

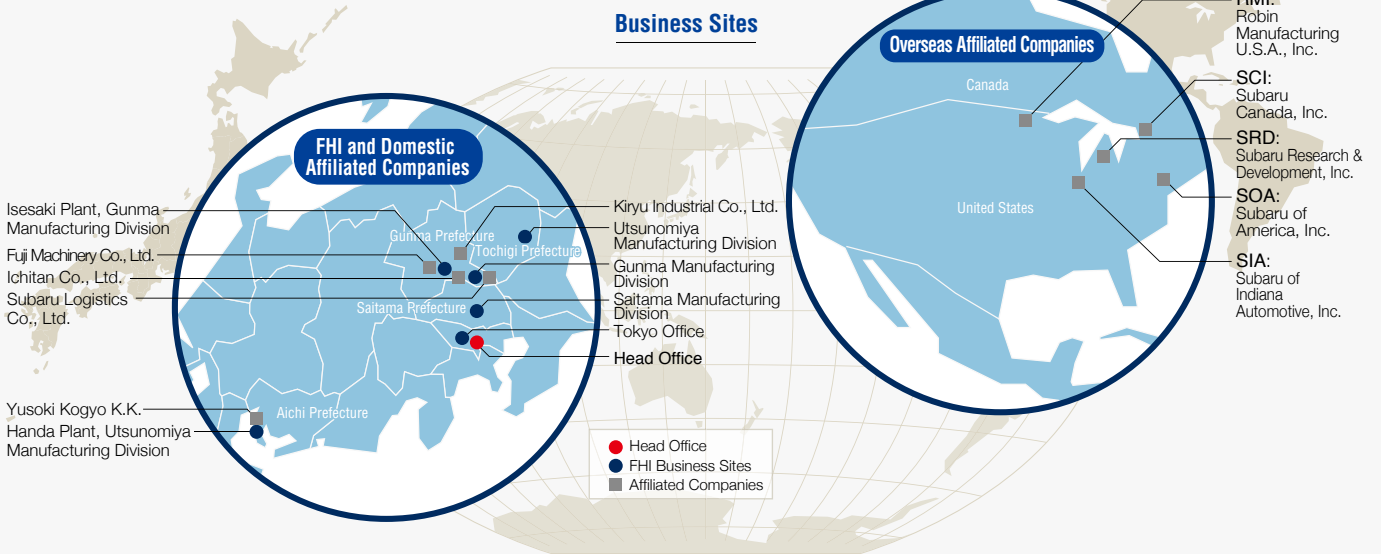
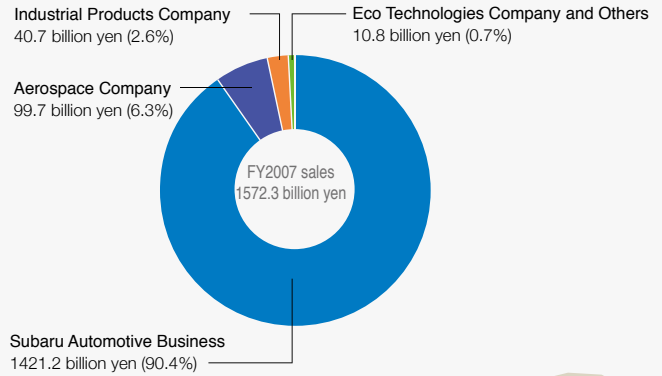
2008



Corporate Overview (As of March 31, 2008)

Name	Fuji Heavy Industries Ltd.
Established	July 15, 1953
Paid-in Capital	153.7 billion yen
Employees	26,404 (Consolidated) 12,801 (Non-consolidated)
Head Office	Subaru Building, 7-2 Nishi-shinjuku, 1-chome, Shinjuku-ku, Tokyo 160-8316, Japan Phone: 03-3347-2111 [Main switchboard] (Domestic) Phone: +81-3-3347-2111 (International)
Sales	1572.3 billion yen (Consolidated) 1018.8 billion yen (Non-consolidated)
Operating Income	45.7 billion yen (Consolidated) 25.8 billion yen (Non-consolidated)
Ordinary Income	45.4 billion yen (Consolidated) 24.8 billion (Non-consolidated)
Number of Consolidated Subsidiary	44 (Domestic), 18 (Overseas)
Number of Equity Method Subsidiary	16 (Domestic), 5 (Overseas)

FY2007 Sales Ratio by Business Unit (Consolidated)



Social & Environmental Report

2008



About the Cover Design
"Subaru, People and Global Environment"

It is designed to project an image of interrelationship among Subaru, People and Global Environment by creating space for Subaru's electric cars and diversified stakeholders. The design reminds readers of our providing products and service appreciated by customers and inspires our orientation for coexistence with stakeholders and the global environment.



Subaru participates "Team minus 6%"
—a national campaign against global warming



Editorial Policy

This report has been issued to introduce the social and environmental achievements of Fuji Heavy Industries Ltd. (FHI), its domestic and overseas affiliated companies, in order to set the stage for communication with stakeholders including our customers, shareholders, partner companies, local communities and employees, and to further improve our activities for environmental protection and social activities.

In order to make this report easy to understand, we focused only on major issues as much as we could, and included our special achievements in "Feature Articles". For this reason, we have separately placed "Supplementary Volume for Data related to the 2008 Social and Environmental Report" on our website, and report other information such as the calculation results of environmental accounting and the details on our activities.

[Address of our website introducing our environmental achievements]
<http://www.fhi.co.jp/envi/report/index.html> [Japanese]
<http://www.fhi.co.jp/english/envi/report/index.html> [English]

We arranged for an independent evaluation by Ms. Mizue Unno (Manager Director of So-Tech Consulting, Inc.) following FY2007 on the contents of this report, since we believed we could continuously receive informative opinions and evaluation to proceed with our activities toward a "company fulfilling its social responsibilities". The resulting assessment is placed at the end of this report.

Our Response to the Third Party Evaluation of the 2007 Social and Environmental Report

We have taken actions to address the third party evaluation of the last issue as follows:

■ **Unfold Unique CSR Activities by Incorporating What Affect Subaru's Core Business in the CSR Policy**
 CSR programs are now in progress with new items closely linked to our core business such as reduction of product-related environmental burdens/risks and traffic safety.

■ **Expand the Scope of CSR Activities to the Whole Group Including Productions and Sales Overseas**
 The CSR and Environment Committees were integrated into the CSR and Environmental Committee to promote group-oriented CSR activities. Major overseas affiliates also have started running with newly established systems.

■ **Study KPI (Key Performance Indicators) Globally and Apply Them to CSR Activities**
 Effective indicators are now under study by reviewing CSR action items commonly practiced within the group.

■ **Keep Reporting on Involvements in Eco Technologies like Wind Power Generation**
 Activities related to eco technologies are featured in this issue. Similar articles will follow in future.

[Report on Social Aspect]

■ **Keep Working to Get Social Awareness Sink into Employees' Mind**
 Action programs were hammered out and executed at each business unit under a company-wide policy to deepen the employees' social awareness. However, an in-house survey indicated that we were still short of reaching a desired level. We will continue our efforts to make it rooted into their mind.

■ **Show Why "Customers Come First" is Critical, Issues at Hand and Direction to Go**
 Specific case studies are introduced as opening features of this issue to show how CS issues are being handled in-house and at a dealership.

■ **Review Reporting Cycles on Company Policy Planning, Evaluation of Vital Programs, Goal-setting and Performance Assessment**
 The outcomes and the plans for the coming year are presented for major CSR programs in this issue.

[Report on Environmental Aspect]

■ **So Far Management Rather Limited to Japan, Check and Review Globally**
 The performance and plans of main overseas affiliates will be reported and reviewed at the CSR and Environmental Committee. Measures are now being taken by the affiliates as practiced in Japan.

■ **Present Three Vital Topics, Fuel Economy, Exhaust Emissions and Clean Energy Vehicles in a More Simple and Understandable Way**
 We have taken up such subjects in a feature article on activities to prevent global warming in an easy-to-read manner.

Range of the Report

Companies Covered in the Report

Fuji Heavy Industries Ltd. (Main manufacturing facilities)

- Subaru Automotive Business
 [Gunma Manufacturing Division (Ota City, Gunma Prefecture and other), Tokyo office (Mitaka City, Tokyo)]
- Industrial Products Company [Saitama Manufacturing Division (Kitamoto City, Saitama Prefecture)]
- Aerospace Company [Utsunomiya Manufacturing Division (Utsunomiya City, Tochigi Prefecture; Handa City, Aichi Prefecture)]
- Eco Technologies Company [Utsunomiya Manufacturing Division (Utsunomiya City, Tochigi Prefecture)]

Domestic Affiliated Companies (Members of Domestic Affiliated Company Subcommittee)

- Yusoki Kogyo K.K. (Handa City, Aichi Prefecture)
- Fuji Machinery Co., Ltd. (Maebashi City, Gunma Prefecture)
- Ichitan Co., Ltd. (Ota City, Gunma Prefecture)
- Kiryu Industrial Co., Ltd. (Kiryu City, Gunma Prefecture)
- Subaru Logistics Co., Ltd. (Ota City, Gunma Prefecture)

NOTE: In FY2007 Social & Environmental Report, members of the Domestic Affiliated Company Subcommittee were six, but we divested all the share of Fuji Robin Industries Ltd., which we had owned, to Makita Corporation in 2007. Fuji Robin Industries Ltd. is now excluded from the FY2007 results.

Overseas Affiliated Companies (Members of North American Environmental Committee)

- SIA: Subaru of Indiana Automotive, Inc. (Lafayette, Indiana)
- SOA: Subaru of America, Inc. (Cherry Hill, New Jersey)
- SCI: Subaru Canada, Inc. (Mississauga, Ontario)
- SRD: Subaru Research & Development, Inc. (Ann Arbor, Michigan)
- RMI: Robin Manufacturing U.S.A., Inc. (Hudson, Wisconsin)

We introduce some activities of other affiliate companies in addition to those of the above companies in this report.

Period Covered

This report covers our achievements and activities in Japanese fiscal year (FY) 2007 (April 2007 through March 2008; *for overseas affiliated companies: January through December 2007) and some activities from prior fiscal years and others conducted just before the issuance of this report.

◇ **Guidelines Referenced**
 "Environmental Report Guidelines (2007)" by the Ministry of the Environment

◇ **Inquiries about This Report**
 CSR & Environmental Affairs Promotion Office, General Administration Department, Fuji Heavy Industries Ltd.
 Subaru Building, 7-2 Nishi-shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8316, Japan
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Contents of Supplementary Volume for Data related to the 2008 Social & Environmental Report

The data can be easily downloaded from our website. Please visit our site at

<http://www.fhi.co.jp/envi/report/index.html> [Japanese]
<http://www.fhi.co.jp/english/envi/report/index.html> [English]

- Chronology of FHI's Social & Environmental Activities
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Top Message

**We will Move Forward to Realize
Our Management Vision to be:
a “Compelling Company with Strong Market Presence” and
a “Company Fulfilling its Social Responsibilities”**



[Photo: EXIGA 2.0GT]

First of all, I would like to express my appreciation for your interest in this report.

This year falls on the first year of the binding period of the Kyoto Protocol and the G8 Summit was staged at Lake Toya in Hokkaido with global warming as a main topic. Amid moves to grapple with such issue for a globally sustainable society getting momentum, the Subaru group is also pressing forward by stepping up measures to deal with all sorts of environmental issues as typified by the increasingly critical global warming.

We at Subaru have been working to tackle with these social issues as our mission to fulfill as a good corporate citizen, recognizing the vital importance of giving the top priority to environmental programs in group-wide CSR-related activities.

Specifically, under the FHI Environmental Conservation Program starting anew in FY2007, the following have taken place:

We as a group took actions to save energy for prevention of global warming and reduce wastes and substances of environmental concern. In product marketing, we put two fully remodeled eco-friendly vehicles in the market: the New Impreza and the New Forester, both with fuel consumption and exhaust emission performance impressively improved. Another example is the introduction of the Legacy and Outback powered by a horizontally opposed diesel engine, the world-first as a passenger car, in Europe.

We will work harder in years to come as a comprehensive transportation equipment manufacturer with automobiles as core products in every phase of business activities from product development, production, logistics and sales to recycling of vehicles to squarely face with plethora of social problems. Among them, realizing a low-carbon society is a key to prevention of the global warming.

At the same time, we are in the process of pushing forward the new medium-term management plan to establish a solid corporate base for various future undertakings. As a measure to facilitate achieving the objectives of the plan, we announced to the public new cooperative relationship with the Toyota group and structural reforms including

building a new vehicle assembly plant in Japan to leverage the tie-up and reorganizing the Subaru's domestic dealer network.

The aims of the structural reforms are to boost the Subaru brand image through enhanced customer satisfaction while efficiently and preferentially allocating business resources such as development and production capacities to core areas with higher returns and for the development of future environmental technologies. In this way, we would orient ourselves toward a "Compelling Company with Strong Market Presence" and a "Company Fulfilling its Social Responsibilities".

In the structural reforms, we will redouble our efforts to meet the goals in the FHI Environmental Conservation Program (FY2007 through FY2011).

We hope that this "2008 Social and Environmental Report" would serve to you a better understanding of the Subaru group's involvements in addressing social and ecological issues. Your straightforward comments and opinions are most welcome.

Ikuo Mori

President and CEO,
Fuji Heavy Industries Ltd.



Introduction of

SUBARU

Developing and Manufacturing Products that Meet the Needs of the Age Using Innovative, Cutting-edge Technologies

FHI is a comprehensive transportation manufacturer that consists of four business units under the Subaru (SUBARU) brand name: the Subaru Automotive Business, the Aerospace Company, the Industrial Products Company and the Eco Technologies Company. Our innovative, cutting-edge technologies and uniqueness contribute to creation of a comfortable and enjoyable future.

■Offering Our Products under the Motto of "Everything We Do Is for Our Customers"

Subaru Automotive Business



Location	Gunma Manufacturing Division (Ota City, Gunma Prefecture) Tokyo office (Mitaka City, Tokyo)
----------	------------------------------------------------------------------------------------------------

Automotive Business

Since it began automobile manufacturing with the 1958 launch of the Subaru 360, Subaru has created numerous distinctive models that have contributed to the development of Japan's automobile industry.

For example, the Subaru 360 featured sophisticated packaging including aircraft design concepts along with other innovative and thorough weight-saving technologies. Launched in 1966, the Subaru 1000 incorporated a horizontally opposed engine, one of the most distinctive Subaru technologies, and was also the first massproduced car to employ a front-wheel-drive layout.

In 1972, Subaru became the first in the world to market an AWD passenger car. Subsequently, Subaru has established the layout as a symmetrical AWD system*1. In the early 1990s, Subaru pioneered the market in Japan for high-performance station wagons by combining a turbo-charged engine with an AWD system. This was later followed by the pioneering in the United States of the market for "crossover" vehicles*2, which integrate the driving comfort of sedans with the functionality of SUVs.

Subaru vehicles have always been designed expressly to be "drivers' cars," with characteristics that ensure they are enjoyable to drive.

The Exiga's concept is a "7-seater Panoramic Touring." It is a multi-passenger car with pleasant moving space which allows passengers to share the joy of touring, indulging in lively conversations and sceneries in an assured and relaxed atmosphere.

It offers an liberating interior space and roominess which accommodates 7 people, which was made possible by making the best use of know-how that Subaru has nurtured in crafting station wagons over the years. High drivability, superb quietness and supple quality ride comfort, all due to the layout of a Subaru's unique horizontally opposed engine and the SI-Chassis (SUBARU Intelligent-Chassis), are now coupled with thoughtful environmental performance and economy. With this new model, we are proposing a new sense of values for multi-passenger vehicles.

[Photo: EXIGA 2.0i-L]



Domestic Affiliated Companies

Fuji Machinery Co., Ltd. (Maebashi City, Gunma Prefecture)
Business: Manufacture and sales of automotive parts, industrial machinery, and agricultural transmissions

Ichitan Co., Ltd. (Ota City, Gunma Prefecture)
Business: Manufacture and sales of forged parts for automobiles and industrial machinery

Kiryu Industrial Co., Ltd. (Kiryu City, Gunma Prefecture)
Business: Manufacture of specially equipped Subaru automobiles and logistics control of Subaru automobile parts, remanufacturing of Subaru engines, transmissions and others

Subaru Logistics Co., Ltd. (Ota City, Gunma Prefecture)
Business: Packing, shipping, transportation, warehousing, maintenance and insurance brokerage of automobiles and parts

Overseas Affiliated Companies

SIA : Subaru of Indiana Automotive, Inc. (Lafayette, Indiana)
Business: Manufacture of Subaru automobiles and contract manufacture of Toyota automobiles in the U.S.A.

SOA: Subaru of America, Inc. (Cherry Hill, New Jersey)
Business: Sales and maintenance of Subaru automobiles and parts in the U.S.A.

SCI : Subaru Canada, Inc. (Mississauga, Ontario)
Business: Sales and maintenance of Subaru automobiles and parts in Canada

SRD: Subaru Research & Development, Inc. (Ann Arbor, Michigan)
Business: Research and development of Subaru automobiles on North American market

Nakajima Aircraft Co., Ltd., an aircraft manufacturer, was founded in 1917. The Aerospace Company has inherited the technologies and spirit of innovation from aircraft operations. Its innovative technologies have made it No.1 in various business segments, such as in the development technologies for main wings and other structural aircraft components made from advanced composites and other materials as well as sophisticated systems integration technologies for combining the information technologies and flight control technologies of unmanned aircraft. The Company develops and manufactures helicopter, fixed-wing aircrafts and unmanned aircrafts applying those technologies.

Furthermore, the Company is participating in the projects aimed at developing and manufacturing large commercial airplanes and small jet aircrafts. The Aerospace Company is taking proactive measures to address opportunities in additional segments of aerospace market aiming to develop at a global level.

■ Currently Working to Utilize Both the Spirit of Aircraft Manufacturing and Manufacturing Techniques

Aerospace Company

Location	Utsunomiya Manufacturing Division (Utsunomiya City, Tochigi Prefecture) Handa Plant (Handa City, Aichi Prefecture)
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Aerospace Company

Industrial Products Company

■ Mass Production of General-Purpose Engines that Can Be Used under Any Conditions on Earth

Industrial Products Company

Location	Saitama Manufacturing Division (Kitamoto City, Saitama Prefecture)
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The Industrial Products Company develops, manufactures, and markets Robin general-purpose engines as well as products incorporating these engines. The extensive Robin lineup of general-purpose engines includes more than 2,000 models used with favor throughout the world in products that play crucial roles in society, such as construction equipment and agricultural equipment, as well as in mobile generators, leisure products that enrich lifestyles, and a diverse range of other applications.

The Company makes efforts to further improve the engines' performance in order to ensure stable performance in the worst environments imaginable—from extreme arctic cold to blistering desert heat as well as rough marine applications—and under severe operating conditions.



The EX35/E40 engine is a general-purpose engine with good engine and environmental performances balanced at a high level with a chain-driven OHC valve mechanism. It is now for sale as a next-generation engine with excellent startability and top-ranking output as well as eco-friendly low-level emissions, fuel consumption and noise, which were attained by designing a highly efficient combustion chamber thanks to the OHC arrangement.

[Photo: EX40 Engine]

Eco Technologies Company

■ Contributing to Creating Comfortable Living Environments and a Resource Recycling Society

Eco Technologies Company and others

Location	Utsunomiya Manufacturing Division (Utsunomiya City, Tochigi Prefecture)
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The Eco Technologies Company is helping create pleasant living environments and promote a recycling-oriented society by supplying a broad array of vehicles and equipment used to collect, transport, and recycle waste products. It is also engaged in supplying wind-power systems, which provide clean energy, and various other products that contribute to global environmental preservation.

< Clean Robot Division >

Clean Robot Division has become the first company in the world to commercialize a high-rise building cleaning system. This technology is applied to the pilot use of outdoor cleaning robots and trash-bin-transporter robots.



A next-generation new rotary blade type refuse collection vehicle "G-RX" has been developed jointly with ShinMaywa Industries, Ltd in an effort to establish a global standard. With excess meat scraped off for lightness, the environmental performance has been much improved over preceding vehicles by reducing hydraulic pressure loss, noise level and substances of concern.

[Photo: Fuji Mighty G-RX series]

Overseas Affiliated Companies

RMI: Robin Manufacturing U.S.A., Inc. (Hudson, Wisconsin)

Business: Manufacture and sales of engines for general purpose use, four-wheel buggies and golf karts in the U.S.A.



The Eclipse 500 is an attention-getting, reasonably-priced small business jet aircraft which meets the new and growing demand for corporate air travel, nicknamed the "air taxi". Using our cutting-edge manufacturing technologies, we are responsible for such tasks as assembling the main wings during the building of this aircraft. We are continuing our efforts to establish manufacturing techniques that allow mass production of aircraft at a low cost.

[Photo: Eclipse 500]

Domestic Affiliated Company

Yusoki Kogyo K.K. (Handa City, Aichi Prefecture)

Business: Manufacture and sales of aerospace-related machinery components

*1 AWD stands for "All Wheel Drive", or in other words, four-wheel drive.

*2 Crossover: The Subaru Outback, a station wagon that has the functionality of an SUV integrated into it, was released in August 1995.



Feature Article 1 | What is the Purchasing Environment Committee doing? Approach to CSR Purchasing

In the global business environment, CSR Purchasing has increasingly been emphasized. We at Subaru have started preparations to work out CSR Purchasing Guidelines by 2011. Here is a glimpse of our involvement in CSR Purchasing.

Purchasing Environment Committee in Action for Setting the Guidelines by 2011

The Purchasing Environment Committee comprising purchasing managers from business units of Automotive, Industrial Products, Eco Technologies and Aerospace is held twice a year. Its inception is intended to work closely in concert among the members in environmental area. They exchange information on their Environmental Management Systems (EMS) and promotions to reduce environmental impact. Starting this year, they began to tackle with the issue of CSR Purchasing.

At the meeting in late April, they had a meeting, inviting Ms. Mizue Unno as lecturer, the Manager Director of So-Tech Consulting Inc., to hear fundamentals such as objectives of CSR Purchasing and its necessity as well as case examples of other firms. After the presentation, the members presented their current status as follows.

Actions Unfolding under Global Purchasing Environment

Automotive Business Division

① Environment

- The existing Green Purchasing Guidelines to be reviewed for more eco-oriented approach in response to the recent legal and CSR developments.
- Subaru of Indiana Automotive, Inc. (SIA) which produces the Legacy and others in the U.S. will also employ Green Purchasing Guidelines anew employing the IMDS^{*1} data management with its suppliers.
- We are responding to reduce substances of concern under EU directives while coping with the revision of the ANNEX II^{*2}. This year, we started working to meet the REACH Regulation^{*3}.
- We are recommending our suppliers to establish EMS by acquiring the ISO 14001 certification or the Eco Action 21 as its alternative.

② Compliance

- We took part in formulating the Fair Trade Guidelines of the Automotive Industry, based on which has been put into practice with our suppliers.

③ Risk Management

- As part of CSR activities, we are studying risk management to brace for contingencies like earthquake jointly with local residents and administrative authorities.
- We are involved in risk management and health & safety-related activities based on the Occupational Health and Safety Management System.

^{*1} IMDS (International Material Data System): System to collect materials and contained substances of automotive parts totaling about 30,000. This system was developed to deal with EU directives which regulate substances of environmental concern in new cars, handling of used vehicles and recycling rates. This IMDS is used as the standard system in the automotive industries world-wide, and is also approved as an industrial standard by the Japan Automobiles Manufacturers Association (JAMA) to collect information on substances.

^{*2} ANNEX II: In this annex are described products and parts to which the RoHS Directive is not applied due to such reasons as scientifically unfeasible. Its contents are reviewed, in principle, once every two years.



The members exchanged their opinions on involvements in CSR Purchasing.

(Left) Ishihara, Chief General Manager of Purchasing Div.
(Right) Nakamura, General Manager of Purchasing Planning Dept.

System Improvement at Asian suppliers in Urgent Need

Industrial Products Company

- Preparations to establish EMS are under way at all the selected 102 suppliers, out of which 80 suppliers opt for the ISO 14001 certification, 3 for simplified EMS versions like Eco Action 21 and the other 19 for self-diagnosis report.
- Substances such as hexavalent chrome and lead have been worked on for their complete elimination and we are pressing on to meet the REACH Regulation this year.
- With an increasing number of Asian suppliers for direct business, green purchasing and establishing EMS are outstanding issues.

Supporting Acquisition of Eco Action 21 Certification Ongoing

Eco Technologies Company

- Because of most suppliers being small in size, our EMS management team goes on the beat to check actual situations at their production sites.
- Study meetings are being held to help suppliers secure the Eco Action 21 certification. From now, we are pushing on to get all the selected 40 suppliers granted with certifications.
- New European and Asian suppliers who began transactions with the inception of wind power generation business are working on for ISO 14001, but being in the first year of business, still in a preparatory stage.

Supplier Base Expanding for EMS Establishment

Aerospace Company

- 47 out of the selected 61 suppliers have completed in introducing EMS. They include 40 suppliers with ISO 14001 certification and 3 suppliers with Eco Action 21 while the remaining 4 approved based on their self-diagnosis reporting.
- Routine patrols are practiced cooperating with the Eco Technologies Company team located in the same premise.
- Hazardous substances had been checked for their reduction according to our own Green Purchasing Guidelines, and as a result, there was no subject substances found in FY2007.

Do Best at Each Business Unit

After hearing these presentations, Ms. Unno pointed out as follows: "I will give credit to what you give your suppliers a choice for establishing EMS including the Eco Acton 21 without limiting it to the ISO 14001 certification. However, although you are dealing with such items as health and safety, environment and corporate ethics all right within the ordinary management system, the labor management still is an issue. In CSR Purchasing, due care must be paid to issues related to the labor environment and human rights.

We recognize a lack of unity since handling issues differs from unit to unit due to the Company system. For example, while the automotive unit standardizes on the ISO 14001 certification, the Eco Action 21 or passing the self-diagnosis is the mainstream at some Companies. Regarding such inconsistency, Ms. Unno advised saying, "It is nothing unusual to have different approaches by business units. It will be better to keep flexibility rather than forcing unification by properly managing by their procedures. As the Industrial Products Company with a

growing business with Asian suppliers has to give priority to labor management, health and safety, each Company should do their best under given circumstances".

We cannot easily conclude on what is the best, but the presentations of current status and the exchange of views among the members from respective Companies undoubtedly allowed us to identify and share the issues to be addressed. We are now ready to step steadfastly toward making CSR Purchasing a reality.

*3 REACH Regulation: It is one of the efforts at regional level by the EU to systematically assess risks of many chemicals to the health and environment and to manage them properly.



Junichi Tezuka
General Manager,
"Customer-First" Promotion Dept.

Backup by Dealer Support Staff Ongoing from Identifying to Solving Problems

In May, 2007, a dealer support group was formed to improve customer handling to work with dealerships. Currently, 9 members routinely visit their assigned dealer facilities to identify problems in sales, technical services, customers reception and attending to their needs in a showroom. They come up with specific proposals for improvements and promote their implementation.

Listening to the president, officers and outlet managers of a dealership is one way to confirm, using a check sheet, if they are performing their duties according to the Subaru Operations Standard. In this way, we can visualize what the problems are.

Once the problems get isolated, then they work out remedies and redesign specific work flows by recombining jobs and other

means. Senior staff of the dealership are working hard, handing down their know-how and experiences over to their junior fellows. Respecting their approaches to their jobs, the team is pushing forward through fully discussing steps to be taken.

Beefing Up Response-to- Customers Capabilities with Two Themes in Mind

In the 2004 Japan Sales Satisfaction Index (SSI) Study by a third-party research agency, J.D. Power Asia Pacific, Inc., Subaru was ranked at the bottom in the industry. Taking this fact seriously, we came up with two themes to move up at least to the middle in the industry. All dealerships are now working across their organization in line with the themes.

The first is to put receiving customers 100% by all the dealer staff into practice. It may look simple, but when it comes to

Feature Article 2 | For Enhancement of Customer Satisfaction

Perspectives of "Customer-First" Promotion Department

In order to enhance customer satisfaction from global perspectives at all levels of the whole Subaru team, the "Customer-First" Promotion Department has been plowing ahead with activities with "Boosting Response-to-customers Capabilities at All Dealerships, Domestic and Overseas" as its theme. As a result, customer satisfaction has improved and dealers expectations on such activities have been on the rise.



Full-time Team Deploying Support Activities for Boosting Response-to-customers Capabilities



perfectly practicing it, it is a different story. Nevertheless, believing good first impressions smooth the way to next steps, each dealership has been putting this theme in action.

The second is to have weekly study meetings at sales outlets on an ongoing basis. We often come across with questions difficult to answer from knowledgeable customers. If salespeople are equipped with ample product knowledge and listening skills, they could identify what customers really are looking for to meet



Michitoshi Ichibanagi

Manager,
Global CS Promotion Sec.,
“Customer-First” Promotion Dept.

their expectations. This is behind the need to enhance their knowledge and skills for CS improvement. Explaining product functions, different features from competitors’, benefits customers can expect from certain functions and other such details requires clear understanding of these functions by salespeople themselves to make customers happy.

In this way, we always keep in mind the importance of communication with honed skills by greeting customers by all the dealer personnel.

As a result of such approaches, much progress has been achieved at many

dealerships (Refer to Page 11 for details of activities at TOKYO SUBARU Inc.). Our efforts has led to our position ranked 5th in the 2007 Japan Sales Satisfaction Index (SSI) Study^{*1} and 7th in the Japan Customer Services Index (CSI) Study^{*2} both by the J.D. Power Asia Pacific, Inc., which proves we have stepped out in the right direction.



Makoto Kimura

Section Manager,
Global CS Promotion Sec.,
“Customer-First” Promotion Dept.

[Objectives of the “Customer-First” Promotion Department]

To Enhance Response-to-Customers Capabilities and Customer Satisfaction as the Whole Subaru Team from Global Perspectives

Priority Issues for FY2007

- ① **Promotion and deep-setting of renovative CS-focused activities**
To step up responses to customers for mid-level position in the industry standing in the SSI-CSI Survey by the J.D. Power Asia Pacific, Inc.
- ② **Problem solution by all hands at outlets led by their leaders**
To revitalize outlets by helping them eliminate roadblocks
- ③ **Accumulation and sharing of successful know-how**
To streamline improvements and step up the level of response-to-customers-capabilities by sharing successful know-how among all the members of the Subaru team

Announcement of Expanding CS Activities to Overseas at “G8 Prime Overseas Distributors Meeting” with Major Exclusive Distributors Representing 8 Countries

In October, 2007, we made a presentation on CS enhancement at a meeting known as “G8 Prime Overseas Distributors Meeting” where representatives of Subaru distributors from 8 countries got together. Our belief that the basic concept of customer satisfaction is universally common prompted us to call on them to implement the same as we do in Japan.

Regarding rather new markets in China and Russia where demands grow rapidly, since our support in their responses to customers is not enough, we are studying to offer them translated versions of CS promotion tools used in Japan.

With the 17-year experience in CS improvements in Japan, we will map out overseas programs which are easy to follow.



Detailed Review of Shop Environment and Protection of Private Information

Environmental conservation also cannot be overlooked. The dealer support team checks shops with the 5S principles in mind for installation of equipment which separates engine oil from discharged water, its proper function, orderly stocking of lubricant and the like. It goes beyond an appearance issue since they are items required to comply with ordinances of municipalities. These are also to be covered by the “Customer-First” Promotion Department.

Meanwhile, in modern society where compliance violations, such as deceptions and data fabrications, occur one after another, proper business management is much called for. Amid such climate, the protection of customers’ privacy and proper management of private information are also areas to be followed for improvement.

Stepping Up toward CS No.1 in Each Territory

Territories of dealers have unique characteristics. Under a new approach for CS No.1 in their respective territories, we kicked off a “CS Area No.1 Strategy” in April, 2008.

In the past, emphasis had been placed on receiving customers at dealers for CS improvements. With the new medium-term management plan rolled out, our approach to CS is now shifted toward “Customers Come First.” Although cheerful greetings and observing proper manners are still part of CS activities, how much we could exceed customers’ expectations in day-to-day operations to impress them is becoming more important. This is exactly where the “Customer-First” Promotion Department comes in to play.

We are determined to build a system which encourages each employee to question inside “What we should do to practice customers-come-first?”, and then to get such mentality reform to sink in deep across the board taking time as needed.

*1 Source: The 2007 Japan Sales Satisfaction Index (SSI) StudySM by J.D. Power Asia Pacific, Inc. The 2007 study is based on the response from 5,444 new passenger car buyers (excl. mini cars) regarding how they are treated by dealers at the time of purchase.
*2 Source: The 2007 Japan Customer Service Index (CSI) StudySM by J.D. Power Asia Pacific, Inc. The 2007 study is based on the response from 5,359 passenger car owners (excl. mini cars) who had received after-sales services (maintenance, repairs, etc.)

From right: Mr. Osamu Yamashita, the shop manager of TOKYO SUBARU's Nakano Shop, Ms. Ryoko Nishimura, the CS member of the shop and Ms. Yoko Sugawara of the CS Promotion Section of TOKYO SUBARU



SUBARU



Feature Article 3 | Dealerships in Action

CS Frontline

~TOKYO SUBARU's Nakano Shop in Constant Evolution

Fuji Heavy Industries are pressing forward with dealerships nationwide to put thoroughly in practice the “Customers Come First” policy by sending staff from the “Customer-First” Promotion Department. Dealers also have been grappling with their unique issues identified out of their own discussions on what should be done.



There is no goal in CS Promotion Required Responses Spiral up with Mounting Customers' Expectations

What is the Shop-building to Attract Customers All About?

The Nakano shop of TOKYO SUBARU, Inc. facing the Mejiro Street, has the whole Nakano Ward as its sales territory and has welcomed many customers.

Mr. Osamu Yamashita transferred to work as a new shop manager in October, 2007 recalls the situations there when he first moved in, saying, “Today we often cannot see customers at their home since two-income families are on the rise and more people are out for leisure. This trend forced us to shift our sales efforts from door-to-door visits to attracting customers to the showrooms. However, when I first came here, the Nakano shop lacked cheerful atmosphere. Probably for that, many customers leave the shop soon after they arranged their cars for inspection, saying that they would come back later for the cars. As seen from this example, the issue was how to set up and run the shop to make them feel like staying longer and visiting us often by welcoming customers wholeheartedly.”

He pointed out two points for improve-

ments.

The first is the hard side of running a shop. He felt acute need to remodel the showroom.

His shop was designated by FHI as a “Model Shop” in commemorating the Subaru's 50th Anniversary”, which allowed them to complete an upbeat and beautiful showroom as you see today. The service shop was made glass-walled for customers to see their cars in service, and couches were placed for mothers to relax by the side of a kid corner, for example, thus converting the whole facilities into space for heartfelt reception with care paid to minute details here and there.

The other point is the soft side or the mindset of the staff. They had monthly “CS Scrum” meetings for one-and-half years before I came. They were intended to have employees identify issues by themselves

and find ways for solution. But, their efforts had led to little improvement contrary to their expectation. Ms. Ryoko Nishimura, the CS member of the shop, recalls, saying; “We have more or less has a system for one-on-one meetings with customers, but there was not an atmosphere to welcome them as the whole shop. For instance, we used to find customers looking around no knowing where to park their cars, showing a lack of due care by the staff.

We took up the issue repeatedly at the CS Scrum meetings for better customer handling, but not much lively exchanges of views among members with little execution of what had been agreed, though.

As often pointed out, what counts most is that all participants have a sense of stakeholder. Making this sink in their mind needs to have views of all the members



Parking lot colored for easy location identification



Glass-walled for customers to see services on their cars



Kid corner where parents and children can relax

reflected in the decision. But, voices hardly came from those who would feel awkward in speaking out before others or had little sense of participation. This is what the chief and CS members of the shop felt torn between.”

Then, Ms. Nishimura took part in a facilitation study*1 hosted by the TOKYO SUBARU's CS Promotion Section for CS Committee members who serve as moderators of the Scrum meetings. She learned that a moderator can make participants feel easy to present their views at a meeting and put her findings in practice. Ms. Nishimura beamed, saying, “The members can now exchange briskly opinions in a relaxed manner. Everybody is beginning to feel convinced that such frame of mind to put what we decided in practice would lead to our positive day-to-day behaviors. In a sense, revitalization of the Nakano shop has just begun.”



Reenergized Mindset Bearing Fruit, but No End in Evolution

“Welcome to SUBARU!”

Cheerful greetings as usual reach customers' ear whenever they open a door. This is what we call “Welcome Beam” cited by TOKYO SUBARU as one of their CS upgrade measures. Of course, when customers leave their premise, “Thank You Beam” is ejected this time to express appreciation.

Meanwhile, in the parking lot marked off by different colors, customers can park their cars at ease. Sales personnel are always ready to jump out whenever some help is needed.

“Our people looked perplexed at first, even one word of greetings not coming out nor taking minds off their job at hand to welcome. It was my role, taking opportunities, to make them understand why every one of us had to get involved.” Mr. Yamashita recalls.

With regards to grasping product knowledge which is indispensable in sales, all outlets of TOKYO SUBARU encourage their sales people to participate actively in their weekly sales study meetings. When they had new

models coming out, they opened ad-hoc study meetings with all the members across the board, all of which contributed to maintaining high levels of expertise.

“Both the hard and soft sides have improved a lot”, Ms. Yoko Sugawara of the CS Promotion Section of TOKYO SUBARU assesses the reborn Nakano shop this way. She continues, “My impression about the staff of the Nakano shop is rather positive overall from the beginning since they make us feel at home and friendly among themselves. Each staff must have come to grips with what he/she has to do, becoming confident and ready to take responsibilities. Reinforced hardware plus above all the reenergized mindset make them assured in receiving customers, which I believe are producing tangible CS effects. We can foresee brighter future at the Nakano shop.”

“There still are a lot to be done,” adds Mr. Yamashita. He concluded by saying “One step higher the CS level gets, one step higher the customers' expectations get, We've got to keep CS activities spiraling upward, and for that I count a lot on my staff to show their stuff.”

The word, diversification of needs, has been around for quite some time. The automotive industry perhaps is the one mostly tossed about by the waves it created. In the past, youths used to view driving cars around as a big status symbol, but today our rivals are not limited to ones in the same line of business. Others have come on the scene with all types of portable phones and personal computers vying for getting customers' attention.

Under such circumstance, the CS is a vital concept to have not only new Subaru customers, but also those valued patrons deepen their affection to Subaru and feel like owning another one. To see this happen, here at TOKYO SUBARU, we developed 3 CS objectives and 7 action programs. 2 CS members were selected from each outlet, and they worked out a new system to address various issues with their chief in cooperation with the CS Promotion Section of Business Support Department at the head office.

However, what is the important is the frame of mind. Our sales shops are the first contact for customers who have agreed with competitiveness of Subaru products and the corporate image. Staff and shop personnel who welcome them should never stand in the way, deflating their expectations. For that reason, the staff members at each outlet are required to firmly grasp what they should do from customers' points of view.

They are absorbing many things to elevate their motivations through guidance by the dealer support group of Fuji Heavy Industries, CS Scrum meetings to discuss their own problems and sales study meetings where they learn new product knowledge.

There is no goal in the quest for customer satisfaction. We are working hard to pull up our CS to a leading level not only in the Subaru group, but also in the automotive industry.

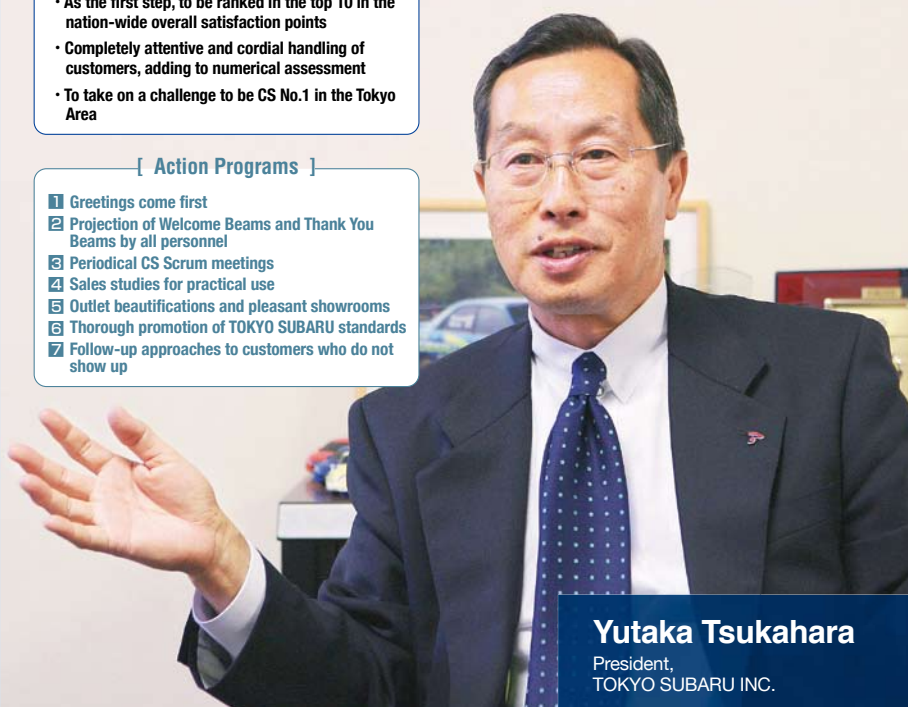
CS Hinges on How We Can Respond to Largely Diversified Customers' Needs

[The CS Objectives]

- As the first step, to be ranked in the top 10 in the nation-wide overall satisfaction points
- Completely attentive and cordial handling of customers, adding to numerical assessment
- To take on a challenge to be CS No.1 in the Tokyo Area

[Action Programs]

- 1 Greetings come first
- 2 Projection of Welcome Beams and Thank You Beams by all personnel
- 3 Periodical CS Scrum meetings
- 4 Sales studies for practical use
- 5 Outlet beautifications and pleasant showrooms
- 6 Thorough promotion of TOKYO SUBARU standards
- 7 Follow-up approaches to customers who do not show up



Yutaka Tsukahara
President,
TOKYO SUBARU INC.

*1 Facilitation: A method to reinvigorate a group or organization by guiding to build mutual understanding and consensus at meetings.



Functions for Peace of Mind and Safety Also Upgraded

Subaru has so far focused on the concept of “active safety (preventative safety)” and worked on its embodiment. The New Foresters have the VDC¹ as standard equipment across the board. This device functions to prevent side slip of a vehicle when its behavior has come close to the driver’s control limit by regulating the engine output and braking. The ABS², Brake Assist and Hill Start Assist³ are also provided. Taking the good visibility over from the preceding models, the body configuration was further refined to allow the driver to see the four corners of the car body and the immediate rear view, all of which contribute to enhancing safety.

Regarding the safety in case of impact or the so-called “passive safety”, the new ring-shaped reinforcement frame structure, a Subaru’s traditional technology, was further evolved for more impact energy absorption. The engine hood structure also reviewed for protection of pedestrians, showed a protection performance level of 4 on the J-NCAP⁴ scale in in-house confirmation tests.

A New Car Which Makes Drivers Care for “Ecology” While Enjoying “Pleasant Drives” was Born



Feature Article 4 | Car Making Gentle to the Earth

Environmental Performance of the NEW FORESTER

The development theme of the New Forester which debuted as the third generation model in late 2007 was “Space, Running and Environmental Performance.” Among them, the environmental performance was pursued with two targets: significant “Improvement of Fuel Economy” and “Clean-up of Emissions.” Good 10 years have passed since the first Forester was born.

We will introduce specific features of the car, the purpose and process of its development, just the right subject for this memorial year.

In Pursuit of Car Also Picked for “Ecology”



Kazuharu Ichikawa

General Manager,
Subaru Product & Portfolio Planning Div.

With the surging consciousness of ecology world-wide, people has increasingly been critical of the environmental performance of vehicles. Under such circumstances, even powerful SUVs with massive look cannot overlook the environmental performance, due to their large population out there. So, we embarked on research and development with a goal to raise the environmental performance to a level high enough for potential customers to think about the Forester also from an ecological perspective, while capitalizing on charms unique to SUV.

What counts most in dealing with fuel consumption and exhaust emissions is the engine. The body of the New Forester is size larger than its predecessor, simply put, creating higher burdens on the environment in fuel consumption and emissions. Drastic measures were taken beyond merely offsetting the resultant negative effects to reduce pertinent figures.

Although the base engine is the “EJ20”, the same type used for the Legacy,

components were mostly redesigned.

The most significant contribution to improving fuel economy is the employment of an electric power steering system⁵ on models with a naturally aspirated (NA) engine, the first of its kind for the Subaru’s non-mini lineup. In its development, much attention had been paid not to sacrifice good driving characteristics of Subaru, or to create a steering feel equivalent to that of hydraulic power steering. The electric power steering improved the 10-mode fuel consumption by about 2% with the steering feel refined to quite a satisfactory level. Such “combination of pleasurable driving with the gloval environment” is also in line with the New Medium-term Management Plan.

We went all the way out to shave weights off the body and reduce the rolling resistance of tires as well as frictions in the power train system. These efforts led to a fuel economy of 13.8 km/l for a NA model and 13.0 km/l for a turbo model, which is respectably among the best in the class. We also worked out a catalyst layout to win a 4-star assessment in exhaust emissions performance.



Hiroyuki Ooiwa

1st Chassis System Design Sec.,
Chassis Design Dept.,
Subaru Engineering Div.

Electric Power Steering System Superior to Hydraulic Type in Fuel Consumption and Steering Feel Has Been Developed.

For both “improved fuel economy” and “Subaru’s driving performance”, we introduced an electric power steering system on the New Forester first for the Subaru’s non-mini models. Taking an advantage of its advanced development, we worked together with Vehicle Research & Experiment Division to run test vehicles all the way out with a goal to excel in steering feel over the existing hydraulic system without compromising the “Subaru’s driving performance.” I concentrated on tuning jobs with a laptop computer in the passenger seat. Even a slight difference in current by 0.1 A would result in a different steering feel. We made adjustments repeatedly until we felt confident about exceeding the hydraulic system. After all, the travel distance reached 1,000 km in three days. We felt that our efforts were paid off when usually critical journalists gave us high marks at the test ride event of the new-car release exhibition, saying “better than the hydraulic, isn’t it?”

Aerodynamics

Aerodynamic characteristics affect particularly high-speed performance. The Cd value 0.36* for the New Forester which is relatively high for SUV models is conducive to improvement in fuel economy, quietness and running stability. (*excl. some models)

Lightweight Body

Attention to details for structural optimization, ample use of high-tensile steel sheets and other means controlled the weight increase to 30 kg as against 70 to 80 kg normally expected for additional safety and other equipment.



Drive-line

Grass-roots reviews to reduce friction of bearings and other parts, brake drags and rolling resistance of tires have resulted in improvement of the fuel economy.

SI-DRIVE (Turbo models)

The three modes provided are selectable with a flick of a switch to allow drivers to run as they like. This feature gives a feeling as if you have three different types of engine. The most fuel-efficient intelligent mode is suitable to driving on city streets and cruising on expressways, for example, thus allowing eco-friendly driving almost at any time.

New Environment-friendly DOHC Engine



Toyohide Sunaguchi

Manager,
1st Power Unit Research & Experiment Dept.,
Subaru Engineering Div.



Both NA and Turbo Engines Far Tuned Up

We converted the naturally aspirated (NA) engine from SOHC to DOHC for low fuel consumption and emissions as well as for higher torque. The base engine is the type mounted on the Legacy which develops high output at high rpm with high octane gas. For the New Forester, we redesigned most of the components to make its engine produce high torque at low rpm with regular gasoline for ease of drive as SUV. This is the same for the turbo model with its engine components mostly renewed for high torque at low rpm to ease handling. The engine and transmission control units were also carefully tuned.

Frankly, it was a rough going because the targets were so challengingly high. The development was a race against time. Nonetheless, the company-wide concerted efforts including production people made it possible to achieve the target figures within the original development schedule.

Vehicles as “Tools to Make People Think about Earth’s Environment”

With regards to the issue of deteriorating global warming, we will naturally play our part to improve fuel economy from the aspect of hardware, but also expect drivers to be always conscious of the environment whenever they sit behind the wheel through the communication with their cars. Out of such expectation, we installed an average fuel consumption meter on all the models and the Info-Eco Mode*6 on the AT models. With the help of

these features, drivers can step on the gas pedal in an earth-friendly manner through communicating with their cars.

These visible environmental items have a built-in message which calls on drivers to “communicate with us Subaru to think together about environmental issues through the cars.” The other passengers will also be subtly reminded of giving care to the environment. There is nothing happier than seeing more people becoming

ecologically-conscious in their day-to-day living through their encounters with the New Foresters.

Naoyoshi Morita

Manager,
Subaru Product & Portfolio Planning Div.



*1 VDC: Vehicle Dynamics Control: It is the system to control unstable behaviors of a vehicle such as skidding.
*2 ABS: Anti-lock Braking System: It is the system to extract the maximum grip of tires by preventing their locks in braking.
*3 Hill Start Assist: It holds the braking force for about a second when one’s foot is taken off the brake pedal in starting on a hill, enabling smooth slope startup.
*4 J-NCAP: A car assessment program. Vehicles marketed by manufacturers are crash-tested under the same conditions, of which results are released to the public.
*5 electric power steering system: It is a mechanism to assist steering operations with the help of a motor. It gives better fuel economy since no engine-output consuming oil pump is needed as conventional hydraulic steering system.
*6 Info-ECO Mode: It is an AT mode which improves fuel economy through various controls. The Eco-lamp comes on when driving in a fuel efficient condition.

Feature Article 5 | Subaru's Approaches to Prevention of Global Warming Efforts in Product Development

Global warming, CO2 reduction, natural environment, etc.

There is no day passing without seeing these words in the mass media and on the internet. These have become matters of most serious concerns world-wide.

We now view the development and success of civilizations and cultures all realized through our own efforts, but in fact, we might simply have the ensuing happiness traded off with beautiful natural environments.

Today, Subaru has been tackling the global warming prevention issue at every stage of our activities from product planning, production to logistics to recapture such lost natural environments.

Next follow some examples of our approaches.

Much-expected Large-scale Wind Turbine System

Background of the Development of Large-scale Wind Turbine System

When global reduction of greenhouse effect gases is called for, Japan with most of its energy resources relying on imports must take initiatives in creating a low carbon society. What matters here is the wide-spread use of renewable natural energies, the most typical example of which is wind turbine system.

However, there are many issues in expanding the use of wind turbine system: unstable generation due to constantly changing wind, harsh natural phenomena unique to Japan including typhoons, lightning strikes and earthquakes, impacts on scenic beauties, noises, protection of birds, etc. Development of Japan-specific large-scale wind turbine systems or windmills had been much waited for efficient and stable power generation.

Doing Good to Global Environment by Venturing into Technological Innovation

To address these issues, Subaru which had accumulated experiences with small-to-mid-sized wind turbines, took on challenges in 2003 for the development of the "SUBARU80/2.0 Wind Turbine System" with an output of 2000 kW, the highest in Japan at that time. Fumbling our way out of difficulties, we finally succeeded in 2005 in installing a prototype which is character-

Characteristics of Our Large-scale Wind Turbine System and Its Advantages over Competing Products

1. Adoption of downwind rotor

The downwind method which directs rotor downwind was adopted as suited to Japan's topography. In general, the rotor is directed upwind, but the downwind type absorbs wind power efficiently with wind off topographical configurations like mountains and hills.

2. Reinforcement of lightning protection

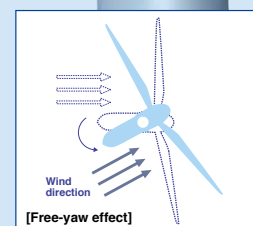
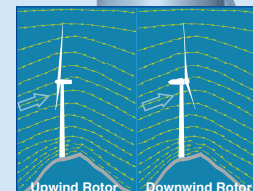
A lightning protection which exceeds the world standard is set as a standard feature by making the system strong enough against powerful lightning hardly seen outside Japan.

3. Safety device (Free-yaw effect)

A downwind turbine has the free-yaw effect which works to direct the rotor downwind naturally like a case of weathercock. When hit by storms, it can pass off wind naturally, and safety is assured in case of temporary blackout.

4. Easy installation

The nacelle can be disassembled and reassembled with smaller cranes and other equipment. The blades can be assembled onto the nacelle in the air, allowing their assembly when the land space is limited.



ized by the downwind rotor unique for large wind turbines. Then, the first production model was delivered in 2007, opening a new history of Subaru wind turbine system.

To make effective use of limited land space as in the case of Japan, technologies for larger wind turbines and use of ocean for optimal installation are much expected.

Subaru will keep tackling challenges for technological innovation to help solving the issue of global warming through wind turbine system.

Characteristic Engines Unprecedented in the World

Improvement of automotive fuel economy is strongly voiced world-wide as a measure against global warming. Particularly in Europe, where powerful running with good fuel economy is in demand, more than half of the passenger cars sold are of diesel type.

Subaru developed the world-first boxer-type diesel engine for passenger cars with significantly reduced CO₂ emission and improved fuel economy. The characteristics of the combined boxer engine^{*1} and symmetrical AWD, both Subaru's core technologies, were further uplifted, providing customers with Subaru-unique exhilarating driving and environmental technology.

In March, 2008, the Legacy and Outback equipped with this engine were put in the market.

Subaru's Driving Performance Distinct from the Pack of Existing Models

We pushed forward with the development on our own by fusing expertise fostered with boxer gasoline engines and many latest technologies without any model example. Despite many difficulties, we completed the development rather in a short time so that customers could taste as soon as possible the advantages of the combined boxer diesel engine and symmetrical AWD, the driving feel which is distinct from that of other diesel engines.

The horizontally opposed engine distinctively features an extremely low level of vibration by reciprocating pistons for a mechanical reason, which led to the elimination of balance shafts found on most of diesel engines in the same class to offset vibration. This feature eventually enabled a compact, lightweight and responsive engine with low friction resistance and fuel consumption,

excelling in both environmental performance and fun-to-drive.

The CO₂ emission of 148 g/km of the AWD Sedan represents a top fuel economy in the class. Subaru cars with the boxer diesel engine are highly evaluated in the European market where diesel-powered models have a high market share.



Boxer Diesel Engine for Passenger Cars

Travel Distance Nearly Doubled over Conventional Electric Vehicles

Prosperous future for automobiles depends on converting them into vehicles with minimum impacts to the global environment by wasting no fossil fuel and reducing CO₂ and other emissions.

Subaru thinks that ideal vehicles use as their power source electricity by wind power generation or other means which rely on renewable natural energy, coupled with regeneration system to retrieve the

running energy in deceleration as electric power.

Subaru started developing hybrid and other types of vehicles from the mid-1990s by trial and error.

However, with the remarkable progress in lithium ion cell technologies as a turning point, we redirected our efforts toward the development of electric vehicles (EV) expectedly with simpler and highly efficient system without an engine.

As a result, the R1e, an electric car which far outperforms comparable gasoline-powered cars in efficiency, was born.

running.

It can easily be charged by simply plugging into an outlet at home, and 80% charging is possible in 15 minutes if a quick charger is used. The running cost of this handy model also is much lower than that of gasoline cars in general.

Verification tests of 40 R1e models started on public roads jointly with Tokyo Electric Power Co., Inc. in June, 2006. Since September, 2007, joint verification tests have been in progress with Kanagawa Prefectural Government. Out of these valuable data from such tests are emerging an electric vehicle which is easy and pleasant to use.

Subaru will keep working for higher performance, matching with charging stations and road environment and cost optimization to realize a prosperous future with automobiles and a society where electric vehicles are part of our life.

Concept in Developing Electric Vehicles



Testing on Public Roads in Progress

The R1e is a car gentle to the urban environment for its extremely low noise level without emitting CO₂ while

*1 boxer engine: The nickname of horizontally-opposed engine

Various Approaches by Subaru Group

Introduced here are some approaches implemented in FY2007 to prevent global warming by the Subaru group including affiliates.

Efforts at the Production Stage

An additional natural gas cogeneration system was introduced at the Yajima Plant of the Gunma Manufacturing Division

In June 2007, an additional natural gas cogeneration system was introduced at the Yajima Plant of the Gunma Manufacturing Division.

With this system, we expect to reduce CO₂ emissions by approximately 8,000 tons and energy use by the equivalent of approximately 1,800 kl of crude oil per year.



In 2002, a natural gas cogeneration system was already introduced at the Yajima Plant and that leads to the reduction of CO₂ emissions by approximately 29% compared to 1990 with the newly introduced system.

We have five natural gas cogeneration systems in operation in total; besides two at the Yajima Plant, two at the Oizumi Plant of the Gunma Manufacturing Division and one at the Main Plant of Utsunomiya Manufacturing Division.

Reduction of Substitute CFC (HFC134a) Emitted to the Air

To reduce atmospheric emissions of HFC134a used as a refrigerant from the vehicle manufacturing line at Gunma Manufacturing Division, we have continued effort to minimize leakage while pumping and recovering gas in car air conditioner. As a result, we have succeeded to reduce emissions by over 95% compared to FY1996 levels since FY2003 and achieved a reduction of 97% in FY2007 following FY2006.

Also, we are studying substitute refrigerants which have less greenhouse effect.

Global Warming Prevention Subcommittee

We have the Global Warming Prevention Subcommittee which promotes activities to prevent global warming at the production stage as a subordinate body of the CSR and Environmental Committee^{*1}. This subcommittee has secretariats at each division and Company to promote global warming prevention in day-to-day production operations. The members meet once every three months for information sharing.

The amount of CO₂ emission was reduced in FY2007 by about 9,000 tons over FY2006.

We will keep striving to reduce CO₂ emission and to save energy by accelerating steps to improve work processes.



Other efforts at production stage by the Subaru group

- ◇ Temperature optimization in paint booths
- ◇ Stoppage of electric power transmission during holidays
- ◇ Improvement of logistics inside plants
- ◇ Reduction of working on holidays
- ◇ Heat insulation of buildings
- ◇ Heat insulating paint application to roofs
- ◇ Installation of watt-hour meters
- ◇ Switching boiler fuel from heavy oil to natural gas
- ◇ Adoption of inverter-type compressors
- ◇ Use of natural gas for heating
- ◇ Prevention of air leaks in piping
- ◇ Circulation of coolant to reduce water drawing
- ◇ Power factor improvement of transformer stations
- ◇ Employment of high-efficiency fluorescent bulbs for lighting

Company Office Activities

Employment of LED for SUBARU Rooftop Ad Tower of the Head Office Building

◇The Subaru ad tower mounted on the rooftop of the SUBARU Building in Shinjuku, Tokyo, had its neon tubes replaced with LED for illumination. It is expected to reduce CO₂ by 18 tons per year in addition to energy saving.



◇SCI (Subaru Canada, Inc.) has been saving energy through the use of a highly energy-efficient sign since 1988. Its affiliate, SOMI (Subaru of Mississauga) changed the illumination source of the SUBARU signs to LED in September, 2007 for energy saving and CO₂ reduction cutting the electric power usage by at least 40% .



Other measures taken in offices of the Subaru group

- ◇ Application of heat-absorbing films to window panes
- ◇ Strict control of air conditioning temperature settings
- ◇ Installation of body-sensitive switching of lights in stairs and passages
- ◇ Promotion of eco-friendly activities in offices
- ◇ Turning off of unnecessary lights
- ◇ Automatic vending machines shut down at night

Efforts at the Logistics Stage

Next follow some steps taken in domestic transportation of completed Subaru vehicles, which accounts for about 60% of the group's whole logistics volume.

Modal Shift

Subaru vehicles are sent from its assembly plants in Gunma Prefecture to dealers nation-wide. As for the transports to Sendai and to the north as well as to Osaka and to the west, sea transports emitting less CO₂ as compared with trucking are used. The sea shipments accounted for 43.2%*2 of the total domestic transportation of completed vehicles in FY2007.



Cooperative Transports

We are proceeding with cooperative transportation with other companies in the same trade by shipping each other's vehicles on returning car carriers to minimize unloaded returns. In FY2007, the cooperative transport volume or the total of consigned-to and consigned-from vehicles reached 40,678 units.

The Result of Our Efforts

With these efforts we are promoting the reduction of energy consumption and CO₂ emissions at logistics.

FHI's Company-wide Energy Used per Sales and CO₂ Emissions at Logistics

FY	Energy used per sales (crude oil equivalent k/1 million yen)	CO ₂ Emissions
FY2006 (base year)	0.00972	24,900
FY2007	0.00843	22,800
Compared to previous year	86.7%	91.6%

Other steps taken in logistics by the Subaru group

- ◇ Optimization of shipping routes
- ◇ Improvement of load efficiencies
- ◇ Installation of highly functional digital tachograph on trucks
- ◇ Lecture classes on eco-driving
- ◇ Cooperative use of sea containers with other companies
- ◇ Transportation method for some loads switched from air to land

*1 CSR and Environmental Committee ▶ See p. 36

*2 Number of units shipped out of the plant gates, excluding units for export



Message



Shunsuke Takagi

Representative Director of the Board
Corporate Executive Vice President
Chairman of the CSR and Environmental Committee

We have set a “Company Fulfilling its Social Responsibilities” as the business vision in the ongoing new medium-term management plan.

To embody its business vision, we formed anew the CSR^{*1} and Environmental Committee as a stepped-up management mechanism by rotating a company-wide PDCA circle of CSR as practiced in the Environment Management System since FY2007.

This CSR and Environmental Committee is a company-wide committee where CSR activities will be reviewed by the top management as well as environment-related activities which had been duly subject to such reviews.

In FY2007, activities promoted so far at each manufacturing plant and business unit were reviewed and streamlined for systematization. Subaru’s CSR action programs were also assessed from stakeholders’ points of view for visualization.

Following FY2006, we conducted the second in-house survey on CSR consciousness, based on which issues for CSR improvement were identified. In FY2008, we will work to get the idea of CSR sink deep into people’s mind for their better understanding of related activities. Meanwhile, we set the group-common three pillars of CSR activities: 1. environment, 2. traffic safety and 3. contribution to communities. Then, they will be broken down into specifics for individual’s day-do-day actions.

In addition, we will gear up for global activities involving the whole Subaru group.

Corporate Philosophy

The manufacturing principles of Subaru are built on the tradition of aircraft manufacture established by Nakajima Aircraft, the predecessor of Subaru. The DNA of our company consists of pursuit of the best performance, the fundamental concepts for designing aircraft, a concentrated, lean package to materialize it, and thorough implementation of safe operations under all environments. While maintaining an emphasis on these principles, we will strive to develop new values and actively work on environmental problems and compliance issues while treasuring our tradition, so that Subaru will be able to provide customers and other stakeholders with more satisfaction and reliance, and subsequently coexist in harmony with society.

- (1) We will strive to create advanced technology on an ongoing basis and provide consumers with distinctive products with the highest level of quality and customers satisfaction.**
- (2) We will aim to continuously promote harmony between people, society, and the environment while contributing to the prosperity of society.**
- (3) We will look to the future with a global perspective and aim to foster a vibrant, progressive company.**

In Pursuit of Aspired Self-image

We are taking steps along the new medium-term management plan covering the FY2007-to-FY2010 period to pursue our aspired self-image to be a “compelling company with strong market presence.”

The new medium-term management plan has reshaped our cornerstone by getting back to the original “Customers Come First” by modifying our occasional tendency to be too engineering-oriented. In product development with boxer-engine equipped vehicles as the core, we will focus on global environmental issues including CO₂ emission while offering new driving performance to be enjoyed by not only drivers, but also by all the other passengers. We will also work to enhance our systems to have customers’ demands better reflected in our products and

upgrade operations in sales and services in both domestic and overseas markets. By making use of synergy of alliance with the Toyota group, the model lineup will be bolstered for higher customers’ satisfaction. Furthermore, while revitalizing discussions based on the “New Three Guidelines”^{*2} inside and within the whole group, we will foster corporate vitality, a source of continuous growth, by cultivating human resources through employees’ training and other means.

It is our dream and sincere hope to be a model company where employees work with pride in all the business fields and build a brand image supported by customers around the world by pushing these activities forward for constant evolution.

*1 CSR: Corporate Social Responsibility

*2 “New Three Guidelines”: The three criteria in making judgments, namely “Good for customers?”, “Good for group’s development?” and “Good for Employees’ growth?”

Overview of Approaches to CSR



Corporate Code of Conduct

Subaru set down a corporate code of conduct to comply with laws and regulations and to fulfill its social responsibilities, based on our corporate philosophy. We will continue to strive to become a

company loved by all and contribute to making society more affluent by respecting individuals and the corporate code of conduct and acting on the same sense of values.

- (1) We will develop and provide creative products and services while paying sufficient attention to the environment and safety.**
- (2) We will respect the rights and characteristics of individuals.**
- (3) We will promote harmony with society and contribute to the prosperity of society.**
- (4) We will meet social norms and act honestly and fairly.**
- (5) We will maintain global perspective and aim to be in harmony with international society.**

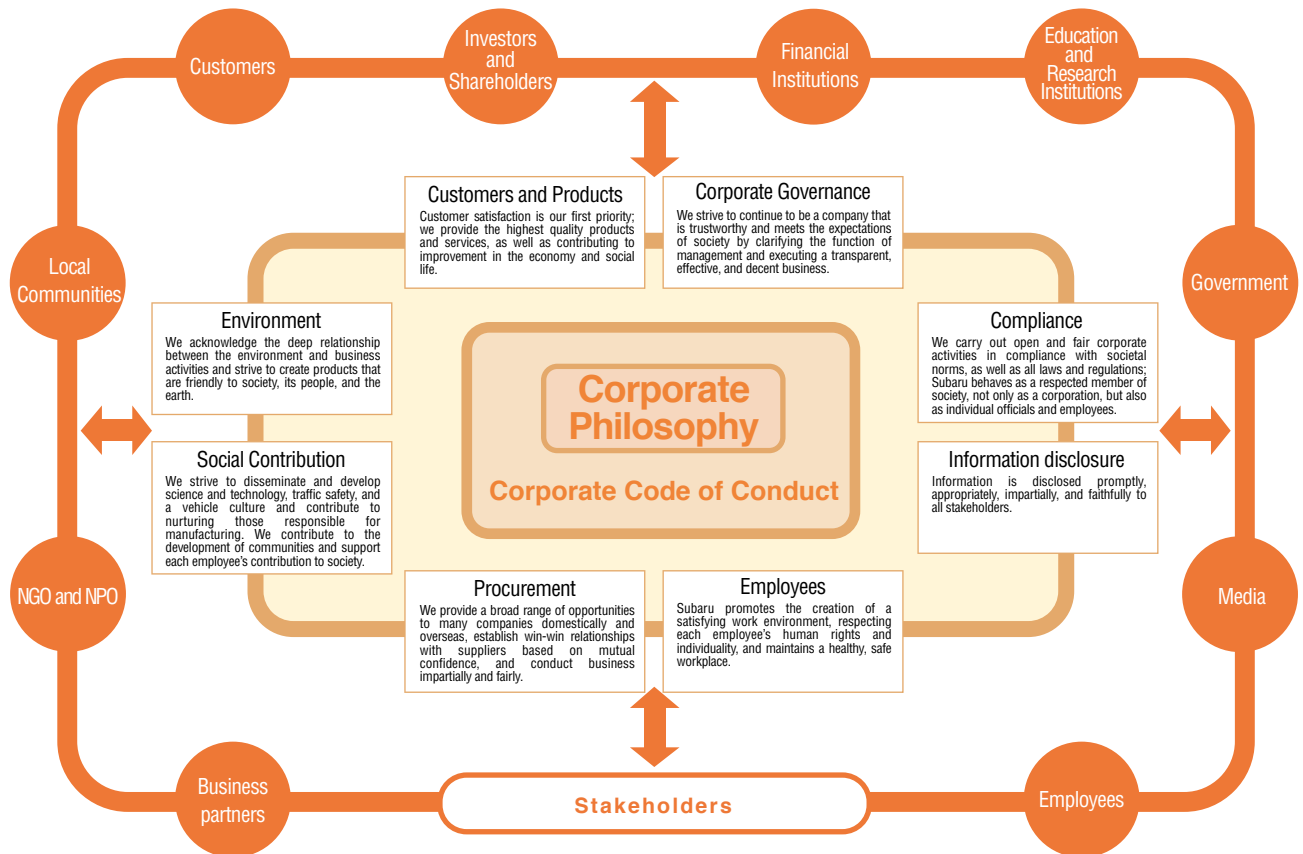
CSR Policies and Business Visions

Subaru believes that “Our Corporate Philosophy=Our CSR Policies”, or in other words, we affirm that CSR is a reflection of our corporate philosophy and fundamental to our business activities.

One of our business visions outlined in the new medium-term management plan is to become a “Company Fulfilling its Social Responsibilities”. This is a basic ideal, and is indispensable to us realizing our long term business vision of becoming a “Compelling

Company with Strong Market Presence”. In order to become a company worthy of our stakeholders’ trust, we will make efforts to contribute to the continuous development of society and to heighten the corporate value of our company, in accordance with such business visions under our basic policy of “Everything We Do Is for Our Customers”.

Relationship to Stakeholders



Overview of Approaches to CSR

Striving for Becoming a Compelling Company with Strong Market Presence



1. Established the CSR and Environmental Committee where the top management deliberates CSR.
2. Activities in three areas of environment, traffic safety and cleaning were set as the pillars of CSR activities.
3. Based on the results of FY2007 activities and the in-house questionnaire survey, we will promote activities by incorporating the action items for improvements.

Review of FY2007 and Plan for FY2008

Systematic CSR activities have been staged since FY2006 in three phases: identifying the current status and issues, streamlining activities and implementing new programs, and their promotion.

Outline of Activities

Regarding the issues in in-house activities for CSR improvements in FY2006: ①Raise awareness of links of individual's behaviors with CSR and ②Build system to efficiently and reasonably share, adjust, cascade and summarize CSR-related information, trainings were held more often and existing activities at each manufacturing and business unit were streamlined. Meanwhile, action programs were reviewed from stakeholders point of view for visualization. In addition, the Corporate Environment Committee was reorganized as the CSR and Environmental Committee where the top management deliberates CSR- as well as EMS-related matters.

In-house Survey

Following FY2006, we conducted an in-house questionnaire survey and hearings and identified what need be improved in our CSR activities as follows:

1. Analysis: Awareness level almost the same, unfortunately not much different from the preceding year.
 - Low infiltration of the idea, "Corporate Philosophy" equates with "CSR Policy".
 - Comprehension level not high enough to explain CSR activities (49% of managers and 19% of subordinate managers pointed a need for improvement.)
2. Issues: Further infiltration of the idea that "corporate activities themselves constitute CSR activities" is required.
 - Employees will be reminded to deepen their understanding on and interest in the CSR Policy through more accessible education and training programs.
 - Company-wide CSR programs will be hammered out and broken down into individuals' day-to-day operations.

Approaches in FY2008

Activities in three areas of environment, traffic safety and cleaning were set as the common pillars of CSR activities for the Subaru group to make each employee realize the importance of CSR and contribute to the society as a corporate citizen.

Based on the results of FY2007 activities and the in-house questionnaire survey, we will promote CSR activities by incorporating the action items in the FY2008 programs for improvements.

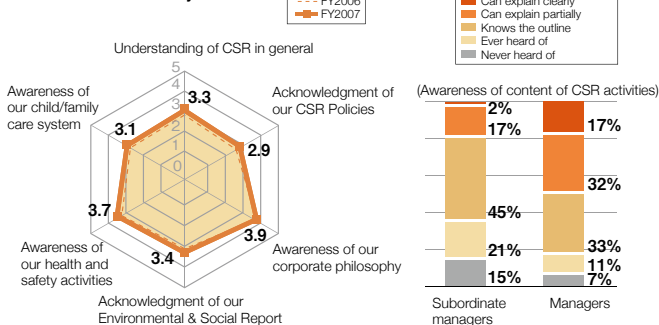
Three Pillars of CSR Activities of Subaru Group

Common Item	Idea	Content
Environment	First grasp impacts of daily business and household activities on environment, then take actions starting from where we can. Promote awareness for energy saving at home against global warming.	Participation in Team Minus 6% (a national campaign against global warming) Promotion of eco-minded actions at home
Traffic Safety	Strive conscientiously to reduce traffic accidents as transport equipment maker. Work for zero traffic violations and accidents.	Open safe-driving classes Tie-up with local governments Promote public transports
Cleaning	Strive to contribute to local communities who are vital partners in conducting business.	Clean around plants Tie-up with local governments Support local events

CSR Action Plans

Phase	Current Issue	Overhaul and Startup	Specific Actions
FY	FY2006	FY2007(Actual)	FY2008(Plan)
Action Item	Raise awareness of links of individual's behaviors with CSR	1.CSR class added in training programs for new managers 2.CSR concept introduced to affiliates in North America as group activities 3.CSR activities promoted on trial using EMS's procedures (at head office)	1.To be build in skill-specific trainings practiced at each manufacturing division 2.To promote systematic CSR actions at affiliates in North America 3.To promote Subaru group-common programs
	Build system to efficiently and reasonably share, adjust, cascade and summarize CSR-related information	1.Corporate Environment Committee reorganized as CSR and Environmental Committee to review both CSR and EMS by top management 2.Company-wide cross functional organization built by assigning members who represent each manufacturing division 3.Company-wide CSR activities reviewed and new action programs mapped out	1.CSR and EMS matters to be closely reviewed by top management at CSR and Environmental Committee 2.Company-wide cross functional organization to be revitalized by members who represent each manufacturing division 3.Besides group-common 3 pillars, CSR activities to be promoted by manufacturing divisions for community contributions

Result of the Survey





To Secure Satisfaction and Trust of Stakeholders

**2007
POINT**

1. We will take various measures to strengthen internal control, and will disclose information fairly and in a timely manner in order to increase management transparency.
2. The internal control system of the whole group has been overhauled and reinforced.

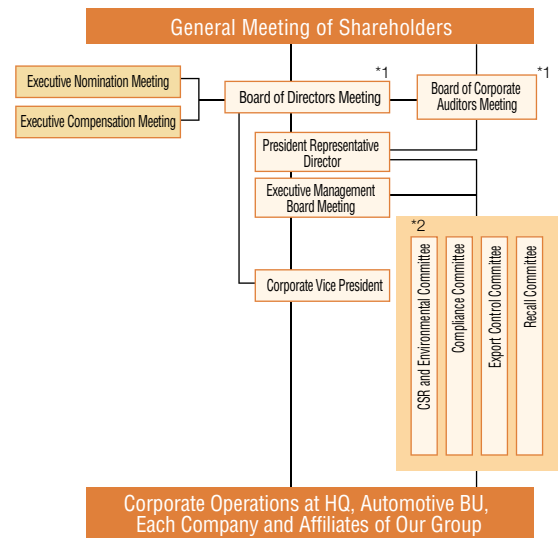
Fundamental Philosophy

In order to provide both customers and stakeholders with even more satisfaction and reliance, we are striving to strengthen our corporate governance, which is the most important task for our business based on our corporate philosophy.

Since June 1999, we have employed an executive officer system that helps clarify responsibilities to carry out operations in each division.

In addition, since June 2003, the terms of directors and executive officers have been reduced from two years to one. Also, since June 2004, according to the decision of the Board of Directors, we have given responsibility for the selection of corporate officer candidates to the Executive Nomination Meeting and given responsibility for evaluating performance, determining the remuneration of corporate officers and others to the Executive Compensation Meeting.

All these measures are designed to clarify management decision-making and operational functions, increase decision-making speed and enhance the effectiveness of business operations. The Board of Corporate Auditors Meeting consists of four corporate auditors, and is responsible for receiving reports on important auditing issues and deliberating accordingly. We will take various measures to further strengthen internal control, and will also disclose information fairly and in a timely manner in order to increase management transparency.



Establishment of Internal Control System

■ Enhancement of Risk Management

Streamlining and Enhancement in the Whole Subaru Group in Progress

Internal control is an indispensable mechanism to achieve corporate objectives, and the top management is responsible to establish it and maintain its effectiveness and efficiency. In our case, common departments with Strategy Development Division with its cross-business unit functions as king pin work closely with other departments and Companies to step up the risk management. Internal Audit Department audits systematically group companies for their operations. In addition, to regulate the internal control system, there are systems and organizations to promote compliance, which is positioned as the most vital element in risk management. Also, the internal control system of the whole group has been overhauled and reinforced to comply with the “Standards

for Management Assessment and Audit concerning Internal Control Over Financial Reporting” which was released to the public on February 15, 2007 by Business Accounting Council of Financial Service Agency, in the following areas:

1. Effectiveness and efficiency of business operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations related to business activities
4. Safeguarding of assets

*1 The Board of Directors Meeting consists of 8 executives. The board of Corporate Auditors Meeting consists of 4 auditors, including two outside corporate auditors, to observe the corporate management objectively (as of June 25, 2008).

*2 CSR Committee and Corporate Environment Committee have been integrated into CSR and Environmental Committee, which have been operated since May 5, 2007.
CSR and Environmental Committee ▶ See p. 36

Foundation of Management and One of Most Important Issues

**2007
POINT**

1. We have advanced Compliance Hotline System to use more easily.
2. In FY2007, about 2,700 employees took part in compliance and practical legal trainings.
3. We dispatch our employees as training instructor to our affiliated companies as well as Subaru dealers in an effort to promote group-wide compliance.

Fundamental Philosophy

Basic Policy

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

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

■ Corporate Code of Conduct and Conduct Guidelines

Subaru has established a Corporate Code of Conduct and Conduct Guidelines as the standards to ensure compliance with laws and regulations. These are described in detail in the Compliance Manual, which all officials and employees carry in order to ensure legal and regulatory compliance in their daily actions.



Compliance Manual

System and Administration

■ Compliance Regulations

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

■ Subaru's Compliance System/Organization and Administration Continuous and Systematic Implementation Activities

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

■ Compliance Hotline System

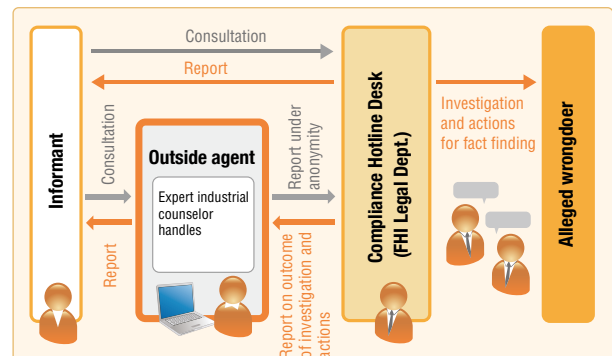
Outside Hotline Reception Desk Added for More Convenient Access

We have a "Compliance Hotline" as a by-pass communication channel which can be used by people who work in the Subaru group and others to report any dubious compliance-related acts or practices they have found inside the group directly to the Hotline Desk.

The Hotline Desk is located inside and assigned employees receive directly reports or information by mail, phone or e-mail and then investigate allegation and take appropriate actions according to rules. The names and sections of informants are kept confidential without their consent to protect them with utmost care from any disadvantages or inconveniences.

Starting from April, 2008, an outside compliance hotline reception desk has been in operation to extend the time for receiving hotline service and to enhance confidential treatment of names and sections of informants in an effort to make the hotline system easier to use.

◆ Compliance Hotline (Flow from consultation to solution)



Compliance Hotline Card



FY2007 Compliance Activity Achievements Overview

Education and Trainings on Compliance Trainings with Case Studies Ongoing

In FY2007, about 2,700 people including employees of group companies took part in compliance and practical legal trainings which were hosted by Legal Dept. and personnel and education departments. Case-study trainings introduced in FY2006 were attended by about 260 people to deepen their understanding through thinking for themselves and discussing immediate issues. Also at divisions and group affiliate, they give trainings to their members to study important laws and regulations related to day-to-day work and to foster understanding on compliance under their own programs, using such text books as "100 Case Studies of Compliance Issues".

Furthermore, for promotion of practical compliance activities, we have offered education and trainings to group affiliates, provided information through in-house publications, and encouraged their participation in our Compliance Hotline system to produce effective results.



100 Case Studies of Compliance Issues



Training for Case Study of Compliance

Activities toward Group Compliance Dispatch Our Employees as Training Instructor to Our Affiliated Companies and Domestic Dealers

In order to ensure compliance with laws and regulations, not only Subaru but also all our group companies must join forces and work in harmony. For this reason, we dispatch lawyers and our employees as compliance training instructor to each of our affiliated companies as well as domestic Subaru dealers and also provide textbooks in an effort to promote group-wide compliance with laws and regulations.



Training at Fuji Machinery with two outside lawyers as instructor

Our efforts for Personal Information Protection Prepared and Made Use of the Personal Information Protection Handbook

In response to enforcement of the Personal Information Protection Act, we have reviewed our internal system and regulations and announced privacy policy. Especially for domestic Subaru dealers, because they directly handle a large amount of our customers' personal information, we managed to thoroughly overhaul our internal system for each dealer and prepared and made use of the Personal Information Protection Handbook for Subaru Dealer Staff, which is common in all the dealers to help each staff member properly understand personal information protection.



Personal Information Protection Handbook



Everything We Do Is for Our Customers

Stepping Up Efforts for “Customers Come First”

**2007
POINT**

1. In FY2007, Customer Relations Department dealt with approximately 62,000 requests for assistance from customers.
2. In the 2007 Japan Sales Satisfaction Index (SSI) Study by J.D. Power Asia Pacific, Inc., Subaru moved up to a middle rank in the industry.
3. Customer satisfaction has improved with newly established “Customer-First” Promotion Dept.

Customer Relations Department

■ Activities of Customer Relations Department

Based on Our Action Policy of Promptness, Sincerity and Attentive Listening

Subaru has established the SUBARU Customer Center (operated by the Customer Relations Department) as a point of contact for customer inquiries, requests for assistance, demands and suggestions. Since communication is exchanged mainly by means of telephone and e-mail, we ensure quick, on-target responses to inquiries and requests for assistance from our customers based on our action policy of promptness, sincerity and attentive listening.

In FY2007, we dealt with approximately 62,000 (105% compared to the previous year) requests for assistance from customers. We feed the invaluable opinions, demands and suggestions from customers back to the relevant departments/divisions to increase customer satisfaction by improving quality, developing products and improving sales and services.

We believe that customers’ voices represent their expectations of Subaru. Therefore, we would like to continue to serve and give satisfaction to our customers through good communication with each and every one of them.

SUBARU Customer Center

**SUBARU Call: 0120-052215 (Domestic),
+81-3-3347-2626 (International)**

(Note that your call will be recorded to confirm the content)

Please contact SUBARU Customer Center if you have any inquiries as below.

(1) Opinions / Comments / Guidance (catalogue, dealership, changing address, etc)

(2) Inquiries / Request for assistance

Office Hours (Japan Time) : 9:00am - 5:00pm (weekdays)

: 9:00am - 12:00am / 1:00pm - 5:00pm

(Saturdays, Sundays and public holidays)

◆ Trends in Requests for Assistance from Customers

FY	2003	2004	2005	2006	2007
Number of requests	46,000	60,000	59,000	59,000	62,000
Compared to previous year	—	130%	99.7%	100%	105%

The CS Promotion Section

■ Responsibility of the CS Promotion Section

Activities to Improve Customer Satisfaction

We are conducting activities to support and promote customer satisfaction throughout the entire Subaru team, which includes Subaru dealers and all the divisions and departments within the company. Using our customers opinions obtained from Subaru questionnaires and from these Subaru dealers, to reflect on our products, the quality, the sales, and all the after-services, etc, we also want to ensure that our customers are looked after at our dealers by the highest standards, and are carrying out inspections and supervision at each location.

■ Outcome of Activities in FY2007

The Japan Sales Satisfaction Index (SSI) Study Ranked Middle in the Industry

In the 2007 Japan Sales Satisfaction Index (SSI) Study by a third-party agent, J.D. Power Asia Pacific, Inc., Subaru moved up to a middle rank of 5th out of 11 companies from 8th out of 10 companies in 2006 in the industry. This indicates that our joint efforts with dealers since 2005 to boost customer satisfaction, have borne fruit. In April, 2007, the “Customer-First” Promotion Dept. was newly created in the SUBARU Customer Center and a new full-time team was organized for hands-on support to dealers. These actions are all intended to raise our capabilities to cater to customers’ expectations through comprehensive nation-wide unified approaches and solution of specific issues.

▶ See Feature Article on p. 9



■ Approaches in FY2008

Stepping Up Efforts for CS Improvement

The content of the questionnaire used in our own customer satisfaction survey was largely changed in April, 2008. The new one is designed not only to gauge if our actions were satisfactory to customers, but also to grasp their expectations for immediate remedial actions.

In June, the function of the “Customer-First” Promotion Dept. was reinforced with additional staff. Especially, a full-time general manager was newly assigned in the dealer support group which works together with dealers for improvements, while the on-site support team in the group was beefed up with its members increased from 6 to 9 for fine-tuned follow-ups. Also, a planning team was set in the dealer support group to work out plans to raise productivity and handling capabilities in services, while building a system for sharing successful know-how.

In addition, an overseas group was newly formed in the Global CS Promotion Section to help overseas dealers hone customer-handling skills by collecting information and sharing know-how.

■ Training Facilities for Development of Human Resources

SUBARU Academy

The SUBARU Academy which opened in Hachioji City, Tokyo in January, 2005 has training facilities including 133 rooms for accommodation, a 4-wheel chassis dynamometer, test track and low-friction road^{*1}. Here, many training programs are carried out to help the gamut from management officers to the newly employed in the whole job spectrum from dealer sales staff to service mechanics to develop their skills systematically. It also accepts people responsible for entire management, sales and services, and instructors from both domestic and overseas dealers to offer human resources development programs from global perspectives.

In FY2007, 8,600 people including 4,360 salespersons and 3,100 mechanics took classes in total.

We will strive for enhancing the “Customers Come First” policy by practicing what were acquired through trainings.



A look of the SUBARU Academy

Subaru’s Vehicles for the Disabled – The TransCare Series^{*2}

■ Our Efforts for Welfare Vehicles

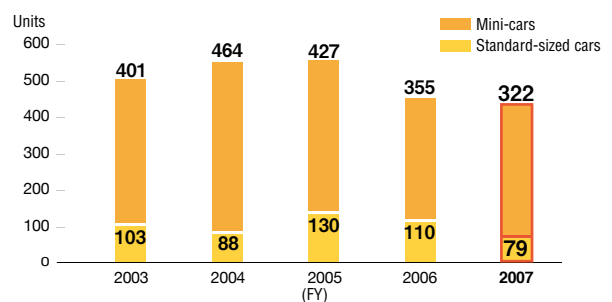
TransCare Series Set to the NEW FORESTER as well

Subaru has been manufacturing and selling vehicles in a series called TransCare, vehicles for the disabled, since 1982. Subaru offers a wide selection of TransCare automobiles, from mini-car Stella and wagon Sambar, to the Legacy, a standard-sized car. In FY2007, we set TransCare Wing Seat^{*3} Lift Type to fully remodeled Forester. We will strive for providing more customers with Subaru’s comfortable, reliable new driving performance.



Forester with Wing Seat

Number of TransCare series sold



*1 low-friction road: Test track which simulates slippery road surfaces.

*2 TransCare: It is coined by combining “Transportation” and “Care”. The wording was registered as trademark in 1997 as generic name for Subaru’s welfare vehicles.

*3 Wing Seat: Rotating front and left rear seats to allow for easy loading and unloading of passengers.

Everything We Do Is for Our Customers

Aiming to Create a Traffic Accident-Free Society

2007
POINT

1. The IMPREZA won the New Car Assessment Grand Prix 2007/2008^{*1}.
2. The EyeSight^{*2}, which is an advanced driving assist system with excellent pre-crash safety (reduction of crash damages), has become a commercial product.

Making Safe Vehicles

Basic Concept of Making Safe Vehicles

Development Oriented toward Traffic Accident-Free Society

Under our safety-first concept to give customers a sense of security, we view that "Combining Comfortable, Reliable New Driving Performance with Friendliness to the Global Environment" is what dictates us to pursue in product development.

In safety, we set a target to have both passive safety, which secures safety in accidents, and active safety, which prevents accidents, balancing them at a high level, and are now engaged in developing safety technologies toward a society free from traffic accidents.

Approaches to Passive Safety

Awarded with the Japan New Car Assessment Grand Prix

In passive safety, Subaru always aims to achieve high impact safety against omnidirectional collisions. Survival space is secured in the cabin by adopting the Subaru-unique new ring-shaped reinforcement frame structure against collisions from any directions. We are also involved in embodying the concept of compatibility, which balances safety of one's own vehicle and the aggressiveness to other vehicles, including reduction of injuries to pedestrians.

The Impreza developed based on such approaches was given the highest assessment in both impact safety performance (driver

and passenger seats) and pedestrian head protection performance tests in the 2007 Japan New Car Assessment Program^{*3}, winning the New Car Assessment Grand Prix 2007/2008.



New Car Assessment Grand Prix 2007/2008 ceremony



Approaches to Active Safety

Development of Advanced Safety Vehicles

For active safety, it is vital to allow a driver to control the basic performances of vehicle, "Run", "Turn" and "Stop", as he/she wishes. Subaru has fine-tuned these basic performances, setting out to extend the application of VDC (Vehicle Dynamics Control) device to prevent skidding and BA (Brake Assist) system. Furthermore, we have been working on advanced safety vehicles which assist drivers in active safety by identifying in advance various adverse factors which could cause accidents.

Advanced Driving Assist System "EyeSight"

Among approaches to active safety, Subaru commercialized the world-first driving assist system, ADA (Adaptive Driving Assist). By combining the Subaru's core technologies of stereo camera and millimeter wave radar, we have developed a system to practically assist driving through providing various information and warnings.

Subaru has evolved the ADA to the EyeSight, which is an advanced driving assist system with pre-crash safety (reduction of crash damages) for commercialization. The EyeSight has a pre-crash braking system which allows detection of a pedestrian or bicycle only with stereo cameras. It made unprecedented^{*4} pre-crash control in the low speed range below 15 km/h a reality by perceiving objects moving down to 0 both in velocity and in distance. In addition, a function to reduce damages resulting from an unintended acceleration by erroneous operation of the AT shift lever was put to practice, another example of the world's firsts^{*4}.

Subaru will keep engaged in research and development toward an accident-free society.

Next Generation ADA
Development of new impact damage reduction control (pre-crash)
Protection of pedestrians and bicycle riders
Avoidance of accidents at low speed
Avoidance of accidents due to erroneous operations

2003 - 2006
Full speed range adaptive cruise control
Vehicle-in-front startup monitor
Sway warning

1999
Adaptive cruise control
Inter-vehicle gap warning
Lane departure warning

Expanded assist range by new ADA system



Pedestrian recognition image by ADA

*1 The Japan New Car Assessment Program Grand Prix 2007/2008:

The winning vehicle of the Grand Prix award is the one with the highest assessment score out of those vehicles which have received the highest rating of 6 stars for both driver and passenger seats in the overall assessment of impact safety performance together with the highest rating level of 5 in the assessment of pedestrian head protection performance

*2 EyeSight: The Next Generation ADA (Active Driving Assist) announced by Subaru in October, 2007

*3 The Japan New Car Assessment Program: The Ministry of Land, Infrastructure, Transport and Tourism and National Agency for Automotive Safety & Victims' Aid (NASVA) jointly conduct assessment tests for vehicle safety and disclose their results to the public.

*4 As of March, 2008 by Subaru research



Two-way Communication with Shareholders

**2007
POINT**

1. We are working on fair information disclosure and providing latest IR information.
2. We have held plant tours and invited 103 individual shareholders.

Together with Shareholders

FHI's Consolidated Business Performance and Dividends

The performance in FY2007:

Total sales- 1,572.3 B yen (105% over FY2006), up by 77.5 B yen
Operating income: 45.7 B yen (95.4% over FY2006), down by 2.2 B yen
Ordinary income: 45.4 B yen (107.6% over FY2006), up by 3.2 B yen
Net income: 18.5 B yen (57.9% over FY2006), down by 13.4 B yen

Under such circumstances, based on the basic long-term stable dividend policy, annual dividend per share was set at 9 yen (4.50 yen at the mid-term end and 4.50 yen at the term end).

As for FY2008, we are striving to outperform FY2007 in Subaru new car sales with a total annual sales expected to be 1,600 B yen. Regarding the profits, we would be obliged to see drops over the preceding year due to surging costs of raw materials such as steel, crude oil and precious metals, market deteriorations and sizable appreciation of yen. It is planned to achieve 23.0 B yen for operating income, 20.0 B yen for ordinary income and 10.0 B yen for net income.

Information Disclosure

Fair Disclosure and Communication

Our website has a page "Investor Relations" to provide our latest IR information. Various IR materials can be downloaded from the site.

For our latest IR information, please visit our website:
<http://www.fhi.co.jp/english/ir/index.html> [Japanese only]



Together with Individual Shareholders

Staging Plant Tours

We have been holding plant tours for shareholders once a year since 2004. In 2008, we invited 103 individual shareholders on March 20 (a national holiday) to the fifth plant tour.

On that day, the participants who gathered at the Visitor Center of the Yajima Plant in Ota City, gave ear to the explanation on the plant outline, saw production processes of Subaru production and voiced their opinions at the Q&A session.



Explanatory meeting by our management



The Visitor Center tour



Recycling Lab tour

◆Comments in Questionnaire by Shareholders Who Joined in the Plant Tour

Positive Comment/Impression	Negative/Constructive Comment
<ul style="list-style-type: none"> • Felt positive atmosphere in receiving visitors at the production sites • Pleased to have the plant management present sitting in the front row for Q&A • Enjoyed the tour in wheel chair • Made me feel like caring my car as the fruit of hard labor by workers • Attentive and cordial response in Q&A 	<ul style="list-style-type: none"> • Almost inaudible inside shop due to noise • Wanted to hear also on efficiency and safety adding to production processes • Want to hear more about environmental measures • Presentation materials or more time for explanation needed • Be more frank with proposal reforms for improvements of plant and car making

Activities to Contribute to Society as a Good Corporate Citizen

**2007
POINT**

1. We have been awarding employees who are involved in volunteer activities using their private time.
2. In FY2007, 103,260 visitors came to make tour of our SUBARU Visitor Center.

Social Contribution Activities

Subaru has established a Social Contribution Policy as one of the CSR activity areas and is actively promoting social contribution activities.

Social Contribution Policy

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

Assisting volunteers in many ways to raise employees' awareness of social contribution

■ Support of Volunteer Activities

Award System to Enhance Employees' Awareness

The 4th clause of our social contribution policy declares, "We will support each other in contributing to the society as good citizens." Donation and sending people to work for others is one thing, but behind this declaration is our idea that corporate contribution will have depth with a soul when each of us has taken the importance and preciousness of social contribution to heart.

To give shape to our idea, we have been awarding since FY2006 employees who are involved in volunteer activities using their private time. Mr. Harumi Yanbe received the accolades in the 2nd Volunteer Award ceremony in June, 2007. Yanbe's was awarded for his many years of service as a Boy Scout leader and blood donations totaling 63 times.



Mr. Harumi Yanbe and Takagi, Chairman of the CSR and Environmental Committee

■ In-house Activities

Activities that Anyone can Join Casually

As an easy volunteer activity by any interested employees, collection boxes for articles like used postage stamps and prepaid cards were set here and there, and the collected are donated to outside voluntary and other groups.

Also, the General Administration Dept. of Gunma Manufacturing Division is taking initiatives to collect pull tabs of beverages to swap them for wheel chairs. In December, 2007, they collected a heap of such tabs weighing 800 kg, which was exchanged for a wheel chair. The chair will be donated to a welfare institution.

We are proceeding with this program for a second and a third wheel chair.



The wheel chair swapped with pull tabs and the employees of Gunma Manufacturing Division



To Spread Traffic Safety

Approaches to Spread Traffic Safety

Ongoing Participation in Pilot Experiment Projects

We focus on developing safety technologies not only to reduce injuries to the driver, passengers and pedestrians in case of a collision, but also to prevent accidents. We are working on technologies of stereo cameras as sensing device and vehicle control for commercialization. ▶ See TOPICS on p. 27

In this context, we are now proactively involved in pilot experiments for accident prevention and mitigation of damages in cold areas in winter, taking part in projects in Akita and Sapporo in FY2006 and FY2007.*1

Each Company and affiliate of our group annually hold study meetings and driving classes on traffic safety, reminding their employees of their belonging to a company which develops and produces transport equipment including automobiles and their parts.



Please see p. 34 for holding meetings and classes on traffic safety and our Supplementary Volume for Data on our website.

Contribution to Local Communities

We have been associating with people in communities by actively joining in local events and continually staging self-made events for communication with local residents.

SUBARU Visitor Center of Gunma Manufacturing Division

Communication through Plant Tours

The SUBARU Visitor Center opened in the premise of the Yajima Plant of Gunma Manufacturing Division on July 15, 2003. It is the facilities which exhibits and introduces successive Subaru vehicles, cars which set world records and Subaru-unique approaches to technological development and the environment. In FY2007, 103,260 elementary school students came from local schools to see the exhibits and car manufacturing processes.



Free admission; please visit our website for the detail.
<http://www.subaru.jp/about/showroom/vc/index.html> [Japanese only]



A look of the Visitor Center



The exhibition room for Subaru vehicles in the Center

Utsunomiya Manufacturing Division

Road Crossing Unused Spur Tracks Built for Local People

As one of local contributions, we worked on the old spur tracks north of the main plant with the help of the Utsunomiya City and opened a road for pedestrians and bicycle riders. On April 4, 2008, with the attendance of the Utsunomiya mayor, the chief of the Utsunomiya Minami Police Station, heads of 11 community associations and other local people, an opening ceremony was held. A letter of thanks was presented by the head of the jurisdictional community who put up a signboard showing "SUBARU ROAD" on it.



The signboard for "SUBARU ROAD"



The opening ceremony

Kiryu Industrial Co., Ltd.

Contributions by Affiliates

Affiliated companies are also positively playing their part by unfolding activities including cleaning neighborhoods for local contributions. The Kiryu Industrial, for example, are involved in cleaning school roads for children and the sides of railroad around the plant.



Kiryu Industrial Co., Ltd.: Cleanups in June 2007, the national environment month.







*1 For more information about this societal experiment, please visit the website, the Akita Slippery Road Conditions Navigator, dedicated to this project.
<http://tsurunavi.ce.akita-U.AC.jp/> [Japanese only]

Social Involvement

■ The Introduction of Major Events and Cleanup Activities to Contribute to Local Communities in FY2007

In FY2007, Subaru held events and carried out cleanup activities to contribute to local communities as follows. We will continue to actively work on having more communication with local communities.

	Business Sites	Events to contribute to local communities	Cleanup activities
FHI	Gunma Manufacturing Division	<ul style="list-style-type: none"> Subaru Appreciation Festival at the Yajima Plant (About 35,000 visitors) [Oct. 1] Friendship and Appreciation Festival at the Oizumi Plant (About 2,000 visitors) [May 20] Plant Tour (88,069 elementary school children, 15,191 general visitors, 103,260 in total) Summer Vacation Vehicle Class (About 400 participants of elementary school children and their guardians) [Aug. 2, 8 & 9] Eco Class Delivery Service (Subaru Environmental Exchange Circle)*² (target: 30 local elementary schools, 2,676 people in total) Joined the summer festivals of Ota City, Isesaki City, Oizumi Town, and Ora Town (About 1,500 participants) Subaru Cup Ota City Rubber-Ball Tournament for Children (About 500 participants) [July–Aug.] Subaru Pennant Gunma Rubber-Ball Tournament for Children (About 400 participants) [Sep.–Oct.] Hosted Jyosyu Ota Subaru Marathon [Oct. 27] Accepted learning by work experience of junior high school students (8 students in total) [July–Nov.] Held baseball classes for boys and high school students [About 1,600 participants in total] Subaru Friendship Concert hosted by the Subaru Community Exchange Association (4 times a year, 2,200 participants in total) 	As the Subaru Community Exchange Activities* ¹ <ul style="list-style-type: none"> Cleanup of Kanayama (400 participants) [May 26] Environment beatification activities (About 200,000 participants in total a year) [twice a month] 
	Saitama Manufacturing Division	<ul style="list-style-type: none"> Joined in the Kitamoto Evening Festival (About 300 employees and their families) Supported Rengeso Matsuri, or Milk Vetch Festival 	<ul style="list-style-type: none"> Cleanup in Japanese Environment Month (103 participants) [June 20] Pikapika Kitamoto Omakase Program, or Kitamoto-city Voluntary Cleanup Program (819 participants in total)
	Utsunomiya Manufacturing Division	<ul style="list-style-type: none"> Friendship Festival (About 8,000 visitors) [Oct. 28] Eco Class Delivery Service*² (target: 20 local elementary schools, 1,519 people) Green Fundraising: 374,133 yen (8th time, cumulative total: 2,715,622 yen) An interaction meeting with board members from neighborhood community (22 participants visited Saitama Manufacturing Division) [Dec. 5] Opened the north side wall of the site as Friendship Atelier to the public [July–Aug.] Held summer evening festival (About 7,000 participants) [Aug. 4] Miyukikko Eco Festa (600 Miyuki elementary school children and their 200 guardians) [Feb. 6] Opened road crossing unused spur tracks [since April 4, 2008] 	<ul style="list-style-type: none"> Cleanup campaign around the manufacturing site (368 participants) [June 16]
	Tokyo Office	<ul style="list-style-type: none"> Held summer evening festival (About 2,000 participants) [Aug. 3] Opened the gymnasium in the site to the public (weekdays, about 500 users a month) Office Tour for elementary school children (8 local elementary schools, 740 participants) 	<ul style="list-style-type: none"> Cleaned up the roads around the dormitory for single employees (once a month, 240 participants in total)
Domestic Affiliated Companies	Yusoki Kogyo	<ul style="list-style-type: none"> Supported Green Fundraising of Utsunomiya Manufacturing Division Traffic safety guidance in the street Accepted learning by work experience of junior high school students (2 students in total) [Aug. 10–13] 	
	Fuji Machinery	<ul style="list-style-type: none"> Summer evening festival at the head office (About 800 participants) [Aug. 11] 	<ul style="list-style-type: none"> Cleaned up sidewalks around the head office (once a week)
	Ichitan	<ul style="list-style-type: none"> Ichitan Summer Festival (200 neighboring families participated) [July 28] Lent Sports Plaza to neighboring schools, local mothers' clubs and others 	<ul style="list-style-type: none"> Cleaned up the Tonegawa River (25 participants)
	Kiryu Industrial		<ul style="list-style-type: none"> Cleaned up school roads and weeded the sides of railroad around the plant [June 1] Cleaned up roads around the plant [once a month, 48 participants in total]
	Subaru Logistics	<ul style="list-style-type: none"> Fundraising for children orphaned in road accidents 476,258 yen [Dec. 17 by Subaru logistics association] 	<ul style="list-style-type: none"> Cleanups around the company [lunchtime on Mondays]
Overseas Affiliated Companies	SIA (U.S.A.)	<ul style="list-style-type: none"> Fundraising: twice (June and Dec.) by the SIA Foundation (\$82,543) Donated Legacy to the City of Lafayette and the Tippecanoe County as part of SIA's 20th Anniversary celebration 	
	SOA (U.S.A.)	<ul style="list-style-type: none"> Provided a Subaru vehicle for use to the NJ Academy for Aquatic Sciences Supported intern program to students pursuing careers in environmental education and wildlife rehabilitation Employees and families painted, cleaned, & refurbished homeless mission as volunteerism 	<ul style="list-style-type: none"> Oregon Beach Cleanup [Sep. 15] 
	SCI (Canada)	Participated in the Earth Days event 2007 and cleaned up around their business property 	 <ul style="list-style-type: none"> Volunteer Clean-up Program in partnership with the City of Mississauga committing to cleaning up a 2.5km stretch of street

*1 The Subaru Community Exchange: An association consisting of Subaru and its fifty-four suppliers, organized with an aim to 1) enhance interactions with local residents in the city of Ota and its neighboring communities, 2) develop local areas, and thereby 3) contribute to creating comfortable, people-friendly communities.
3 companies (Ichitan, Kiryu Industrial, Subaru Logistics) also join the activities.

*2 Eco Class Delivery Service: The activity that our employees visit local elementary schools to provide environmental education.



Please visit the website of The Subaru Community Exchange as well for activities on this page.
<http://www.chiiki-kouryukai.com/> [Japanese only]



Creating Better Working Environment for Each Employee

2007
POINT

1. We introduced the "SUBARU Technical Expert Program" as one of our approaches to enhancing and handing down expertise.
2. We worked out voluntarily the secondary action plan under the Next Generation Education and Support Promotion Act and will keep working on to strike "Work/Life Balance".
3. We have achieved 2.0% of employment of people with disabilities, exceeding the legally mandated rate of 1.8% and will promote their employment.

Human Resource Development, Benefits Packages, Employment and Human Rights

Approaches to Enhancing and Handing Down Expertise SUBARU Technical Expert Program

We introduced the "SUBARU Technical Expert Program" to improve technical expertise in FY2006. This program has two main purposes: Comprehensive Enhancement and Hand-down of Expertise.

Comprehensive Enhancement

Based on the in-house Skill Qualification Standards which spell out the required knowledge and skill for types and levels of work, employees receive knowledge education and technical trainings which emphasize the basics and principles at the SUBARU Technical School (STS) to acquire practical skills.

The students can realize the improvement of their skills through an evaluation system.

Hand-down of Expertise

There are two hand-down courses, Special Skill and Know-how, which are designed to pass on outstanding expertise and special skills including intuition and knacks that highly-skilled technicians possess.

Supporting the Acquisition of Official Certifications Enhancing Support for Self-Development

Starting in 2007 we are subsidizing expenses such as exam fees and tuition for seminars incurred while acquiring certain official certifications designated by the company as part of our cafeteria-style welfare benefits program, called "My Vision". We will continue to expand our support efforts by providing a constructive welfare benefits program that meets the needs of our employees so that all our employees can achieve their dreams.

Items in My Vision, the cafeteria-style welfare benefits program

Category	The Company Provides
Self-Development	Selectable in-house group training and correspondence courses, lectures on the official certifications designated by the company and assistance to acquire such certifications, various types of "schools" and so forth
Livelihood Support	Access to nursing care and parenting (nursery schools, baby sitters) facilities, children's education, etc.
Life Planning	Seminars and consulting services on life planning
Refreshing Activities	Access to gyms, lodging facilities, package tours, cultural appreciation, sport-game watching, leisure facilities, etc.
Subaru Support	The support to purchase Subaru products (excluding cars), and access to vehicle inspections and repairs at affiliated dealers

Approaches to "Work/Life Balance"

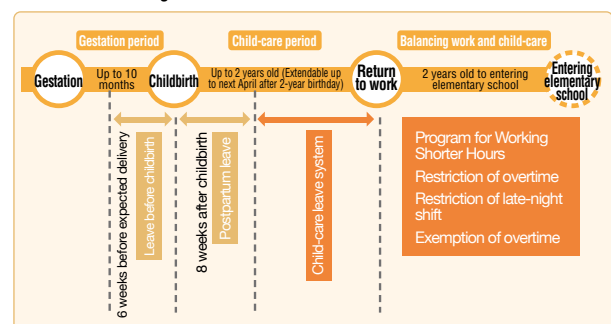
Supporting Life Balanced between Work and Home

We believe that developing fully each employee's potential requires supporting them to have both work and home properly balanced, and for that matter it is important to improve their working environment. Specifically, a child-care leave system which allows extension of leave until the third birthday of a child, and another system for short working hours until the child reaches its school age were introduced to improve the environment for employees with young children. As a result, in 2007, we were certified by Director of the Tokyo Labor Bureau as a private sector employer which meets the standards under the Next Generation Education and Support Promotion Act ("Act").

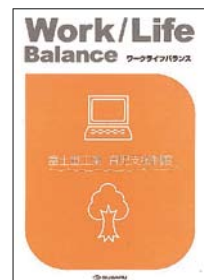
Since then, we worked out voluntarily the secondary action plan for FY2007 to FY2009 under the Act, and are currently modifying various systems for easier use by employees, including incorporation of safe motherhood to support mothers to deliver and raise their babies in the Working Regulations and review of eligibility for short working hours for child rearing.

We will keep working on to create better working environment to strike a balance between work and child/family nursing care.

Flow of Balancing Work and Child-care



Mark of Certification for the Next Generation Education and Support Promotion Act



"Work/Life Balance Pamphlet" distributed to all employees

With Employee

■ Promotion of Reemploying after the 60-year-old Retirement

Senior Partner Program

Subaru introduced the "Senior Partner Program" in 2003 to re-hire employees after the 60-year-old retirement age for reemployment of the aged and better draw on human resources. We revised part of this program to tune with the after-retirement age employment to 65 years old, which became mandate by the Revised Law Concerning Stabilization of Employment of Older Persons. In FY2006, we reviewed this program again for more active use of resources by re-employment. We will promote re-hiring senior people after the retirement at 60 to use their experience and abilities for fostering juniors through handing down their expertise in this program.

■ Promoting the Employment of People with Disabilities

We Have Achieved the Legally Mandated 1.8% Rate of Employment of People with Disabilities and Are Continuing to Promote Their Employment

The percentage of Subaru employees with disabilities was approximately 2.0% as of March 2008, exceeding the legally mandated rate of 1.8%. We are making an active effort to employ people with disabilities in order to create an affluent society that allows everyone to lead a satisfactory life. Approximately 156 people with disabilities work at Subaru at present. In the future, we will continue our efforts to hire and employ people with disabilities.

Voice



Toshiharu Maeda
A recruiter of
Human Resource Dept.

Employment of talented people

We look for people with diversified backgrounds without limiting to some particular universities, departments and majors. People we want are of independent type who excels in finding problems, solving them and coming with required outcome all by themselves. We are employing such people with various careers at any time as required in addition to new graduates.

■ Respect for Human Rights

For Better Partnership Prevention of Sexual Harassment

Our corporate code of conduct declares that we will respect the rights and characteristics of individuals, advocating respect for human rights. Our Working Regulations also clearly states that no one shall disturb working environments by committing sexual harassment.

Sexual harassment is nothing other than intolerable human rights violations.

The Revised Equal Employment Opportunity Act which went into force from April 1, 2007, prohibits sexual harassment against men as well.

Sexual harassment is clearly prohibited in our Labor Agreement and Working Regulations. In addition, a booklet "Sexual Harassment Prevention Guidelines" has been distributed to all employees and each business unit offers consultation service.



The booklet "Sexual Harassment Prevention Guidelines" distributed to all employees

Creating Health and Safety

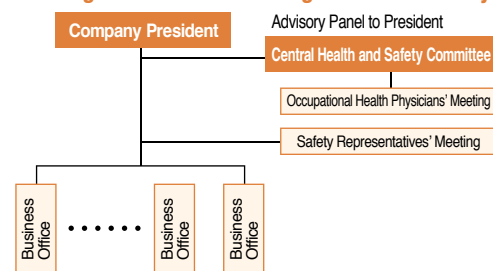
Basic Philosophy of Health and Safety

Health and Safety take priority in any business

Basic Policy of Health and Safety

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

The Organization Promoting Health & Safety



■ Occupational Safety

To Raise Safety Awareness of Each and Every Person and Improve Management

Subaru has been conducting activities to help individuals raise their safety awareness, improve management of workplace, and eliminate risks. To raise awareness, KYT¹ and the Hiyari Hatto² Activity were implemented. To improve management of the workplace, a self-management activity called TSZ³ was introduced at an early stage in each workplace. In addition, in 2000, Subaru introduced our original small-group risk assessment system to improve safety of each and every person and to eliminate risks. Subaru also makes efforts to further improve occupational health and safety levels and prevent on-the-job injuries. Towards these ends, we introduced a new risk assessment system to the Gunma Manufacturing Division where the Occupational Health and Safety Management System⁴ had already been implemented, and are constantly working on improving the Management System by internal auditing.



In order to improve the activity level, Subaru checks the risk assessment activity status at each section and offers guidance to them under the leadership of general managers (health & safety general managers of Production Dept).

◆ Trends in Occupational Accident Occurrence

(FY)	2003	2004	2005	2006	2007
Number of occupational accidents occurred	48	45	34	37	34
Frequency Rate (Average in the Manufacturing Industry)	0.98%	0.99%	1.01%	1.02%	1.09%
Frequency Rate (Subaru Automotive Business Unit)	0.59%	0.37%	0.55%	0.32%	0.51%

■ Creation of a Comfortable Working Environment

Conducting Improvement Activities to Create a Comfortable Workplace

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

■ Health Care

Added Extra Items to the List of Legally Mandatory Diagnostic Items

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

*1 KYT: Training for predicting dangers; K: Kiken (Danger); Y: Yochi (Prediction); T: Training
 *2 Hiyari Hatto: Activity to collect cases of near-miss incidents.
 *3 TSZ: Total Section Zero (related departments and sections make combined efforts to attain zero disasters).
 *4 A system to promote the organized, stable management of health and safety, aiming at creating a workplace with zero disasters and zero danger through a clear set of processes: "planning, implementation, evaluation and improvement."

■ Traffic Safety

Education and Training to Prevent Traffic Accident

Subaru is making various efforts to prevent traffic accidents that might occur in the course of business activities, commuting, or private time. The Gunma Manufacturing Division and the Tokyo Office, have held classes on Safe Motorcycle Driving in cooperation with the Metropolitan Police Department's team of motorcycle policemen (67 participants) in order to provide our employees with basic lectures and driving lessons. In addition, in order to further enhance safe driving we are implementing education and training that utilize a safe driving simulator and show the drivers how they drive.

The Gunma Manufacturing Division has implemented education that includes real-life experiences of safe driving as part of their voluntary traffic safety promotion activities. This education is designed, in addition to providing instruction in driving techniques,

to teach drivers about different perspectives on driving, for example the way drivers' actions can be dangerous to pedestrians and how to make a right turn in a safe, timely manner.



Class on Safe Motorcycle Driving



Driving Simulator

TOPICS

Lecture Meeting and Panel Discussion

"How to Handle Mentally Troubled as Manager"

At the 32nd Company-wide Health and Safety Convention, we held a lecture meeting and a panel discussion with the attendance of specialists on an important health issue: how managers should handle mentally troubled people. Then, we learnt that day-to-day communication with subordinates would prevent or mitigate such mental disorder and all the participants vowed each other to work together to cope with the issue.





Group-wide Promotion of Tackling Global Warming

**2007
POINT**

1. We have newly established CSR and Environmental Committee and are tackling issues further.
2. The Environmental Performance Evaluation System was reviewed for evaluation items and method to make it more reasonable and effective.
3. We have been involved in group-wide activities aiming to achieve the goals under Environmental Conservation Program.

Environmental Policy

Subaru believes that responding to the problems of the global environment is one of the important tasks of management. Based on its corporate philosophy, Subaru has established an Environmental Policy, a policy for carrying out environmental conservation. Subaru has also established guidelines for specific actions—the Operating Criteria for Environmental Conservation in order to promote the Policy. Involving all of the employees, Subaru is moving its activities forward.

Environmental Policy (Established in April 1998)

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

Operating Criteria for Environmental Conservation

- (1) Subaru is committed to environmental conservation and gives consideration to environmental impacts at every step of product development, design, manufacture, sales, service, and disposal.
- (2) Subaru observes relevant laws, regulations and agreements with communities and industries, while also promoting voluntary activities in accordance with its own environmental objectives and targets as determined by the Company.
- (3) Subaru recognizes the importance of continual improvement and efforts to prevent pollution and encourages every employee to act with self-awareness and responsibility.
- (4) Subaru endeavors to raise environmental consciousness by providing educational opportunities for its employees according to their job status and job description.
- (5) Subaru regularly performs audits and inspections to improve its environmental conservation activities.
- (6) Subaru is committed to interacting within the community and engaging in joint activities to further environmental conservation.

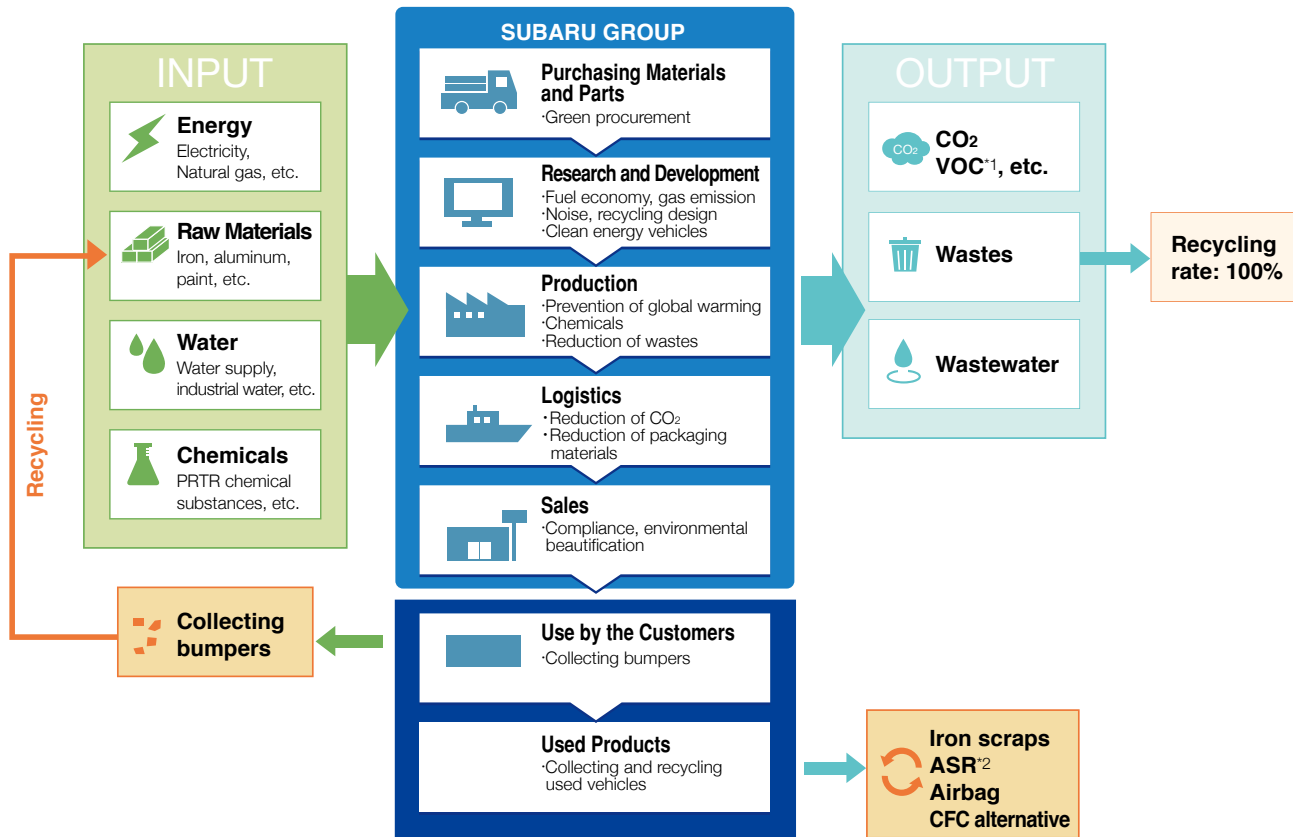
Corporate Activities and Environmental Impacts

Subaru is a transportation manufacturer focusing on automobiles. Automobiles, which are a convenient and comfortable form of transportation, are now indispensable for living in a modern society. On the other hand, however, automobiles require limited global resources as materials and fuels. Consequently, they emit CO₂, which causes global warming, as well as other air pollutants. We believe that automobiles reflect an affluent society but fully understand that automobiles have such disadvantages, as well as advantages. With

these in mind, we must work hard for a better future. Subaru accepts the task to aim for fusion of the global environmental response (drastically improving fuel economy and reducing gas emission) and the benefits of automobiles (pleasant driving, comfort and reliance) by considering the environmental impacts and reducing the environmental burden through the lifecycle of development, production, use, disposal, and recycling of automobiles.

Environmental Management

◆ Subaru's Overall Environmental Burden Concerning Automotive Business



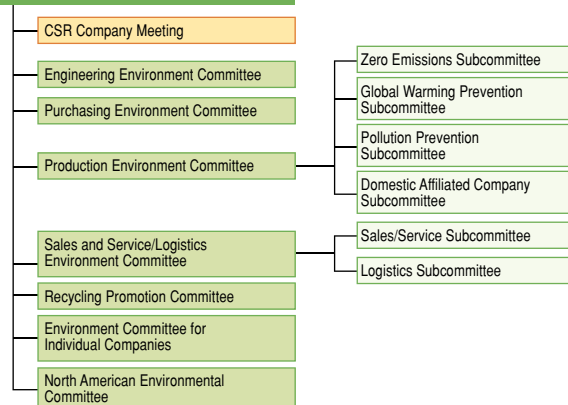
■ Organization

CSR and Environmental Committee Newly Established

We have a committee to achieve the objectives of the Environmental Conservation Program to embody the Operating Criteria for Environmental Conservation under the Environmental Policy. This committee chaired by an officer in charge of environment-related matters is a body run by representatives from all the business units. They met in May and November in 2007. This Corporate Environment Committee which reviewed only environment issues, was combined with the CSR Committee and changed to the CSR and Environmental Committee to discuss a wider range of issues, starting from the November meeting. The new committee will proactively tackle issues to reasonably manage CSR and environmental conservation.

(The Corporate Environment Committee and the CSR Committee were merged to form the CSR and Environmental Committee.)

CSR and Environmental Committee



*1 VOC: Volatile Organic Compounds which are volatile at normal temperature, including formaldehyde and toluene. They are recently viewed as a factor in sick house syndrome making people sick with irritation in eyes, nose and throat in newly built houses or buildings.

*2 ASR: Automobile Shredder Residue: Residue after scrapped metals for recycling removed from shredded car body. It is also called Shredder Dust.

■ Establishing an Environmental Management System

Seven Subaru Dealers Now Acquired ISO 14001 Certification

Subaru already acquired ISO 14001 certification for all of its businesses, including the head office, by FY2004.

In FY2007, HOKURIKU SUBARU Corporation, Subaru's domestic dealer, also newly acquired ISO 14001 certification. Now, seven of Subaru's dealers in Japan have the certification. We also conduct an environmental audit regularly every year to measure the effectiveness of the Environmental Management System.



For more details on our ISO 14001 certification status and environmental audits, please see our Supplementary Volume for Data on our website.

■ Environmental Accounting

Working on Efficient Management by Understanding Environmental Costs and Effects

In FY2000 we introduced environmental accounting. Our environmental costs in FY2007 were 16.4 billion yen, an increase of 420 million yen compared to the previous fiscal year. This was due to an increase in R&D spending. We were able to cut production costs by 110 million yen.

On the other hand, economic benefits from our environmental activities totaled 2.0 billion yen, which represents an increase of 100 million yen compared to the previous fiscal year. This was mainly due to rising unit prices for valuable resources being sold.



For more details on our environmental accounting, please see our Supplementary Volume for Data on our website.

Environmental Management

■ Evaluation System of Environmental Performance

System Upgraded for Reasonable and Effective Evaluation

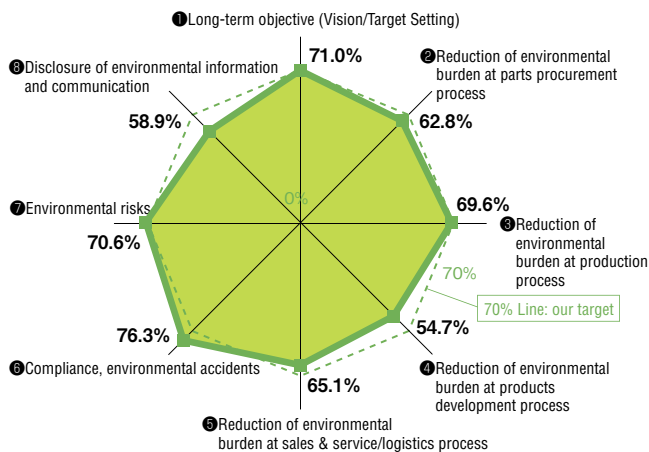
We have been working to improve the environmental performance by introducing an Environmental Performance Evaluation System in FY2002.

The system was reviewed for evaluation items and method to make it more reasonable and effective.

The evaluation result for FY2007 was 68.8% in total, 1.2% short against the targeted 70%.

The evaluation for each item was shown in the following chart. "Reinforcement of EMS activities as Subaru group" and "Reduction of environmental burden at products development process at higher level" were pointed as issues which need be addressed.

◆FY2007 Environmental Performance Evaluation



Environmental Performance Evaluation
A hearing by the chairman and the vice chairman of the CSR and Environmental Committee

*1 Environmental Information by Subaru car <http://www.fhi.co.jp/envi/info/index.html> [Japanese only]

*2 SUBARU ECOLOGY <http://www.subaru.jp/ecology/index.html> [Japanese only]

*3 SUBARU-EARTH.com <http://www.subaru-earth.com/staging/> [English only]

■ Environmental Education and Enlightenment

Carry Out Environmental Education Systematically According to Different Levels of Employees

In FY2004, we prepared company-wide unified textbooks for environmental education. We have continued educating different levels of employees, ranging from new recruits to those receiving promotions every year.

In addition, we are trying to carry out activities according to the plan, including emergency drilling based on the Environmental Management System (EMS) of each business area and company, general education on environment conservation for all the employees, Operations Improvement Case Study Presentation and educational support to business partners.



Tokyo Office's general education using E-learning



Gunma Manufacturing Division's emergency drill



■ Environmental Communication

Distributing Environmental Information in a Variety of Ways

Subaru has arranged contact channels to maintain communication with local residents in each business area, and distributed environmental information in a variety of ways. In the Subaru Visitor Center in the Gunma Manufacturing Division (please refer to "Contribution to local communities" on p. 30), we have a recycling lab to introduce our approaches to tackle environmental issues. Also, in Utsunomiya Manufacturing Division, we have an exhibition room introducing our activities to recycle wastes.

For environmental communication of our business sites and affiliated companies, please see our Supplementary Volume for Data on our website.

◆Our Environmental Communication Tools

Media disseminating environmental information

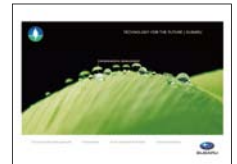
web



The page of Environmental Information by Subaru car *1 [Japanese only]



SUBARU ECOLOGY*2 [Japanese only]



SUBARU-EARTH.com*3 (Environmental Information of affiliated companies in North America [English only])

Printed materials



The Site Report by Utsunomiya Manufacturing Division



The textbook for Delivery Eco Class by Gunma Manufacturing Division



Cases Where Limits Set in Environment-related Laws Were Exceeded, Environmental Accidents, and Complaints

The following table shows the number, in FY2007, of cases where the legal limits set in environment-related laws were exceeded (including cases where the limits from voluntary standards or limits agreed with the local area were exceeded) as well as the number of environmental accidents and environment-related complaints, plus all related detail. By investigating the causes of these events

or complaints and by implementing countermeasures, we are proceeding with our effort, to achieve our goal of zero cases.



For the details of cases exceeding the limits set in environment-related laws, environmental accidents and complaints of our business sites and affiliated companies, please see our Supplementary Volume for Data on our website.

◆FY2007 The Number of Cases Where Limits Set in Environment-related Laws were Exceeded and Details

Name of manufacturing division:	Number of cases:	Details:	Main corrective measures:
Gunma Manufacturing Division	2 (water pollution)	Measured value of Ozumi Plant's n-hexane mineral oil once over locally agreed, BOD twice over voluntary standards.	Causes identified and remedies taken. Excess over the locally agreed reported to administrative authorities.
Saitama Manufacturing Division	1 (noise)	Noise level at Akabori River bed northeast of plant exceeded the legal limit.	No complaint or claim, but reported to authorities and controlled properly. Reduction of noise level from ventilating and other fans under study.
	3 (water pollution)	BOD and pH in discharged swage water exceeded voluntary standards three times.	Absorbent in effluent treatment replaced and monitoring drains from dining hall enhanced.
Aerospace Company (Handa West Plant)	1 (water pollution)	Swage water discharged from Handa West Plant to river once exceeded voluntary standards.	To separate production and rain waters and monitor for reduction of pH fluctuation.
Tokyo Office	1 (water pollution)	n-hexane animal and vegetable oils in swage water once exceeded the legal limit.	Reported to authorities. Trapping grease from dining hall and checking & monitoring swage processing enhanced.

Subaru established voluntary standards, which are 20% stricter than environment-related laws and ordinances applied to each plant, and is working to achieve zero cases where these standards are exceeded.

◆FY2007 The Number of Environmental Accidents and Details

Name of manufacturing division:	Number of cases:	Details:	Main corrective measures:
Gunma Manufacturing Division	3 spills within the premises	3 incidents happened, including discharge of about 30 liters of coolant overflowed from tank.	Accident prevention training intensified, check sheet and equipment standards revised, and bulwark provided. Also, service stock of emergency supplies at the site and other locations confirmed.
Tokyo Office	4 spills within the premises	4 incidents happened, including oil leak from running test vehicle.	Operating procedure of test vehicles revised to prevent oil leak. Also, revealing articles on prevention of related incidents placed in in-house news letter.

The environmental incidents described here were properly handled all within our business units and none of them affected the outside in any manner.

◆FY2007 The Number of Environment-related Complaints We Received and Details

Name of manufacturing division:	Number of cases:	Details:	Main corrective measures:
Gunma Manufacturing Division	2 (odor)	Complaint on paint odor received from residents on west side of Main Plant and north of Yajima Plant.	Remedies taken include: coconut husk filter installed, cleaning intensified, sterilizer and water-based paint used. Then, odors under constant monitoring. In FY2008, more actions to follow.
Aerospace Company (Utsunomiya Manufacturing Division)	1 (noise)	Complaint on flight noise received from resident on south side of air strip in Utsunomiya City.	Flight paths, altitudes, etc. modified considering local residents, which has been accepted.

Environmental Performance

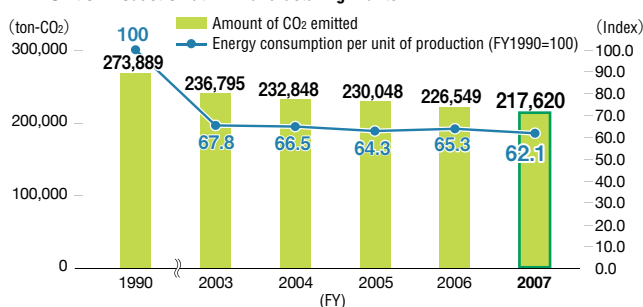
The main aspects of our environmental performance in FY2007 are as shown in the following graphs.

Emission of CO₂ and PRTR chemical substances were reduced.

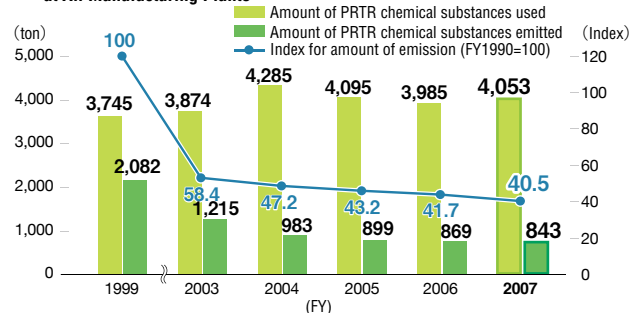
We have achieved zero emissions*4 since FY2004 in terms of landfilled waste.

Also, we will actively take measures to reduce use of water even though the volume has increased this time.

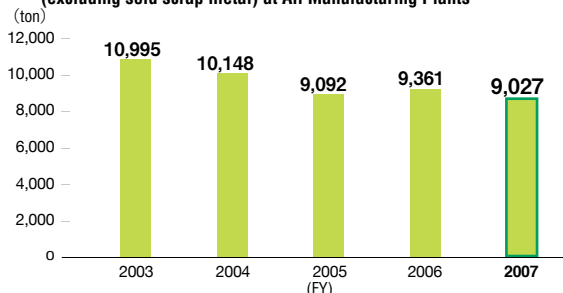
◆Trends in Amount of CO₂ Emitted and Energy Consumption per Unit of Production at All Manufacturing Plants



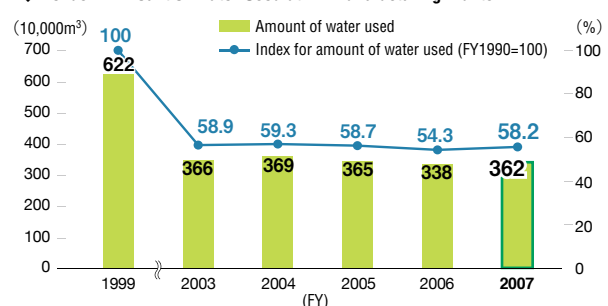
◆Trends in Amount of Used and Emitted PRTR Chemical Substances at All Manufacturing Plants



◆Trends in Amount of Recycled Production Surplus Material (excluding sold scrap metal) at All Manufacturing Plants



◆Trends in Amount of Water Used at All Manufacturing Plants*5



*4 Subaru's definition of zero emissions: The total amount of landfilled waste (waste materials directly landfilled + waste materials landfilled after treated intermediately) is less than 0.5% of the total amount of waste materials excluding scrap metal (industrial waste + industrial waste subject to special control + general waste from business operations).

*5 Amount of water used: The total of water supply, industrial water and underground water. The facilities in the head office area and the Subaru Parts Distribution Center are not included in the total.

The FHI Environmental Conservation Program (FY2007 through FY2011)

Performance of FY2007 and Plan for FY2008 [Outline]

Subaru started a project to improve environmental issues in 1990, followed by Environmental Conservation Program, the first in 1993, the second in 1996 and the third in 2002.

In FY2007, the FHI Environmental Conservation Program started anew to preserve the environment covering the period from FY2007 through FY2011. Currently, we have been vigorously involved in group-wide activities to reduce environmental burdens.

Described here is the outcome of the items in the Environmental

Conservation Program (FY2007 through FY2011) which was first presented in the 2007 Social & Environmental Report and the plan for FY2008.



Results and plans in FY2007 for all the items of The FHI Environmental Conservation Program (FY2007 through FY2011) are available in our Supplementary Volume for Data on our website.

■ We have been working hard to prevent global warming.

Ev.: Evaluation, ○: Achieved

Items	Goals and Actions	Results in FY2007	Ev.	Plans in FY2008
Improving fuel economy [Automobiles]	Continue to improve fuel economy (FE) for every full model change and annual model change.	◆All fully changed Forester and Impreza (exc. WRX and STI version) models achieved the FY2010 FE Standards.	○	FE to be improved continuously on any fully or annually changed models.
	Increase models that achieve FY2010 FE Standards.	◆Cars meeting the FY2010 Standards upped to 90% of their total production. ◆The FY2010 Standards achieved in all weight categories.*1	○	The scope of vehicles which meet the FY2010 Standards to be expanded.
	Promote improvement of FE toward for FY2015 FE Standards.	◆FE improved toward the FY2015 FE Standards. Cars meeting the Standards marketed in May, 2008.	○	FE to be improved continuously to meet the FY2015 FE Standards.
Developing products using clean energy	Electric vehicles: Develop vehicles for launch on the market in addition to business use.	◆40 R1e delivered to Tokyo Electric Power Co., Inc. and now under verification tests.	○	Development to be promoted for its marketing in FY2009.
	Continue development of wind turbine systems and market expansion. [Eco Technologies Company]	◆Mass production line for 2000kW large wind turbine system (SUBARU80/2.0) set. ◆The 1 st mass production unit delivered.	○	Sell the large wind turbine system to be promoted, while improving further the performance.
Curbing global warming	Aim to reduce CO ₂ emissions by 15% from manufacturing plants compared to the FY1990 level by FY2010.	◆CO ₂ emissions reduced by 20% against FY1990.	○	CO ₂ emissions to be reduced by 13% against FY1990.
Reducing the environmental burden caused by logistics	Be certain of meeting the Revised Energy Saving Law. ●Try to reduce energy used per sales by 5% compared to FY2006 by the end of FY2011.	◆Energy used per sales reduced by 13.3% against FY2006.	○	Energy used per sales to be further reduced by 1% against FY2007.

■ We will continuously improve environmental issues at every phase.

Items	Goals and Actions	Results in FY2007	Ev.	Plans in FY2008
Cleaner exhaust emission [Automobiles]	Improve on technology which has already achieved a 75% reduction on the 2005 Standards for exhaust emissions in order to further reduce exhaust emissions and promote the use of low exhaust emission vehicles.	◆Cars with emissions down 75% from the 2005 Standards (☆☆☆☆) upped to 64% of the total production. ◆Cars with emissions down 50% from FY2006 Standards (☆☆☆) upped to 90%. *1	○	Cars with emissions down 75% from the 2005 Standards to be further upped.
Improving recyclability [Automobiles]	Improve design to increase recyclability in new models to achieve a recycling rate of 95% in 2015.	◆Recycling rate of shredder residue (ASR) met the 2015 Standards with 72.9%. ◆Recycling rate of air bags met the legal standards with 94.2%. ◆Harness design guidelines set with ART*2 and announced in May, 2008. ◆Recycle-efficient olefin resin used for most of resin materials for new cars. Its wide use to continue.	○	Recycling rate to be further upped. Information on removal of copper-containing parts to be made open. Recycle-oriented new car design to be further enhanced.
Control and reduction of substances of environmental impact at manufacturing plants	Reduce volatile organic compound (VOC) emissions (g/m ³) in vehicle production lines by 30% compared to the FY2000 level by the end of FY2010.	◆Emissions reduced by 30.9% in g/m ³ against FY2000.	○	The reduction level of 30% or higher in g/m ³ against FY2000 to be maintained.
Reducing wastes generated at manufacturing plants	Reduce the amount of waste materials by controlling sources of waste including increasing yield ratio, reducing removal stock, increasing coating efficiency and improving packaging.	◆Wastes in FY2007 totaled 71,653 tons, a reduction by 21% against FY1999 and 2% against FY2006.	○	Due to large production increase, hike by 14% expected against FY2007. Remedies to be added to minimize the hike.
	Continue zero emissions (zero levels of landfilled waste both directly and indirectly).	◆Zero emissions for both directly or indirectly landfilled kept (inc. burnt residues after thermal recycling).	○	Zero emission to be continued.
Green purchasing activities ▶ See Feature Articles on pp. 7 & 8	Request domestic and overseas suppliers to reduce substances of environmental impact and to establish an Environmental Management System (EMS). The following are the targets for establishing EMS. ●Automotive Business Unit and Industrial Products Company: Maintain the completed system. ●Eco Technologies Company and Aerospace Company: Aiming to complete establishment of the system.	◆97% of our suppliers (522/ 536) now have EMS. • All the suppliers in Automotive (333 inc. 12 overseas) and Industrial Products (102) maintained their EMS status. • All the suppliers in Eco Technologies (40) set EMS. • 77% (47/61) of suppliers in Aerospace set EMS.	○	Automotive, Industrial Products and Eco Technologies to keep 100% EMS status. Aerospace to work for 100% establishment.
Promoting environmental conservation activities at dealers	Support environmental conservation activities by dealers.	◆Important monitor items selected and status at dealer outlets confirmed.	○	Insufficient items to be improved in a systematic way.
Implementing actions contributing to society	Continue to join environmental events, communicate with local residents at plants, and welcome visitors to plant tours. Continue to join cleaning and tree-planting activities in local communities around plants.	◆Visitors for plant tours exceeded 100,000. Eco Class Delivery Service provided to about 4,200 pupils at 50 local elementary schools. ◆A total of more than 200,000 people mobilized for continual local cleaning around plants.	○	More people planned to be accepted. Cleaning activities around plants to be continued.
Disclosing environment-related information	Continue to publish Social & Environmental (S & E) reports, and aim at releasing S & E information through publicity channels from time to time. Improve and upgrade the contents of S & E reports (e.g., compliance with guidelines, and reports including affiliates).	◆The 2007 S & E Report issued in July (Japanese) and Oct. (English). ◆Efforts made to improve the contents including the Supplementary for Data, showing them on web site. ◆The Report also includes activities of affiliates.	○	The 2008 edition to be issued in July (Japanese) and Sep. (English). The coverage to be expanded for more group-oriented reporting.

*1 This is one of the goals of the previous Environmental Conservation Program (FY2002 through FY2006) and has been achieved in FY2007.

*2 ART: Automobile shredder residue Recycling promotion Team, which is run by Nissan, Mazda, Mitsubishi, Subaru and other 12 companies.



Development of Environment-friendly Vehicles

**2007
POINT**

1. The Impreza fully remodeled in June, 2007 offers enjoyable driving performance and high safety with the environmental performance significantly improved.
2. The Forester fully remodeled in December, 2007 has the packaging, driving performance and environment balanced at a high level with environment-friendly fuel economy and emission performance.

Improving Fuel Economy

Objective

Expand the scope of vehicles which meet the FY2010 Fuel Economy Standards

Automobiles emit carbon dioxide (CO₂) proportional to the amount of fuel consumed. By improving fuel economy, CO₂ will be reduced resulting in the better conservation of limited energy resources and the prevention of global warming. Subaru, while utilizing the advantages of AWD and high power engines, has been working to improve fuel economy by developing technologies that make engines more fuel efficient, reduce transfer loss in the drivetrain and reduce vehicle weight and running resistance, and we are in the process of introducing vehicles which meet the Japanese FY2010 Fuel Economy Standards, the target for gasoline vehicles.

Current Status in Meeting FY2010 Fuel Economy Standards

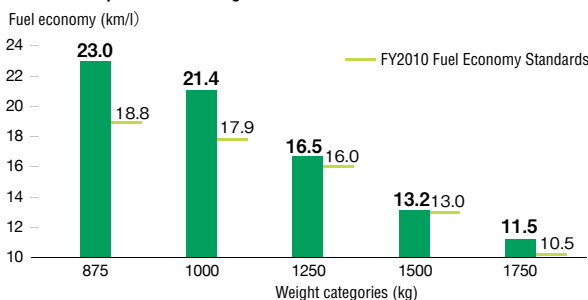
The Standards Achieved in All Weight Categories

Gasoline-powered passenger cars meeting the FY2010 Fuel Economy Standards accounted for 90% of the total production, clearing the FY2010 Fuel Economy Standards in all the weight categories.

Gasoline-powered mini trucks met the Standards in all weight categories in FY2001, and then all models met the Standards in FY2002 and thereafter.

Subaru will expand the scope of vehicles which meet the FY2010 Fuel Economy Standards.

◆ Status of Subaru's Compliance with the FY2010 Fuel Economy Standards for Gasoline-powered Passenger Cars



■ The NEW FORESTER with Modified Engine

Newly Developed 2.0-liter DOHC Engine (EJ20)

In place of the 2.0-liter SOHC engine on the preceding model, the newly developed 2.0-liter DOHC engine (EJ20) was mounted on the New Forester.

The combustion chambers, intake ports and manifold were designed anew. Combined with the adoption of variable valve timing mechanism, the combustion efficiency was enhanced over the whole range, while the torque at low-to medium-rpm and the output at high rpm were increased.



[Newly-developed 2.0-litre DOHC Engine]

In addition, with the low-friction valve mechanism, optimization of coolant thermostat and adoption of high-ignition spark plugs, top-ranking fuel economy in the class was achieved.

▶ See Feature Article on p. 14

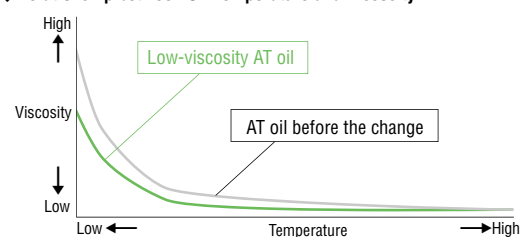
■ Improved Drive-train

Higher Fuel Economy Due to Low-viscosity AT Oil

Oil tends to get thick (highly viscous) when cold and thin (lowly viscous) when hot. In an automatic transmission (AT) which transmits power and shift speed by the oil pressure generated by an oil pump and multiple clutch disks, the use of low-viscosity oil reduces oil pump loss and shearing/churning resistance when cold, thus leading to improved fuel economy.

Subaru has expanded the use of low-viscosity AT oil from the New Impreza, which resulted in an increase of about 1% in fuel economy due to the reduced loss at cold temperature.

◆ Relationship between Oil Temperature and Viscosity



■ Lighter Body

The NEW IMPREZA Lighter by about 20 Kg

Subaru also aggressively pursues to make bodies lighter. The fully remodeled the New Impreza has both top-ranking safety performance and fuel economy by reducing weight by about 20 kg over the preceding model through such means as elimination of sub frames, rationalization of the side structure and extended use of high-tensile materials.

Green Products

Approaches to Assisting Eco-drive

Communication among Driver, Car and Environment

Subaru is also positively engaged in developing eco-drive assist devices as an interface to promote communication between a driver and his or her car. Starting with the Eco Lamp mounted on the Forester launched in 2002, the Eco Gauge and Shift-up Indicator (for MT-equipped vehicles) were added on the Legacy marketed in 2006.

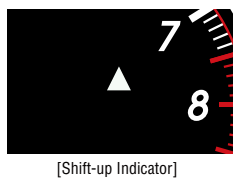
Eco Gauge

The needle of the Eco Gauge swaying to the "+" direction indicates an economic driving condition to the driver. About 5% saving in fuel economy (in-house testing) can be expected by consciously controlling the accelerator to keep that condition.



Shift-up Indicator

When an economic engine rpm is reached, the indicator starts blinking, prompting the driver to shift up.



We will keep forging ahead to develop such eco drive assist devices.

Improvement of Fuel Economy

The First Mini Cars Which Met the FY2015 Fuel Economy Standards

Mini-class Vehicles

Following the FY2006, the Subaru R1, R2 and Stella were ranked among the top in the "2007 Top 10 Fuel Efficient Gasoline-powered Mini Models (Exc. MT models)" standing which was announced by the Ministry of Land, Infrastructure, Transport and Tourism.

In addition, the specially equipped Stella Limited and R Limited which were released in May, 2008 to celebrate the Subaru's 50th anniversary, are the first mini models which have met the FY2015 Fuel Economy Standards.

Small Class Vehicles

Two models of the fully remodeled Impreza with 1.5-litre DOHC engine, one with front-wheel drive and manual transmission and the other with all-wheel drive and automatic transmission, achieved the FY2010 Fuel Economy +10% Standards (10% or higher against the Standards). Also, another two models of the Impreza, one with front-wheel drive and automatic transmission (vehicle weight category of 1,270 kg or over) and the other with all-wheel drive and manual transmission reached the FY2010 Fuel Economy +20% Standard.

Furthermore, two models of the fully remodeled 2.0-litre DOHC Forester met the FY2010 Standards, one with turbocharger passing the +15% Standards, and the other naturally aspirated with automatic transmission passing the +20% Standards, both in the 1,520 kg or over category.

Cleaning Exhaust Gas

Objective

Low Emission Models Which Outperforms the FY2005 Emission Standards by 75% Reduction to Be Expanded

Substances such as carbon monoxide (CO), hydrocarbons (HC), and nitrogen oxides (NOx), which are emitted from automobiles, are one of the causes of air pollution in metropolitan areas where there is intensive motor traffic. In order to improve the state of the air, Subaru is gradually launching low emission vehicles (certified by the Ministry of Land, Infrastructure, Transport and Tourism) that meet standards stricter than the regulations.

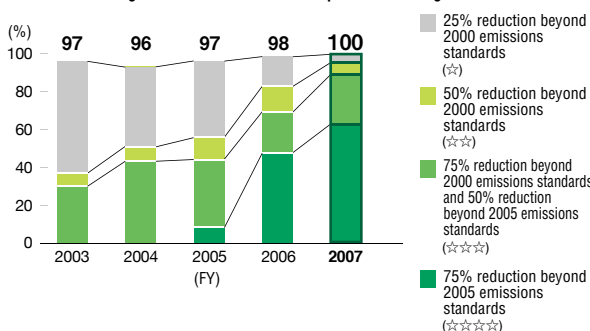
Status of Achieving Low Emissions

Expansion of Certified Low Emission Vehicles

The fully remodeled Impreza and Forester are all certified as low-emission vehicles which meet the 2005 Standards by the Ministry of Land, Infrastructure, Transport and Tourism with at least 50% below the Standards (☆☆☆☆), while 64% of these production models achieved the Standards with at least 75% reduction (☆☆☆☆☆). Thus, the vehicles certified as low emitting totaled 90% of the whole non-mini production.

Subaru will keep going forward for the dissemination of low emission vehicles.

Trends in Percentages of Low Emission Gasoline-powered Passenger Cars

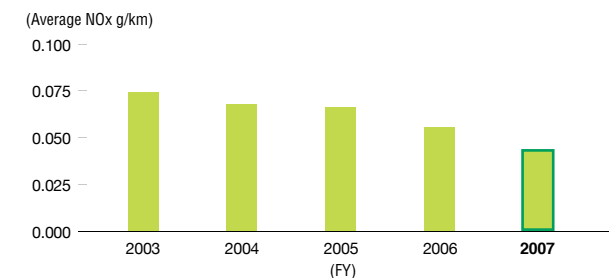


Trends in NOx Averages

Launching Low Emission Vehicles Reduces NOx Year after Year

By launching low emission vehicles which meet the standards represented by the low emission vehicle certification standard into the market, Subaru has been able to reduce the average amount of NOx emitted by Subaru vehicles every year as shown in the chart below.

Trends in NOx Averages of Subaru Vehicles



[Notes]
 -The figures calculated from the regulation values (10/15 mode and 11 mode) at the time of shipment.
 -About vehicles which are not for the current test mode, calculations were made with regulation or conversion values for the current mode.
 -The current test mode is a combined mode of the 10/15 mode and 11 mode.



Clean Energy Vehicles

Clean energy vehicles have such features as emitting fewer global warming substances (carbon dioxide) and air pollutants (carbon monoxides, hydrocarbons, nitrogen oxides, etc.) and have less environmental impact than gasoline engine vehicles. However, there are technical problems related to cost and driving distance. Subaru has been developing clean energy vehicles such as electric vehicles that have the gasoline engine vehicle-level performance and utility. Also, we are positively working on developing next generation batteries for hybrid vehicles and fuel cell electric vehicles.

Development of Next Generation Batteries

In Pursuit of Electric Vehicles with Travel Range at Least 200 km

Subaru is involved in the R&D of the next-generation battery "nano V Battery" (TM registration pending for approval) for future application to electric vehicles, while working for volume production of electric vehicles.

This battery has a Subaru-developed vanadium anode which allows storage of more lithium ions because of the nano-size crystals. By applying the lithium ion doping technology nurtured in developing lithium ion capacitors, this battery offers good prospects to have more than twice energy density than that without such technologies.

We announced a concept car with the nano V Battery, "G4e Concept" at the 2007 Tokyo Motor Show.

We will pursue relentlessly to further raise the energy density for electric vehicles which can run at least 200 km.



Our concept car, "G4e Concept"

Development of Lithium Ion Capacitor

Development of Storage Device Which Meets Low-to-High Electric Power

Subaru has been developing a lithium iron capacitor which can accommodate a wide fluctuation of electric power.

Currently, this capacitor is under study for practical application as eco-friendly device to alternative storage to lead batteries for automobiles and to the electric generations with highly fluctuating natural energies such as wind power and sunlight and with small energies from such sources as tiny hydropower and vibrations.

Industry-government-academia Joint Development of Energy Saving Gasoline Engines

Technological Development of Advanced Power Source

The development of technologies to realize cleaner and more energy-efficient advanced power sources requires cross-sectional industry-government-academia approach on a national scale.

Subaru has jointly taken part in the Strategic Development of Energy Conservation Technology Project by the New Energy and Industrial Technology Development Organization (NEDO) with Chiba and Nihon Universities to develop high-efficiency engines.

In the leading research phase, an epoch-making technology was developed to avoid knocking at a compression ratio of 14 with thermal efficiency improved by 6% to 11%. In the phase of practical application research for vibration reduction and rpm increase, we achieved an operation at 2,500 rpm, confirming the improvement in thermal efficiency at a practical operation range.

We are also jointly involved in the Program for Promoting Fundamental Transport Technology Research by the Japan Railway Construction, Transport and Technology Agency (JRRT) with the National Traffic Safety and Environment Laboratory and Toyama University. In a project to chemically control knocking, we succeeded in hiking a mode fuel economy by 6.5% with a compression ratio of 12 and are now raising the ratio up to 14.

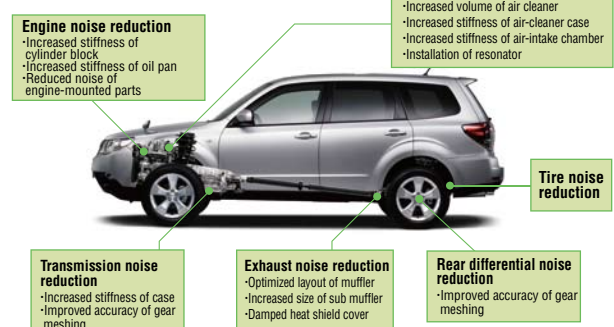
Further effort will be expended to embody a new low-polluting gasoline engine with high efficiency comparable to that of diesel engines.

Noise Reduction

Development of Technology to Reduce Traffic Noises

Another area Subaru is actively involved is the development to effectively reduce vehicle noises from such prime sources as tires, engine and intake and exhaust systems. The New Forester launched in November, 2007 has such technologies applied to meet the acceleration noise level set in the Safety Standards with good margin.

◆The Main Countermeasures Employed to Reduce the Noise the NEW FORESTER Generates



“Clean” Plants: Efforts in the Production Stages

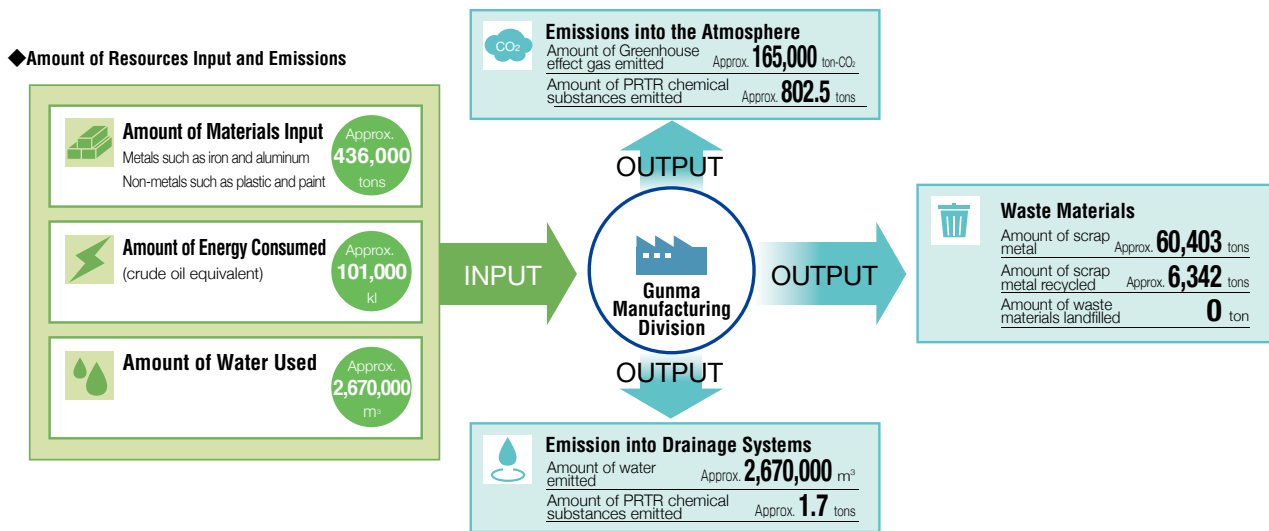
2007 POINT

1. We have maintained zero level of waste materials landfilled since 2004.
2. We are actively pressing ahead with EMS establishment at suppliers by approaching to green purchasing.
3. We are pushing forward with global warming prevention by positive efforts to save energy.

▶ See Feature Articles on pp. 7 & 8 for ② and pp. 17 & 18 for ③

Amount of Resources Input and Total Emissions at Automobile Production (Gunma Manufacturing Division)

This figure shows the amount of resources used and emissions in FY2007 at Gunma Manufacturing Division, Subaru's main automobile production plant in Japan.



Reduction of Waste Materials

Outline of Waste Materials Generated and Treated

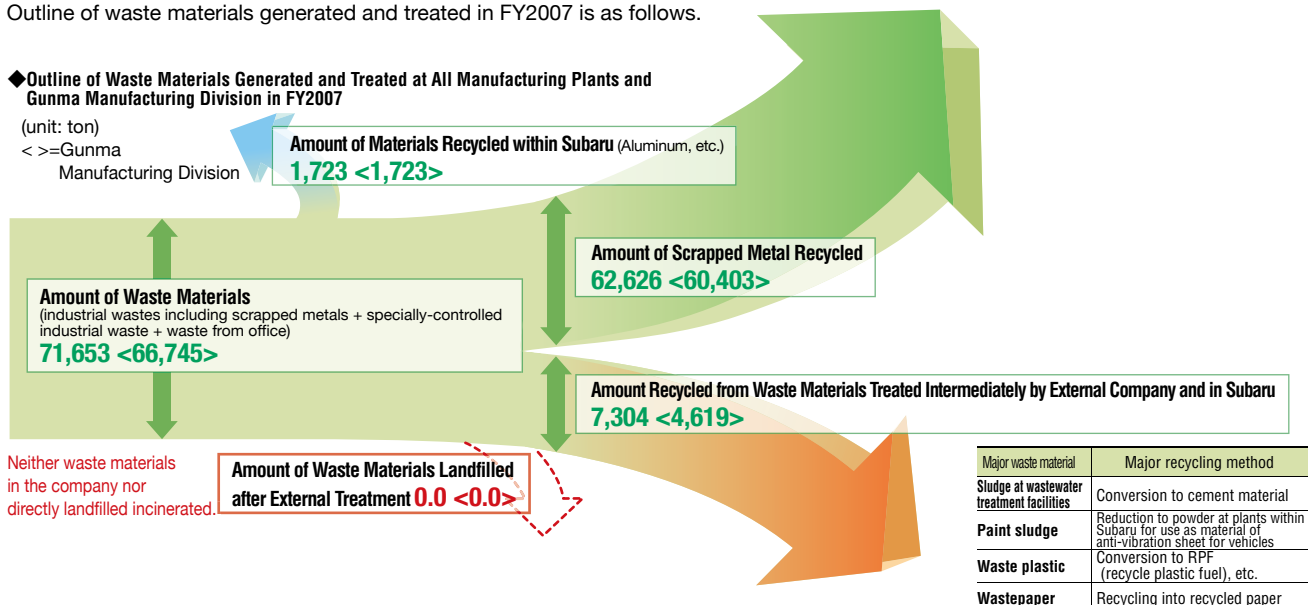
Zero Level of Waste Materials Landfilled Maintained

Subaru's all manufacturing plants have maintained zero emissions for waste materials since 2004. Outline of waste materials generated and treated in FY2007 is as follows.

◆ Outline of Waste Materials Generated and Treated at All Manufacturing Plants and Gunma Manufacturing Division in FY2007

(unit: ton)

> = Gunma Manufacturing Division

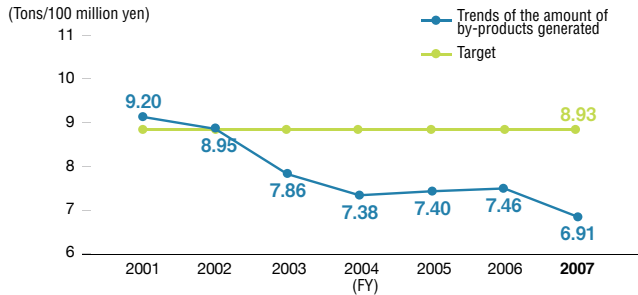


■ Efforts to Reduce Waste Materials

Achieved the Best Value Ever of By-products Generated to the One of Shipped Products

Since Subaru considers that the generation of waste materials itself is a “waste”, we have been making a continuous effort to achieve “zero emissions” and to curb the generation of waste materials. We have been striving to effectively utilize resources by improving the yield ratio of raw materials used in the production stages and enhancing coating efficiency at paint factories. The following graph shows the indexes obtained by dividing the ratio of the amount of by-products (scrap metal and non-ferrous scrap metals such as aluminum) generated by the automotive division by the value of shipped products. In FY2007, we got the best result ever; 6.91. Also, we have achieved the target levels (of the amount by-products should be reduced, as determined by the Laws for the Promotion of the Effective Utilization of Resources) every year since FY2003.

◆ Trends of Amount of By-products Generated to Value of Products Shipped



Reduction of Environmental Pollutant

■ VOC (Volatile Organic Compounds) Generated in Paint Process at Gunma Manufacturing Division

Target in the FHI Environmental Conservation Program (FY2007 through FY2011) Achieved ahead of Schedule

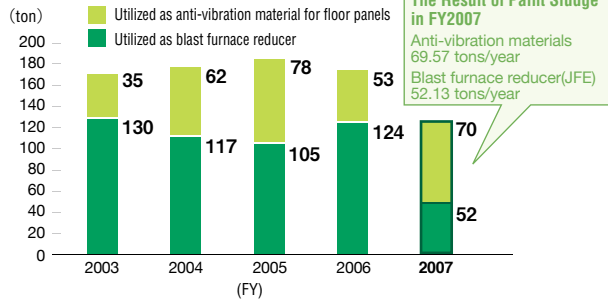
The amount of VOC emissions per unit paint area in FY2007 was 63.2 g/m², 30.9% less than that in FY2000, reaching the target in the Environmental Conservation Program (FY2007 through FY2011)^{*1} ahead of schedule. This is mainly due to the switch to water-base paint in the new paint shop and the higher thinner collection rate. We will keep working for further reduction.

As for air and water pollutants, noise and vibration, we set voluntary standards stricter than legally required (in principle, 80% or less than legal standards) keep them under control.

■ Recycling Waste Materials (Paint Sludge)

We found a way to recycle paint sludge from the paint factory. We are recycling paint sludge as anti-vibration materials for vehicle floor panels and as blast furnace reducer. We are also considering recycling it for other uses.

◆ Amount of Paint Sludge Recycled



Conservation of Water Resources

■ Efforts to Reduce Water Consumption

The Increase of Production Caused the Rise in Water Consumption

Total water consumption was about 3,620,000 m³ at all our manufacturing plants in FY2007 and this is an increase of 7% compared with the previous year.

Although the effort of implementing strict measures such as checking for leakage from water pipes at each manufacturing plant have been done, the rise in water consumption caused by the increase of production has exceeded the effect. We will actively make every effort to reduce water consumption further at all manufacturing plants.

■ Management of Chemical Substances (the PRTR Law)

Reduced 26 tons of Chemical Substances Subject to the PRTR Law

Subaru uses 18 chemical substances subject to the PRTR Law. Use of such chemicals at all our manufacturing plants totaled 843 tons in FY2007, achieving a reduction of about 26 tons compared with the previous year. These achievements result from activities such as changing paint used in the vehicle body painting process to water-base one and reducing the amount of thinner for cleansing.

Control of Water Pollutants

At Gunma Manufacturing Division, there is a water quality measuring room for periodical checkups, always ready to take immediate measurements in case of any environmental accident.



Staff at work in water quality measuring room

*1 The target in the Environmental Conservation Program (FY2007 through FY2011): To reduce the amount of VOC emissions by 30% or more compared to FY2000 by the end of FY2010.

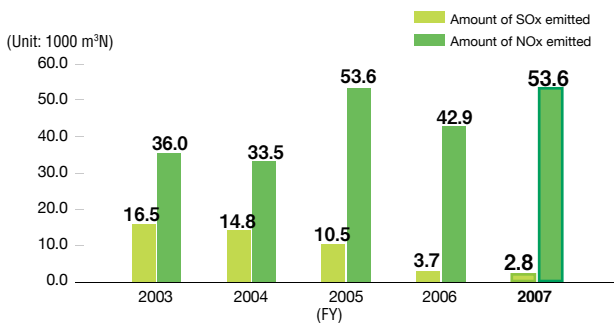
Clean Plants

Air Pollutants

Comply with Voluntary Standards in Both NOx and SOx

Trends in total amount of Nitrogen Oxides (NOx) and Sulfur Oxides (SOx) emitted from specific facilities such as boilers at all manufacturing plants are as shown in the graph. In FY2007, emissions of SOx decreased due to several factors such as the change of boiler fuel from heavy oil to natural gas. Although emission of NOx has increased due to factors like the stop of denitration equipment, periodical measurement results of both NOx and SOx in FY2007 show that our voluntary standards are satisfactory at all locations measured.

◆ Trends in Amount of NOx and SOx Emitted at All Manufacturing Plants

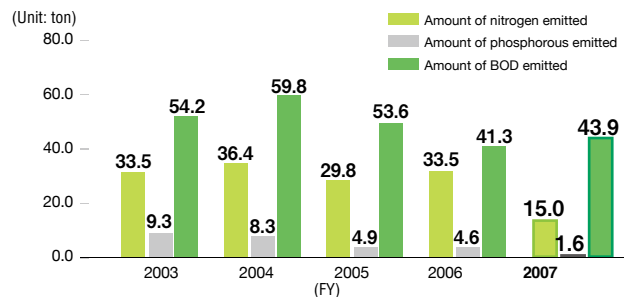


Water Pollutants

Seven Cases Have Exceeded Our Voluntary Standards

Trends in the amount of nitrogen, phosphorous and BOD discharged into water at all our manufacturing plants are as shown in the graph. In FY2007, the results of periodic measurements show that seven cases have exceeded our voluntary standards. For cases of other substances in violation of limits including our voluntary standards, please see "The Number of Cases Where Limits Set in Environment-related Laws were Exceeded and Details" on p. 38.

◆ Trends in Amount of Nitrogen, Phosphorous and BOD Emitted at All Manufacturing Plants



For more details on the results of periodic measurements, please see our Supplementary Volume for Data on our website.

Preventing Soil and Underground Water Pollution

Continuously Conducting Underground Water Sampling Surveys

Subaru has voluntarily conducted soil and underground water surveys at all manufacturing plants since 1998 and has reported the results to the government. We are continuously conducting sampling surveys of underground water even at manufacturing plants where purifying measures for soil and underground water have already been taken, such as the Utsunomiya Manufacturing Division, and continue to report the results to the government.

Storage of Equipment Containing PCB

Control Equipment Containing PCB Properly

Subaru stores PCB appropriately and notifies the authorities of possession of PCB in accordance with the related laws and regulations every year. Regarding the equipments (such as transformers and condensers) we store that contain a high concentration of PCB, we already applied and registered for their disposal with the Japan Environmental Safety Corporation (JESCO) in March 2006.

Efforts in the Production Stages at Affiliated Companies

SIA: Zero Emission



Ms. Rebecca Bright receiving the plaque of the award from Mr. Matt Hale, EPA (right)

SIA, Subaru's auto-assembly plant in the U.S., achieved zero waste material directly landfilled in 2004 and has continued to maintain its status since then. SIA improved to a 99.8% recycling rate in FY2007, higher than previous year (99.6%). Being recognized for these efforts, SIA's environmental efforts were featured in a segment on CNBC's television show in July, 2007, and in an article in *USA TODAY* in January, 2008.

Also, in November, 2007, SIA received the Environment Protection Agency (EPA) Waste Wise Award for two years in a row (Gold Achievement; Industrial Material Recycling in 2007).



For efforts of our affiliated companies, please see our Supplementary Volume for Data on our website as well.

Information Exchange on Environmental Conservation with Affiliated Companies

Subaru convenes the Domestic Affiliated Company Subcommittee and the North American Environmental Committee each twice a year.

At these committees, the members disclose each other case examples and performances in their dealings with global warming prevention, energy saving, wastes reduction and pollution prevention to step up the group-wide environmental conservation activities.



Domestic Affiliated Company Subcommittee

North American Environmental Committee



Honored with Prefectural Governor Award

Excellent Company in Pollution Prevention

The Utsunomiya Manufacturing Division received the Prefectural Governor Award "Excellent Company in Pollution Prevention" on September 10, 2007.

This demonstrates that our everyday efforts to prevent environmental pollution in facilities as well as their operations and management have been acknowledged. We were the only recipient of the Award in the prefecture.



Matsumoto, General Manager of General Administration Dept. and the commendation of the award



Environmentally Friendly Logistics

**2007
POINT**

1. Subaru Logistics Co., Ltd, has been involved in activities to reduce materials by reusing packaging materials.
2. We contribute to reducing environmental burdens by the cooperative transports of completed vehicles and promoting modal shifts.

Efforts by Subaru Logistics Co., Ltd and Subaru

Reuse of Packaging Materials

Approaches to Reduction of Foam Materials for Packaging of Overseas Knockdown Parts

The Production Logistics Division of Subaru Logistics Co., Ltd, which handles packing designs for knockdown parts has been involved in activities to reduce environmental burdens primarily focusing on the reuse of packaging materials.

They started a project to reuse styrene foam packaging materials for engine parts in the second half of FY2005 and put the reuse into practice the first stage from March, 2006 and the second stage from December, 2007.



Packaging materials

Increase Efficiency in Transportation

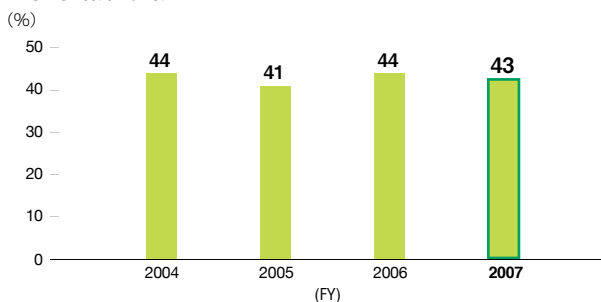
Reducing Environmental Burdens Caused during the Transportation of Completed Vehicles

We have contributed to reducing environmental burdens caused during the transportation of completed vehicles, by improving transportation efficiency through such means as setting optimum standard transportation routes, promoting modal shifts and improving carrying efficiency.

Modal shift

Subaru vehicles are sent from its assembly plants in Gunma Prefecture to dealers nation-wide. As for the transports to Sendai and to the north as well as to Osaka and to the west, sea transports are used. The sea shipments accounted for 43.2%* of the total domestic transportation of completed vehicles in FY2007.

Change in Ratios of Sea Transport to Total Transport of Subaru Completed Vehicles for Domestic Market

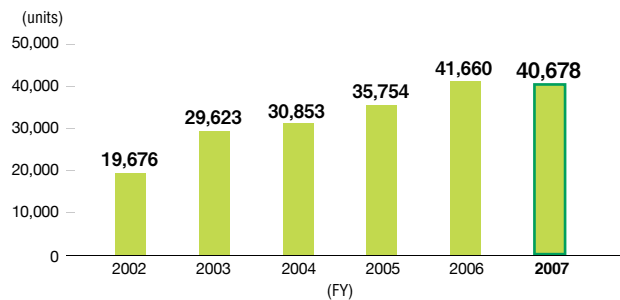


*Number of units shipped out of the plant gates, excluding units for export

Cooperative Transports

In FY2007, by promoting the cooperative transports of completed vehicles with other companies in the same industry, the total of consigned-to and consigned-from vehicles was 40,678, and the company maintained the same level of the total number of completed vehicles carried as the previous fiscal year even though the total shipped units has decreased.

Trends in the Number of Vehicles Carried Through Cooperative Transports



Approached to the Revised Law Concerning the Rational Use of Energy

In FY2007, as means to cope with the Revised Law Concerning the Rational Use of Energy, we promoted the installation of the highly functional digital tachograph, idling stop device and eco tires. Meanwhile, continuous efforts have been made to accurately grasp energy consumption and CO₂ emissions by collecting data on travel distances and fuel consumptions periodically from cooperative companies.

We will continue working to reduce the energy consumption per sales by 1% or more annually.



Automobile Recycling

How to Make Effective Use of Limited Resources

2007
POINT

1. Working together with four ART car manufactures, we have mapped out the Harness design guidelines.
2. We achieved the goals set by JAMA for VOCs in vehicle interiors of the New Impreza and the New Forester.
3. We promote the higher recycling rate by releasing the "Information on Removal of Copper Containing Parts in End of Life Vehicles."

Recycling Activities

Subaru has established the Automotive Recycle System of Subaru (ARSS^{*1}) as part of active efforts to recycle and properly dispose of end-of-life vehicles (ELVs^{*2}), according to the Japanese End-of-Life Vehicles Recycling Law (hereinafter referred to as the ELVs Recycling Law) which came into force on January 1, 2005. The recycling ratio of ASR in FY2007 was 72.9%, satisfying the Japanese legal standard required for FY2015 (The recycling ratio of ASR: 70% or higher). We will continue efforts to keep the recyclability of Subaru automobiles at a constantly high level, as well as aim at further efficiency improvements and low-cost recycling in order to minimize the recycling fee paid by our customers.

Efforts in the Design Stage

■ Emphasis on Design Allowing Easy Recycling

Promote Car Design Considering Recycling

■ Recycling Market Research

The Recycling Design Project Team members continuously visit dismantlers, shredding companies, and waste disposers in various parts of Japan to exchange views on the current and future market trends for actual ELV treatment. The results are used to determine the principles for designing automobiles with due consideration for recycling and extract specific subjects for future research.

■ Efforts to Improve Recyclability

<Advances in Wire Harness Dismantling>

Because a large amount of copper is used in a wire harness, if the wire harnesses can be removed before the ELVs are shredded, the collection and separation of iron and copper will be enhanced and their value in terms of resource recycling will increase. Subaru is conducting studies for a harness layout and automobile structure that make it possible to effectively collect more copper and in a shorter time. We worked on the establishment of harness design guidelines with ART in FY2007.



Advances in wire harness dismantling

<Easier Material Identification>

It is most important that the material of each part can be recognized easily when we recycle. Subaru started to identify the type of material on plastic parts in 1973 even before guidelines for the industry were established. Material identifications had been attached on the rear side of each part before. However, the position was changed, as we believed we could avoid such wasteful actions as dismantling a part to confirm the material type. Subaru has changed the identification positions on all car models, including the Legacy, Impreza, Stella and Exiga since 2001.



An example of the material indication:
"PP" means polypropylene

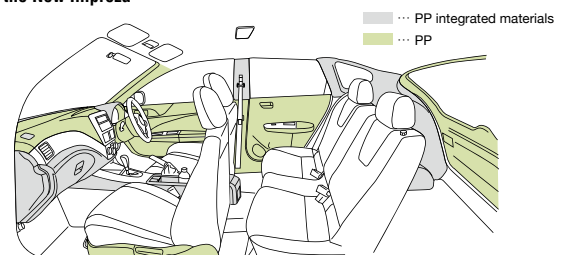


Now the material type can be seen without dismantling the bumpers.

<Using Materials that are Easy to Recycle>

We are using olefin resin, which is extremely easy to recycle, as the resin material for the interiors and exteriors of most new and remodeled vehicles. In particular, we are using integrated materials dedicated for use with bumpers for bumpers and integrated materials dedicated for use with interiors for interior parts.

◆ Using Integrated Materials for Interior Parts: Olefin Resin in the New Impreza



*1 ARSS: Automotive Recycle System of SUBARU
*2 ELV: End of Life Vehicles



Efforts to Improve Proper Disposal

ELVs Recycling Law also regulates the proper disposal of substances with environmental impact, particularly fluorocarbons (refrigerants for air conditioners) and airbags. Concerning future vehicle development, Subaru recognizes the essential need to produce vehicles that can be disposed of more easily.

<Reduction of Fluorocarbons Used in Air Conditioners>

Subaru uses a substitute fluorocarbon, HFC134a, for refrigerants in air conditioners, which does no harm to the ozone layer, but which is still believed to accelerate global warming. We are conducting active countermeasures to reduce the amount of HFC134a and the leakage while using air conditioners and also research into substitute refrigerants other than fluorocarbons. ▶ See p. 17

<Advances in Airbag Disposal>

Airbags and pretensioner seatbelts contribute significantly to reducing the shock to drivers and passengers in automobile accidents. On the other hand, the vast majority of automobiles are put out of service with unused airbags. Because automobile manufacturers are asked to dispose of airbags and similar products under the ELVs Recycling Law, we are conducting research into the optimal structure for airbags, including related components, that will make it safer and easier to activate them in automobiles and subsequently dispose of them.



Processing of End of Life Vehicles (ELV)

Information Disclosure on Removal of Copper Containing Automotive Parts in End of Life Vehicles

Approaches to “Total Recycling of Resources”

Subaru has formulated the “Information on Removal of Copper Containing Parts in End of Life Vehicles” to further bolster the recycling rate of ELV, which is open to the public in the website of ART. (Japanese only)

Currently, a method called “Total Recycling of Resources” is employed as a means to improve the recycle rate without generating ASR in recycling cars.

This involves throwing stripped end of life vehicles into an electric furnaces or the like to melt its iron contents for re-commercialization as construction materials and others. Parts, the source of ASR, are burned in the furnace to be used as heat source (thermal recycle), eliminating the landfill process.

Before implementing this “Total Recycling of Resources”,

Reduction of Substances of Environmental Concern

Expansion and Continuation of Reduction Activities

Based on the Japan Automobile Manufacturers Association (JAMA)’s voluntary action programs, we have been working to reduce the four substances of environmental concern (lead, mercury, cadmium and hexavalent chromium) and are partially moving ahead of schedule. In FY2007, bearing shell & bush and machining aluminum made of lead compounds were changed lead-free, while applying lead-free soldering afresh to part of seat belts and door mirrors in addition to the airbag sensors, antenna, speakers and car navigation system of which soldering were already switched lead-free, thus gradually widening the use of non-lead solder.

Reduction Targets and JAMA’s Voluntary Action Program for New Models

Substance	Target (period achieved)	Details of Reduction Efforts:
Lead	Since Jan. of 2006	Reduce the amount per vehicle produced to less than 1/10 the 1996 levels
Mercury	Since Jan. of 2005	Use prohibited except in a few applications (e.g., minute amounts in discharge headlights and in the liquid crystal panels of GPS systems)
Hexavalent chromium	Starting in Jan. of 2008	Use prohibited
Cadmium	Since Jan. of 2007	Use prohibited

Reducing VOCs in Vehicle Interiors

Make the Environment in Vehicle Interiors More Comfortable

In order to reduce the use of VOCs such as formaldehyde and toluene, which can cause nose and throat irritation, we are revising whether to make changes to the components and adhesive agents used in vehicle interiors. In the New Impreza and the New Forester of FY2007, we achieved the goals set by JAMA*3 by reducing the concentration of the 13 substances defined by the Ministry of Health, Labour and Welfare in Japan to levels below the figures set in the guidelines for interior concentration. We have achieved the goals ahead of schedule in the Stella of FY2006 as well, and in the future, we will continue our efforts to reduce the levels of such substances to below the figures set in the guidelines to make the environment in vehicle interiors more comfortable.

minimizing the copper contents in the stripped vehicle scraps is required to keep quality in the resulting steel products. For this minimization, how to remove copper containing parts efficiently and thoroughly becomes the vital issue.

The focus of the “Information on Removal of Copper Containing Parts in End of Life Vehicles” is on the disclosure of information on past production vehicles which currently constitute the most part of ELV population.

Formulating the information on the Legacy domestically sold in 1994 and the Vivio domestically sold in 1993 was completed in FY2007 and released for public review in May, 2008.

In addition, working together with four ART car manufactures, we have mapped out the “Design Guidelines for Recycling Harness in Cars” to facilitate the disassembly of wiring harness and related parts, which is now accessible in the website of ART. (Japanese only)

*3 Voluntary target: to reduce interior concentration of the 13 substances identified by the Ministry of Health, Labour and Welfare to levels equivalent to or lower than the figures stipulated in the guidelines for new vehicle models (produced and sold in Japan in 2007 and afterward) under the Voluntary Approach in Reducing Cabin VOC Concentration Levels initiated by JAMA.

Approaches to “Green Dealer Outlets”



1. We have been promoting remedial actions, taking up environmental compliance items.
2. We are working on the reduction of energy consumption and CO₂ emissions to prevent global warming.
3. In November, 2007, Hokuriku Subaru Corporation newly acquired the certification of ISO 14001.

Promotion of Recycling in the Sales and Service Activities Stage

Collection of the Scrapped Bumpers

Recycle Scrapped Bumpers for Use in Other Parts

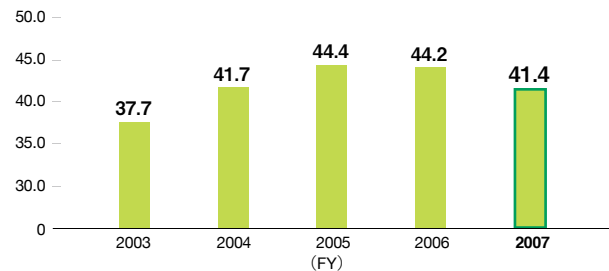
Subaru established an in-house system in 1973 to identify the materials used in plastic parts, ahead of the timetable for industry guidelines for the establishment of such systems. This system is very helpful when the company collects bumpers which are scrapped and changed for repairs to recycle for use in other parts of vehicles. In FY2007, we collected 41,412 scrapped bumpers from all over Japan, which is 93.6% toward the previous year (44,242). The scrapped bumpers were recycled for use in other parts of Subaru as shown in the right graph.

Parts Produced from Scrapped Bumpers

Models	Parts
R1, R2, PLEO	Universal joint cover Underfloor cover
SAMBAR	Air guide Engine cover
LEGACY	Under spoiler Battery pan Rear skirt Apron
IMPREZA	Trunk trim

Trends in Number of the Scrapped Bumpers Collected

(unit: thousand)



Approaches by Dealers

Improvement Activities at Dealer Outlets

They have been promoting inspection and remedial actions, taking up four main environmental compliance items: Wastes Disposal Management, Water Pollution Prevention, Fire-prevention Control and Chemicals Management.

All the outlets have already been inspected and are now taking corrective actions.

Global Warming Preventative Measures by Dealers

Focusing on global warming prevention which is a main environmental issue in recent years, we are vigorously pressing on in the following two areas.

1. Energy saving and grasping energy consumption and CO₂ emissions
2. Participation in “Team Minus 6%” – a national campaign against global warming

*As of January, 2008, the following six dealerships have registered their participation. Yamagata Subaru Co., Ltd., Fuji Subaru Co., Ltd., Shiga Subaru Co., Ltd, Osaka Subaru Co., Ltd., Higashi Shikoku Subaru Co., Ltd. and Minami Kyushu Subaru Co., Ltd.

*1 sub-dealer: Outlet which sells Subaru vehicles which are supplied not directly from Subaru, but from a Subaru dealership.

ISO 14001 Certification Acquisition Status

In November, 2007, Hokuriku Subaru Corporation acquired the certification of ISO 14001, becoming the 7th Subaru dealership.

(ISO 14001-certified dealerships)

Chiba Subaru Inc., Aomori Subaru Co., Ltd., Fuji Subaru Co., Ltd., Osaka Subaru Co., Ltd., Niigata Subaru Co., Ltd., Subaru Kumamoto Corporation and Hokuriku Subaru Corporation (in the order of certification)

Environment-related Educational Activities

Serialized educational articles are printed in PR magazines “SUBARU DAYORI” for sub-dealers*1 who handle Subaru vehicles to deepen their understanding on environmental activities.



Independent Evaluation



Mizue Unno
Manager Director
So-Tech Consulting Inc.

Examining overall activities of CSR in the previous year, various actions responding to the last year's evaluation for this report were taken even no immediate results would be expected. I would expect such ongoing efforts will be consciously carried on by not only those in the CSR Office, but also all the FHI employees.

Overview of CSR Activities

As CSR involves wide-ranging corporate activities to deal with diverse stakeholders, it is vital to set priorities to the issues with high interest and urgency. The concern on global warming rapidly becoming serious since last year is a good example, around which FHI has already been deploying initiatives as part of business strategies. For an entity making automobiles, to say nothing of the enhancement of the fundamental CSR, CSR as business which could lead to solving global social and environmental issues, in other words, strategic CSR is indispensable in the current and future business management.

The business cases that FHI cherishes are undoubtedly focusing on ①Development of vehicles to accomplish higher environmental performance and ②development of clean energy technologies. The current CSR Report, however, has placed to cover comprehensiveness, thus rather obscuring business-focused CSR activities. In this respect, I would recommend to make future report easy for readers to clearly grasp the distinctive sustainability strategy which is attributed to an automotive company, underlying on the basis of the fundamental CSR.

Activities by Topic

■ CSR Purchasing

Continuing the process to reflect on better ways over three-year period is recommendable, instead of changing it abruptly. Without understanding by those in charge of purchasing at each business unit, FHI cannot make whatsoever deep-rooted on the spot. As suppliers from Asia including China are expected to increase, this issue will get more serious. I would suggest preparation to work out guidelines with solution for regional issues together with such suppliers as a basic stance.

■ Customer Support

Since the inception of the "Customer-First" Promotion Department, there seems to be gradual progresses in the first one-year period. What comes after the visualization of issues by using check sheets is putting into practice programs to solve them. The concerted efforts with the sales and marketing division are expected to make the "Customers Come First" take root by enhancing internal communication and

applying best practices of some dealer outlets to others.

■ Deployment of PDCA in CSR

Setting policies and systems which are the bases for activities is in progress fairly well in any field of CSR. Together with employee surveys conducted continually, I could see a gradual expansion of this kind of efforts into overseas. Thorough implementation of repetitious checking of results to taking actions process by sections concerned is expected, going beyond merely setting the systems.

Mediums and Contents of Reports

Information on CSR policies and systems, annual performance reports and others are provided in parallel, making it difficult to include all CSR-related information in one booklet. Increased descriptions in efforts to meet the needs of all readers will make it rather hard to understand. Therefore, I would recommend posting the following information on the web site.

1) The structure and governance systems which are once established, continually run as part of business operations and reported the performance annually. This kind of information includes, personnel systems, activities to reduce environmental impacts and day-to-day activities for local communities.

2) Environmental performance for each model. It is impossible to carry technical information and environmental performance of all modes in a booklet form, inevitably causing information disparity.

Profile
Mizue Unno
Manager Director So-Tech Consulting Inc.
<http://www.sotech.co.jp>

Unno established So-Tech Consulting Inc. in 1996, after working for management consulting firms. Taking a global management standpoint, she offers management advices that support practical business solutions, to Japanese businesses in the environment and CSR fields with detailed insights of her own. She is also the Independent Director at Brother Industries, Ltd. and a lecturer in the graduate schools of the University of Tokyo and Hosei University. Publications include "Global CSR Procurement" (provisional translation from the original Japanese) (2006, in collaboration with another author) and "SRI and New Corporation/Finance" (provisional translation from the original Japanese) (2007, in collaboration with other authors).

Thoughts on the Independent Evaluation

Following last year, Ms. Mizue Unno of So-Tech Consulting Inc. provided us with her objective review on Subaru (FHI)'s social aptitude and environmental activities through her interviews to our Corporate Executive Vice President Takagi, Chairman of the CSR and Environmental Committee, Corporate Vice President Takahashi, Vice Chairman of the Committee, and Corporate Senior Vice President Ishihara, Chief General Manager of Purchasing Division.

Taking her remarks to heart, we will be stepping up our activities.

(1) CSR Activities in General

We will strive to make each employee of the Subaru group reaffirm the basic idea that "CSR is nothing but corporate management" and proactively promote tackling social issues like global warming and contribution to local communities through enhancing "offensive" as well as "defensive" CSR activities. The latter is centered around observing compliance while the former includes offering competitive products and services as a comprehensive transport equipment manufacturer.

① CSR Management

Group-wide activities will be upgraded based on the "defensive and

offensive CSR" concept and unflinching implementation of the PDCA management.

② Customers Come First

The customer creed will be pursued for its group-wide realization by grasping and sharing best practices for "Customers Come First" and thorough benchmarking of their processes.

③ CSR Purchasing

CSR purchasing guidelines will be worked out through cooperation with suppliers and local communities while paying attention to such global developments as CSR guidelines by ISO.

(2) How CSR Reports Should Be

The Environmental Report was revised to the Social and Environmental Report in 2006.

Giving due consideration to the comments and suggestions from readers, we will keep reviewing how the Report should be, including shifting to CSR reports with more focus on its social aspect and positioning the booklet and web versions.

~Editors and Issuance~

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Please Give Us Your Opinions and Ideas

Thank you for reading Fuji Heavy Industries' 2008 Social & Environmental Report.

This report explains the measures for social actions and environmental conservation implemented in FY2007 focusing primarily on FHI.

We will continue to publish the report annually. We believe that your opinions and ideas will help make the reports more complete.

Please take a moment to fill in the questionnaire on the reverse side and fax or mail it to us at the number and address shown.

Thank you for your cooperation.

Reports on the results of the questionnaire for our 2007 Environmental & Social Report

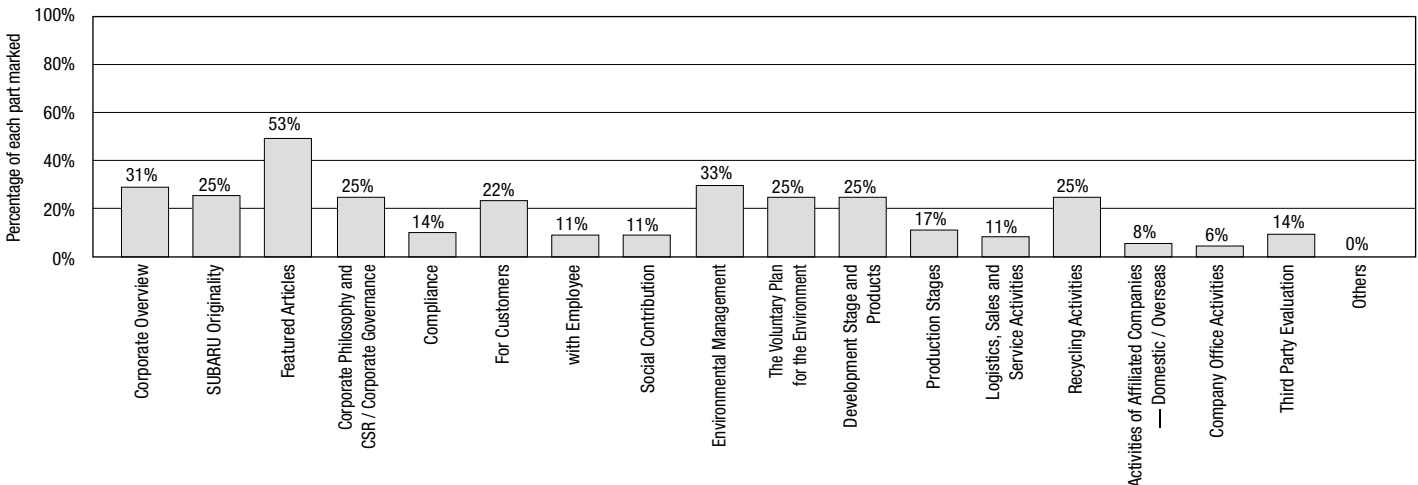
Our sincere thanks to the many individuals that completed last year's questionnaire (published in July 2007). These are the results.

1. About the 2007 Environmental & Social Report

(1) Were the contents of this report sufficient and appropriate for an environmental report?



(2) What parts impressed you most? (Mark all that apply.)



2. Comments for improvement of and/or addition to the contents of the Report

- As pointed out by the third-party expert, group-wide approaches and global perspectives are not sufficient.
- More feature articles are desirable.
- Articles on CSR should be more substantial, particularly on compliance, product safety and customer support. Also topics on risk management need be reported.
- Elaborate approaches to CSR and the environment and their future trend or direction.
- Approaches to environment-related issues need be more detailed and contribution to the environment preservation needs be more exploited.
- I want to know more about activities overseas.
- Use more photos and graphs to facilitate understanding and cut pages by half.
- Cutting pages and focusing on targeted readers will lead to saving sheets of paper or resources.

3. Comments on the Social & Environmental Report and our environmental activities

- Corporate scandals happening one after another, the first step of "Customers Come First" stems from sincere customer support (mainly by dealers' personnel), reducing all kinds of risk and group-wide disclosure of legally-related information. Open and aboveboard disclosure of activities is requested.
- I felt that more can be done as a manufacturer of eco-friendly products. I will give credit to the zero emissions or no discharge of wastes for landfills. How about creating biotopes?
- Please arrange plant tours for children including elementary school pupils, who are the riches of the future.
- Approaches to the environment should also be appealed in commercials. The image of a car I want to drive is affected by the approaches of its manufacturer. I wish SUBARU could keep making me feel like enjoying its cars in years to come.
- Use this Report as a textbook for employee's education.

We have reflected the readers' valued opinions as much as possible in this report.

We again solicit your opinions and guidance in order to promote improvement of our Social and Environmental Report continuously.

2008 Social & Environmental Report QUESTIONNAIRE FORM

Please fax or mail the form to the number or address below after filling it in.
We will report the result of this questionnaire in the next our FY2009 Social & Environmental Report.

Q1. How did you learn about the 2008 Social & Environmental Report? (Mark one that applies)

- (1) Newspaper article (2) Magazine article (3) FHI Web site (4) Other Web site (5) FHI employee
(6) FHI business partner or supplier (7) Subaru dealers (8) Friend, or acquaintance
(9) Other (please specify: _____)

Q2. Were the contents of this report sufficient and appropriate for an environmental report? (Mark one that applies)

- (1) Definitely (2) Very much (3) Fair (4) Not very much (5) Not at all

Please state your reasons.

Reasons: _____

Q3. What do you think of FHI's activities?

[Social aspect] (Mark one that applies)

- (1) Definitely sufficient (2) Sufficient (3) Acceptable (4) Not sufficient (5) Definitely not sufficient

[Environmental aspect] (Mark one that applies)

- (1) Definitely sufficient (2) Sufficient (3) Acceptable (4) Not sufficient (5) Definitely not sufficient

Please state your reasons.

Reasons: [Social aspect] _____

[Environmental aspect] _____

Q4. What parts impressed you most? (Please mark all that apply.)

- (1) Corporate Overview (2) Top Message (3) Business Overview
(4) Feature Articles (CSR Purchasing, Perspectives of "Customer-First" Promotion Department, CS Frontline, the NEW FORESTER, Approaches to Prevention of Global Warming)
(5) Message from the Chairman of the CSR and Environmental Committee (6) Overview of Approaches to CSR (7) Corporate Governance
(8) Compliance (9) Everything We Do Is for Our Customers (10) Together with Shareholders (11) Social Involvement
(12) With Employee (13) Environmental Management (14) The FHI Environmental Conservation Program (FY2007 through FY2011)
(15) Green Products (16) Clean Plants (17) Green Logistics (18) Automobile Recycling (19) Green Sales and Services
(20) Independent Evaluation
(21) Other (_____)

Q5. Please indicate which topics you would like more detailed information.

Q6. What is your opinion of FHI's environmental activities based on this report?

Q7. What is your relationship with FHI? (Mark one that applies)

- (1) Customer (2) Neighboring resident of FHI business sites (3) Engaged in government administration (4) FHI shareholder
(5) News media-related (6) Related to an environmental NGO or NPO (7) Finance- or investment-related (8) Business partner/supplier
(9) Employee or family member of employee
(10) Other (please specify: _____)

Q8. Could you tell us your gender and age?

Male / Female _____ years old

Thank you for your cooperation. If you agree with the use of personal information, please provide some information about yourself (optional).

Name _____

Occupation _____

Address _____

Telephone _____

In case we might contact you to receive your opinion in more detail, do you accept it? (1) Yes (2) No

The use of personal information: Your personal information will not be used for other purposes other than improving the contents of the Social and Environmental Report. Furthermore, we will not disclose that information to any third party without due cause.

To CSR & Environmental Affairs Promotion Office, General Administration Department, FUJI HEAVY INDUSTRIES LTD.
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FHI Environment Logo

In June 2005, we created the FHI Group's environment logo. The environment logo has a leaf at the center, with "green earth" and "blue sky" to represent the globe. Into this logo, we incorporated our determination to actively work on providing *product that are friendly to the earth, society, and people*, which is stated in the FHI Environmental Policy.