



SUBARU

# Mid-Term Management Plan “Motion V”

FY 2012 - 2016

July 6, 2011

Fuji Heavy Industries Ltd.

## 1. Management Vision

## 2. Review of the Previous Plan

## 3. Mid-Term Management Plan “Motion V ” FY2012-2016

- Vision
- Background
- Title
- Five challenges

## 4. Guiding Principle for All Activities

- ~ Confidence in Motion

## 5. Strategic Direction for Growth

- Provide distinctive Subaru experience
  - ~ Brand, Technology and Products ~
- Accelerate sales expansion
  - ~ Sales and Production ~
- Solidify operational foundation
  - ~ Quality, Cost and Alliance ~

## 6. Improvement in Management

(Human resources, Corporate governance etc.)

## 7. Highlights

# 1. Management Vision

**With the philosophy of  
“ Customers Come First”  
as its core**

**“A Compelling Company  
with a Strong Market Presence”**

## 2. Review of the Previous Plan

### To Provide A Distinctive Subaru Experience

1. Global size and specification with comfortable roominess
2. Improve safety performance and eco-friendliness
3. Enhance and elevate the drivability



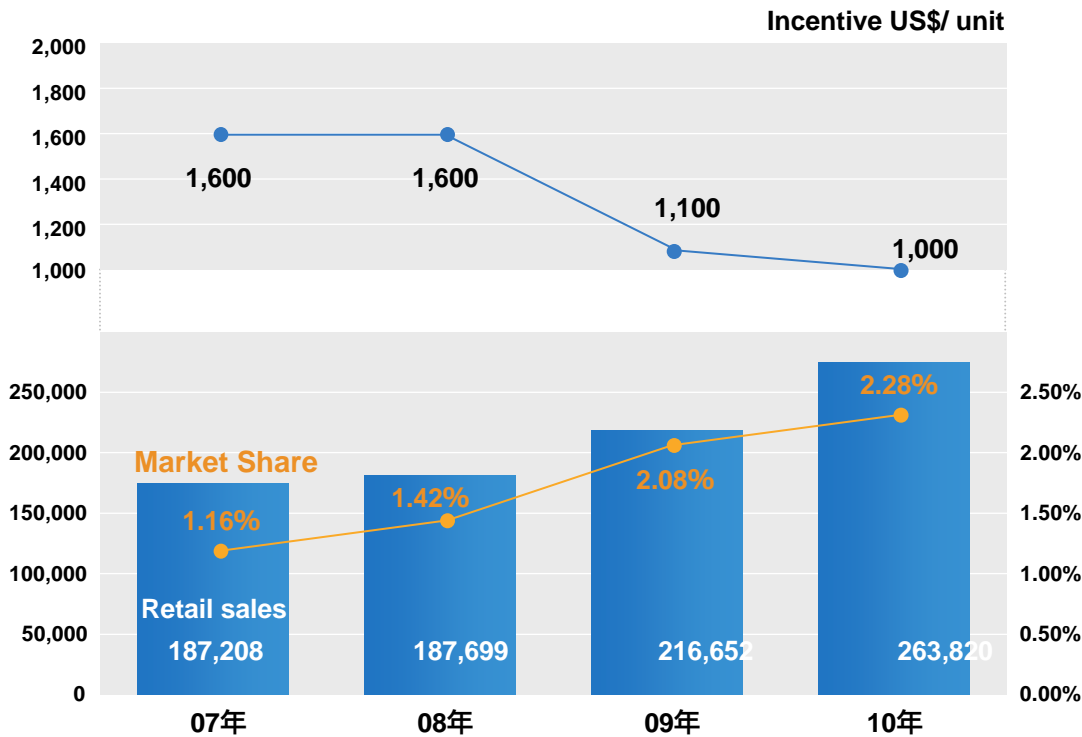
# 2. Review of the Previous Plan

## To Increase Sales Globally

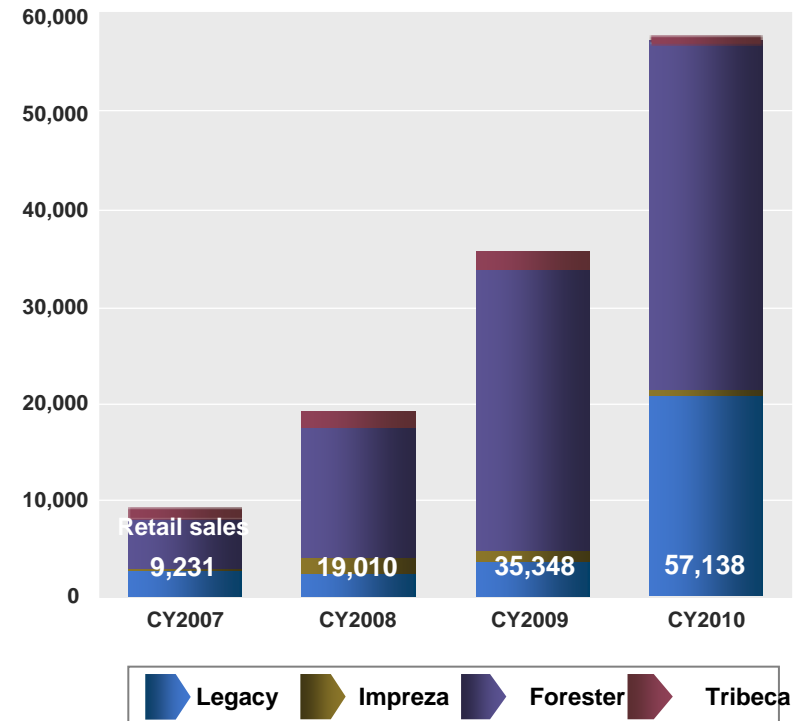
1. Expand the sales in North America    2. Rapid increase of sales in China    3. Improve the profitability in Japan



Retail sales in U.S.



Retail sales in China



# 2. Review of the Previous Plan

## Targets VS Actual Results

|                                   | Actual results FY2007   | Targets of FY2011             | Actual Results FY2011   |
|-----------------------------------|-------------------------|-------------------------------|-------------------------|
| Units of Sales (non-consolidated) | 584 thousand            | 683 thousand                  | 657 thousand            |
| Operating Profit (Margin)         | 47.9 billion yen (3.2%) | 80.0 billion yen (5% or more) | 84.1 billion yen (5.3%) |
| ¥/\$ rate                         | 117                     | 110                           | 86                      |

## General overview

~ Certify the correctness of fundamental directions ~

### Achievement

- Sharing the mind of "Customers come first" within group
- Globalization of products
- World's leading safety performance
- Expanding the sales in U.S., as most important market
- Reform of profit structure by leaning cost

### Remaining challenges

- Lowering the sensitivity of foreign currencies
- Increasing sale in emerging countries including China
- Developing environmental technology and products
- Autonomy of three internal companies
- Flexibility to adopt the changes of business environment

### Vision

**Achieving an annual automotive sales volume more than 1 million units within the next 10 years**

### In the mid-term management plan FY2012 to 2016

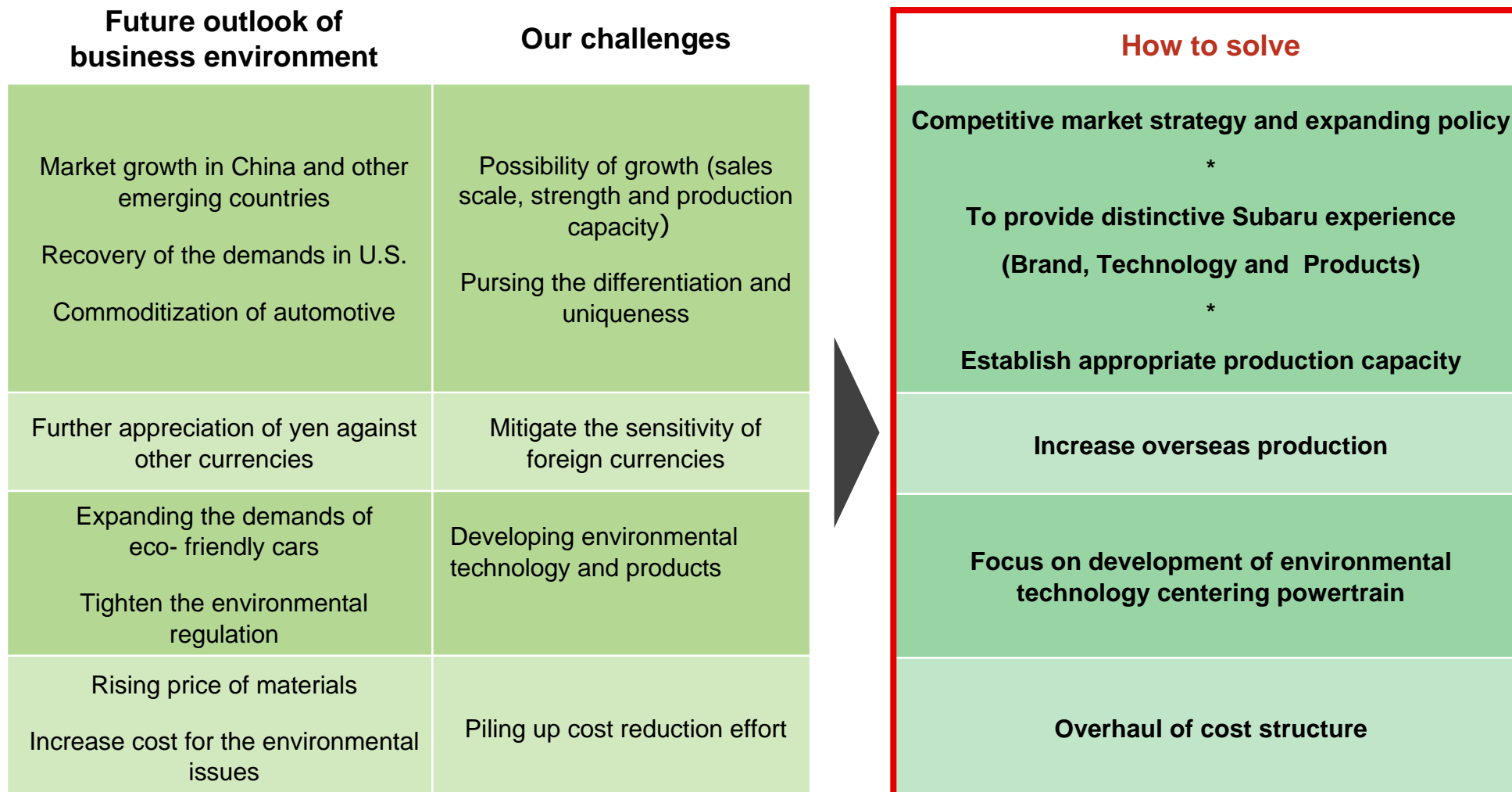
**1**

< Phase to solidify the foundation of the strategic direction for growth >  
**Establishing the global brand position**

**2**

< Favorable advancement >  
**Make structural reform in the remained area  
and strengthen the successful points further**

## Background





## Title

# Motion-V

V (five) ... 5 = Initials of Five (V) years, Five (V) challenges , Vision, Value and Victory

## Five Challenges

1. Guiding principle for all activities **“Confidence in Motion”**

2. With the basic philosophy of “customers come first”, **“ Provide distinctive Subaru experience”**

3. Strengthen sales force and the availability of automotive supply , **“ Accelerate sales expansion”**

4. Overhaul of cost structure and promoting alliance with Toyota, **“Solidify operational foundation”**

Strategic Direction for Growth

5. Back up concrete approaches for business, **“Improvement in Management”**

# 3. Mid-term Management Plan FY2012-2016

## Five challenges

Guiding principle for all activities :  
**Confidence in Motion**

**Provide distinctive  
Subaru experience**

<Brand, Technology and Products>

**Accelerate sales expansion**

<Sales and Production>

**Solidify operational  
foundation**

<Quality, Cost and Alliance>

**Improvement in management**

(Human resources, Corporate governance etc.)



## 4. Guiding Principle for All Activities

Guiding principle :

Aiming the achievement of Mid-term management plan through positive actions by all members

Guiding Principle

# *Confidence in Motion*

Relationship to customers with confidence and trust as our DNA

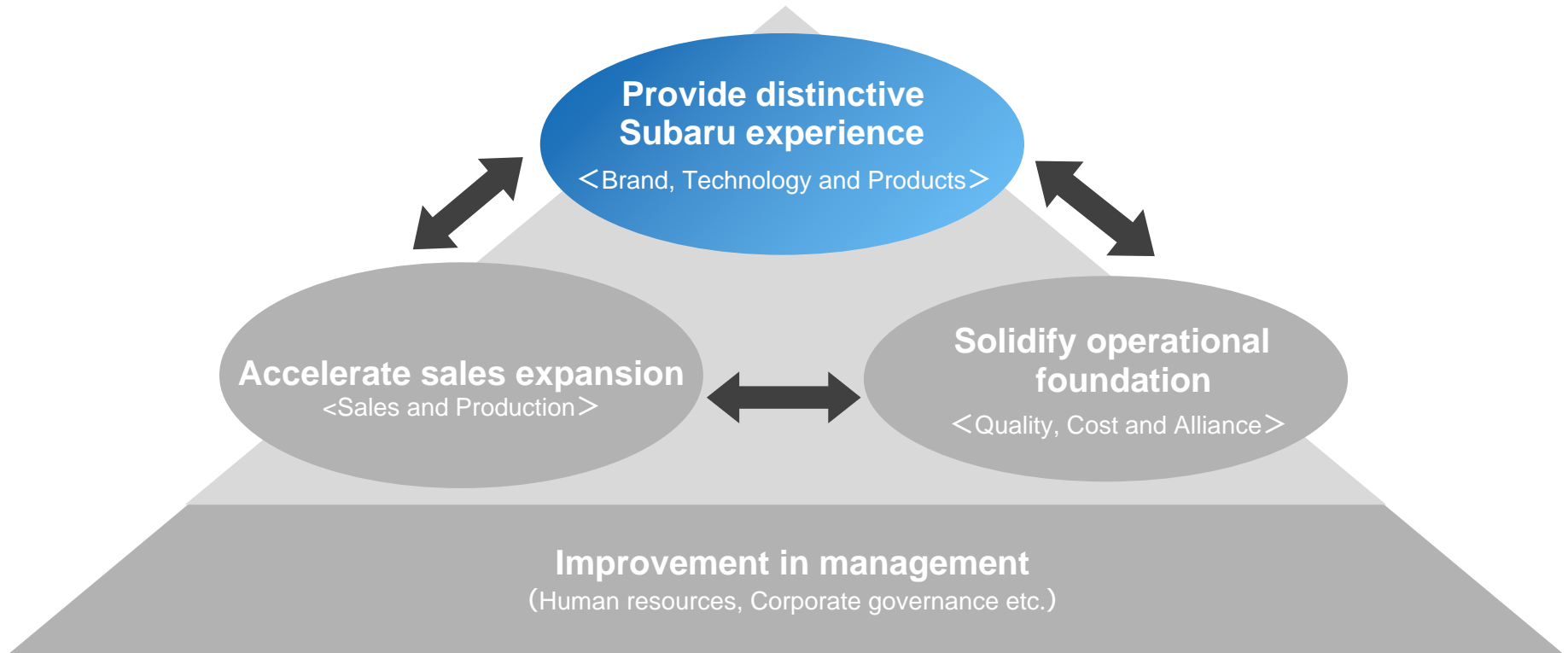
&

Spirit to make our organization innovate continuously

# 5. Strategic Direction for Growth

~ Provide distinctive Subaru experience

To provide distinctive Subaru experience



# 5. Strategic Direction for Growth

~ Provide distinctive Subaru experience

Promote the brand strategy

Key approaches to realize the growth and profitability of Subaru

## Confidence

Maintain our philosophy of “Engineering Excellence” and continue to offer Subaru’s uniqueness

Promote  
“Confidence in Motion”

Subaru provide the value to customers  
“Enjoyment and peace of mind”

Expand the base of  
Subaru fans

## in Motion

Enhance the Subaru brand value with inspired emotional feeling / Innovative thinking and action for getting ahead of the times

# 5. Strategic Direction for Growth

~ Provide distinctive Subaru experience

## Technology and Products

Technology generates the value of “Enjoyment and peace of mind”

### Safety / Drivability

Provide thorough distinction of all-around safety as our advantage  
Drivability with secure feelings and sporty performance at the same time

**Active safety:** Pursuit of drivability and avoidance of hazards

**Passive safety:** Keep the highest ratings in collision safety performance

**Pre-Crash safety:** Introduce an Active Driving Assist System “EyeSight” to all models in global markets



provided by NASVA



EyeSight(ver.2)

### Developing environmental technology and products

Renewal of Engine and CVT, improve around 30 % of fuel efficiency

Focus on developing technology of environmental issues for next generation

**Platform:** Developing new and light platform with high versatility

**Hybrid:** Launch in 2013 beginning with Japanese market

**Internal- combustion engine:** Introduce turbo charged direct injection boxer engine compatible with high performance and environmental friendliness

Introduce Boxer diesel engine adapting Euro 6











New Boxer Engine

# 5. Strategic Direction for Growth

~ Provide distinctive Subaru experience

## Product portfolio:

Introduce products providing strong ties with life style and value of customers

|                                     | 2011 (H23)   | 2012 (H24)   | 2013 (H25)   | 2014 (H26)   | 2015 (H27)   |
|-------------------------------------|--|--|--|--|--|
| <b>Main models</b>                  | <br>IMPREZA | <br>FMC   | <br>FMC | <br>FMC         | <br>FMC |
| <b>New models</b>                   | <br>XV      | <br>Rear-wheel drive sports car<br>joint developing with Toyota |  | <br>New concept |  |
| <b>Minicar</b>                      | Terminate own production   | All lineups on an OEM basis from Daihatsu  |  |  |  |
| <b>Compact car</b>                  | OEM  |  |  |  |  |
| <b>Environmental friendliness</b>   | New boxer engine + CVT equipped on all models  |  |  |  |  |
|                                     | Turbo charged direct injection boxer engine  |  |  |  |  |
|                                     | Hybrid introduce in Japan at first   |  |  |  |  |
| <b>Active Driving Assist system</b> | EyeSight equipped on all models in global markets with upgrade of performance                |  |  |  |  |



# 5. Strategic Direction for Growth

~ Provide distinctive Subaru experience

## SUBARU NEW IMPREZA

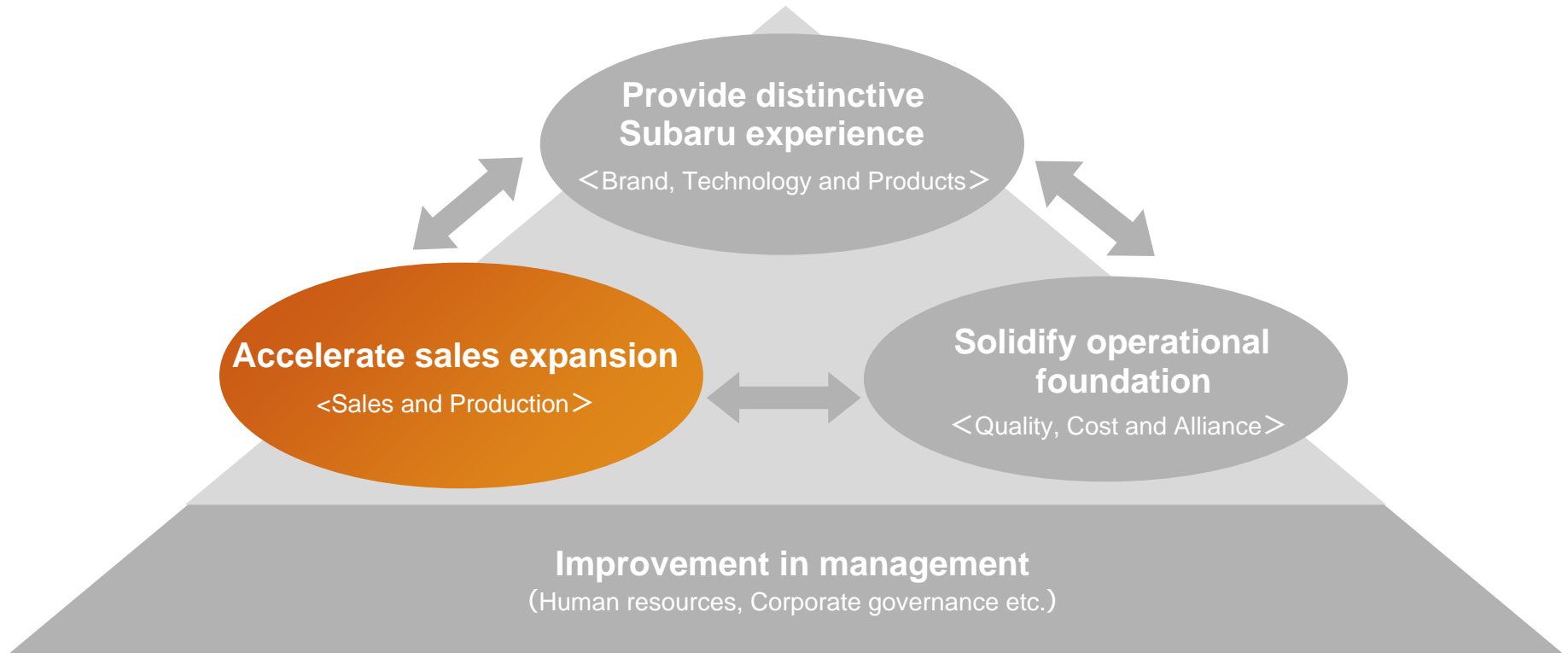




# 5. Strategic Direction for Growth

~ Accelerate sales expansion

## Accelerate sales expansion





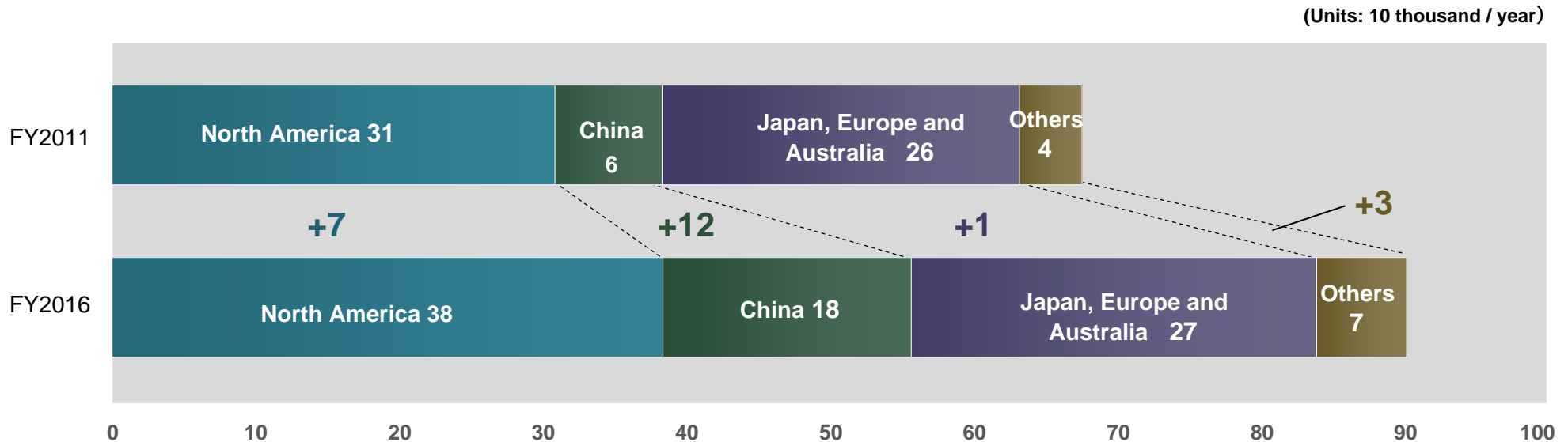
# 5. Strategic Direction for Growth

~ Accelerate sales expansion

Increase sales globally

Important markets = United States and China

Units of sales (Non- consolidated basis, including OEM and CKD) : 900 thousand units in FY2016



\* OEM: FY2011 20 thousand units, FY2016 80 thousand units

# 5. Strategic Direction for Growth

~ Accelerate sales expansion



## United States

**Stabilize sales foundation of U.S as most important market**

**Maintain market share 2% and top 10 sales ranking by manufactures' names**

**<Target of FY2016 : 350 thousand units>**

- ◆ **Expanding passenger car sales by synergetic effects of enhancing product performance and strengthening marketing strategy**
- ◆ **Increasing sales per outlets - FY2016 targets : annual 560 units sales per outlet, 30% increase from FY2011 results**
- ◆ **Establishing distribution system of cars for increasing sales units by effective logistics etc.**



# 5. Strategic Direction for Growth

~ Accelerate sales expansion



## China

**Challenge to increase sales units threefold from the current level in the world biggest market**

**Position No. 2 sales market in Subaru (9% to 18% in terms of total Subaru sales)**

**<Target of FY2016 : 180 thousand units>**

- ◆ **250 outlets (100 % increase compared with FY2011 ) : Strengthen and develop outlets of coastal area and develop new ones of cosmopolitans in an inland area**
- ◆ **Enhance product competitiveness by leveraging local production**



# 5. Strategic Direction for Growth

~ Accelerate sales expansion

## Japan

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**Sales promotion to aim No.1 brand as “Enjoyment and peace of mind”**

Target of annual passenger car sales 100 thousand units (30 % increase compared with FY2011 results) ,  
Further pursuing lean management of distributors

## Europe and Russia

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**Value added strategy centered on AWD and SUV**

Europe: Market with potential of sales expansion, aggressive strategy focusing on cross over vehicles

Russia: Target annual sales 30 thousand units (threefold increase compared with FY2011 result)  
catching up the trend of recovery in total demands

## ASEAN

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**New approach to overcome tariff protection**

Establish sales network with 10 times more dealerships compared with FY2011,  
Start local assembly production in Malaysia (from 2012) and expand sales within FTA countries

# 5. Strategic Direction for Growth

~ Accelerate sales expansion

## Global production

Mitigate the sensitivity of foreign currencies and build flexible production system by increasing overseas production



### China

Expanding production capacity by building local plant and then enhancing competitiveness of product

◆ Studying joint venture with local auto manufacturer

<Reference: Change of the overseas production ratio>

\* Only SUBARU Brand

|          |                              | FY2011              |       | FY2016                      |       |
|----------|------------------------------|---------------------|-------|-----------------------------|-------|
|          |                              | Units of production | Ratio | Plan of units of production | ratio |
| Japan    | Gunma Plants (Main / Yajima) | 460 thousand        | 74%   | 500 thousand units          | 61%   |
| Overseas | U.S., China                  | 160 thousand        | 26%   | 320 thousand units          | 39%   |
| Total    |                              | 620 thousand        |       | 820 thousand units          |       |



### Japan

Expand production capacity significantly and improve flexibility of production by bridge manufacturing between Main plant and Yajima plant

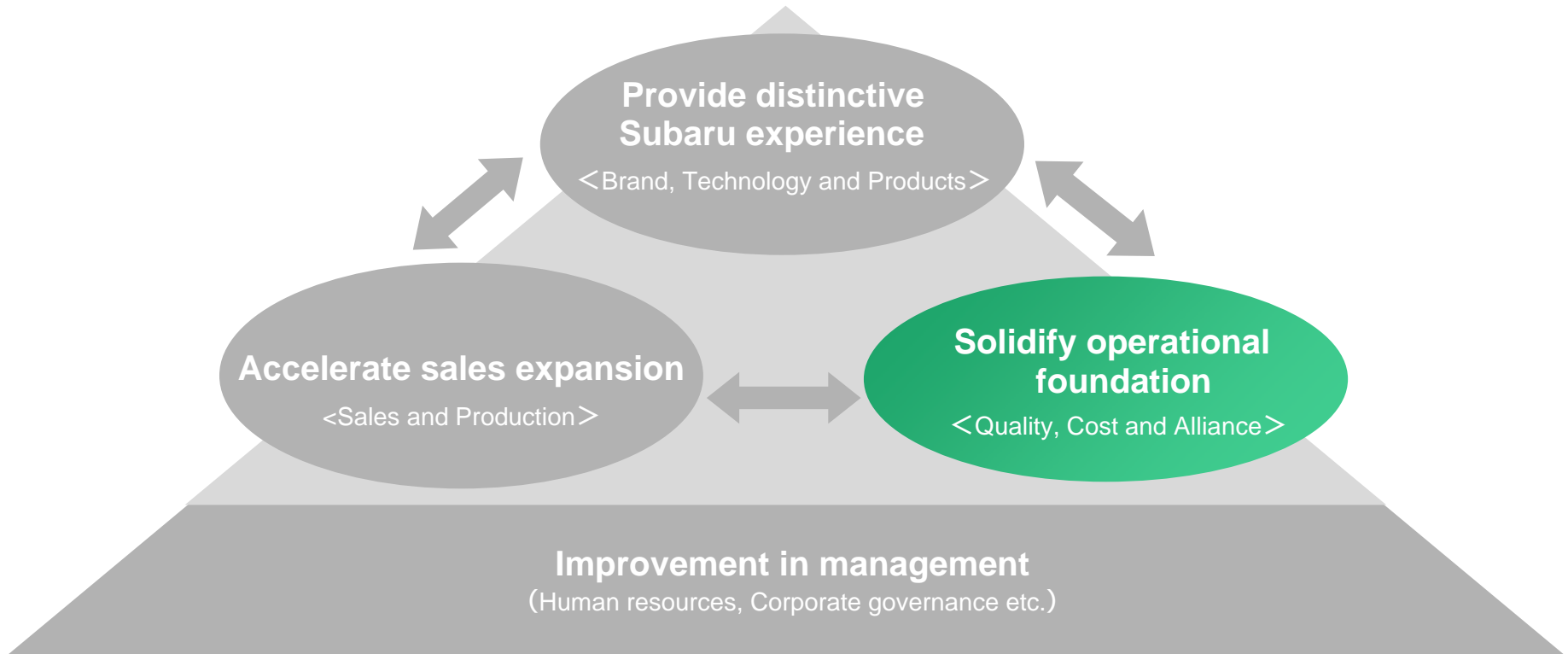
- ◆ Start to produce Rear-wheel drive sports car, joint developing car with Toyota (Main plant)
- ◆ Expanding production capacity of new Engine / new CVT whose combination improves fuel efficiency (Oizumi plant)

Increase production capacity of Subaru of Indiana Automotive, inc (U.S.) and local assembly production in Malaysia (please refer to page 21) are planned as well.

# 5. Strategic Direction for Growth

~ Solidify operational foundation

## Solidify operational foundation



# 5. Strategic Direction for Growth

~ Solidify operational foundation

## Upgrade of quality

**Providing products with secure quality to become trustworthy brand and company**

|                                     |   |
|-------------------------------------|---|
| <b>Development</b>                  | Pursue superior quality based on the view point of customers at the development and experimental stage                              |
| <b>Quality Control</b>              | Establish global quality control system responding to diversification of sale globally  |
| <b>Local quality responsibility</b> | Enhance customer satisfaction by dealing with defects in each market at any early point and improving backup support system on site |

## Overhaul of cost structure

**20% cost reduction in new models / Continue 30% reduction in development cost**

|                                     |   |
|-------------------------------------|---|
| <b>Development</b>                  | Organize activity for overhaul of cost structure, make targets and roadmap in order to get results earlier  |
| <b>Cost reduction / Procurement</b> | Cost reduction of mass produced cars for absorbing those risks as rise of material price and fluctuation of foreign currencies<br>Renovation of utilization of local production with local procurement, promoting the expansion of LCC purchase further |



# 5. Strategic Direction for Growth

## ~ Solidify operational foundation

### Pursuit of alliance synergy with Toyota

#### Alliance vision

Pursue **Win-Win** for Competitive Growth for Long-Term

#### Areas in Promotion / Discussion

|             |                        |   |
|-------------|------------------------|---|
| Development | Joint development      | Rear-wheel drive Sports car will introduce in spring 2012, studying future improvements of the product              |
|             | Technology development | Pursue synergistic effects by participating in the developmental work on next-generation environmental technologies |
| OEM         | Minicar                | Supplied all lineups of minicars on an OEM basis by Daihatsu in Spring 2012   |
|             | Compact car            | Supplied on an OEM basis by Toyota in Japan and Europe and study enhancing its product competitiveness              |
| Production  | North America          | Consignment production of Camry in SIA  |
|             | Japan                  | Manufacture of Rear-drive Sports car  |

# 5. Strategic Direction for Growth

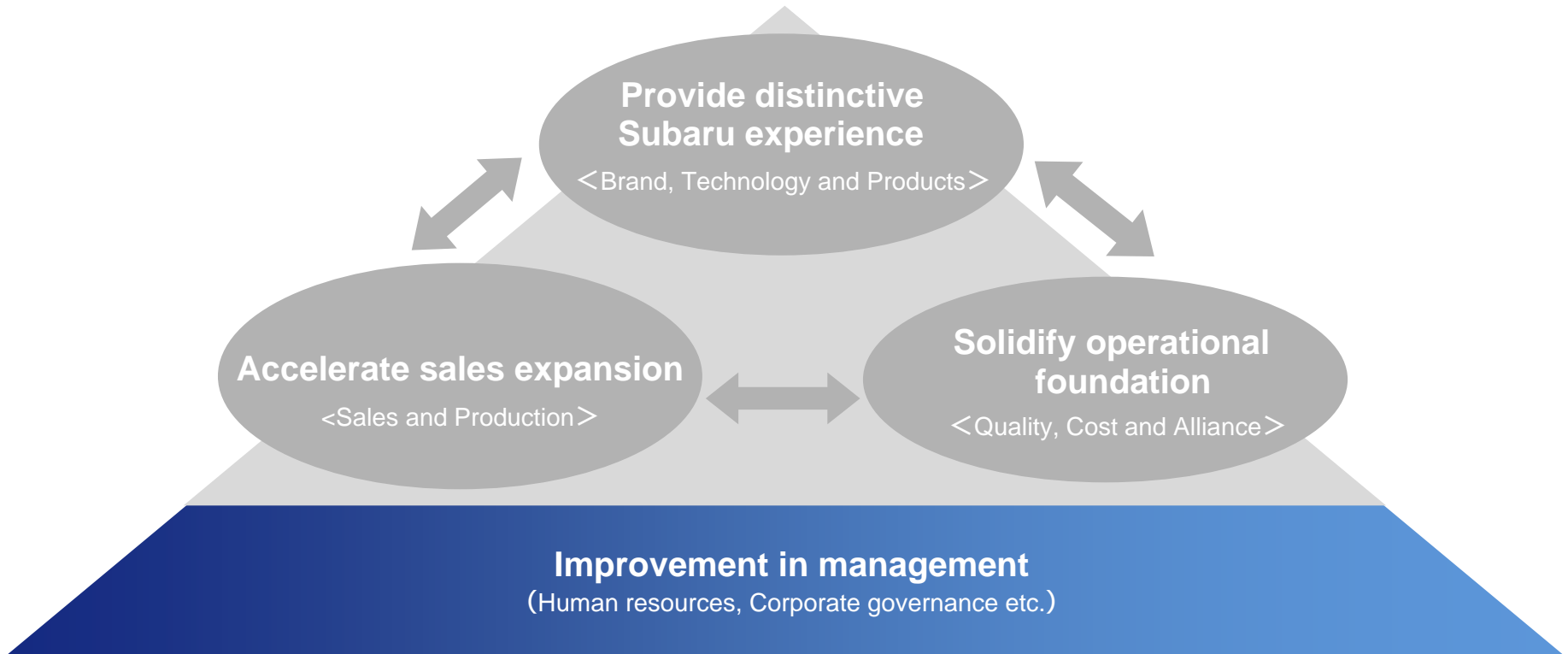
~ Solidify operational foundation

## Boxer Sports Car Architecture



# 6. Improvement in Management

## Improvement in management



# 6. Improvement in Management

## Business Portfolio

### Automotive

**Core business of Fuji Heavy Industries Ltd. and its group**

**Aiming the growth by aggressive investment of management resources**

### Thee internal companies

**Assess the autonomy**

|                            |  |
|----------------------------|--|
| <b>Aerospace</b>           | Focus on restructure of financial condition along with the recovery of profitability centering commercial sector<br>Appropriate distribution of resources between Utsunomiya plant and Handa plant |
| <b>Industrial Products</b> | Expand business by enhancing product lineups and developing markets in emerging countries<br>Improve profitability by strengthening the competitiveness of cost with local production in China     |
| <b>Eco Technologies</b>    | Sanitation trucks : Thorough overhaul of cost structure<br>Wind power generation system: Study its business model of next generation products  |

# 6. Improvement in Management

## Human resources

- ◆ Recruit and nurture employees with a global perspective
- ◆ Introduce new personnel system to accept the challenges of lofty goals
- ◆ Become a company where employees can get satisfaction from their work within flexible working arrangements

## Corporate governance

- ◆ Invite outside directors to the board and add independent directors
- ◆ Clarify the area of responsibility and operation

## CSR (Corporate Social Responsibility)

- ◆ Company to provide products and services for contributing to the resolution of social issues
- ◆ Company to value the relationship with various stakeholders

### <Reference: Effective utilization of land and facility>

- ◆ Group-wide reform of the manufacturing facilities, machineries at the timing of termination of minicar production (including affiliates' companies)
- ◆ Effective utilization of land and buildings in metropolitan area at the timing of headquarter relocation

# 7. Highlights

|                            |  |  |
|----------------------------|--|--|
| FY2016                     | Consolidated Operating Profit          | <b>120 billion yen</b> (¥90/\$、¥120/€) |
|                            | Consolidated Operating Margin          | <b>6% or more</b>                      |
| FY2012 - 2016<br>(5 years) | Total Consolidated R&D Expense         | <b>250 billion yen</b>                 |
|                            | Total Consolidated Capital Expenditure | <b>330 billion yen</b>                 |
|                            | Total Consolidated Depreciation        | <b>310 billion yen</b>                 |

## Financial Strategy

Realize the balanced financial strategy by affirmative distribution of cash flow for continuous growth such as product development, technology of environmental friendliness, expansion of production capacity and sales network in overseas market, considering the effectiveness of investment, healthy financial condition and return to shareholders.

## Return to shareholders

In taking account of financial results, capital expenditure and current business environment of each year, continuous dividend policy is our basic idea. In closely examining future improvement of ROE (Return of Equity), consider payout ratio idea linked to financial performance.



( unit : billion yen)

|   | Actual Results<br>FYE March 2011 | Plan<br>FYE March 2012 |
|---|----------------------------------|------------------------|
| Net Sales   | 1,580.6                          | 1,480.0                |
| Operating Income                                  | 84.1                             | 30.0                   |
| Ordinary Income                                   | 82.2                             | 25.0                   |
| Net Income  | 50.3                             | 35.0                   |
| FHI Exchange Rate (US\$/¥)                        | 86                               | 81                     |
| FHI Exchange Rate (EURO/¥)                        | 114                              | 115                    |
| Annual Dividend (per share)                       | ¥9                               | ¥9 (Plan)              |
| Consolidated Automotive Sales<br>(thousand units) | 657                              | 633                    |



## <Outlook of production>

Annual 628 thousand units, almost the same level of previous fiscal year (yoy +0.7%)

1<sup>st</sup> half 240 thousand units (yoy -25.5%)

2<sup>nd</sup> half 388 thousand units (yoy +28.8%)

(units: billion yen)

|                       | Actual Results<br>FYE March 2011 | Plan<br>FYE March 2012 |
|-----------------------|----------------------------------|------------------------|
| Capital Expenditure   | 43.1                             | 60.0                   |
| Depreciation          | 49.8                             | 55.0                   |
| R & D                 | 42.9                             | 48.0                   |
| Interest Bearing Debt | 330.6                            | 370.0                  |

