

Mid-Term Business Plan “FDR-1” Revised

(Plan for the coming two years)

**May 12, 2005
Fuji Heavy Industries Ltd.
President & CEO
Kyoji Takenaka**

Think. Feel. Drive. |



SUBARU

Agenda

- **Management vision / Review of the past three years**
- **Revision of the FDR-1 plan**
 - **Objectives**
 - **Changes in five areas**
 1. **Urgent total cost reduction**
 2. **Restructure product planning**
 3. **Restructure sales process and network**
 4. **Increase asset turnover**
 5. **Leaner corporate structure**
- **Other matters**
- **Summary: Revised Target figures**

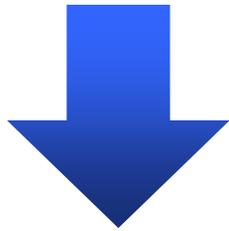
Management Vision

- **Small in size, but strong market presence**
- **Establish a sustainable business model of high profitability with automobiles as core business**

**Operating Income Ratio of more than 8% and
ROA of more than 10% by 2010**

Achieving vision

- Innovate with our unique technologies
- Laser focus on investment choices
- Cost reduction to ensure competitive price and profitability
- Automobiles of driving pleasure, with a sense of security and environmental consciousness



Driving
Performance

To all customers,
by all models, provide:
**Driving Pleasure &
Sense of Security**

Evolution of Subaru's Premium Brand Strategy

Cause of profit decline

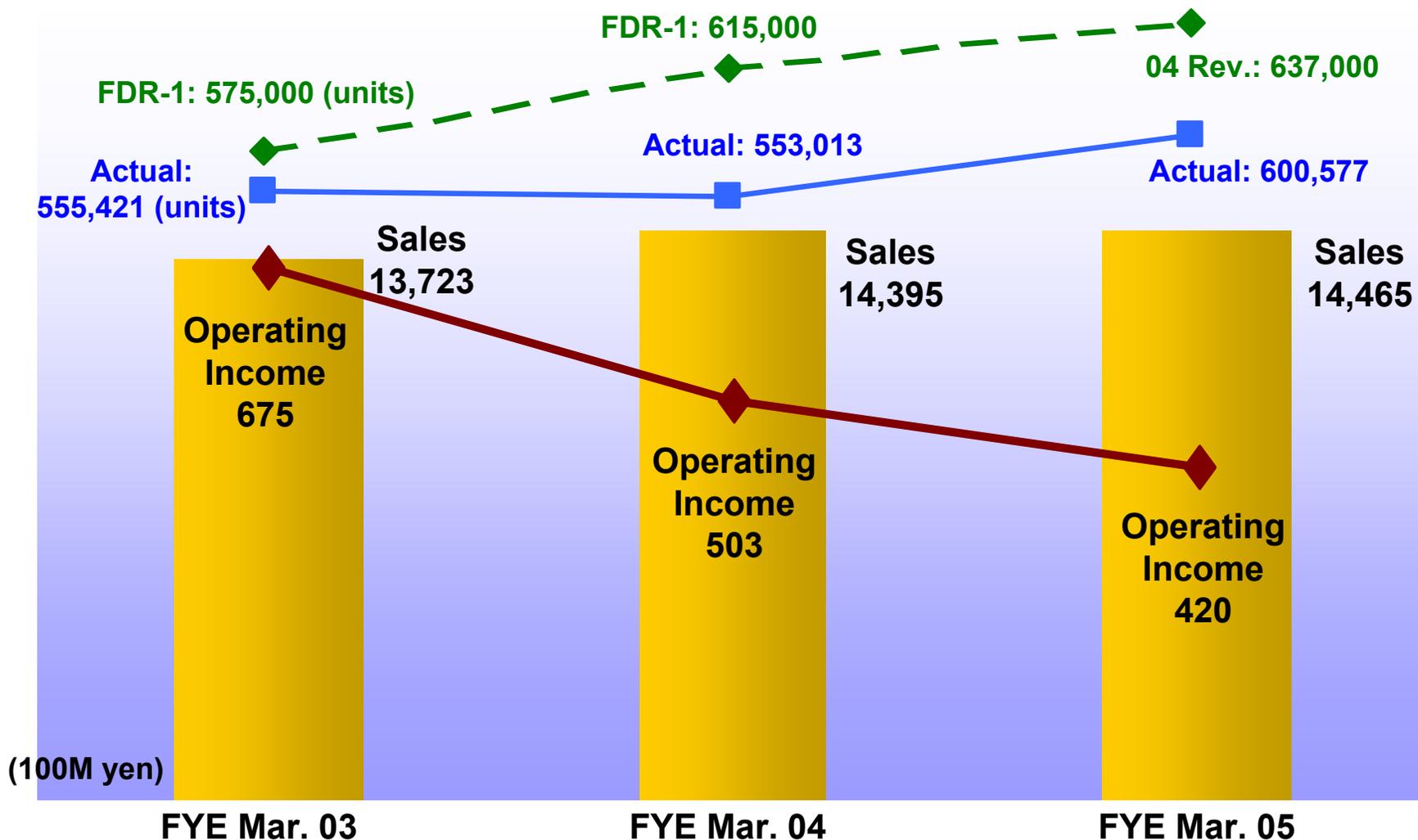
1. **Overly optimistic sales volume plan**
2. **Unable to recover additional cost in product development**
3. **Competition tougher than expected**



Urgent need of better balance of volume, cost, and price

Overview of the first three years of FDR-1

Units shortfall and model mix deterioration

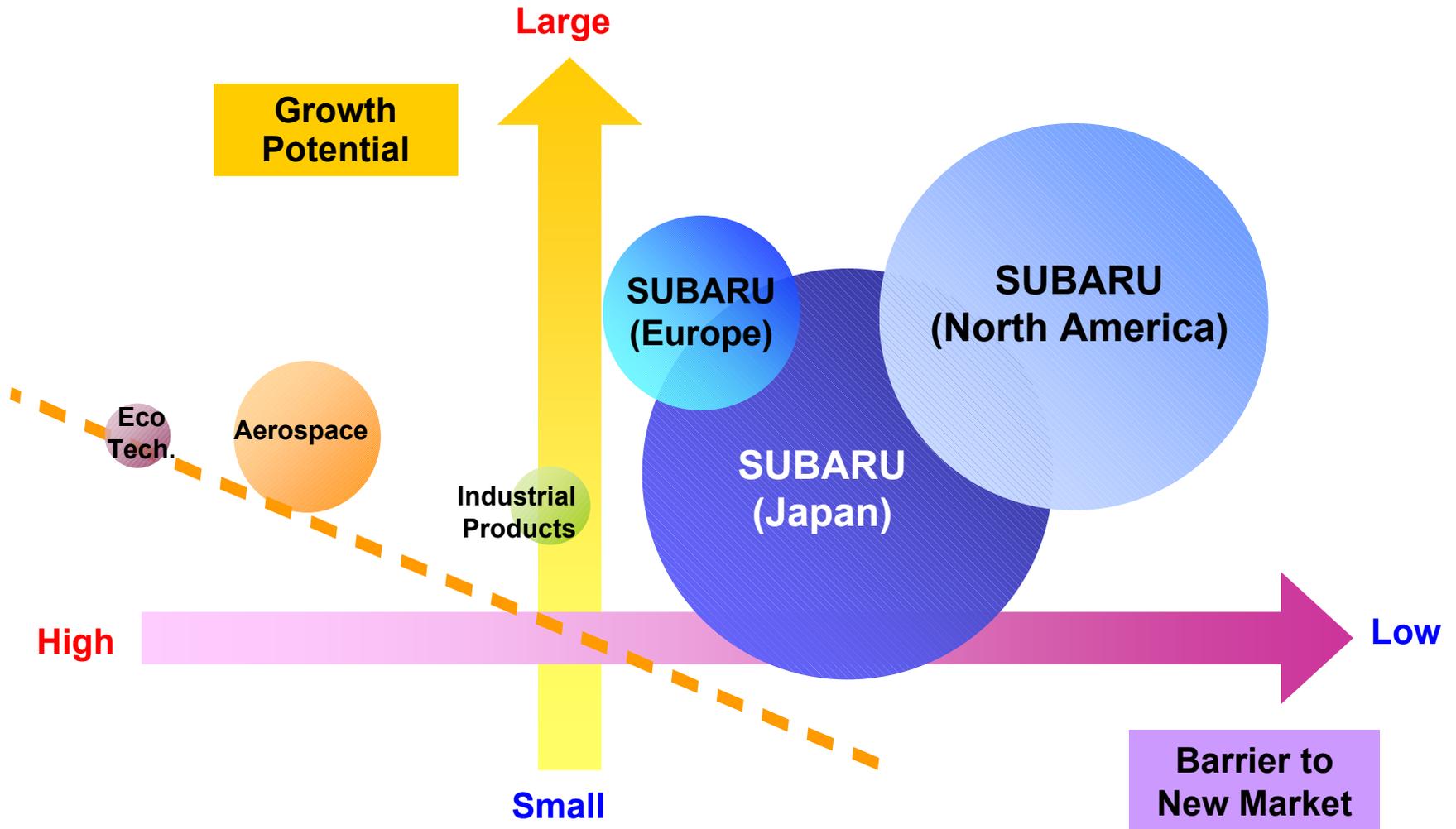


FDR-1 Revised



Changes to improve profit

Business Portfolio Overview



FDR-1 Revision

- 1. Urgent total cost reduction**
- 2. Restructure product planning**
- 3. Restructure sales process and network**
- 4. Increase asset turnover**
- 5. Leaner corporate structure**

1. Urgent total cost reduction

Start of TSR (Total cost structure revolution)

<Vehicles under development >

- 1) Yen 100,000 / unit cost reduction target
 - Increase participation in GM Global Purchasing
- 2) 30% reduction of tooling and development costs

1. Urgent total cost reduction

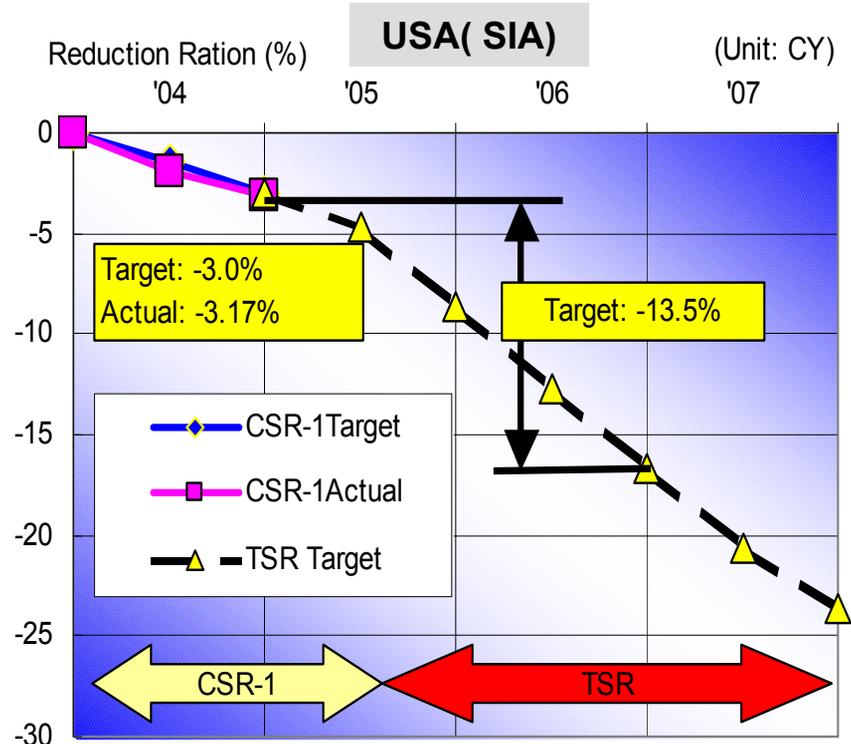
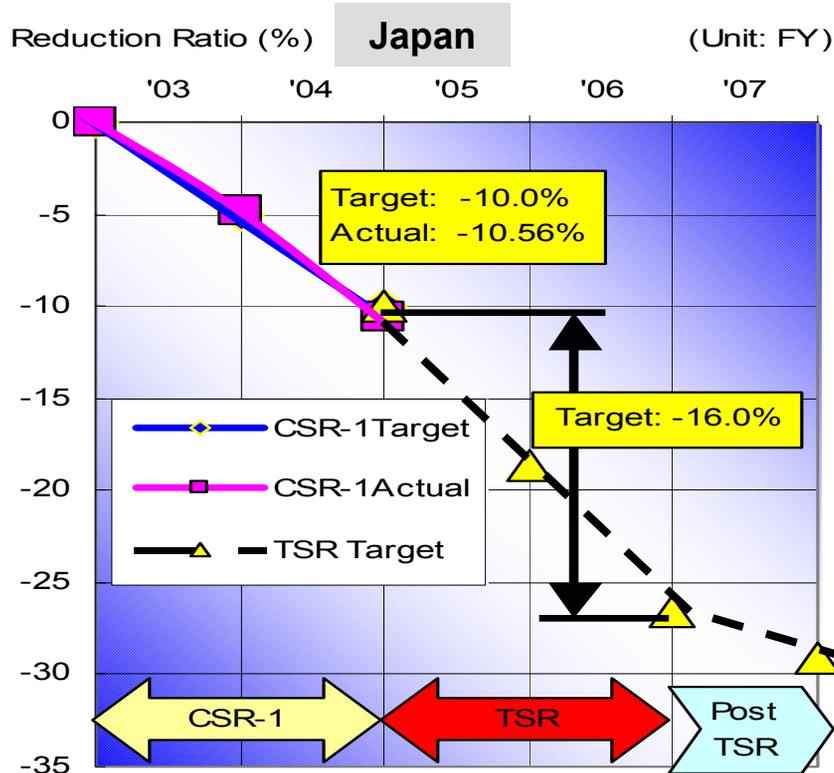
Start of TSR (Total cost structure revolution)

<Vehicles in production>

Reduction of direct material costs
- Results and Plan

Japan prod. -16% in 2 yrs

SIA prod. -13.5% in 2 yrs



Active leveraging of GM Global Purchasing

2. Restructure product planning

- 1) More market orientation**
- 2) More realistic business cases**
- 3) More platform/component sharing**
- 4) Thorough benchmarking**
- 5) Shorter development time**
- 6) Pursue collaboration with GM advanced engineering**

2. Restructure product planning

< Action plans >

- 1) Export B9 Tribeca from United States
- 2) Pull ahead the launch of a new mini-car
- 3) Evolution and sharing of the Legacy platform
- 4) Co-development of a new crossover vehicle for SAAB
- 5) Advanced engineering projects:
 Horizontally opposed diesel, hybrid, battery for HEV

Product Portfolio

2005	2006	2007~
◎ Forester ★ B9 Tribeca (USA) Impreza	★ New mini-car ★ B9 Tribeca (JPN, EUR, AUST) ◎ Legacy (JPN, EUR, AUST)	★ FMC ◎ Legacy (USA) ★ FMC ★ New Model

★ FMC/New Model, ◎ Major Face lift

3. Restructure sales process and network - U.S.

1) Appoint new dealers / Strengthen the current network

	2004	2006	Changes
Total dealers	581	608	+27
Exclusive and Separate Showroom Dealers	379	415	+36
%	65%	68%	
Subaru "Signature Facility" Showroom	285	385	+100
%	49%	63%	
Sales unit per outlet	321	371	+16%

Target: 250,000 units with 630 dealers

2) Reorganize SOA's regional responsibility

- Focus on the sunbelt market area

3) Autonomous dealer development organization

3. Restructure sales process and network - Japan

1) Regional block management of dealers and job consolidation

- Utilize “Partner 21” dealer network system
- A regional holding company to consolidate subsidiary dealers

2) Major upgrade in quality of sales and service

- Priority on the customer interface
- Target high ranking in the outside institution’s survey

3. Restructure sales process and network - Europe

- 1) Expansion of Subaru Europe functions
- 2) More direct involvement with major distributors for stronger sales promotions
- 3) Competitive pricing by innovative logistics
- 4) Increase dealers
974 in 2004 ⇒ 1,140 in 2006 (+ 166)
- 5) Target new areas: Central and Eastern Europe, CIS

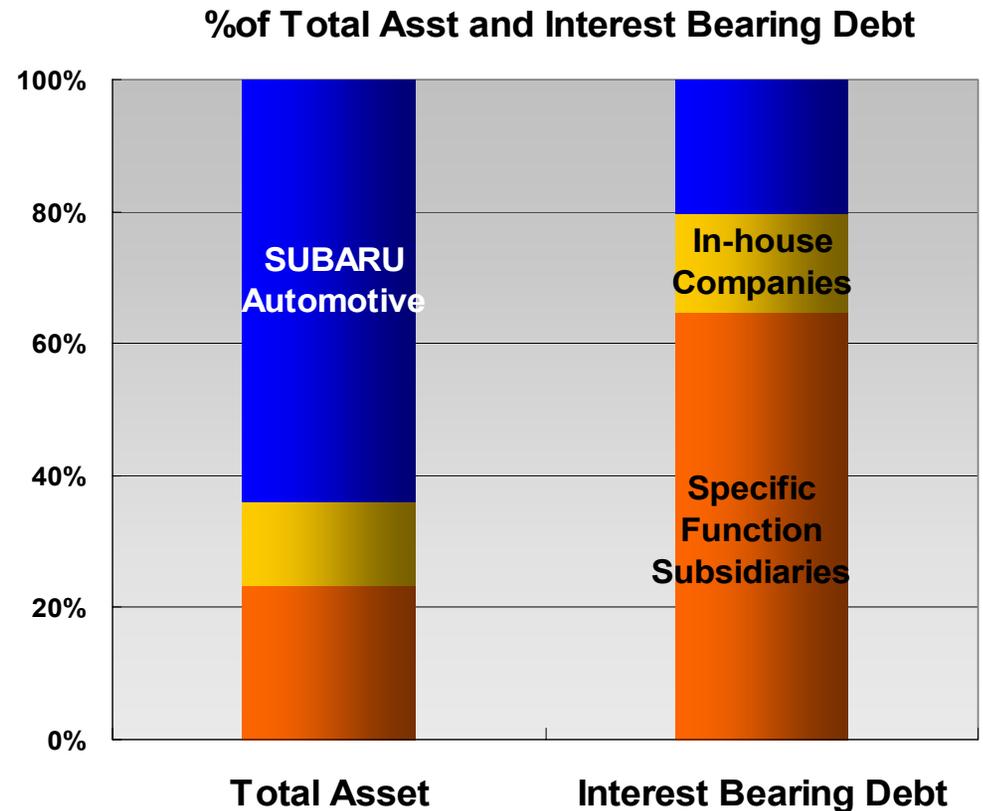
4. Increase asset turnover

By FYE March 2008:

- 1) Total asset reduction at 10% (Yen 1,357 Bill. at Mar 05)
- 2) Interest bearing debt reduction at 20% (Yen 412 Bill. at Mar 05)

Actions:

- 1) Examine effectiveness of asset turnover
- 2) Inventory reduction through process management
- 3) Liquidation/divestiture etc.



4. Increase asset turnover

- 1) Revenue and profit increasing
- 2) Strict focus on capital spending
- 3) Review business portfolio every year

(million yen / %)

		Aerospace		Industrial Products		Eco Technology	
FYE	Sales	59,434	-	38,899	-	6,491	-
Mar/05	Ope. Income	54	0.1%	583	1.5%	-431	-6.6%
FYE	Sales	81,610	-	39,200	-	7,260	-
Mar/06	Ope. Income	2,090	2.6%	620	1.6%	20	0.3%
FYE	Sales	82,730	-	39,900	-	9,170	-
Mar/07	Ope. Income	3,370	4.1%	640	1.6%	60	0.7%
Outlook		Recovering demand in Commercial Business (Boeing, etc.) , Increasing sales of Defence Business		Expanding major OEM contracts mainly in US		Securing the top market share of Fuji Mighty	

5. Leaner corporate structure

- 1) More efficient and effective human resources management and throughout group companies**
- 2) External board member to strengthen corporate governance**
- 3) Tighter internal control / audits**

Other matters

- 1) **Dividend policy:**
 - **Stable through FYE Mar. 2007**
 - **Consolidated payout ratio afterwards**

- 2) **Foreign exchange rate hedging:**
pursuing natural hedges by exports from U.S.

- 3) **Contingency plan in place in case of stronger yen**

Summary (Revised target figures)



FDR-1 Revised plan

Last year's plan

(In 100 Million Yen)



Revised plan

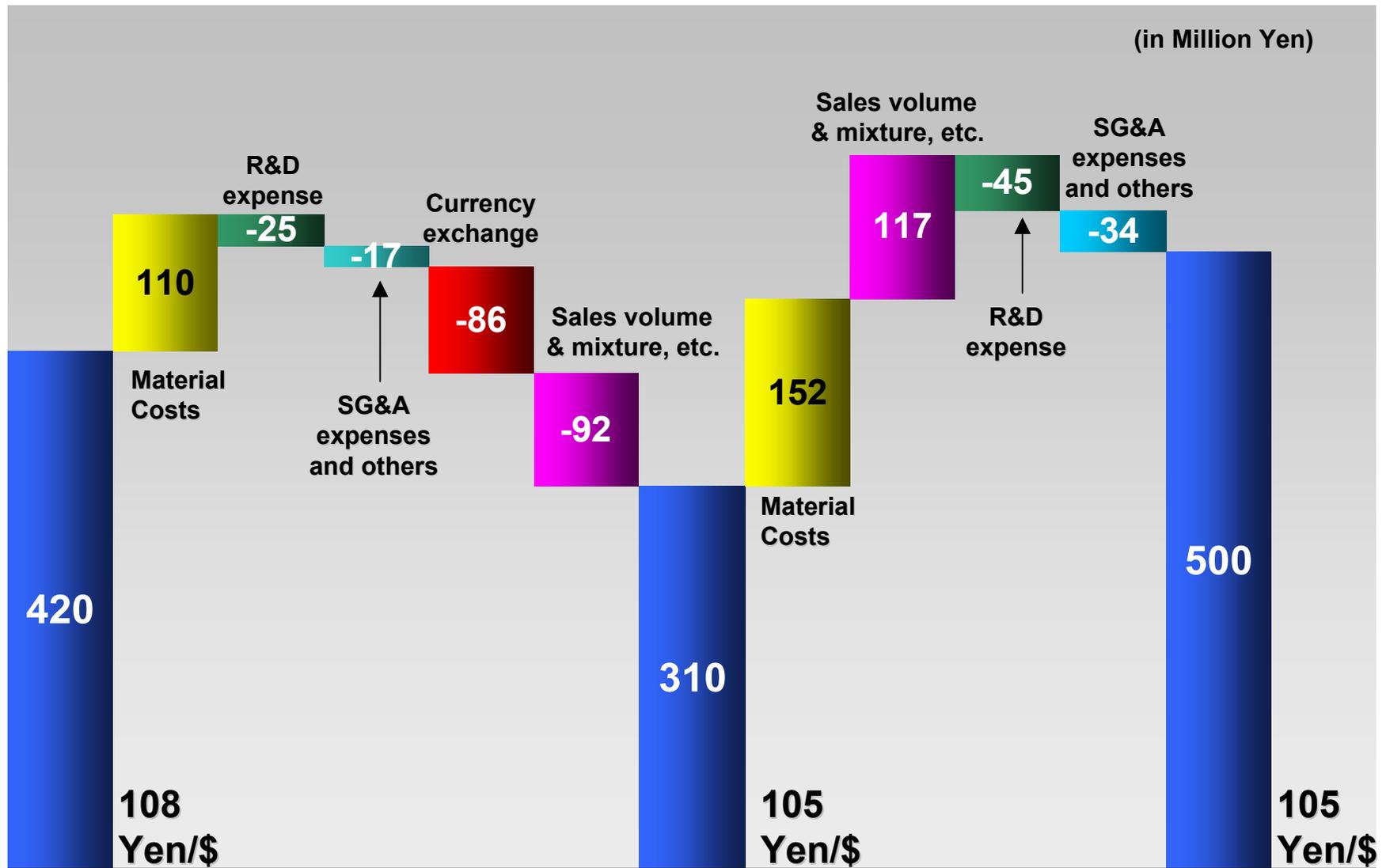
(In 100 Million Yen)

Fiscal Year	Mar.05	Mar.06	Mar.07
Sales	14,700	16,000	17,200
Operating Income	450	680	910
Ordinary Income	470	570	850
Net Income	320	280	480
Depreciation	520	600	660
Cap.-Exp.	820	860	650
R&D	590	610	630
Interest Bearing Debt	4,100	4,200	4,200
¥/\$ Rate	105	105	105

Fiscal Year	Mar. 05 Actual	Mar. 06	Mar.07
Sales	14,465	14,700	15,800
Operating Income	420	310	500
Ordinary Income	436	270	480
Net Income	182	150	270
Depreciation	511	580	650
Cap.-Exp.	853	670	610
R&D	530	555	600
Interest Bearing Debt	4,122	4,100	4,000
¥/\$ Rate	108	105	105

FDR-1 Revised Operating Income plan

(in Million Yen)

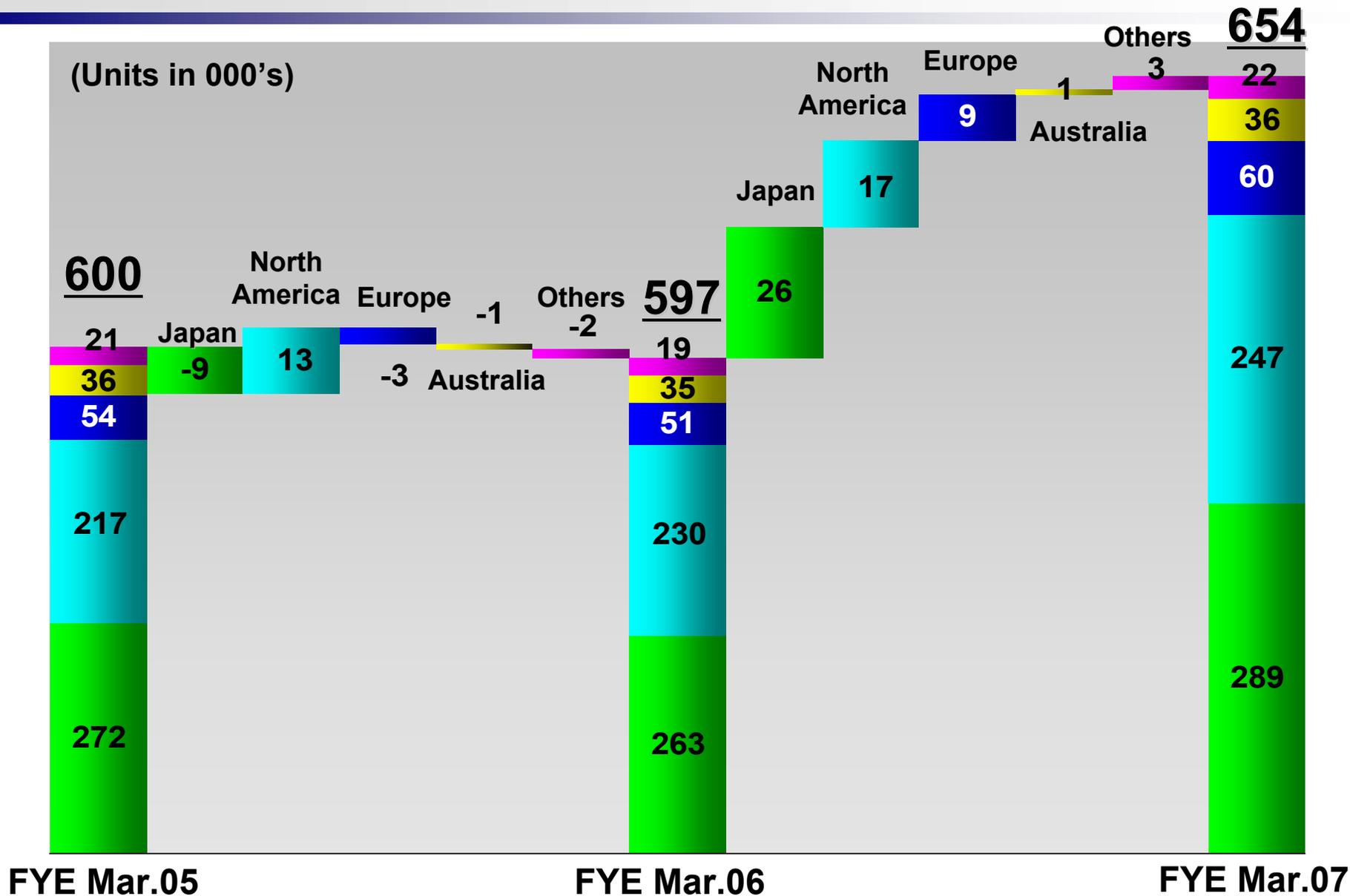


Operating Income
FYE Mar.05

Operating Income
FYE Mar.06

Operating Income
FYE Mar.07

FDR-1 Revised Sales Volume Plan



Thank you!

