

President's Remarks at the 2003 New Year Press Conference

Thank you for coming to the FHI New Year Press Conference despite your busy schedule. I am happy to have this opportunity to extend my New Year greetings to all of you. To those who are here today that I see for the first time this year, I would like to say "thank you" for your support last year.

It was a difficult year last year both inside and outside of Japan. I will not elaborate on this. You have heard enough of it. But just one point that I would make about it if I may is that we should not be too pessimistic or frustrated about Japan's future. We in the manufacturing sector need to keep ourselves reminded that we must take on all those difficult challenges ahead and move our country forward.

Our company defined the past year as a year of patience and preparation for our future growth. We moved forward despite the business environment that was expected to be difficult. We have made aggressive investments in development under the long-term plan, and at the same time, restructured our businesses. For our sales performance, the domestic sales volume for 2002 hit only around 260,000 units, which were 90% of that of the previous year, as the situations in domestic and overseas markets became even more difficult than we had anticipated.

The sales volume in the United States recorded a little over 180,000 units or 97% of that of the previous year when we had marked the best sales results ever. While we did very well for the first half of the year, the latter half saw the overall demand become weaker after October. Also, the recall of our automatic transmissions had a short-term impact on the sales performance.

On the other hand, we continued to break our sales records this year for the last 5 years both in Canada and in Australia. We capitalized on our strong brand recognition in those markets.

For overseas business, we characterize the last year as the year of steady progress in laying the foundation for Subaru brand building for years to come.

In summary, the total sales for the last year, domestic and overseas combined,

amounted to 555,000 units, or 97% from the level of the previous year. If we look at the non-automotive areas, I am pleased to report that the Aerospace Company succeeded in the first flight of our new primary trainer for Japan Air Self-Defense Force and delivered its first two trainers to them. We were also successful in a flight test of a High-Speed Flight Demonstrator (HSFD) at Christmas Islands. We developed and manufactured HSFD as an experimental space shuttle under the contract with the National Aerospace Laboratory of Japan (NAL) and the National Space Development Agency of Japan (NASDA). The success of this test demonstrated our strong technological capability in controlling unmanned aircraft systems.

Those were a summary of our business results last year. We achieved almost all of what we had intended to achieve for the first business year of the new medium-term management plan FDR-1 (Fuji Dynamic Revolution 1) which I explained to you last May. The reform-oriented mindset has taken roots both in the Subaru automotive business and in the other three in-house companies.

FDR-1 is the plan that leads FHI to where we want to be in 10 years or achieving our vision of the future we want to create. FDR-1 has the central focus on brand strategies, and promotes activities that help us achieve our medium-term goal, that is “to be a global player with premium brands .” FDR-1 will make a thorough review of values added in all the stages in our operation, from product development to manufacturing, sales and after-sale services. Without being constrained by our own traditional custom and practices, we are going to make ourselves a “value creator” that will add Subaru-distinctive values to the products throughout the value chain. Small as we may be, we are determined to make FHI a company with strong appeal and presence in the markets where we operate.

That was the context where the New Year 2003 began. FHI will be celebrating its 50th anniversary this year, which is a major milestone in our corporate history. It is also the most critical year for FDR-1. Our brands, including Subaru and all other FHI brands, will start to be enhanced. Our strategies will be pushed ahead even more aggressively. This year we will be able to know what our business results are possibly going to be in the future. Also the market will vote on the direction of the course of our businesses that we chart.

The business projections of FHI for the fiscal year that will end in March 2003 remain the same as those mentioned last November when I announced the interim business results. As the business environment around us gets more difficult, we are making the utmost efforts in further reducing costs and managing expense more effectively, so that we will meet the upwardly revised target of profits of the FY2003.

We will now discuss our challenges for CY 2003. There are five major challenges as these:

1. To reinforce the domestic sales
2. To reorganize our US business strategies
3. To promote continual brand strategies
4. To achieve alliance synergy
5. To promote comprehensive cost reduction efforts

1-1 New Legacy

The most pressing issue for us is to reinforce the domestic sales of Subaru.

We will be launching the 4th generation of Legacy this year. The sales will start in the summer bonus season. Legacy, the flagship car for Subaru, made its debut in 1989 and the 3rd generation model is currently in the market. The Legacy is the top brand for Subaru, and owned by customers now amount to approximately 730,000 after its 12 years in the market. So, we believe that our customers have great interest in and high expectations of this new model. You will have more details about the new Legacy soon, but let me assure you that such features of driving pleasure and active safety, which are very unique to Subaru will be further strengthened and at the same time that we will make sure that higher environmental friendliness be achieved, now that the market demands those features at once. We are currently working intensely to prepare for the launch, building on what we have achieved over years, so that the new Legacy model will enjoy an even better reputation of its own. We hope that the introduction of the new Legacy into the market will help revitalize the entire automobile market where increasing emphasis is being placed on smaller cars with more conservative consumer behavior. The new Legacy is intended to impact the consumers who value uniqueness together with those already rolled out. They include All-New

Forester Cross Sports, which was added to the lineup at the end of last year and Impreza, which underwent big change.

1-2. Measures to strengthen the domestic dealership

We have moved steadily forward with our reinforcement plan of the domestic dealerships, in order to achieve successful introductions of key products. 35 dealership outlets were either newly established or renovated last year. VI (Visual Identity) unification activities have completed with about a half of the outlets. We continue to promote this program further. Another interesting initiative was that big showrooms of used cars were opened in Shiga, Osaka, and Ibaragi prefectures for an experimental purpose. They have special customization shops. We are looking forward to seeing their results. In addition, we are currently working out the details of a plan to build a new sales system in which, depending on the size of the market, we develop “large-scale multifunctional outlets” where customers can buy both new and used cars and receive highly functional services at one stop. With these plans, we intend to change the Subaru sales outlets into the system that is different and that fits “Subaru’s brand of driving pleasure” as soon as possible

1-3. Introduction of Partner 21

Furthermore, a “new sales office support system Partner 21” will be fully introduced from this spring. This is a system, which will help increase the level of customer satisfaction and sales productivity. It was in a trial phase last year. The introduction will begin this spring and is scheduled to complete at all the stores by the early part of FY 2004.

By leveraging those product strategies and the sales enhancement measures I have explained, we plan to sell 122,000 units of passenger cars in Japan or 111% of year on year basis, and 143,000 units of minicars or 95% compared to the previous year. Combining these two categories, our projection for the total domestic sales is 265,000 units, 102% of that of the previous year.

2-1. Redefinition of SIA’s long-term vision

A second challenge is to reengineer our business strategies overseas, especially for our operations in the United States.

On January 1, 2003, SIA became a fully FHI-owned subsidiary company and made a new start as Subaru of Indiana Automotive, Inc. We understand that this change in SIA gives us a golden opportunity to build the foundation for achieving our long-term goal, that is, to grow the North American business into a business of annual sales of 300,000-units (or 2% market share) in ten years down the road. SIA is going to play an even more important role as a product supply base. I believe it is also important to develop an organization where SIA will achieve even higher productivity through collaborative efforts with SOA (Subaru of America, Inc), a subsidiary company responsible for sales.

To help meet that challenge, we will accelerate our currently ongoing development activities of new vehicles even more to make the maximum use of the production capacity of SIA. In that sense, we believe this year is an important year to set out to enhance our US business further.

2-2. Expansion of the high-performance lineup in the United States

This is the product policy for the U.S. market for the next two years. We are going to expand the Subaru-distinctive “high-performance lineup” on top of the traditional “crossover lineup” which is SUVs on the basis of the general passenger cars. In addition to Impreza WRX, which was introduced to test the water in the U.S. market two years ago, we presented Impreza WRX•STi US version at the recent Detroit Autoshow. We put a special emphasis on its superior driving performance, and are sure you are aware that we have received favorable feedbacks that say this model is such an eye-opener, far beyond the original expectations.

This was made possible because we succeeded in developing technologies that allow turbo-charged cars to satisfy various US regulations for environmental safety, despite the fact that the regulations were generally considered difficult to be met with the traditional turbo engines. By applying our new technologies, we are going to add turbo-charged models to other products than Impreza, and pursue a high-performance approach as our new product strategy across our portfolio.

2-3. Aggressive expansion plan of exclusive and separate showrooms dealerships

We will also improve on the quality of our sales network. To that end, we will push ahead the signature facility showrooms program*1, which is currently underway to

enhance the sales network. We also plan to take aggressive measures to add more exclusive dealerships and separate showrooms. *2

*1 (to expand the program coverage of 77 showrooms at the end of 2001 to 345 showrooms by 2006 or 58% of all the dealerships)

*2 (to expand the program coverage of 286 dealers or 49% in 2001 to 450 dealers or 76% by 2006)

According to those product strategies and the dealerships enhancement measures, we plan to hit a new US retail sales record of 210, 000 units for calendar year 2003, which will be 117% of the sales of the previous year. That number would even exceed the best sales results that we achieved two years ago.

With respect to the other overseas markets, we expect to set new sales records for 6 years in a row both in Canada and Australia, largely with strong sales of All-New Forester. In particular, we have high expectations on Australia where a mega-dealership started its operation in Melbourne last year. We anticipate the impact of its prowess in attracting customers to be shown fully in the sales performance this year. We are looking forward to its actual results, and consider it as a model case of the Subaru brand building efforts.

With all those projections combined, we estimate that the total unit sales in the overseas markets will be 303,000, 103% compared to the previous year. On the calendar year basis, the Subaru automotive business is projected to achieve the sales of 568,000 units in total, both the Japanese and overseas markets combined, 102% from the previous year.

3. Brand enhancement initiatives

A third challenge for FHI is to promote brand strategies, with a strong focus on products.

Since I took office as a president, I have promoted the “design innovation” as the top priority initiative in the brand strategies. I have given special attention to working on concepts, organization, human resources, and budget in order to support the “design innovation.” Although everyone is aware that the results of such efforts will take 4 to 5 years to be fully reflected on the products, we decided to go ahead with the design innovation from this year and demonstrate to the

global markets where we are going to be headed, so that we may see the market reaction to our direction. We will be presenting the outcomes of our design improvement efforts with concept cars at motor shows throughout the world, together with the brand message of the new Subaru. FHI will be participating in motor shows, starting with the one in Geneva in March, in order to see whether our design efforts are going in the right direction. I hope you will have the chance to take a look at our products there, and it is appreciated if you share your reaction with us after you see them.

Along with our strong focus on design, we have been making substantial amounts of investment in the research and development activities. We will certainly try to cut back expenses to improve investment efficiency even further, but we will stick to the initial plan for the development of FHI proprietary technologies, which are essential to developing future products and meeting environmental challenges. The proprietary technologies are important building blocks for the future growth of the company.

4-1. Supply to GM India

A fourth challenge we have is to obtain results from synergy with alliances with our partners.

FHI decided to supply Subaru Forester to the GM distribution channel in India. We have tried to seek for a new way to have synergic effects with GM on our product marketing since last year. We have conducted feasibility studies on GM distribution networks in China and India for Subaru vehicles. As a result of the studies, we decided to start with the Indian market. Subaru has yet to penetrate into the Indian market, and it has no sales channel. So, our products will be sold via the GM channel there.

The products will carry the brand name Forester in order to leverage the Subaru products, while they will be sold through the GM brand. The launch is scheduled in March 2003. The sales projection for 2003 is 500 units, which is not a big volume by any means, but we decided to execute this plan immediately because capitalizing on the GM distribution network will help us enjoy the benefits of gaining access to a market which is expected to grow significantly.

While monitoring the progress of sales in India, we will search for more opportunities in other markets. An alliance would be based on the win-win principles that involve mutual respect for the partners in brand positioning to obtain benefits mutually.

On this issue, more information is available in the news release, which we have distributed.

4-2. OEM with Suzuki

With respect to our synergy with Suzuki, we carry Subaru Justy, a small car supplied by Suzuki under the OEM contract in the European market. We are planning to fully change the model and launch a new one by the end of this year in order to improve our lineup for the small car segment, which is unique of the European markets. Same as the current Justy, the new model will be produced by Magyar Suzuki and sold through the Subaru sales network in Europe.

5. Comprehensive cost reduction

Our fifth major challenge is to turn around our declining revenue. Although the operating profit margin remained at 5% level, our revenue dropped on a year-on-year basis as I mentioned at the interim business result briefing in November last year. We will step up our efforts to stop the downward trend we experienced in FY2003 and turn it around in FY2004.

5-1. Improvement of cost competitiveness in the deflationary economy

In FDR-1, which was put together in May last year, we positioned FY2003 and FY2004 as the years of patience and assumed it would be inevitable that the revenue would fall during these years. However, we have worked hard to reduce costs with a firm resolution to recover even in this difficult business environment. As a result, our efforts will probably pay off more than we anticipated within this fiscal year.

We will keep the momentum going and make it part of the entire business operation. At the same time, we are going to start the "Cost Structure Revolution 1" (CSR-1) in full scale. That is a new cost reduction program whose goal is to fundamentally reform the entire cost structure including all the expenses. With those initiatives, we will achieve further gains for FY2004, even after the upward

revisions in revenue for FY2003.

5-2. Self-sustained growth of in-house companies

Let me now briefly touch upon our non-automotive businesses. FHI adopted an in-house company system in June last year, and we will withdraw from the production of buses and rail car business as of the end of March this year.

As for the Eco Technologies Company, we will be aggressive in developing and expanding business in this area, so that we may respond to the growing demand of clean energy from political, public and private sectors. In addition to its small wind turbine generation system, which is already in the market, the company has newly started “research and development of large wind turbine generation systems,” taking full advantage of the aircraft technologies they possess.

The Aerospace Company set out a vision in the framework of FDR-1: to “become an aircraft company with a strong presence in the global market” in ten years. A strategy team has been organized and started studies for future growth of this business in specific terms. A number of projects will be carried out in full scale: such as the development of PX/CX, which is a large project of domestic aircraft development.

The Industrial Products Company is going to change its structure into a more profit-oriented one. The sales force has been reinforced. The product portfolio has been reengineered. The objective is to return to profitability in the second half of next fiscal year.

In those efforts, we will be selective and concentrate on the strategic areas we consider important for our future growth.

That is all for my presentation about our challenges and plans for this year, and there is one more issue which I would like to share with you:

That is our CVT (the continuously variable transmission) business.

CVT is a key to “CO2 reduction and low fuel consumption.” FHI succeeded in developing the world first commercial CVTs in 1984, and since then, we have achieved outstanding results. We have produced more than 1.85 million units by

the end of last year mainly for minicars. In recent years, major domestic and foreign manufacturers have also used our CVTs, including GM for their upper-grade vehicles.

As we position CVTs as part of our core technologies, FHI has applied them on our own vehicles, and at the same time has supplied CVTs in the limited extent to other companies as part of its component business. FHI decided to newly establish a joint venture company with JATCO Ltd. in order to supply not only to FHI but also to other auto manufacturers globally CVTs mainly for minicars and compact cars of 1300cc displacement or less.

This joint venture company will be engaged in development and production of the next-generation CVTs for vehicles whose capacities are 130N·m or less. It is named Fuji AT Ltd. after Fuji city where JATCO is headquartered and another Fuji from Fuji Heavy Industries Ltd.

Fuji AT is to commission FHI and JATCO to develop new CVTs for the time being. FHI and JATCO will disclose technologies and contribute their respective strengths to jointly developing the world's best CVTs for minicars in the spirit of mutual cooperation.

We plan to sell new CVTs developed by Fuji AT to auto manufacturers throughout the world including FHI via JATCO, while they will be produced by FHI at our Gunma Oizumi Plant under the commissioned agreement with Fuji AT for a while. For more details, please refer to a press release leaflet.

The last thing I'd like to share with you is that our track and field team won the 19th place in the New Year Ekiden, a relay road race held on January 1, this year. They have achieved better results year after year, and they marked the best record ever in the past meet in their history.

I was also pleased to state that we became the overall champion at the Rally of Great Britain, the final race in the World Rally Championship (WRC) last year. The company will continue to support those activities as well as our baseball team in the inter-city tournament as sources of energy for Subaru and its people.

We are going to make steady steps to rejuvenate and revitalize FHI in line with the philosophy underlying FDR-1, that is, to reform our corporate culture. To that end, we will implement the in-house recruitment system for projects as well as other new systems to promote more entrepreneurial activities among younger employees.

Let me reiterate that this year is a very important milestone for us. While taking stock of what we have accomplished for the last fifty years since it was established, we are going to open a new chapter of FHI for the next half-century.

In closing, I would like to ask for your continued support and guidance as we move forward. Thank you very much.