billion, mainly owing to the new consolidation of dealerships in Japan. Because of this and small increases in advertising and R&D expenses, SGA expenses accounted for 18.3% of net sales, higher than the 14.4% a year earlier.

Foreign Currency Exchange Risks

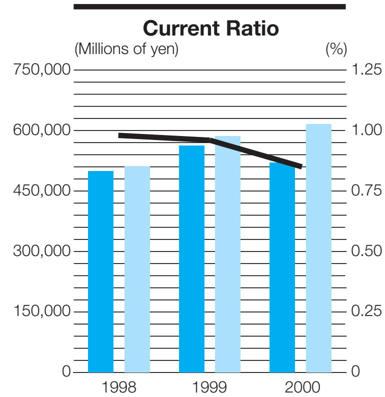
FHI is sensitive to fluctuating rates in foreign currency exchange markets. The relevant risks may positively or negatively affect the Company's assets, liabilities, sales proceeds and costs. Such risks are categorized into translation and transaction risks.

Translation risk is the risk that FHI's financial statements are exposed to as a consequence of changes in the prevailing exchange rates between the Japanese yen and the currencies of other countries in which FHI does business. The Company used the average exchange rate for the year to calculate the revenues and expenses of its overseas subsidiaries and used the year-end rate to calculate the assets and liabilities of its overseas subsidiaries. Although exchange rates between the yen and other currencies may fluctuate, significantly impacting comparisons with prior periods, this does not necessarily reflect actual results of operations and is only a reporting consideration.

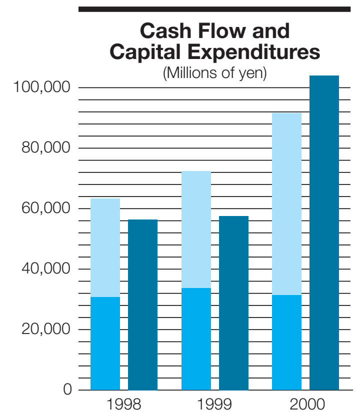
Transaction risk is the risk that FHI's cost and liabilities currency structure will deviate from that of its sales proceeds and assets. In principle, transactions between FHI and its overseas subsidiaries are done in the local currency of their respective countries. The parent company bears the majority of impact from transaction risk.

During the period under review, exports by the parent company accounted for 44.1% of net sales, with 58% of these transactions conducted in foreign currencies. Of the total foreign currency-denominated transactions, 95.7% were in U.S. dollars.

FHI employs foreign exchange forward contracts and foreign currency option contracts to hedge against foreign exchange risks resulting from import and export transactions of components, parts and products. The parent company utilized forward and option contracts to hedge risk for about 85% of the US$2.01 billion in sales denominated in U.S. dollars, in fiscal 2000, which consisted mainly of exports to North America.



	1998	1999	2000
Current assets	498,638	562,312	520,724
Current liabilities	510,840	585,915	615,961
Current ratio	0.98%	0.96%	0.85%



	1998	1999	2000
Cash flow	63,282	72,414	91,538
Net income	30,708	33,706	31,348
Depreciation	32,574	38,708	60,190
Capital expenditures	56,419	57,566	103,922

Furthermore, to minimize foreign currency exchange-related risks, we have taken steps to localize operations in the United States. In the calendar year 1999, 72.8% of all parts, components and materials used in the 93,070 units produced at SIA in the United States were procured locally.

Liquidity and Capital Resources

FHI strives to ensure adequate financing and liquidity for its operations, while endeavoring to strengthen its balance sheet. Funding of capital expenditures and R&D in fiscal 2000 stemmed primarily from cash generated by operations. During the period, FHI witnessed a dip in its current ratio to 0.85, from 0.96 at the end of the previous fiscal term, as current liabilities significantly outweighed current assets. This reflects an increase in short-term borrowings and a drop in liquid assets, which consist of cash and time deposits, marketable securities, and notes and accounts receivable.

Capital expenditures in fiscal 2000 increased 80.5% from the previous year, to ¥103.9 billion, mainly due to inclusion of leased vehicles held by SOA and Subaru Kosan. Spending for facilities and equipment is not likely to grow in fiscal 2001 and will be funded by capital procured from GM through our equity alliance.

R&D expenses for the period were ¥40.1 billion, up 4.2% from ¥38.5 billion in the previous period, representing 3.0% of net sales. We plan to utilize GM capital in the future to fund spending in this area.

Assets, Liabilities and Shareholders' Equity

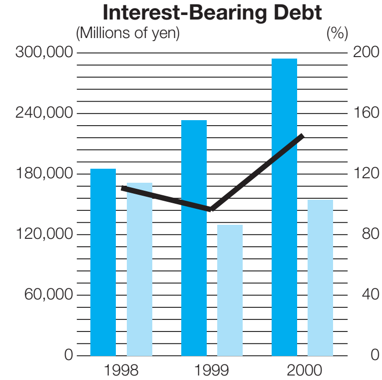
Total assets increased ¥57.3 billion, or 5.8%, to ¥1.0 trillion as of March 31, 2000, mainly owing to the increase in consolidated subsidiaries. Principal contributors consisted of property, plant and equipment; securities investments; intangibles; and deferred income taxes. However, the yen's appreciation against the U.S. dollar during the period stunted asset growth.

Current assets, in contrast, declined ¥41.6 billion, or 7.4%, to ¥520.7 billion. This reflected decreases in cash and time deposits, inventories, short-term loans receivable and other current assets, as well as an increase in allowance for doubtful accounts. Liquid assets, which comprise cash and time deposits, marketable securities, and notes and accounts receivable, trade, shrank from the previous year. Investments and other assets grew 13.1%, to ¥101.2 billion, primarily the result of a 50.1% rise in securities investments, which offset a sharp drop in investments in non-consolidated subsidiaries and affiliates.

Total current and long-term liabilities rose ¥65.0 billion, or 8.6%, to ¥824.8 billion at March 31, 2000. The principal factor behind this increase was a rise in short-term borrowings, which consisted mainly of bank loans. Among long-term liabilities, the rise was attributable primarily to a 25.2% increase in accrued severance indemnities and 19.4% growth in long-term debt and other. Interest-bearing debt, or the total of short-term borrowings, the current portion of long-term debt and long-term debt, climbed 23.7%, or ¥86.0 billion, to ¥449.0 billion, due to the consequences of newly consolidated subsidiaries.

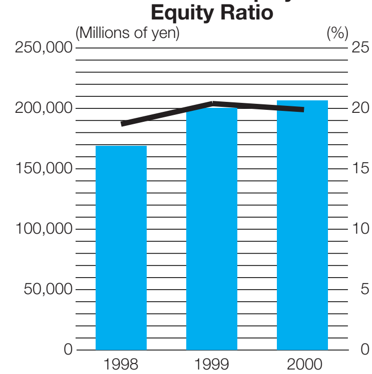
Shareholders' equity rose by ¥6.2 billion, or 3.1%, to ¥206.4 billion. Retained earnings grew 125.7%, or ¥29.6 billion. This growth is offset by debt balance of the translation adjustments of ¥28.3 billion due to the transfer of this balance from assets to shareholders' equity in accordance with new accounting standards. The ratio of shareholders' equity to total assets was 19.9%, down from 20.4% at the end of fiscal 1999. Shareholders' equity per share, based on the number of shares outstanding at March 31, 2000, was ¥335.86, compared with ¥332.41 a year earlier.

Interest-Bearing Debt



	1998	1999	2000
Short-term debt	185,433	233,555	294,552
Long-term debt	171,225	129,471	154,493
Debt-equity ratio	110.9%	96.5%	145.7%

Shareholders' Equity and Equity Ratio



	1998	1999	2000
Shareholders' equity	168,833	200,220	206,404
Equity ratio	18.7%	20.4%	19.9%

Environmental Accounting

Environmental accounting, or green accounting, is an important tool in developing a comprehensive environmental management system. These accounting methods and environmental guidelines, outlined by the Environment Agency, offer a method by which industries can quantify and document their possible environmental impact. In addition, they offer transparency of environmental costs and liabilities.

In fiscal 2000, FHI expensed ¥1.7 billion for measures to alleviate any impact which FHI's operations may have on the environment. Key measures during the term included waste management, energy conservation and pollution prevention. Another ¥17.0 billion was expensed for future environmental cleanup-related measures, including R&D, training and education on environmental issues, facilities improvement and expenditures to keep operations in compliance with ISO 14001 environmental management system standards. In addition, ¥720 million was expensed for contributions and other monies to aid environmental cleanup.

Effectiveness of Response to the Year 2000 (Y2K) Issue

FHI recognized the Y2K issue as a key management concern and took decisive steps Groupwide to ensure that it could manage any resulting problems. The Company has ascertained that none of its products, current or otherwise, were affected by the Y2K issue. In addition, FHI did not experience any related system, facility or equipment malfunctions.

Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2000**	1999	**2000**
Current assets:			
Cash and time deposits (Notes 4 and 8)	**¥ 74,509**	¥ 90,578	**$ 702,915**
Marketable securities (Notes 4, 5 and 8)	**63,006**	58,831	**594,396**
Notes and accounts receivable, trade	**119,448**	110,235	**1,126,868**
Allowance for doubtful accounts	**(2,159)**	(1,321)	**(20,368)**
Inventories (Notes 6 and 8)	**154,839**	168,000	**1,460,745**
Short-term loans receivable (Notes 4 and 8)	**70,559**	98,315	**665,651**
Deferred income taxes (Note 9)	**17,377**	8,716	**163,934**
Other current assets (Note 8)	**23,145**	28,958	**218,350**
Total current assets	**520,724**	562,312	**4,912,491**
Property, plant and equipment (Notes 7 and 8)	**943,934**	772,000	**8,905,038**
Less accumulated depreciation	**(527,296)**	(468,716)	**(4,974,491)**
	416,638	303,284	**3,930,547**
Investments and other assets:			
Securities investments (Notes 5 and 8)	**27,302**	18,185	**257,566**
Investments in non-consolidated subsidiaries and affiliates	**6,304**	16,676	**59,472**
Allowance for equity investments	**—**	(22,626)	**—**
Long-term loans receivable	**7,560**	18,937	**71,321**
Goodwill	**18,712**	21,146	**176,528**
Intangibles, net	**10,978**	559	**103,566**
Deferred income taxes (Note 9)	**10,408**	1,232	**98,188**
Other assets (Note 8)	**23,006**	35,749	**217,038**
Allowance for doubtful accounts	**(3,074)**	(392)	**(29,000)**
	101,196	89,466	**954,679**
Translation adjustments	**—**	26,194	**—**
Total assets	**¥1,038,558**	¥ 981,256	**$ 9,797,717**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 3) 2000
Current liabilities:			
Short-term borrowings (Note 8)	**¥ 240,331**	¥168,047	**$ 2,267,274**
Current portion of long-term debt (Note 8)	**54,221**	65,508	**511,519**
Notes and accounts payable	**194,469**	205,783	**1,834,613**
Accrued expenses	**84,055**	108,221	**792,972**
Accrued income taxes	**17,872**	18,087	**168,604**
Other current liabilities	**25,013**	20,269	**235,971**
Total current liabilities	**615,961**	585,915	**5,810,953**
Long-term liabilities:			
Long-term debt (Note 8)	**154,493**	129,471	**1,457,481**
Accrued severance indemnities	**25,128**	20,074	**237,057**
Other	**29,170**	24,318	**275,188**
	208,791	173,863	**1,969,726**
Minority interest in consolidated subsidiaries	**7,402**	21,258	**69,830**
Shareholders' equity (Note 10)**:**			
Common stock, ¥50 par value			
Authorized — 1,500,000,000 shares			
Issued 2000 — 614,552,540 shares	**88,115**	—	**831,274**
1999 — 602,332,902 shares	**—**	85,121	**—**
Additional paid-in capital	**94,559**	91,567	**892,066**
Retained earnings	**53,129**	23,535	**501,217**
Less treasury stock, at cost	**(1,145)**	(3)	**(10,802)**
Translation adjustments	**(28,254)**	—	**(266,547)**
	206,404	200,220	**1,947,208**
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	**¥1,038,558**	¥ 981,256	**$ 9,797,717**

Consolidated Statements of Income

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2000	1999	1998	**2000**
Net sales	**¥1,330,125**	¥1,352,520	¥1,303,989	**$12,548,349**
Cost of sales	**995,131**	1,067,868	1,027,782	**9,388,028**
Gross profit	**334,994**	284,652	276,207	**3,160,321**
Selling, general and administrative expenses (Note 11)	**243,593**	194,720	195,770	**2,298,047**
Operating income	**91,401**	89,932	80,437	**862,274**
Other income (expenses):				
Interest and dividend income	**2,569**	4,641	3,478	**24,236**
Interest expenses	**(10,422)**	(11,981)	(11,665)	**(98,321)**
Gain on sale of marketable securities	**12,092**	8	1	**114,075**
Foreign exchange gains (losses)	**(5,356)**	(2,032)	876	**(50,528)**
Loss on devaluation of securities	**(6,569)**	(4,019)	(9,631)	**(61,972)**
Loss on disposal of property, plant and equipment, net	**(2,440)**	(4,317)	(2,759)	**(23,019)**
Write-down of land	**(9,855)**	—	—	**(92,972)**
Equity (losses) gains of affiliates	**—**	383	(107)	**—**
Other, net	**(6,581)**	(4,192)	(4,021)	**(62,084)**
	(26,562)	(21,509)	(23,828)	**(250,585)**
Income before income taxes and minority interest	**64,839**	68,423	56,609	**611,689**
Income taxes (Note 9)				
Current	**36,151**	33,772	23,341	**341,047**
Deferred	**(2,621)**	(4,207)	(2,050)	**(24,726)**
	33,530	29,565	21,291	**316,321**
Income before minority interest	**31,309**	38,858	35,318	**295,368**
Minority interest in consolidated subsidiaries	**39**	(5,152)	(4,610)	**368**
Net income	**¥ 31,348**	¥ 33,706	¥ 30,708	**$ 295,736**

	Yen			U.S. dollars (Note 3)
Per share data (Note 2)**:**				
Net income—Basic	**¥51.90**	¥56.18	¥51.33	**$0.49**
—Diluted	**48.53**	51.79	47.18	**0.46**
Cash dividends	**9.00**	8.00	7.00	**0.09**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2000, 1999 and 1998

	Thousands	Millions of yen					
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock, at cost	Accumulated translation adjustment	Total shareholders' equity
Balance, March 31, 1997	596,484	¥83,618	¥90,070	¥(23,937)	¥ (3)	¥ —	¥149,748
Cash dividends				(6,270)			(6,270)
Payment of bonuses to directors and statutory auditors				(194)			(194)
Shares issued upon conversion of convertible bonds	2,023	520	518				1,038
Accumulated deficit of subsidiaries newly included in consolidation and companies newly applied equity method				(6,198)			(6,198)
Net decrease of treasury stock					1		1
Net income				30,708			30,708
Balance, March 31, 1998	598,507	84,138	90,588	(5,891)	(2)	—	168,833
Cash dividends				(4,201)			(4,201)
Payment of bonuses to directors and statutory auditors				(212)			(212)
Shares issued upon conversion of convertible bonds	3,826	983	979				1,962
Retained earnings of subsidiaries newly included in consolidation				133			133
Net increase of treasury stock					(1)		(1)
Net income				33,706			33,706
Balance, March 31, 1999	602,333	85,121	91,567	23,535	(3)	—	200,220
Accumulated foreign currency transaction adjustment transferred from assets						(26,194)	(26,194)
Foreign currency translation adjustment						(2,060)	(2,060)
Cumulative effect of changes in accounting for income taxes				6,582			6,582
Stock class change of Subaru-Isuzu Automotive Inc.				3,495			3,495
Merger of a consolidated subsidiary	740	37	46	2,199			2,282
Cash dividends				(5,122)			(5,122)
Payment of bonuses to directors and statutory auditors				(209)			(209)
Shares issued upon conversion of convertible bonds	11,480	2,957	2,946				5,903
Accumulated deficit of subsidiaries newly included in consolidation				(8,699)			(8,699)
Treasury stock held by subsidiaries newly included in consolidation					(1,142)		(1,142)
Net income				31,348			31,348
Balance, March 31, 2000	**614,553**	**¥88,115**	**¥94,559**	**¥53,129**	**¥(1,145)**	**¥(28,254)**	**¥206,404**

	Thousands of U.S. dollars (Note 3)					
Balance, March 31, 1999	$803,028	$863,840	$222,028	$ (28)	$ —	$1,888,868
Accumulated foreign currency transaction adjustment transferred from assets					(247,113)	(247,113)
Foreign currency translation adjustment					(19,434)	(19,434)
Cumulative effect of changes in accounting for income taxes			62,095			62,095
Stock class change of Subaru-Isuzu Automotive Inc.			32,972			32,972
Merger of a consolidated subsidiary	349	434	20,745			21,528
Cash dividends			(48,321)			(48,321)
Payment of bonuses to directors and statutory auditors			(1,972)			(1,972)
Shares issued upon conversion of convertible bonds	27,897	27,792				55,689
Accumulated deficit of subsidiaries newly included in consolidation			(82,066)			(82,066)
Treasury stock held by subsidiaries newly included in consolidation				(10,774)		(10,774)
Net income			295,736			295,736
Balance, March 31, 2000	**$831,274**	**$892,066**	**$501,217**	**$(10,802)**	**$(266,547)**	**$1,947,208**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2000	2000
Cash flows from operating activities:		
Income before income taxes and minority interest	**¥ 64,839**	**$ 611,689**
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation and amortization	**60,190**	**567,830**
Loss on sale and disposal of property, plant and equipment, net	**2,440**	**23,019**
Write-down of land	**9,855**	**92,971**
Gain on sale of marketable securities	**(12,091)**	**(114,066)**
Loss on devaluation of securities	**6,548**	**61,773**
Decrease in notes and accounts receivable, trade	**12,719**	**119,991**
Decrease in inventories	**3,572**	**33,698**
Decrease in notes and accounts payable	**(1,440)**	**(13,585)**
Income taxes paid	**(37,774)**	**(356,358)**
Other, net	**(13,725)**	**(129,481)**
Net cash provided by operating activities	**95,133**	**897,481**
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(98,429)**	**(928,575)**
Proceeds from sale and disposal of property, plant and equipment	**21,734**	**205,038**
Payment for securities investments	**(11,064)**	**(104,377)**
Payment for purchase of marketable securities	**(1,171)**	**(11,047)**
Proceeds from sale of marketable securities	**12,343**	**116,443**
Purchase of intangible assets	**(3,018)**	**(28,472)**
Addition to loans receivable	**(56,109)**	**(529,330)**
Collection of loans receivable	**62,647**	**591,009**
Other, net	**(4,854)**	**(45,792)**
Net cash used for investing activities	**(77,921)**	**(735,103)**
Cash flows from financing activities:		
Proceeds from long-term debt	**31,670**	**298,774**
Repayment of long-term debt	**(33,816)**	**(319,019)**
Proceeds from issuance of bonds	**10,300**	**97,170**
Redemption of bonds	**(42,474)**	**(400,698)**
Proceeds from issuance of commercial paper	**30,000**	**283,019**
Decrease in short-term borrowings	**(65,340)**	**(616,415)**
Payment of cash dividends	**(5,122)**	**(48,321)**
Net cash used for financing activities	**(74,782)**	**(705,490)**
Effect of exchange rate change on cash and cash equivalents	**(2,218)**	**(20,925)**
Net decrease in cash and cash equivalents	**(59,788)**	**(564,037)**
Cash and cash equivalents:		
Balance at beginning of year	**145,907**	**1,376,481**
Decrease from exclusion of a division of a subsidiary due to conversion of the subsidiary's stock	**(10,635)**	**(100,330)**
Amount applicable to subsidiaries newly included in consolidation	**33,285**	**314,009**
Balance at end of year	**¥108,769**	**$1,026,123**
Supplemental information on cash flows:		
Cash paid during the period for interest	**¥ 11,067**	**$ 104,406**
Conversion of convertible bonds	**5,903**	**$ 55,689**

The accompanying notes are an integral part of these statements.

1. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS:

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

The accompanying consolidated financial statements are basically an English version of those which were prepared in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respect to the application and disclosure requirement of International Accounting Standards, and filed with the Japanese Minister of Finance and the Tokyo Stock Exchange as required by the Securities and Exchange Law of Japan. The statements of shareholders' equity have been prepared to provide additional information. Certain reclassifications of accounts and modifications have been made in the accompanying financial statements to facilitate understanding by readers outside of Japan. In addition, the notes to the consolidated financial statements include information, which is not required under accounting principles and practices generally accepted in Japan, but is presented herein as additional information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation:
The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The fiscal year-end of the consolidated subsidiaries is the same as that of the parent company except for foreign consolidated subsidiaries whose fiscal year ends December 31. Significant transactions incurred between December 31 and March 31 are reflected in the consolidated financial statements.

Up to March 31, 1999, investments in non-consolidated subsidiaries and significant affiliates have been accounted for under the equity method. Consolidated net income includes the Company's equity in the current net income of such companies after elimination of unrealized intercompany profits. For the year ended March 31, 2000, however, the new accounting standard for consolidation in Japan was applied and the number of consolidated subsidiaries rose to 72, of which 46 subsidiaries are newly included in the consolidation, the latter had all been accounted for under the equity method for the year ended March 31, 1999.

Subaru-Isuzu Automotive, Inc. (SIA), a subsidiary in the United States of which 51% is owned by Fuji Heavy Industries Ltd. (FHI), and the other 49% owned by Isuzu Motors Ltd., had been consolidated in the Company's financial statements on a fully consolidated basis with its profit/loss allocated to FHI based on the share of common stock (51%). For the year ended March 31, 2000, due to the conversion of its stock into two classes to represent the Subaru Product Division and the Isuzu Product Division respectively, effective January 1, 1999, only the Subaru Products Division of SIA was consolidated in FHI. The Isuzu Product Division of SIA and Isuzu Transport Inc., a subsidiary of SIA, were therefore excluded from the Company's consolidated financial statements. As a result of this change, consolidated sales decreased by ¥191,965 million (US$1,810,991 thousand), although consolidated retained earnings increased by ¥3,495 million (US$32,972 thousand) as follows.

	Increase (Decrease)	
	Millions of yen	Thousands of U.S. dollars
Current assets*1	¥(42,339)	$(399,425)
Non-current assets*1	(13,733)	(129,556)
Total assets*1	(56,072)	(528,981)
Current liability*1	(34,816)	(328,453)
Non-current liability*1	(8,483)	(80,028)
Total liabilities*1	(43,299)	(408,481)
Minority interest*1	(22,269)	(210,085)
Translation adjustments (included in the shareholders' equity)*1	6,020	56,792
Net sales*2	(191,965)	(1,810,991)
Operating profit*2	(4,513)	(42,575)
Income before income taxes*2	(3,848)	(36,302)
Net income*2	13	123
Retained earnings*3	3,495	32,972

*1. The amounts represent the balance of the Isuzu Product Division as of December 31,1999.
*2. The amounts represent the balance of the Isuzu Product Division for the year ended December 31,1999.
*3. The amount represents the difference between 51% of the total SIA and the balance of the Subaru Product Division as of December 31,1999.

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

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

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

Cash equivalents:
Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present only an insignificant risk of changes in value.

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

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

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

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

Other costs:
The Company provides for accrued warranty claims on its products sold based on its past experience of guarantee work performed on claims actually received and estimated warranty costs to be incurred in the future at the time of sale.

Research and development costs are expensed as incurred and amounted to ¥40,123 million ($378,519 thousand), ¥38,512 million and ¥38,231 million for the years ended March 31, 2000, 1999 and 1998, respectively.

Marketable securities and securities investments:
Securities which are listed on stock exchanges are stated at the lower of cost or market value, cost being determined by the moving average method. Securities which are not listed on stock exchanges are stated at cost, as determined by the moving average method, after devaluation for any permanent impairment.

Inventories:
Finished products are stated mainly at cost determined by the moving average method. Raw materials, work in process and supplies are stated at cost principally determined by the first-in, first-out method.

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

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

Pension and retirement plan:
On terminating employment, employees of the parent company and 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. The parent company and subsidiaries in Japan recorded the accrued severance indemnities for employees which represent 40% of the liability which would be payable if all employees voluntarily terminate their services at the balance sheet date.

The parent company and some subsidiaries in Japan have noncontributory funded defined benefit pension plans. The plan of the parent company covers 80% of retirement and severance benefits for employees who terminate employment at age fifty or over. The contributions to the pension plan include current service costs and amortization of prior service costs over a period of eight years.

Some subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted non-contributory pension plan.

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

Accounting for leases:
Under Japanese accounting standards for leases, financing leases are, in principle, accounted for on a similar basis to sales or purchases by lessors or lessees, respectively. However, financing leases which do not transfer ownership of leased assets to lessees as stipulated in lease contracts can be accounted for as operating leases if certain "as if capitalized" information is disclosed in the notes to the lessor's or lessee's financial statements. Therefore, as a lessee, the Company charges periodic lease payments to expense when paid.

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

Deferred tax accounting, similar to IAS 12, was newly adopted from the beginning of the year ended March 31, 2000, in accordance with the revised Japanese accounting regulations. The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax for expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The cumulative effect, as of April 1, 1999, of the accounting change resulting from the adoption of deferred tax accounting was directly credited to retained earnings in the amount of ¥6,582 million ($62,095 thousand).

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 dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

Reclassifications:
Translation adjustments previously included in assets or liabilities have been reclassified to Shareholders' equity to conform with the fiscal 2000 presentation in accordance with the revised Japanese accounting regulations. In addition, certain reclassifications within the financial statements for the years ended March 31, 1999 and 1998 have been made to conform to the presentation for the year ended March 31, 2000.

3. U.S. DOLLAR AMOUNTS:

The United States dollar amounts included in the accompanying consolidated financial statements and related notes represent the arithmetic results of translating Japanese yen into U.S. dollars on the basis of ¥106 to U.S. $1, the exchange rate at March 31, 2000. The U.S. dollar amounts are included solely for the convenience of the reader, and these translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of March 31, 2000 and 1999 comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Cash and time deposits	**¥ 74,509**	¥ 90,578	**$ 702,915**
Marketable securities	**63,006**	58,831	**594,396**
Short-term loans receivable	**70,559**	98,315	**665,651**
	208,074	247,724	**1,962,962**
Less maturity over three months	**(99,305)**	(101,817)	**(936,839)**
Cash and cash equivalents	**¥108,769**	¥145,907	**$1,026,123**

5. MARKETABLE SECURITIES AND INVESTMENT SECURITIES:

The carrying value and unrealized gains (or losses) of marketable equity securities and other securities, which have a market value, at March 31, 2000, are as follows;

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

	Thousands of U.S. dollars	
	Carrying value	Unrealized gains (losses)
Current:		
Marketable equity securities	$209,952	$26,688
Debt securities	—	—
Other securities	2,425	(443)
	212,377	26,245
Non-current:		
Marketable equity securities	136,245	24,113
Debt securities	1,566	38
Other securities	2,661	(38)
	140,472	24,113
	$352,849	$50,358

6. INVENTORIES:

Inventories at March 31, 2000 and 1999 comprise:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Finished products	**¥ 85,689**	¥ 83,063	**$ 808,387**
Work in process	**55,523**	60,052	**523,802**
Raw materials	**11,680**	22,648	**110,188**
Supplies	**1,947**	2,237	**18,368**
	¥154,839	¥168,000	**$1,460,745**

7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at March 31, 2000 and 1999 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Buildings and structures	**¥219,818**	¥164,976	**$2,073,755**
Machinery and vehicles	**431,062**	344,800	**4,066,623**
Other	**166,115**	146,737	**1,567,122**
	816,995	656,513	**7,707,500**
Less accumulated depreciation	**(527,296)**	(468,716)	**(4,974,491)**
Land	**120,757**	98,124	**1,139,217**
Construction in progress	**6,182**	17,363	**58,321**
Total	**¥416,638**	¥303,284	**$3,930,547**

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT:

Short-term borrowings at March 31, 2000 and 1999 comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Bank loans, with average interest rate of 1.6% per annum	**¥210,331**	¥168,047	**$1,984,255**
Commercial paper, with average interest rate of 0.01%	**30,000**	—	**283,019**
	¥240,331	¥168,047	**$2,267,274**

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Loans principally from banks and insurance companies, due through 2026 with average interest rate of 3.0% per annum	**¥127,573**	¥ 75,762	**$1,203,518**
Unsecured 3.0% convertible bonds in U.S. dollars, due March 31, 2000	**—**	13	**—**
Unsecured 1.8% convertible bonds due 2003, convertible currently at ¥633.3 ($6.03) for one common share, redeemable before due date	**2,042**	2,095	**19,264**
Unsecured 8.75% bonds in U.S. dollars, due November 17, 1999	**—**	42,474	**—**
Unsecured 0.9% convertible bonds due 2003, convertible currently at ¥513 ($4.89) for one common share, redeemable before due date	**18,799**	24,635	**177,349**
Unsecured 2.25% bonds due July 31, 2002	**20,000**	20,000	**188,679**
Unsecured 2.10% bonds due January 31, 2001	**10,000**	10,000	**94,340**
Unsecured 2.10% bonds due August 29, 2003	**10,000**	10,000	**94,340**
Unsecured 2.3% bonds due September 30, 2005	**10,000**	10,000	**94,340**
Unsecured 1.76% bonds, due April 30, 2004	**10,000**	—	**94,340**
Secured 1.8% bonds of a consolidated subsidiary, due July 7, 2005	**300**	—	**2,830**
	208,714	194,979	**1,969,000**
Less—Portion due within one year	**54,221**	65,508	**511,519**
	¥154,493	¥129,471	**$1,457,481**

Annual maturities of long-term bank loans at March 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars
2001	¥ 54,221	$ 511,519
2002	36,572	345,019
2003	43,215	407,689
2004	40,660	383,585
2005	20,646	194,773
2006 and thereafter	13,400	126,415
	¥208,714	$1,969,000

The following assets as of March 31, 2000 and 1999, are pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Cash and time deposits	**¥ 300**	¥ —	**$ 2,830**
Marketable securities	**542**	—	**5,113**
Inventories	**2,470**	2,714	**23,302**
Short-term loans receivable	**52,509**	—	**495,368**
Other current assets	**2,316**	—	**21,849**
Property, plant and equipment	**141,300**	84,006	**1,333,019**
Securities investments	**3,146**	2,929	**29,679**
Other assets	**1,911**	—	**18,029**
	¥204,494	¥89,649	**$1,929,189**

9. INCOME TAXES:

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

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2000, was as follows:

Statutory tax rate	41.8%
Increase (reduction) in taxes resulting from:	
Valuation allowance provided	9.0
Non-deductible expenses	0.9
Lower tax rates applicable to foreign subsidiaries	(0.3)
Other	0.3
Effective income tax rate	51.7%

Significant components of the deferred tax assets and liabilities on March 31, 2000, are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Operating loss carry forwards for tax purposes	¥ 5,221	$ 49,255
Inter-company profit included in inventories	5,255	49,575
Accrued pension and severance costs	2,211	20,858
Accrued expenses	2,787	26,292
Accrued enterprise tax	2,693	25,406
Accrued bonuses	2,453	23,142
Accrued warranty claims	5,563	52,481
Devaluation of land	4,119	38,858
Valuation reserve for equity investment	2,002	18,887
Inter-company profit included in property, plant and equipment	5,657	53,368
Other	2,932	27,661
Total deferred tax assets	40,893	385,783
Valuation allowance	(12,373)	(116,726)
Total deferred tax assets, net of valuation allowance	28,520	269,057
Deferred tax liabilities:		
Depreciation	(1,094)	(10,321)
Other	(225)	(2,123)
Total deferred tax liabilities	(1,319)	(12,444)
Net deferred tax assets	¥27,201	$256,613

10. SHAREHOLDERS' EQUITY:

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the parent company and its subsidiaries in Japan be appropriated as a legal reserve. No further appropriation is required when the legal reserve equals 25% of stated capital. Legal reserve included in retained earnings as of March 31, 2000 and 1999, were ¥6,902 million ($65,113 thousand) and ¥6,371 million and are restricted to be used as dividends.

In accordance with customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after shareholders' approval has been obtained. Retained earnings at March 31, 2000, includes amounts representing final cash dividends of ¥3,072 million ($28,981 thousand), ¥5.0 ($0.05) per share and directors' bonuses of ¥100 million ($943 thousand), which were approved at the shareholders' meeting held on June 29, 2000.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

Selling, general and administrative expenses for the years ended March 31, 2000, 1999 and 1998, consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Transportation and packing expenses	**¥ 13,495**	¥ 17,701	¥ 17,193	**$ 127,311**
Advertising expenses	**41,265**	36,370	32,333	**389,292**
Sales incentives	**16,696**	44,295	51,197	**157,509**
Salaries and bonuses	**55,840**	20,770	18,378	**526,793**
Research and development expenses	**40,123**	38,512	38,231	**378,519**
Others	**76,174**	37,072	38,438	**718,623**
	¥243,593	¥194,720	¥195,770	**$2,298,047**

12. LEASES:

(A) Information as lessee

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

(1) Details of the leased assets—

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Machinery and vehicles	**¥1,165**	¥ 4,664	**$10,991**
Tools and other	**6,046**	7,388	**57,038**
Intangibles assets	**824**	533	**7,773**
	¥8,035	¥12,585	**$75,802**
Accumulated depreciation	**(4,578)**	(8,039)	**(43,189)**
Net	**¥3,457**	¥ 4,546	**$32,613**

(2) Depreciation of the leased assets is computed by the straight-line method, at rates based on the lease periods of the assets. Depreciation expense for the year ended March 31, 2000 and 1999, was ¥1,757 million ($16,575 thousand) and ¥3,918 million, respectively.

Periodic lease expenses of financing leases, as accounted for as operating leases, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Lease expenses	**¥2,017**	¥5,086	¥7,091	**$19,028**

Future minimum lease payments, excluding the portion of interest thereon, as of March 31, 2000, are as follows:

	Millions of yen	Thousands of U.S. dollars
Finance leases:		
One year or less	¥ 1,599	$ 15,085
More than one year	2,148	20,264
	¥ 3,747	$ 35,349
Operating leases:		
One year or less	¥ 2,335	$ 22,028
More than one year	32,325	304,953
	¥34,660	$326,981

(B) Information as lessor

Capitalized lease assets for finance leases at March 31, 2000, are as follows:

	Millions of yen	Thousands of U.S. dollars
Machinery and vehicles	¥27,577	$260,160
Tools and other	9,118	86,019
Intangible assets	860	8,113
	37,555	354,292
Accumulated depreciation	(21,068)	(198,754)
	¥16,487	$155,538

Information, related to financing leases for the year ended March 31, 2000, was as follows:

	Millions of yen	Thousands of U.S. dollars
Lease income	¥ 8,852	$83,509
Depreciation expense	10,420	98,302
Interest income portion	1,163	10,972

Future minimum lease income, excluding the portion of interest thereon, as of March 31, 2000, is as follows:

	Millions of yen	Thousands of U.S. dollars
Finance leases:		
One year or less	¥ 7,593	$ 71,632
More than one year	9,488	89,510
	¥17,081	$161,142
Operating leases:		
One year or less	¥ 4,841	$ 45,670
More than one year	3,806	35,905
	¥ 8,647	$ 81,575

13. CONTINGENT LIABILITIES:

Contingent liabilities at March 31, 2000, are as follows:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted with banks	¥ 1,220	$ 11,509
As guarantor of indebtedness of non-consolidated subsidiaries, affiliates and others	31,648	298,566

14. DERIVATIVE FINANCIAL INSTRUMENTS:

In the normal course of business, the Company and its consolidated subsidiaries employ derivative financial instruments, including foreign exchange forward contracts, foreign currency options and interest rate swaps to manage their exposure to fluctuations in foreign currency exchange rates and interest rates. The Company and its consolidated subsidiaries do not use derivatives for speculative or trading purposes. The off-balance-sheet forward exchange contracts and foreign currency options at March 31, 2000, are as follows:

(1) Forward exchange and currency options contracts

	Millions of yen			Thousands of U.S. dollars
	Contract amount	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Forward exchange contracts:				
To sell foreign currencies—				
U.S. dollar	¥21,877	¥21,623	¥254	$2,396
Foreign currency options contracts:				
Written—				
Put U.S. dollar	1,031			
	(6)	7	(1)	(9)
Call U.S. dollar	8,310			
	(104)	17	87	821
Purchased—				
Put U.S. dollar	7,907			
	(110)	147	37	349

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

(2) Interest rate swap contracts
At March 31, 2000, the aggregate notional principal amount of interest rate swap contracts was ¥900 million ($8,491 thousand). The estimated fair value of these contracts was a loss of ¥4 million ($38 thousand).

The disclosure of information about fair values of derivative financial instruments in the consolidated financial statements has been required, effective from the fiscal year beginning April 1, 1999.

15. SUBSEQUENT EVENT:

Pursuant to the basic agreement with General Motors Corporation (GM), on April 11, 2000, the Company issued common stock of 131,895,925 shares to General Motors of Canada Limited, a wholly owned subsidiary of GM, at ¥853 ($8.05) per share. As a result, common stock increased by ¥56,320 million ($531,321 thousand) and additional paid-in capital increased by ¥56,187 million ($530,066 thousand). The proceeds from the issuance of the stock to the amount of ¥112,507 million ($1,061,387 million) will be used for R & D and capital investments.

16. SEGMENT INFORMATION:

Information by Industry Segment

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

A summary of net sales, operating income, assets, depreciation and capital expenditures by industry segments for the years ended March 31, 2000, 1999 and 1998, are shown below:

Net sales:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Net sales:				
Automobiles—				
Outside customers	**¥1,175,471**	¥1,197,429	¥1,145,353	**$11,089,349**
Inter-segment	**4,474**	744	862	**42,208**
Total	**1,179,945**	1,198,173	1,146,215	**11,131,557**
Industrial products—				
Outside customers	**51,847**	43,257	45,202	**489,123**
Inter-segment	**150**	270	271	**1,415**
Total	**51,997**	43,527	45,473	**490,538**
Aerospace—				
Outside customers	**66,144**	78,268	73,528	**624,000**
Inter-segment	**185**	148	117	**1,745**
Total	**66,329**	78,416	73,645	**625,745**
Other—				
Outside customers	**36,663**	33,566	39,906	**345,877**
Inter-segment	**2,172**	117	128	**20,491**
Total	**38,835**	33,683	40,034	**366,368**
Elimination	**(6,981)**	(1,279)	(1,378)	**(65,859)**
Consolidated total	**¥1,330,125**	¥1,352,520	¥1,303,989	**$12,548,349**

Segment profit or loss:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Operating income (loss):				
Automobiles	**¥92,314**	¥85,410	¥72,884	**$870,887**
Industrial products	**1,283**	1,442	2,142	**12,104**
Aerospace	**2,034**	6,650	7,130	**19,189**
Other	**(4,411)**	(3,602)	(1,743)	**(41,614)**
Total	**91,220**	89,900	80,413	**860,566**
Corporate and elimination	**181**	32	24	**1,708**
Consolidated operating income	**¥91,401**	¥89,932	¥80,437	**$862,274**

Assets:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Total assets:				
Automobiles	**¥ 849,046**	¥749,383	¥704,191	**$8,009,868**
Industrial products	**49,478**	48,330	39,384	**466,774**
Aerospace	**98,064**	117,224	106,624	**925,132**
Other	**47,993**	67,467	56,171	**452,764**
Total	**1,044,581**	982,404	906,370	**9,854,538**
Corporate and elimination	**(6,023)**	(1,148)	(1,799)	**(56,821)**
Consolidated total	**¥1,038,558**	¥981,256	¥904,571	**$9,797,717**

Other significant items:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Depreciation:				
Automobiles	**¥ 53,651**	¥33,408	¥26,994	**$506,142**
Industrial products	**2,024**	2,044	2,160	**19,094**
Aerospace	**2,739**	2,258	2,413	**25,840**
Other	**1,821**	998	1,007	**17,179**
Total	**60,235**	38,708	32,574	**568,255**
Corporate and elimination	**(45)**	—	—	**(425)**
Consolidated total	**¥ 60,190**	¥38,708	¥32,574	**$567,830**
Capital expenditures for segment assets:				
Automobiles	**¥ 98,428**	¥54,997	¥51,485	**$928,566**
Industrial products	**2,296**	1,134	976	**21,660**
Aerospace	**1,671**	3,176	2,894	**15,764**
Other	**3,489**	800	1,064	**32,915**
Total	**105,884**	60,107	56,419	**998,905**
Corporate and elimination	**(1,962)**	(2,541)	—	**(18,509)**
Consolidated total	**¥103,922**	¥57,566	¥56,419	**$980,396**

Information by Geographic Area

A summary of net sales, operating income and assets by geographic areas for the years ended March 31, 2000, 1999 and 1998, is shown below:

Net sales:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Net sales:				
Japan				
Outside customers	**¥ 903,697**	¥ 738,945	¥ 708,851	**$ 8,525,443**
Inter-segment	**188,984**	213,582	173,858	**1,782,868**
Total	**1,092,681**	952,527	882,709	**10,308,311**
North America—				
Outside customers	**420,457**	605,637	583,332	**3,966,575**
Inter-segment	**1,799**	1,638	1,172	**16,972**
Total	**422,256**	607,275	584,504	**3,983,547**
Other—				
Outside customers	**5,971**	7,938	11,806	**56,330**
Inter-segment	**72**	55	67	**679**
Total	**6,043**	7,993	11,873	**57,009**
Elimination	**(190,855)**	(215,275)	(175,097)	**(1,800,518)**
Consolidated total	**¥1,330,125**	¥1,352,520	¥1,303,989	**$12,548,349**

Segment profit or loss:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Operating income (loss):				
Japan	**¥61,800**	¥65,761	¥58,805	**$583,019**
North America	**27,154**	27,509	24,459	**256,170**
Other	**181**	191	166	**1,708**
Total	**89,135**	93,461	83,430	**840,897**
Corporate and elimination	**2,266**	(3,529)	(2,993)	**21,377**
Consolidated total	**¥91,401**	¥89,932	¥80,437	**$862,274**

Assets:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	**2000**
Assets:				
Japan	**¥ 856,235**	¥ 721,643	¥656,485	**$ 8,077,689**
North America	**212,958**	280,016	269,825	**2,009,038**
Other	**1,918**	2,191	2,344	**18,094**
Total	**1,071,111**	1,003,850	928,654	**10,104,821**
Corporate and elimination	**(32,553)**	(22,594)	(24,083)	**(307,104)**
Consolidated total	**¥1,038,558**	¥ 981,256	¥904,571	**$ 9,797,717**

Overseas sales

Overseas sales for the years ended March 31, 2000, 1999 and 1998, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars
	2000		1999		1998		**2000**
Overseas sales:							
North America	**¥ 480,588**	**36.1%**	¥ 637,780	47.2%	¥ 620,993	47.6%	**$ 4,533,849**
Europe	**99,192**	**7.5**	104,628	7.7	93,699	7.2	**935,774**
Other	**63,876**	**4.8**	66,842	4.9	65,546	5.0	**602,604**
Total	**¥ 643,656**	**48.4**	¥ 809,250	59.8	¥ 780,238	59.8	**$ 6,072,227**
Consolidated net sales	**¥1,330,125**	**100.0%**	¥1,352,520	100.0%	¥1,303,989	100.0%	**$12,548,349**

Report of Independent Certified Public Accountants

To the Board of Directors of
FUJI HEAVY INDUSTRIES LTD.

We have audited the accompanying consolidated balance sheets of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income and shareholders' equity for each of the three years in the period ended March 31, 2000, expressed in Japanese yen. We have also audited the consolidated statement of cash flows for the year in the period ended March 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2 to the consolidated financial statements, the Company and its consolidated subsidiaries in Japan changed the method of translation of current monetary assets and liabilities denominated in foreign currencies into Japanese yen from the historical exchange rate method to the year-end current rate method for the year ended March 31, 2000. We recognize that this change has been made based on reasonable grounds.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations for each of the three years in the period ended March 31, 2000 and their cash flows for the year in the period ended March 31, 2000, in conformity with accounting principles generally accepted in Japan.

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

Tokyo, Japan
June 29, 2000

Meiji Audit Corporation

MEIJI AUDIT CORPORATION

Consolidated Subsidiaries and Affiliates (As of March 31, 2000)

Japan

Fuji Robin Industries Ltd. (58.1%)
Manufacture, service and sales of agricultural/forestry equipment, engines, fire pumps and related parts

http://www5.mediagalaxy.co.jp/fujirobin/

Fuji Machinery Co., Ltd. (56.7%)
Manufacture and sales of automobile parts and industrial products

http://www.fuji-machinery.co.jp/

Ichitan Co., Ltd. (51.0%)
Manufacture and sales of forged automobile/industrial product parts

Kiryu Industrial Ltd. (95.0%)
Manufacture of Subaru's specially-equipped automobiles and management of Subaru automobile parts distribution

Subaru Building Co., Ltd. (100.0%)
Leasing and maintenance of real estate

http://www.sss.ne.jp/subaru-kohsan/

Subaru Kosan Co., Ltd. (100.0%)
Sales and leasing of real estate; leasing and rental of Subaru automobiles; sales of auto insurance; travel agency operations and auto loans

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

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

Subaru Finance Co., Ltd. (100.0%)
Financing for Group companies

http://www.sss.ne.jp/subaru-finance/

F.O.D. Co., Ltd. (100.0%)
Sales, leasing, dealing, mediation and maintenance of real estate, planning, research and management of redevelopment, and development of residential areas

Yusoki Kogyo K.K. (45.6%)
Manufacture and sales of parts for car trailer, crane trucks, construction machinery and automobiles

http://www.yusoki.co.jp/

TOKYO SUBARU INC. (100.0%) and 39 other dealerships
Distribution, sales and service of Subaru automobiles

http://www.sss.ne.jp/tokyo-subaru/

NIIGATA SUBARU, INC.* (46.7%)
Distribution, sales and service of Subaru automobiles

http://www.niigata-subaru.co.jp/

SAGA SUBARU, INC. (45.3%)
Distribution, sales and service of Subaru automobiles

Overseas

Subaru of America, Inc. (100.0%) and its 11 subsidiaries
Subaru Plaza, 2235 Route 70 West Cherry Hill, NJ 08002, U.S.A.
Tel: (856) 488-8500
Fax:(856) 665-3346
Distribution and sales of Subaru automobiles

http://www.subaru.com/

Fuji Heavy Industries U.S.A. Inc. (100.0%) and a sole subsidiary
C/O Subaru of America, Inc.
Subaru Plaza, 2235 Route 70 West Cherry Hill, NJ 08002, U.S.A.
Tel: (856) 488-8532
Fax:(856) 488-9279
Distribution and sales of Subaru automobiles

Subaru-Isuzu Automotive Inc. (51.0%) and a sole subsidiary
5500 State Road 38 East, Lafayette, IN 47903, U.S.A.
Tel: (765) 449-1111
Fax:(765) 449-6952
Manufacture of Subaru and Isuzu automobiles

http://www.subaru-isuzu.com/

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

http://www.subaruzone.com.tw/

Subaru Canada, Inc. (100.0%) and a sole subsidiary
5990 Falbourne Street, Mississauga, Ontario, L5R 3S7 Canada
Tel: (905) 568-4959
Fax:(905) 568-8087
Distribution and sales of Subaru automobiles

http://www.subaru.ca/

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

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

**Equity-method Affiliates*

Note: To centralize fund-procurement activities for Group companies, the financial operations of Subaru Kosan Co., Ltd. were transferred to Subaru Finance Co., Ltd. as of April 1, 2000. In addition, Subaru Building Co., Ltd. assumed all real estate and travel agent operations and changed its name to Subaru Kosan Co., Ltd., also as of April 1, 2000. As a consequence, F.O.D. Co., Ltd. was liquidated on May 22, 2000.

Investor Information (As of March 31, 2000)

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

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

Established
July 15, 1953

Paid-in Capital
¥88,115,015,000

Number of Shareholders
49,381

Number of Common Stock Issued and Outstanding
614,552,540

Number of Employees
26,914

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

Major Shareholders
Nissan Motor Co., Ltd.
The Industrial Bank of Japan, Ltd.
The Nippon Life Insurance Company
The Mitsubishi Trust and Banking Corporation
Chase Manhattan Bank (London)
The Fuji Bank, Ltd.
The Asahi Bank, Ltd.
The Chuo Mitsui Trust and Banking Co., Ltd.
Suzuki Motor Corporation
The Dai-ichi Mutual Life Insurance Company

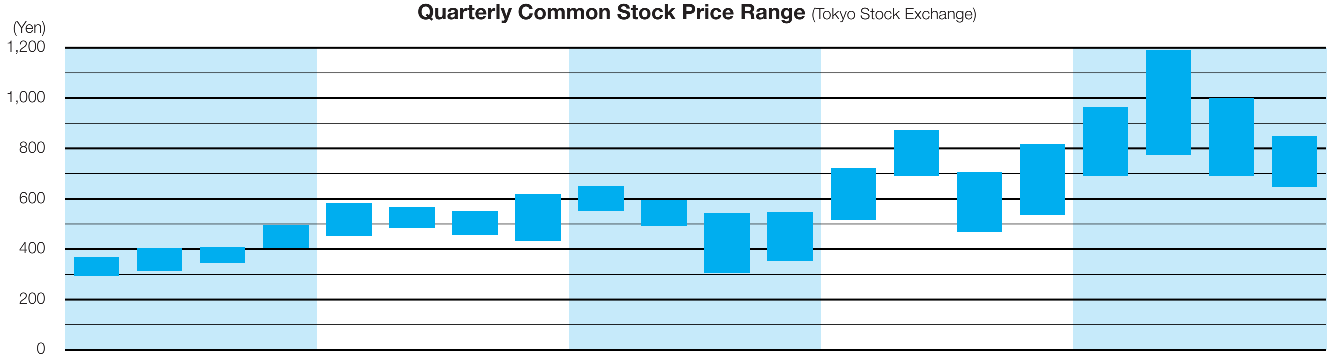
Note: As of April 12, 2000, General Motors of Canada Limited, a wholly owned subsidiary of General Motors Corporation (GM), became FHI's top shareholder, following a third-party allotment and the acquisition of shares formerly held by Nissan Motor Co., Ltd., and its related group companies.

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

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

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

Quarterly Common Stock Price Range (Tokyo Stock Exchange)



FY	1996	1997	1998	1999	2000
High	495	618	649	871	1189
Low	293	432	305	469	647

Horizontally-Opposed Six Cylinder Engine http://www.fhi.co.jp/english/

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

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