

REVIEW OF FISCAL 2009

OPERATIONAL REVIEW

THE AUTOBACS CONSOLIDATED GROUP

The AUTOBACS Consolidated Group consists of AUTOBACS SEVEN Co., Ltd. (the Company), 55 consolidated subsidiaries, and seven affiliates by the equity method. The Group is mainly engaged in the wholesale and retail sales of automotive goods and accessories in Japan and overseas, as well as statutory safety inspection and maintenance services, purchase and sales of automobiles, and loan and credit services. The Group also provides services for its franchisee companies, including money-lending, store equipment leasing, consulting, back-office agency work, advertising agency, IT support, and casualty insurance services, as well as the operation of driving schools.

In the automotive goods and services business, the Group's main store brands are AUTOBACS, Super AUTOBACS, AUTO HELLOES, AUTOBACS *Hashiriya Tengoku Secohan Ichiba*, and AUTOBACS EXPRESS. In the automobile purchase and sales business, its brand is AUTOBACS C@RS. (Please see pages 24 and 25 of the main section for a summary of store numbers and formats). In the motorcycle goods business, its brand is RICOLAND. (The Company transferred the headquarters of its motorcycle goods franchise chain business in December 2008.) The Group generates revenue through three business segments: wholesale operations, retail operations, and others.

•Wholesale Operations

In wholesale operations, the Group generates revenue from wholesale of automotive goods to franchisees and receives royalties paid by franchisees.

•Retail Operations

In retail operations, revenue is generated through the provision of goods and services by stores that are managed by the Company directly or by its consolidated subsidiaries.

•Others

Revenue in this segment includes rental income from the lease of real estate and equipment to franchisees.

| | Stores | |
|--|-----------|-----------|
| | 2008 | 2009 |
| Stores included in consolidation (retail operations) | | |
| Directly managed stores | 19 | 17 |
| Consolidated subsidiaries (of which, overseas) | 226 (105) | 221 (97) |
| Stores managed by consolidated affiliates (of which, overseas) | 37 (4) | 37 (4) |
| Subtotal | 282 | 275 |
| Stores not included in consolidation | | |
| Stores managed by franchisees, including stores of affiliates (of which, overseas) | 3366 (8) | 360 (15) |
| Total stores (of which, overseas) | 648 (117) | 635 (116) |

Franchise System

•Franchise Contracts

As the headquarters for franchisees, the Company grants franchisees the rights to use its trade name and corporate image and provides management know-how and infrastructure needed for store operations. In return, franchisees pay the Company royalties. Franchisees manage operations based on support and guidance from the headquarters. The aim of the franchise contracts is to ensure the mutual prosperity of the Company and franchisees.

•Royalties

Stores pay a portion of their monthly store sales to the Company that is calculated based on a fixed rate. The fixed rate is 1.0% for AUTOBACS, Super AUTOBACS, and AUTO HELLOES; 7.0% for AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores; and 3.0% for used cars sold by AUTOBACS C@RS outlets.

•Store Land and Buildings

Much of the land and buildings occupied by the entire Chain are not owned by the Company. In many cases, the franchisee or the landowner constructs a building on the land, and the property is then rented by the franchisee or the Company under a rental agreement. In cases where the landowner constructs the building, the Company provides money guarantees to the landowner. This is because buildings constructed to AUTOBACS' specifications cannot easily be adapted for other purposes. (For more details, please see note on rental deposits on page 23 of the financial section.)

Sales of Main Three Store Types

| | | ¥ billion; Stores | |
|----------------|--------|-------------------|-------|
| | | 2007 | 2008 |
| AUTOBACS | Sales | 192.3 | 186.0 |
| | Stores | 399 | 397 |
| Super AUTOBACS | Sales | 88.4 | 87.2 |
| | Stores | 74 | 77 |
| AUTO HELLOES | Sales | 3.1 | 2.5 |
| | Stores | 10 | 8 |
| Total | Sales | 283.8 | 275.7 |
| | Stores | 483 | 482 |

ANALYSIS OF OPERATING ENVIRONMENT

Japan's market for automotive goods and services has been shrinking since around fiscal 1997. It is estimated that retail sales in that market totaled ¥3,057 billion in fiscal 1997. In the year under review, that amount fell to ¥1,912.3 billion*. This market shrinkage has stemmed mainly from stepped-up efforts by automakers to offer new vehicles with various equipment and accessories as standard, as well as falling sales prices in general. In recent years, moreover, the motor sports goods market has diminished, due mainly to changing attitudes among young people towards car ownership.

*Reference: AM-NETWORK, August 2001 and August 2009 issues

Domestic Store Consolidation

(SB: scrap and rebuild; RL: relocation) Stores

| | Year Ended March 2009 | | | | | | | | | March 31, 2009 |
|---|-----------------------|------------|-------|---------|---------------|-------------|-------|---------|---------------|----------------|
| | March 31, 2008 | First Half | | | | Second Half | | | | |
| | | New stores | AB→SA | S/B R/L | Stores closed | New stores | AB→SA | S/B R/L | Stores closed | |
| AUTOBACS (AB) | 399 | +2 | -2 | +2/-2 | -2 | +2 | +5/-5 | -2 | 397 | |
| Super AUTOBACS (SA) | 74 | | +2 | | | +1 | | | 77 | |
| AUTO HELLOES (AH) | 10 | | | | | | | -2 | 8 | |
| AUTOBACS <i>Hashiriya Tengoku Secohan Ichiba</i> (SH) | 31 | +1 | | | -1 | | | -1 | 30 | |
| AUTOBACS EXPRESS | 9 | +1 | | | | | | -4 | 6 | |
| RICOLAND | 8 | | | | | | | -7* | 1 | |
| Total (Japan) | 531 | +4 | 0 | 0 | -3 | +3 | 0 | 0 | -16 | 519 |

* Decreased due to transfer of RICOLAND headquarters and stores.

Overseas Store Consolidation

| | Stores | | | |
|------------------|-----------------------|------------|-------------|----------------|
| | Year Ended March 2009 | | | |
| | March 31, 2008 | First Half | Second Half | March 31, 2009 |
| United States | 89 | +1/-1 | -6 | 83 |
| France | 9 | +2 | +1 | 12 |
| China | 12 | +1 | -1 | 12 |
| Taiwan | 4 | | | 4 |
| Thailand | 2 | +1 | | 3 |
| Singapore | 1 | +1 | | 2 |
| Total (Overseas) | 117 | +5 | -6 | 116 |

FISCAL 2009—OVERVIEW AND ACHIEVEMENTS

Performance Overview

In fiscal 2009, ended March 31, 2009, the overall operating environment was extremely challenging due to the deepening economic slump, as well as increasing restraint among consumers in their automobile-related spending due to surging gasoline prices from spring through autumn of 2008. Other factors included light snowfalls along Eastern Japan. On a positive note, however, demand for electronic toll collection (ETC) devices increased toward the end of the period, due to the government's decision to lower expressway tolls and subsidize the purchase of ETC devices as part of its additional economic stimulus measures.

Facing these challenges, the AUTOBACS Group undertook initiatives under its new mid-term business plan aimed at improving operational efficiency and strengthening corporate governance. One key policy of the plan is to reinforce the domestic franchise chain business. Based on this policy, we continued advancing the three core pillars of our operations—automotive goods and services, statutory safety inspection and maintenance services, and car sales and purchases—to improve customer recognition of our corporate brand under the slogan, "Anything about cars, you find at AUTOBACS." In

its overseas operations, meanwhile, the Company reevaluated various conditions to determine business trends and took actions accordingly.

•Sales by Domestic Chain

With respect to automotive goods and services at AUTOBACS stores in Japan, the Group strengthened its lineup of low-priced tires, including private brand offerings, and ran an intensive sales campaign involving newspaper advertisements. In car electronics, we strove to expand our share of the growing market for portable navigation devices by bolstering our lineup. We also recorded healthy sales of child safety seats due to legislation mandating use of seatbelts by rear-seat passengers, as well as ETC equipment, which saw a surge in demand as expressway tolls were lowered. As the sales promotion activity, we continued developing more female-friendly sales atmosphere in each store as part of a project encouraging female customers to visit our stores. In October 2008, meanwhile, we launched a points-based alliance with T Card, thus extending our marketing activities to customers who have not yet visited AUTOBACS stores. However, sales of snow tires, tire chains, and other seasonal merchandises declined due to light snowfalls along Eastern Japan during the winter. Sales of motor sports goods and car audio equipments also decreased, reflecting sluggish demand, while sales of high-priced in-dash car navigation systems were down as a result of the market transition to portable navigation systems. Together, these factors had a significant effect on overall sales.

In the field of statutory safety inspections and maintenance services, the number of cars that underwent statutory inspections at our stores increased by 15.5% from the previous year, to 389,407. This was attributable to an increase in the number of designated and certified statutory inspection locations (282 centers at fiscal year-end, up by 17 from a year earlier), as well as sales promotion activities via nationwide television advertisements and the impact of telephone solicitation calls

initiated by the Company. As a result, total sales from automotive goods and services and statutory safety inspection and maintenance services provided by our mainstay stores—AUTOBACS, Super AUTOBACS, and AUTO HELLOES—declined by 2.9% year-on-year overall and by 3.3% on a same-store basis.

In the area of car sales and purchases, the number of vehicle sales, including sales from franchisee companies to the Group, rose by 2.9% year-on-year, to 21,241 units. This increase was attributable to the growing number of stores adopting the *Sugokai* used car purchasing system, introduced in the previous fiscal year, and the use of television advertising to increase recognition. However, overall sales slowed down in the second half of the period, due to the worldwide slump in the automotive market, which pushed down the trading volume of used cars, as well as our reassessment of our involvement in this business.

With respect to store consolidation, the Chain newly opened a total of seven stores: four AUTOBACS stores, one Super AUTOBACS store, one AUTOBACS *Hashiriya Tengoku Secohan Ichiba* store, and one AUTOBACS EXPRESS store. Meanwhile, we closed a total of 12 stores: four AUTOBACS stores, two AUTO HELLOES stores, two AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores, and four AUTOBACS EXPRESS stores. We also transformed two stores from an AUTOBACS to a Super AUTOBACS, and we carried out scrap-and-build programs and relocation of seven AUTOBACS stores. In the motorcycle goods business, we had eight RICOLAND stores at the beginning of the period. During the year, however, we transferred headquarters of this business and spun off six of our RICOLAND franchised operations and also sold one of our directly managed stores. At fiscal year-end, therefore, there was only one directly managed RICOLAND store in operation. Consequently, the overall domestic network including franchise stores at fiscal year-end consisted of 519 stores, down 12 from a year earlier.

•Overseas Business

In North America, the Group focused on strengthening its lineup of low-priced merchandise and replacement parts at STRAUSS Discount AUTO, an automotive goods and services specialty chain operating on the U.S. East Coast, in order to improve store quality and bolster sales. As a result, same-store sales in the first half of the period increased year-on-year. Subsequently, however, sales growth slowed as the economic downturn gathered momentum in the autumn of 2008. On the West Coast, we opened one new store near Los Angeles, but sales remained weak due to high gasoline prices, sluggish consumer demand, and the declining ability of commercial facilities to attract customers. As a result, net sales in North America edged up 0.1%, to ¥15.8 billion yen. The Group reported an operating loss of ¥2.3 billion on its

North American business, decreased by ¥48 million from the previous year. Earnings were affected by added costs associated with the opening of new stores.

In Europe, the Group posted an increase in sales on a local currency basis owing to the opening of three new stores in France, growing recognition of the AUTOBACS brand, and enhanced store selling environments. Due to the yen's appreciation against the euro, however, sales in Europe declined by 8.6%, to ¥7.9 billion. Nevertheless, the regional operating loss decreased by ¥0.3 billion to ¥0.5 billion, thanks to an improved gross margin following a revision of unit sales prices, as well as reductions in selling, general, and administrative expenses.

In Asia, we reported healthy sales in Thailand, Singapore, and Taiwan. During the year, we opened one new store in Thailand and another in Singapore. In China, we also opened a new store, which helped boost sales on a local currency basis above the previous year's level. However, growth of same-stores sales in China waned in tandem with the economic slowdown. As a result, total sales in Asia declined by 16.2%, to ¥3.3 billion, due to foreign exchanges factors, the sale of shares in a Taiwanese subsidiary, and the exclusion of a consolidated Taiwanese subsidiary from the scope of consolidation in the fourth quarter. The regional operating loss increased by ¥0.1 billion, to ¥0.2 billion, due to higher business development costs, including costs for new store openings.

Progress of Mid-Term Business Plan

Under its new mid-term business plan, announced in May 2008, the Company shifted its management policy from business expansion, which had been pursued through the previous fiscal year, to a focus on profitability. Guided by the plan, we have been implementing measures aimed at strengthening our business strategy, financial strategy, and corporate governance system.

•Business Strategy

Under our current business strategy, we are pursuing three key initiatives: reinforce the franchise chain business in Japan, reassess overseas businesses, and increase the efficiency of headquarters functions and expenditures.

With respect to reinforcing the franchise chain business in Japan, the Company focused on improving profitability of stores, rebuilding its area strategy, and reviewing new domestic businesses (fuel business, motorcycle goods business, and automobile driving school business). To improve profitability of stores, we took steps to strengthen sales of maintenance-related items, centering on tires, oil, and batteries. At the same time, we sought to bolster store revenues and gross margins by stepping up sales promotion for our statutory safety inspection and maintenance services, while

reassessing store costs. To rebuild our area strategy, we revamped our management structure to enhance profitability and efficiency. Initiatives here included rationalization of subsidiaries and sale of stores aimed at strengthening the competitiveness of each store in its local area. In reviewing new domestic businesses, the Company decided to withdraw from the fuel business and motorcycle goods business, which were judged to make little contribution to the domestic franchise business and have minimal growth potential in the future. Consequently, we liquidated subsidiaries associated with these businesses and sold the related businesses.

With respect to reassessing its overseas businesses, the Company examined each overseas operation from the perspectives of market growth potential and our competitive superiority. As a result, we decided to withdraw our support of two U.S. subsidiaries—AUTOBACS U.S.A., Inc. and AUTOBACS STRAUSS Inc.—based on our conclusion that these subsidiaries would have difficulty establishing a competitive edge and would be unable to improve their earnings in the short term given the depressed state of the economy and the automotive industry. Those two subsidiaries have filed for bankruptcy proceedings under Chapter 11 of U.S. bankruptcy laws. Both subsidiaries are expected to be removed from the scope of consolidation as their shares are sold off in the course of the bankruptcy process. The discussion for the possibility of the Company's debt collection is to be advanced with the parties concerned.

With respect to its business in Taiwan, the Company sold all of its shares in a Taiwanese subsidiary after considering the growth potential of that market. We also examined our operations in France, Thailand, and Singapore, and we decided to continue those businesses as it would be difficult to sell them under current market conditions. For the time being, therefore, we will focus on improving their profitability and corporate value, and will determine their business direction at the appropriate time. Meanwhile, our subsidiary in France posted a ¥3.2 billion impairment loss on goodwill at the end of the fiscal year under review. Regarding our business in China, we have decided to continue operations in light of that nation's high market growth potential. Going forward, we will strive to rebuild a business model in the future by changing the management structure.

With respect to making the headquarters functions and expenditures more efficient, the Company took measures to cut expenses of its headquarters and business offices. We also rationalized functions that were dispersed or duplicated by the Company and its shared service subsidiaries to improve operational efficiency and cut costs. In addition, we implemented an early retirement program for employees as part of our business portfolio restructuring. A total of 39 employees have

opted for early retirement under the program.

•Financial Strategy

With respect to its financial strategy, the Company is working to improve asset and capital efficiency. To this end, during the year we sold investment securities, including all of our shareholdings in Halfords Group Plc of the United Kingdom, which had a low business correlation with the Group. We also sold welfare facilities and other assets that were not fully utilized. In addition, the Company carried out a share buyback in accordance with its policy of enhancing returns to shareholders while maintaining proper financial stability.

•Reinforcing Corporate Governance

With respect to enhancing its corporate governance system, the Company appointed two additional outside directors and one outside auditor, following a resolution made at the General Meeting of Shareholders held in June 2008. As a result, four of our nine directors and three of our five corporate auditors come from outside the Company. Through these appointments, we have boosted the effectiveness of deliberation in Board of Directors meetings and improved the decision-making process. Moreover, we have a Governance Committee, consisting of the representative director and outside directors, to strengthen its corporate governance system. The Committee examines management issues identified by the Board of Directors and presents proposals to the Board on an ongoing basis.

Fiscal 2010 Outlook

In the year ending March 2010, we envisage a challenging business environment, with various factors having both positive and negative effects on our operations. On the negative side, we expect consumer sentiment to remain weak and sales of new vehicles to decline as the domestic economy languishes. On a positive note, however, we look forward to an increase in demand for car maintenance services stemming from rising vehicle use brought about by lower expressway tolls and stable gasoline prices.

In this environment, we will pursue a number of initiatives under our slogan of "Anything about cars, you find at AUTOBACS." These include (1) enhancing store competitiveness by improving sales of automotive goods and services; (2) strengthening sales of maintenance-related goods, such as tires, oil, and batteries, by bolstering relationships with customers of our statutory safety inspection and maintenance services; and (3) improving productivity through appropriate allocation of corporate resources. In these and other ways, we will strive to expand our market share and to enhance profitability. In addition, the Group will work to establish a successful business model for its car sales and purchases business.

FINANCIAL REVIEW

INCOME AND EXPENSES

Net Sales

In fiscal 2009, ended March 31, 2009, consolidated net sales amounted to ¥259.1 billion, down by ¥7.3 billion, or 2.7%, from fiscal 2008.

| | ¥ billion (Percentage of net sales) | | |
|----------------------|-------------------------------------|-----------------------|---------------------|
| | 2008 | 2009 | Increase (Decrease) |
| Wholesale operations | 145.1 (54.4%) | 140.7 (54.3%) | (4.3) |
| Retail operations | 117.2 (44.0%) | 114.6 (44.2%) | (2.6) |
| Others | 4.2 (1.6%) | 3.8 (1.5%) | (0.4) |
| Total | 266.4 (100.0%) | 259.1 (100.0%) | (7.3) |

•Wholesale Operations

Most of the revenue in the wholesale operations segment derives from sales to franchise outlets. In the year under review, segment sales declined by 3.0%, to ¥140.7 billion. For the year, we reported an increase in sales of tires, an area of focus during the period. We also posted higher sales of oil and batteries thanks to increased unit prices, as well as of portable navigation systems, ETC devices, automobiles, and fuel. However, these positive factors were unable to offset declines in sales of tire chains, car audio equipments, wheels, motor sports goods, and other automotive goods.

•Retail Operations

The retail operations segment consists of retail sales of stores that are managed directly by the Company or its consolidated subsidiaries. In fiscal 2009, sales in this

segment were down 2.2%, to ¥114.6 billion. Despite higher sales from services, including statutory safety inspections and maintenance services, sales from domestic stores declined, impacted by such factors as stagnant consumption, high gasoline prices, and light snowfalls along Eastern Japan. Overall sales from overseas stores declined, particularly in North America and Europe, in the face of the economic slowdown and fluctuating exchange rates.

•Others

Sales from other businesses declined by ¥0.4 billion or 8.9%, to ¥3.8 billion, due mainly to decreases in real estate rental income and store equipment lease income from domestic franchise operators.

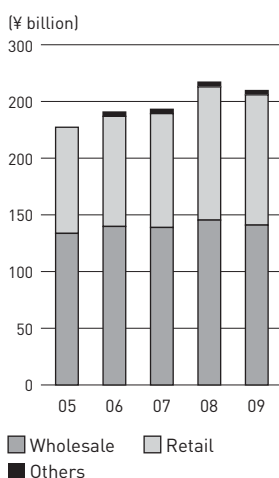
Gross Profit

Gross profit declined by ¥1.7 billion, or 2.0%, to ¥81.2 billion, due to the overall revenue decline and a fall in gross margins, mainly for tires and wheels. This was despite an increase in sales from statutory safety inspection and maintenance services, an area of current focus.

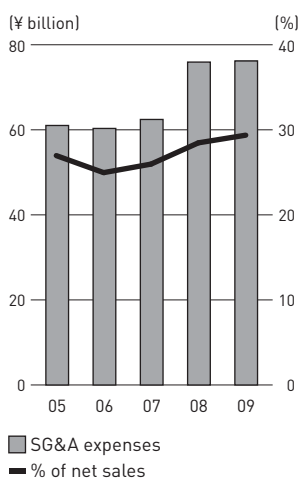
SG&A Expenses

SG&A expenses edged up by ¥0.2 billion, or 0.2%, to ¥76.1 billion, despite efforts to reduce expenses in accordance with the mid-term business plan. This reflected an increase in overall expenses stemming from a rise in the number of stores, both in Japan and overseas. Other factors included active spending on tire-related advertising, expenses related to our new POS system, which started its operations in the previous fiscal year, and spending to promote the mid-term business plan.

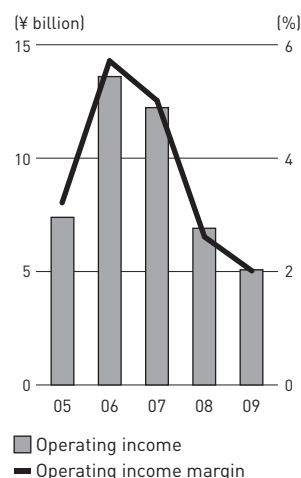
Net Sales



SG&A Expenses



Operating Income



| | 2008 | 2009 | ¥ billion Increase (Decrease) |
|---|-------------|-------------|-------------------------------------|
| Personnel expenses | 32.4 | 32.9 | 0.5 |
| Employee compensation | 26.2 | 26.5 | 0.3 |
| Sales promotion expenses | 11.9 | 12.3 | 0.4 |
| Equipment expenses | 17.4 | 17.6 | 0.2 |
| Land and building rent | 8.9 | 9.0 | 0.1 |
| Depreciation | 4.8 | 5.1 | 0.3 |
| Administrative expenses | 14.2 | 13.2 | (1.0) |
| Information processing expenses | 2.2 | 2.2 | (0) |
| Provision for allowance for doubtful receivables | 0.3 | 0.1 | (0.2) |
| Total | 75.9 | 76.1 | 0.2 |

Personnel expenses rose by 1.7%, to ¥32.9 billion, and constituted 43.3% of SG&A expenses. Employee numbers at the end of fiscal 2009 were 562 in wholesale operations (down by 32 year-on-year), 4,679 in retail operations (down by 279), and 692 in corporate-wide operations (down by 248).

Sales promotion expenses grew by 3.7%, to ¥12.3 billion, or 16.2% of SG&A expenses. This was mainly due to increases in advertising and sales promotion expenditures aimed at strengthening tire sales at domestic outlets.

Equipment expenses climbed by 1.3%, to ¥17.6 billion, or 23.2% of SG&A expenses. This was mainly due to depreciation and amortization related to our information systems.

Administrative expenses fell by 7.3%, to ¥13.2 billion, accounting for 17.3% of SG&A expenses. This was mainly due to declines in travel expenses and fees for consulting-related services.

As a result of the aforementioned factors, operating income declined by ¥1.8 billion, or 26.6%, to ¥5.1 billion.

Other Income (Expenses)

In other items, there was a net other expense of ¥9.0 billion, up from ¥2.0 billion in the previous fiscal year. This stemmed primarily from a ¥0.9 billion foreign exchange loss on lending to overseas subsidiaries and a ¥1.3 billion loss on valuation of investment securities due to devaluations of securitized products held by the Company (CDOs, SIVs). Other factors included a ¥4.7 billion income incurred by a change in accounting standards for building lease transactions, mainly via-a-vis franchise operators, as well as a business restructuring expense of ¥4.9 billion associated with the withdrawal from operations in the United States, a ¥5.3 billion impairment loss on fixed assets, and a ¥4.0 billion loss on valuation or sales of investment securities. The balance of securitized products held by the Company at March 31, 2009, was ¥150 million. This is expected to have a limited impact on the Company's performance going forward.

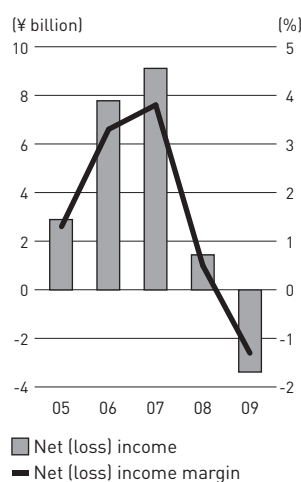
Income Taxes

Income taxes for the year were minus ¥0.5 billion. Because the Group posted a net loss before tax for the year, the effective tax rate fell from 69.1% to minus 13.6%, despite the absence of major changes in adjustment items.

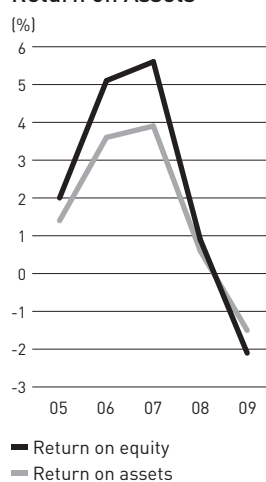
Net Income

The Group posted a net loss for the year of ¥3.4 billion, compared with net income of ¥1.5 billion in the previous year. The net loss per share was ¥90.29. Net income as a percentage of net sales declined from 0.6% in fiscal 2008

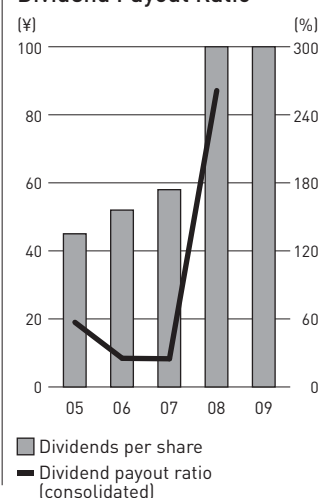
Net (Loss) Income



Return on Equity and Return on Assets



Dividends Per Share and Dividend Payout Ratio



to minus 1.3% in fiscal 2009. ROA slipped from 0.6% to minus 1.5%, and ROE fell from 0.9% to minus 2.1%.

FINANCIAL POSITION

As of March 31, 2009, total assets amounted to ¥224.2 billion, down by ¥10.0 billion, or 4.3%, from a year earlier. This was mainly due to a decline in investment securities.

Total liabilities edged down by ¥0.2 billion, or 0.3%, to ¥68.7 billion. This was due mainly to decreases in long-term debt and trade notes and accounts payable, which outweighed a provision for business restructuring associated with the withdrawal from businesses in the United States.

Net assets fell by ¥9.7 billion, or 5.9%, to ¥155.5 billion. This was mainly due to a decline in retained earnings stemming from dividend appropriations, as well as an increase in treasury stock.

CASH FLOWS

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥7.0 billion, compared with ¥0.6 billion used in such activities in fiscal 2008. Main factors included the application of accounting standards for leased assets, which had a ¥4.7 negative impact on cash flows, and a ¥3.9 billion loss before income taxes and minority interests. These contrasted with the ¥6.0 billion in depreciation and amortization, ¥5.3 billion in impairment losses, and a ¥4.8 billion provision for business restructuring.

Cash Flows from Investing Activities

Net cash provided by investing activities totaled ¥4.5 billion, compared with ¥8.0 billion used in such activities in

the previous fiscal year. This was mainly due to ¥8.1 billion in proceeds from redemption and sales of investment securities, which outweighed ¥4.9 billion in acquisitions of tangible and intangible fixed assets. Free cash flows (sum of cash flows from operating activities and cash flows from investing activities) saw a net inflow of ¥11.6 billion.

•Capital Expenditures

In fiscal 2009, total capital expenditures amounted to ¥4.9 billion. These investments were associated mainly with IT investments (including to upgrade our in-store POS system, personnel system, and car purchasing system), acquisition of land, buildings, and equipment related to the opening of new stores, reformatting of existing ones, scrap-and-build and relocation programs. A breakdown of capital expenditures (including intangible fixed assets) in the fiscal year under review is shown below.

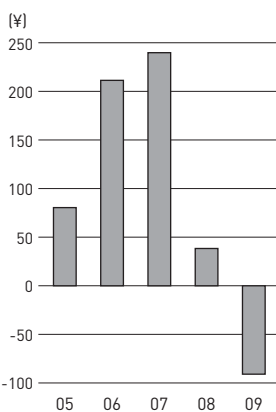
| | 2008 | 2009 | ¥ billion Increase (Decrease) |
|----------------------|------|------|-------------------------------------|
| Wholesale operations | 0.2 | 0.2 | 0 |
| Retail operations | 3.7 | 2.4 | (1.3) |
| Others | 5.9 | 2.4 | (3.5) |
| Total | 9.8 | 4.9 | (4.9) |

* Not including consumption tax

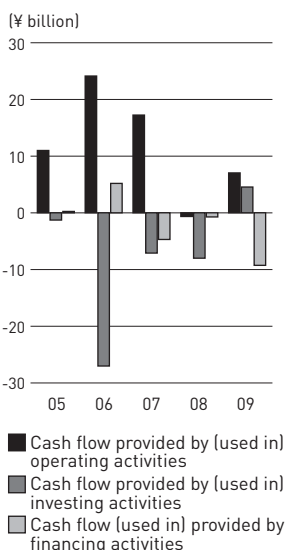
Major Capital Expenditures in 2009

| | ¥ billion |
|--|-----------|
| Retail Operations: | |
| Opening of new stores, scrap-and-build or relocation or reformatting to Super AUTOBACS | 1.1 |
| Purchases of land for relocating stores | 0.8 |
| Others: | |
| IT investments (development of POS system, etc.) | 0.9 |

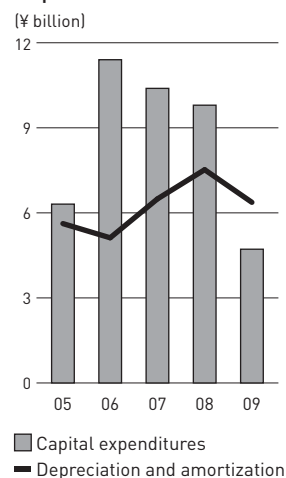
Basic Net (Loss) Income Per Share



Cash Flow



Capital Expenditures, Depreciation and Amortization



Cash Flows from Financing Activities

Net cash used in financing activities was ¥9.3 billion, compared with ¥0.7 billion in fiscal 2008. This was mainly due to ¥4.5 billion in dividends paid and ¥2.5 billion in purchase of treasury stock.

Cash and cash equivalents at fiscal year-end stood at ¥51.7 billion, up by ¥2.1 billion from a year earlier. This was the result of the above factors, as well as the effect of exchange rate changes on cash and cash equivalents and a rise in cash and cash equivalents resulting from an increase in the number of consolidated subsidiaries.

BUSINESS RISKS

The following are issues contained in this annual report concerning the AUTOBACS Consolidated Group's operating and financial conditions that are likely to have a significant bearing on the decisions of investors.

(1) Competition

It is possible that competitors in the automotive goods and accessories market could influence the Group's business performance. These competitors include not only franchisees and rival companies currently operating in the same line of business, but also automakers and dealers making a full-scale entry into the market, as well as specialty tire stores, secondhand goods stores, and outlet stores.

(2) Unusual Weather Conditions

Merchandises sold by the AUTOBACS Group include seasonal products, for which the number of units sold is significantly affected by weather conditions. Accordingly, in the event of unusual weather conditions, such as cool summers and/or warm winters, the Group's business performance could be affected by lower sales for seasonal products or a shift in demand season.

(3) Future Overseas Expansion

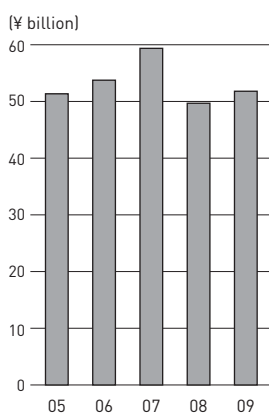
The Group is operating in Europe, United States, and Asia, including China. In the event that the Group fails to respond in a timely manner to various problems and risks in these regions, its business performance could be affected. Such problems include but are not limited to the following: the local culture with respect to cars and car-related goods; competition from existing local retailers; the economic situation; the level of information infrastructure; a lack of protection for intellectual property; an unstable political situation; and outbreaks of infectious disease.

(4) Regulations Governing Opening of New Stores

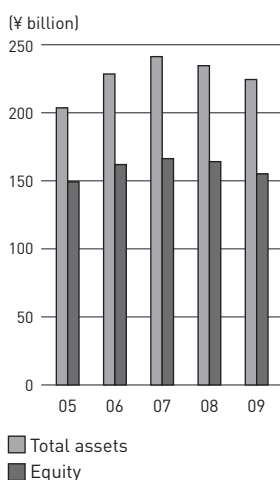
The Group's development of stores is under the regulation of the Law Concerning the Measures by Large-Scale Retail Stores for Preservation of the Living Environment.

This law applies to the opening of all new stores with sales floor areas exceeding 1,000 square meters and to the expansion of existing stores that will result in sales

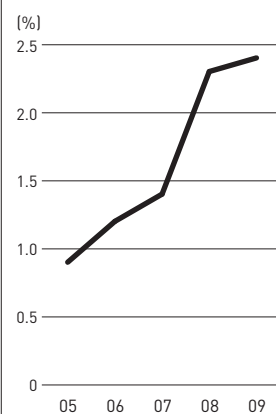
Cash and Cash Equivalents



Total Assets and Equity



Dividends on Equity (DOE)



floor areas exceeding the limit. The law's purpose is to maintain the living environment of local residents. A local prefecture or a designated city office carries out pre-determined checks on noise levels, traffic congestion, waste disposal, and other factors.

In opening new stores larger than 1,000 square meters, the Group's policy is to consider the local environment from the initial planning stage and to work closely with nearby residents and the local government. Due to the aforementioned regulations and other factors, however, the Group may not be able to open new stores as planned, which could have a negative impact on its business results.

(5) Observance of Laws and Regulations

With respect to the observance of laws and regulations, the Group is working to enhance its internal control system. The Company established the Compliance Department to enhance internal control, and set a Code of Conduct and Guidelines to ensure ethical business conduct by its directors, officers and employees.

However, in the unlikely event that a director or an officer or an employee violates laws or regulations, either intentionally or unintentionally, this could result in claims for compensation, which could affect the Group's business performance. In addition, the Group holds a huge volume of consumer information. While careful attention is paid to the handling of such information, in the event of an external leakage of customer information due to malice or other reasons, the Group could lose credibility and its business performance could be negatively affected.

(6) Fluctuations in Product Selling and Procurement Prices, and Raw Materials Prices

Due to various factors, merchandises sold by the Group could be subject to unexpected fluctuations in procurement prices and raw materials prices. Also, sales prices of its merchandises could surge or plummet due to changes in the market environment. As a result, the Group's business performance could be affected by such developments as the selling price falling below the procurement price or declines in demand due to higher prices.

(7) Natural Disasters

In regions where the Group has stores and operational facilities, natural disasters, such as earthquakes and typhoons, could cause damage to Company facilities or harm to directors, statutory auditors, and employees. The Group's business results could be affected by such factors as reduced sales and costs required to restore operations and recruit human resources.

(8) Franchisees

The Company operates as a franchisor for stores that principally provide sales of automotive goods and services, statutory safety inspection and maintenance services and sales and purchase of vehicles. In the event that a franchisee violates the franchise contract or laws and regulations, the business performance of the Group could be affected, irrespective of the Group's holding of equity in the franchisee.

(9) Store Operations

The Group operates retail stores that provide sales of automotive goods and services, statutory safety inspection and maintenance services and sales and purchase of vehicles. These operations have risks associated with the processing of waste generated by store operations, the handling of dangerous substances, and accidents in service bays and other places on the store grounds. The occurrence of these types of events could affect the Group's business performance directly or indirectly through a reduction in customer numbers due to a deterioration of the image of our stores.

(10) Exchange Rate Fluctuations

The Group extends loans denominated in foreign currencies to its overseas subsidiaries. Because foreign currency-denominated amounts are translated into for preparation of financial statements, changes in exchange rates could affect the Group's business performance.