



FY2008-2011 Mid-term Management Plan

- Customer Satisfaction: Our Customers are everything -

**February 28, 2007
Fuji Heavy Industries Ltd.
President & CEO
Ikuo Mori**



Agenda

- **Management Vision**
- **Position of the new plan**
- **Review of the current plan**
- **Background of the new plan establishment**
- **Essential features of the new plan**
- **Five major challenges**
 - 1. To provide a distinctive Subaru experience for drivers and passengers
 - 2. To increase sales globally
 - 3. To strengthen competitiveness in quality and cost
 - 4. To also grow through the business alliance with Toyota
 - 5. To grow the level of employees competence and so enhance the organization
- **Three internal companies**
- **Financial strategy**
 - / Return to shareholders
- **Corporate governance /CSR**
- **Highlights of FY2011**



Management Vision

In the long term

“An compelling company with strong market presence”

Reinforce management base to achieve two important financial indices constantly:

more than **Operating Margin 8%**, more than **ROA 10%**

To pursue **Quality** rather than just size

To fulfill its **Corporate Social Responsibility**

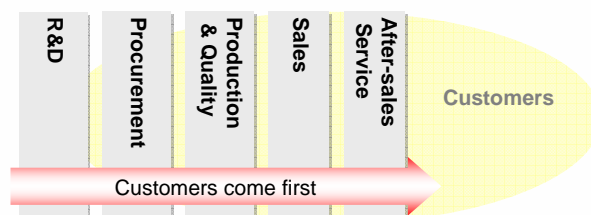
To provide **Compelling and Distinctive** products in response to changes in the social environment



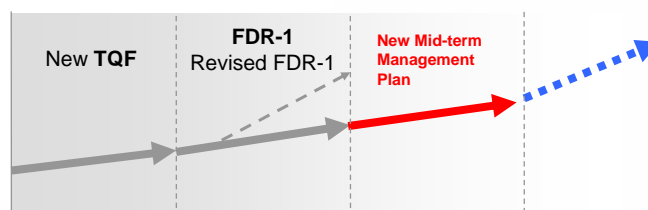
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Position of the new management plan(FY2008 to 2011)

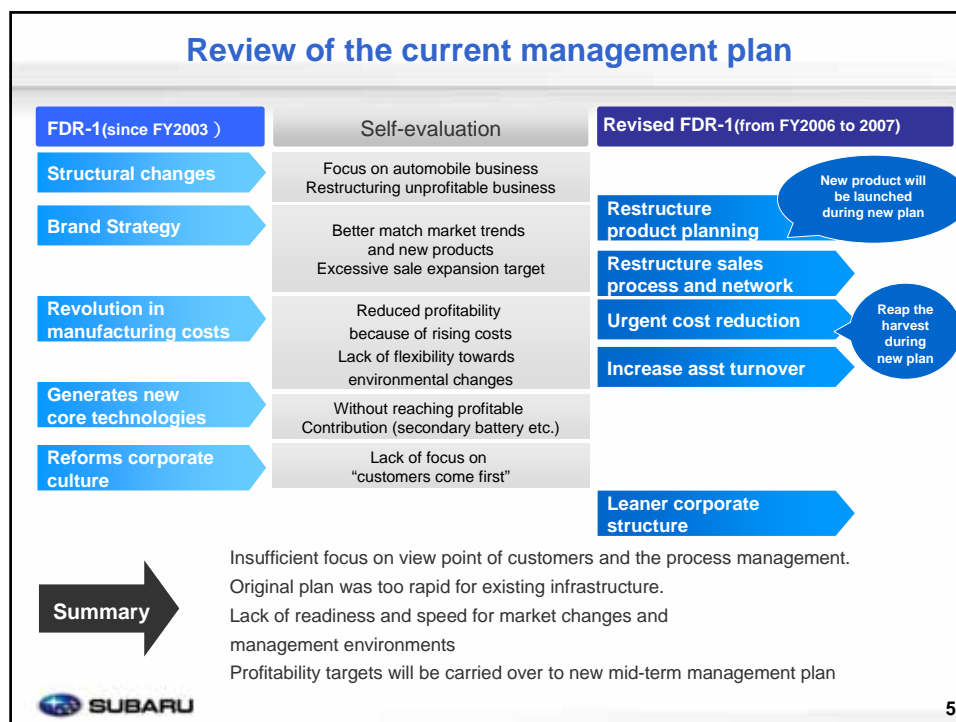
Redirect focus to “Customers come first” to enhance the enterprise value steadily



Drive to **Operating Margin 5%, ROA 7%**



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Review of the current management plan

{Quantitative Evaluation} Final Year Target (FY2007)

(in billion yen)

	FDR-1 (2002/5)	Revised FDR-1 (2005/5)	Outlook for FY 2007 (2006/10)
Sales volume <small>(thousand units non-consolidated basis)</small>	760	654	575
Net Sales	1,840	1,580	1,500
Operating Income	110	50	50
Operating Margin	6.0%	3.2%	3.3%
ROA	8.1%	-	-
Interest Bearing Debt	380	400	350
Exchange Rate (¥/\$)	115	105	115

Summary

Changed the balance of volume, cost and price caused the increase of breakeven point

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Background of new plan establishment

Global	Japan
<ul style="list-style-type: none"> ◆ Tighter environmental legislation ◆ Higher oil and raw materials price ◆ Volatility of foreign exchange and interest rate ◆ Development of emerging market including BRICs etc. 	<ul style="list-style-type: none"> ◆ Rapid aging of the population with low birth rate ◆ Sluggish consumer spending ◆ Downsizing the vehicles towards minicar and compact cars ◆ Widening the gaps in income etc.



Need to establish a flexible management system in response to the changing business environment



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Essential features of the new plan

With the philosophy of “customers come first” at its core, focusing on improving profitability and investing in growth areas with management resources

Product / Technology	Realize the distinctive SUBARU experience, while taking environmental consideration into account. Specify the uniqueness of the vehicle with boxer engine as our core technology field
Market	U.S. : Strategically important market Europe/ Emerging Market : Increase sales and enhance profitability Japan : Improve profitability
Competitiveness	Strengthen competitiveness in quality, cost and operational efficiency ranked as the highest level in the business segment
Business alliance with Toyota	Make best use of alliance and gear toward advancing the long-term mutual competitiveness
Corporate Culture	Instill the “customers come first” Strengthen the management system in response to the business environmental changes with flexibility



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Five major challenges

With the philosophy of “customers come first” at its core

1. To provide a distinctive Subaru experience for drivers and passengers
2. To increase sales globally
3. To strengthen competitiveness in quality and cost
4. To also grow through the business alliance with Toyota
5. To grow the level of employee competence and so enhance the organization

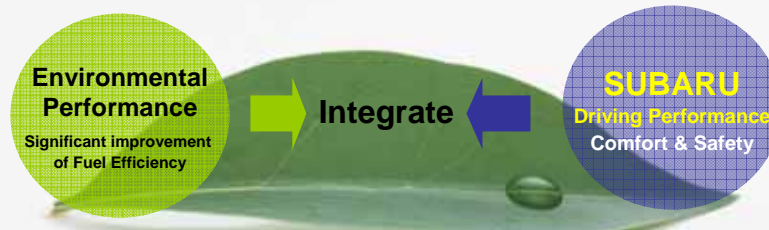


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1. To Provide A Distinctive Subaru Experience

< Direction of Product Development >

**Integrate the Pleasure of Driving
and Environmental Responsibility**



To Provide A Fascinating Subaru Distinctive Value

We pursue:

- Driving pleasure that every customer can feel
- Reliability that every customer can feel
- Functions that every customer can appreciate
- Environmental performance
- Intelligent and sporty design that fully expresses Subaru values

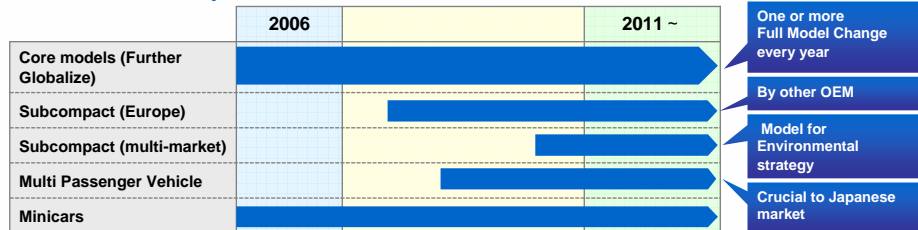


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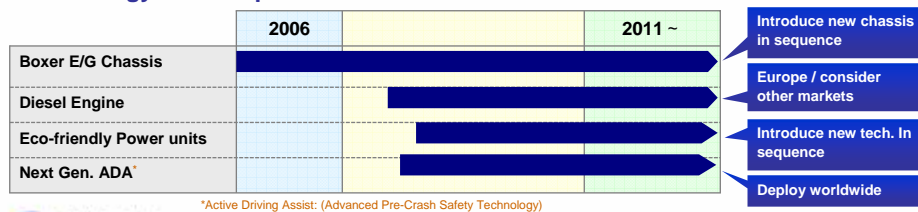
1. To Provide a Distinctive Subaru Experience

- Ensure Subaru product appeal to customers across world markets
- By competing for customers in most tough market, Japan product and technology will improve.

<Product Roadmap>



<Technology Roadmap>



*Active Driving Assist: (Advanced Pre-Crash Safety Technology)



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1. To Provide a Distinctive Subaru Experience

Integrate Eco. & Unique Tech.

- Boxer Turbo Diesel Engine
- CVT for Symmetrical AWD
- Next Gen. Boxer Engine
- Next Gen. Chassis
- Next Gen. ADA*
- Development of EV & HEV

Strengthen Product line-up

- Improve global appeal of product lines
- Introduce Compact car
- Introduce Multi Passenger Vehicle

Customers come first in Product development and Customer relations

Improve Marketing Capability

- Establish Global Marketing Division
- Define strategic target customers = Active Life segment

Enhance After market support

- Strengthen service engineering
- Accelerate service responsiveness
- Improve Customer Satisfaction with sales and service



*Active Driving Assist (Advanced Pre-crash safety technology)

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2. To Increase Sales Globally

The U.S., the most important market

Increase profitability by enhancing sales network in focal market.

Establish Overseas Sales & Marketing Div. I (USA & Canada)

Improve profitability and operational efficiency through integrated management of production and sales

Establish a branch office in L.A.

Improve information gathering in the market

Improve flexibility to meet market demands

Improve meeting of supply and demand by flexible production plans

Expand sales network

Establish 625 outlets by 2010



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2. To Increase Sales Globally

Sales Network Development Plan

	2005 (result)	2006 (result)	2010 (plan)
Exclusive	240	272	290
Separate Showroom	156	164	170
Total	396	436	460
Others	192	165	165
Grand Total	588	601	625
Exclusive&Separate %	67%	73%	74%
Subaru "Signature facility"showrooms	330	371	435



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2. To Increase Sales Globally

Europe, Australia and Other markets

Introduce Diesel & Subcompact Car	Reduce CO ₂ emissions and Increase Sales
Expand Subaru Europe's functions	Strengthen sales activities and logistics
Strengthen brand strategy	Increase sales and improve brand value
Strengthen sales network (emerging markets)	Russia, China, Eastern Europe, Nordic countries, etc.
Establish service responsiveness by region	Strengthen overseas services
Consider additional overseas production sites	Meet market environment flexibly



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2. To Increase Sales Globally

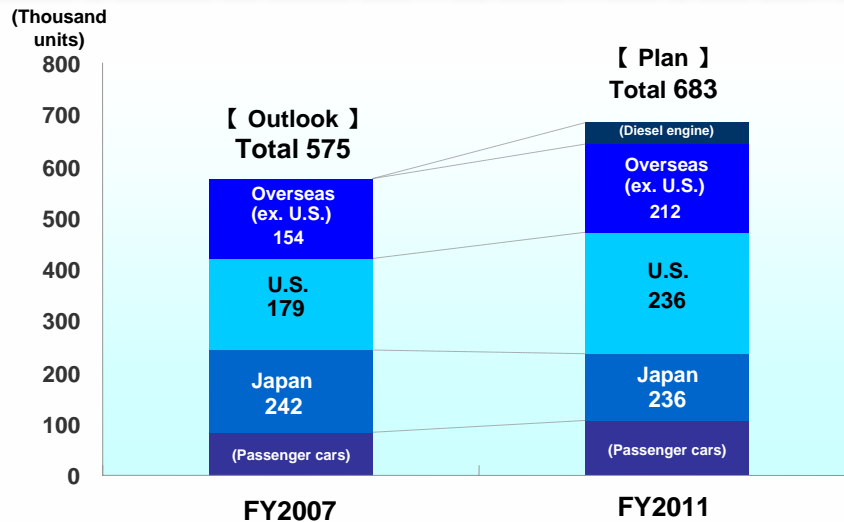
Japan

Focus on sales of Legacy, Impreza and Forester	Improve profitability
Strengthen urban outlets	e.g. Tokyo and Osaka
Improve quality of customer relations	Increase sales force



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Automobile unit sales (non-consolidated) : FY2007 FY2011



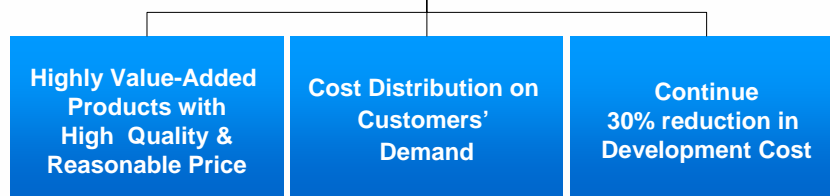
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3. Strengthen competitiveness in quality and cost

Cost Competitiveness

Start of TSR-VC

Total-Cost Structure Revolution
maximize Value for Competitiveness/Customer



[TARGET]

- (1) Production Vehicle : Continue cost reduction associated with each system target
- (2) Development Vehicle : Reduce 100,000 yen per vehicle cost improvement on each vehicle
- (3) Power Train : Reduce 100,000 yen per vehicle cost structure revolution on each unit



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3. Strengthen competitiveness in quality and cost

Production / Quality Improvement

Flexible Manufacturing
(Short lead-time manufacturing with Variable Type and Quantity)
In Process Quality Assurance
Succession of manufacturing Skill & Technology

Enhance group-wide competitiveness

Reinforce Business Foundation of Group Companies
by focusing on Mission Faithfulness



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4. Grow through the business alliance with Toyota

Alliance Vision

Pursue Win-Win for Competitive Growth for Long-Term

1 Reinforce Business Foundation (Engineering, Manufacturing Engineering)

2 Mutual Leverage (Manufacturing Capacity, Resources)

3 Strengthen Subaru Brand (Laser Focus on Core Competence)

Areas in Agreement / Discussion

Manufacturing	Smooth start-up of Toyota Camry prod. at SIA (Early Spring 2007)
OEM	OEM production agreement on subcompact car for Europe
Co-Development	Study development projects in consignment / joint development



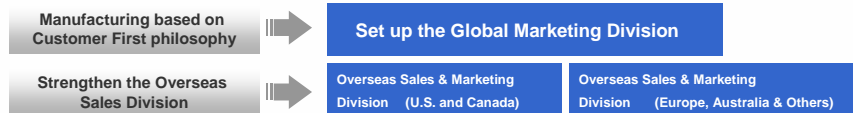
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5. Grow level of employees competence and so enhance the organization

1. Reform corporate culture: Instill the Customer First philosophy

Devise and implement a new guideline, CCE(Customer, Company, Employee)

2. Organizational changes in headquarters



3. Enhance Management Effectiveness

Clearly define responsibilities of divisions and departments

4. Strengthen and vitalize human resources groupwide

Review and upgrade groupwide human resources policies and education /training program



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Three internal companies

Improve each profitability to increase its production efficiency
/ Globalize and stabilize its procurement system

Aerospace Company	Continuous defense demand as its base In response to a growing demand for passenger plane Try to cultivate next-generation business with its new products and technologies <div>Expand business stably</div>
Industrial Products Company	Expand global production, including production consignment and licensing Develop new products to meet customer needs
Eco Technologies Company	Improve the profitability of its eco-friendly sanitation trucks by tapping business collaborations with other companies Plans to jumpstart an electricity-generating windmill business



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Financial strategy/Return to shareholders

Financial strategy

Allocation of cashflow

Investment priorities:

- Capital expenditure to support global operations
- R&D expense to enhance product appeal and features

Increase asset turnover

Effective distribution of resources without increasing total assets
20% reduction in interest-bearing debt by FY2008 on a consolidated basis,
from the end of FY2005 (Revised FDR-1 Target)

Return to shareholders

Continue a steady dividend payment through FY2011

Maintain the same level of treasury stock (8.4% of the total issued stocks)



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Corporate governance / CSR

Strengthen the corporate governance

Build and strengthen the groupwise internal control system

Consider to invite an external board member

CSR (Corporate Social Responsibility)

Corporate Philosophy = "CSR Policies"

We will

1. Strive to create advance technology on an ongoing basis and provide consumers with distinctive products with the highest level of quality and customer satisfaction
2. Aim to continuously promote harmony between people, society and the environment while contributing to the prosperity of society
3. Look to the future with a global perspective and aim to foster a vibrant, progressive company

We will be able to provide customers and other stakeholders
with more satisfaction and reliance.



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Highlights of FY2011

Target sales (non-consolidated): 683 thousand units

Consignment Production: 100 thousand units

Consolidated Operating Income: 80 billion yen

Consolidated Operating Margin: 5%

Consolidated ROA: 7%

FY2008 2011(4years)

Total Consolidated R&D Expense: 230 billion yen

Total Consolidated Capital Expenditure: 270 billion yen

Total Consolidated Depreciation: 250 billion yen



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Thank you

