



In our quest to deliver globally  
“a distinctive Subaru experience,”  
we are determined to survive the current  
adversities in any way we can.

Based on the medium-term management plan that commenced in 2007, we delivered to the market the Impreza and Forester, which competed well in a severe sales environment. As the culmination of our aim to “integrate the pleasure of driving with environmental responsibility, safety, comfort and reliability,” the new-generation Legacy provides us the drive to turn this adversity into advantage.



IKUO MORI  
Representative  
Director of the Board,  
President and CEO

▶ STEERING

▶ FEELING

▶ DRIVING

“In a turbulent business environment, FHI recorded its first loss in 15 years.”

### Fiscal 2009 in Review

In fiscal 2009, ended March 31, 2009, the business environment surrounding the automobile industry experienced a period of dramatic change. In terms of business performance, a gulf divided the first and second halves of the fiscal year. At the beginning of the fiscal year under review, we planned consolidated sales volume of 636 thousand units, an increase of 39 thousand units compared with fiscal 2008. This figure was in keeping with the medium-term management plan, the key themes of which are to “provide a distinctive Subaru experience” and “increase sales globally,” factoring in the effect of new Impreza and Forester models. In contrast, with regard to profit, we had forecast operating income of ¥23.0 billion, half

that of fiscal 2008, having assumed an exchange rate of ¥100 to the U.S. dollar, ¥16 stronger than the previous fiscal year, and anticipated such factors as skyrocketing prices for raw materials.

In the first half of the period under review, full production was maintained of the Forester, for which there was robust demand, following on from the Impreza, which had been launched in the previous year. We produced 268 thousand vehicles, an improvement of 31 thousand vehicles compared with the same period of the previous fiscal year, with consolidated sales volume totaling 282 thousand, an increase of 11 thousand units. Operating income remained essentially on par with the same period of the previous fiscal year at ¥18.3 billion. Early in 2009, however, the outlook for the year was revised downward when we had to acknowledge sales of 555 thousand vehicles and, furthermore, an operating loss of ¥9.0 billion due

### Performance Overview

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	Billions of yen (Forecast) FY2010
Automobiles Sales Volume (thousand units)	551	582	571	578	597	555	<b>508</b>
Net Sales	1,439.5	1,446.5	1,476.4	1,494.8	1,572.3	1,445.8	<b>1,320.0</b>
Operating Income (Loss)	50.3	42.0	58.3	47.9	45.7	(5.8)	<b>(35.0)</b>
Ordinary Income (Loss)	56.6	43.6	46.8	42.2	45.4	(4.6)	<b>(40.0)</b>
Net Income (Loss)	38.6	18.2	15.6	31.9	18.5	(69.9)	<b>(55.0)</b>
Capital Expenditures	74.6	85.3	56.2	59.6	56.3	58.0	<b>59.0</b>
Depreciation Expenses	53.2	51.1	57.5	58.9	65.5	65.1	<b>59.0</b>
R&D Expenses	57.5	53.0	46.9	50.7	52.0	42.8	<b>43.0</b>
Interest-Bearing Debt	379.0	412.2	374.1	343.9	304.5	381.7	<b>400.0</b>
Exchange Rate (¥/\$, non-consolidated)	116	108	112	117	116	102	<b>95</b>
ROE	8.9	3.9	3.3	6.6	3.7	—	—
ROA*	3.9	3.3	4.6	3.9	3.9	—	—
Total Assets	1,349.7	1,357.5	1,348.4	1,316.0	1,296.4	1,165.4	—
Net Assets**	457.0	474.6	467.8	495.7	494.4	394.7	—

\* ROA was calculated as “(operating income + interest and dividend income)/(average of assets at the beginning and end of the term)”

\*\* Net Assets until the year ended March 2006 was the figure of total shareholders' equity.

to the rapid deterioration in economic conditions from the fall of 2008 onward and a slowdown in overall demand.

For fiscal 2009, with the yen slightly weaker against the U.S. dollar than had been expected, FHI reported consolidated net sales of ¥1,445.8 billion, a level that was slightly above forecast. Buoyed by successful efforts to further curtail costs, the Company reduced the depth of its earnings decline for an operating loss of ¥5.8 billion. Losses of ¥88.4 billion turned the net income of ¥18.5 billion recorded in fiscal 2008 into a net loss of ¥69.9 billion. This was largely attributable to the reversal of deferred tax assets amounting to ¥39.4 billion, the uncollectible or delayed collection receivables and damage to the assets of the ¥8.9 billion to FHI's Aerospace Company business partner, Eclipse Aviation Corporation, and the extraordinary loss of ¥3.0 billion incurred due to withdrawal from the FIA World Rally Championship (WRC).

As this, our first net loss in 15 years, had brought about a reduction in retained earnings, it was with some regret that we had to inform shareholders that we would be suspending the year-end dividend.

Sales of 555 thousand vehicles were 41 thousand fewer than in fiscal 2008 but were in line with our revised forecast. Although we sold 26 thousand vehicles in China, 14 thousand more than in the previous fiscal year, overseas sales as a whole were down 11 thousand, to 377 thousand vehicles. Likewise in the Japanese domestic market, where unit sales of both passenger cars and minicars were fewer than in fiscal 2008, sales decreased by 30 thousand, to 179 thousand vehicles.

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#### Implement emergency measures to counter rapid changes in the business environment

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In addition to making inventory and production adjustments, from early 2009 we have been implementing a raft of measures to counter the effects of the sudden changes in the situation. These measures have included the cancellation of directors' bonuses, 10% cuts in director and executive officer compensation as well as cuts in manager compensation. To reduce costs across the entire FHI Group, we



made the transition from a sales distributor structure to a regional company structure ahead of schedule and made progress with the integration of operational and management affairs as well as streamlining. In addition, zero-base reviews are being undertaken, targeting across-the-board costs and efforts to make significant cutbacks. With the exception of those projects designed to lead the way to future growth, thorough verification of the urgency and effectiveness of investment planning was conducted with a view to reducing the existing plan by more than 20%.

In the current fiscal year, ending March 31, 2010, we will work on the simultaneous launch of the new Legacy onto the Japanese and U.S. markets, emphasizing the United States as the most important market. Although this will be our first attempt at a simultaneous launch, we are planning capital expenditure of ¥59.0 billion, only ¥10.0 billion more than in the previous fiscal year. The ¥59.0 billion represents approximately 30% less than the ¥90.0 billion allowed for in the medium-term management plan. Besides reducing deprecia-

“Comprehensively reducing costs and saving all expenses”

Subaru takes pride in the new Legacy  
that will excel on the global stage.





▶ STEERING

▶ FEELING

▶ DRIVING



**“We will continue to provide cars that stand out for their superior Subaru driving performance.”**

tion and amortization by roughly 10% as part of the medium-term management plan, we will keep research and development expenses on par with those of the fiscal year under review. Without undermining future investment, we will plan a streamlining process that clarifies priorities and continue cost reductions.

However, as a rapid recovery in demand is not foreseen, amid currency exchange fluctuations and a business situation that remains shrouded in uncertainties, it would appear that there will be no end to the gloomy outlook in the current fiscal year. Thus for fiscal 2010 we are forecasting sales volume of 508 thousand units, consolidated net sales of ¥1,320.0 billion, an operating loss of ¥35.0 billion and a net loss of ¥55.0 billion. Therefore, we will be suspending the interim dividend payment and have yet to not decide the year-end dividend.

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#### The prospects

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Some light in the darkness has been provided by the robust Forester and Impreza sales in North America; in the calendar year 2008, we

were the only full lineup automaker to achieve higher year-on-year sales. In the period January to June 2009, we maintained the number of sales units at the previous year's level. This is because under the medium-term management plan, in addition to a series of successful full model changes aimed at global market sales, we are strengthening dealerships in a step-by-step manner and have been particularly successful in our efforts to expand our sales network in the Sunbelt area of the United States.

The launch of the new Legacy marks the culmination of three aims in the medium-term management plan: “provide a distinctive Subaru experience,” “increase sales globally” and “strengthen competitiveness in quality and cost.” While accomplishing the evolution of a car with driving performance, by such means as a newly designed engine cradle mount system and the newly developed “Lineartronic”, CVT (Continuously Variable Transmission), we have made heartfelt efforts to find ways to seamlessly integrate features to allay global environmental concerns.

As shown by the robust sales in the United States, we definitely have to place importance on the types of cars that we are manufacturing, even more than on worldwide overall demand trends. The new Legacy, which had its world premiere at the New York International Auto Show, has earned plaudits from both the media and dealers alike. It is thought that the Legacy will be a worthy successor in the mainstay North American market, enabling the car to boost expectations that have been lifted from the gloom by our successes there with the Forester and Impreza.

In Europe, where orders have plummeted, we are planning our recovery around the eagerly anticipated launch of the Legacy. On the other hand, there are those emerging markets, such as China and Russia, where we can take advantage of Subaru's characteristics. Forester sales are robust in China so we can further expand Subaru sales by introducing the new Legacy. In Russia, where we are currently struggling, we believe that we can expect a recovery in demand within two or three years. For the next step we are intending to monitor developments in India and Brazil, should progress be made with infrastructure upgrades and motorization.

For the time being, we are working to return to global annual

sales of 550-600 thousand vehicles and will be aiming for 700 thousand vehicles.

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#### Manufacturing cars that provide a distinctive Subaru experience

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Subaru has targeted “the integration of new driving comfort and reliability with global environment” as its future direction. The challenge in this is the pursuit of the automobile’s qualitative transformation for environmental correspondence. The focus of that transformation is the power unit, away from conventional gasoline engines, with the wide choice that is being launched onto the market: diesel and hybrid engines, the electric vehicle (EV) and fuel cells. There is no doubt that this change of direction is coming, and that featuring each of these automobile power unit applications will give rise to a best match combination.

The role that we play in this situation is nothing other than developing the best-choice cars that accurately address these changes for customers. For a car to have good attributes is not simply a matter of its power unit; a large part involves the maturity of the whole package, including the pleasure of driving with a superior suspension system. This is where Subaru utilizes technologies that it has continuously honed. Advancing the development of leading power units, we introduced our diesel engine into the European market in March 2008 and the EV in Japan in July 2009.

To make Subaru’s strengths even more prominent, we make full use of our complementary relationships through an alliance with Toyota Motor Corporation. We also have a deepening relationship with Daihatsu Motor Co., Ltd., which will supply us with minicars.

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#### Ways of selling a car

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Besides environmental responsiveness, we consider another critical issue to be the pursuit of genuine customer satisfaction. In accordance with our brand strategy, we send out information about the development of Subaru cars. Customers who would like to then

come to our showrooms and take a car for a test drive to gain a better understanding of aspects that are impossible to grasp merely by checking what is on the Internet.

There is no particular magic involved in this strategy. It is important to establish the way of thinking and to structure how we can deliver customer satisfaction simply and honestly.

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#### In conclusion

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That the Impreza and Forester are performing well even under these severe operating conditions provides proof positive that up to now we have been faultless. We are confident of the medium-term management plan’s direction and will press forward with an added sense of urgency. As the condition of the road ahead is extremely uncertain, we will put our medium-term management plan targets on hold. We will firstly give added momentum to the new Legacy, place ourselves on course for a recovery in the second half of the current fiscal year and put all our efforts into achieving the targets for the fiscal period ending March 31, 2010. In fiscal 2011, we will ensure stable growth and be certain to affect a recovery in business performance. In this context, we consider the real answer to the initiatives that we have taken through the medium-term management plan to be the launch of Legacy.

As we are riding out the current adversity in any way we can, we would very much welcome your support in the years ahead.



IKUO MORI  
 Representative Director of the Board,  
 President and CEO

“It is vital for us to know our customers through the cars.”