

President's New Year Press Conference for 2005

President's Speech

Thank you very much for taking time out of your busy schedule to attend this meeting today.

I'm seeing some of you for the first time since the New Year started. Although it's somewhat belated, I would like to extend my sincere wishes to you for a happy New Year and thank you for all your support during the past year.

This past year in which we saw so many drastic changes in the economic environment proved to be extremely challenging for us as we faced fierce sales competition in our major market, the U.S., on top of the rising exchange rate of the yen against the dollar.

Working against this backdrop, our activities during the last year focused on the global launch of the new Legacy, which began 2 years ago, and the launch and sales of new concept mini passenger cars. We had some good news which turned out to be a winning combination for our brand image. The Subaru team won the first-ever FIA World Rally Championship (WRC) held in Japan. Mr. Shinroku Momose, who was at the forefront of technological development for our company and guided Subaru vehicles through its early days, was inducted into the Japan Automotive Hall of Fame.

On the other hand, as you are probably already aware, the Subaru vehicle sales volume forecast for the second half of the fiscal year was revised down from our initial projections after experiencing a profit decline in the first half.

Let me give you a brief accounting of our performance during the past calendar year.

First of all, in the domestic market, the launch of the R2 in December 2003, our new concept mini passenger car, had a positive effect throughout the calendar year, resulting in a significant increase in the sales of mini passenger vehicles by 40.7% over the previous year, with a combined sales volume of the R2 and Pleo totaling 84,628. Sales of mini commercial vehicles were also favorable. The overall sales volume of minicars totaled 165,596 vehicles, up 24.4% over the previous year.

However, while we had initially set our sales target for the Subaru R2 much higher, we unfortunately were unable to achieve this target since it took time for the new concept to be taken hold in the market.

Looking at the number of passenger cars, Legacy, now in its second year after its launch, secured a solid position with a substantial number of sales that reaffirms the fact that the brand is favored by many customers. Steady sales of Impreza, thanks to

the WRC, boosted the total number of Subaru passenger cars sold. Including imported cars, for the calendar year, the number of passenger cars sold totaled 112,858, 99.3% of the previous year's level.

As a result, the total number of Subaru vehicles sold in Japan for the calendar year reached 278,422, increasing by 12.8% over the previous year.

Secondly, let's turn our attention to overseas markets. In the U.S. market, which is the most important market for Subaru, we carried out a full model change of the Legacy model in June. Sales for the new Legacy steadily increased and we achieved retail sales of approximately 48,000 vehicles during the latter six-month period. The decline in sales for existing models was offset by the sales of Legacy, resulting in a sales increase by 0.3% on a year-on-year basis. With the total number of retail sales totaling 187,402, we achieved a record high number of sales for the second consecutive year. However, amid unprecedented fierce incentive competition among the Big Three auto manufacturers, we had to compete by offering a certain number of incentives in order to secure sales, leaving us challenged in terms of revenue and profit.

In the European and Australian markets, on the other hand, we saw quite buoyant development during the past year. In Europe sales of the new Legacy and Justy that were introduced two years ago were still upbeat. Thanks to this as well as a strong yen and growth of new markets in Russia and the Ukraine, sales in the European market totaled 56,653 vehicles, up 21.2% on a year-on-year basis. In Australia our brand strategy of focusing sales through mega-dealers worked well. As a result, the retail sales volume successfully rose to 33,619, marking a record high for the seventh consecutive year.

Overall, we sold 320,600 vehicles in overseas markets, up 5% on a year-on-year basis.

Our combined sales of Subaru vehicles in both domestic and overseas markets last year totaled 599,022 units, increasing by 10.1% over the previous year.

Next, let me summarize results for divisions other than automobiles.

While the Aerospace Company has been in a slump along with the influence of the aviation industry since September 11, we have delivered a center-wing for the 500th Boeing 777 and started providing center-wing for Boeing's long-range airliner, the 777-200LR. As development of the 7E7, Boeing's next-generation mid-sized aircraft, officially got off the ground, we decided to build a new facility for welding composite materials on the site owned by our company in Handa, Aichi Prefecture, which is

adjacent to Yusoki Kogyo K.K., for the development and production of the center-wing. Construction of the new facility was started in November. As for the development of next-generation Maritime Patrol Aircraft (PX) and Cargo Transport Aircraft (CX), which is our other big project, we started manufacturing prototype. This past year marked our first step forward on the road that leads to the future in the aerospace industry.

The Industrial Products Company was committed to breaking free from the stagnation that has gripped us over the last few years. With an aim to increasing profitability, we increased OEM supplies in Europe, developed new customer bases and new markets in Asia and expanded sales of the new EX engine and EH65 (V2 engines) for large-size power generators mainly in the North American market. This in addition to our cost reduction efforts allowed us to make considerable headway and after four years of being in the red we can now see the light at the end of the tunnel to become profitable.

The Eco Technologies Company faced a challenging year due to a sudden decline following the special demand for sanitation trucks prompted by the introduction of new diesel emission standards two years ago. Nonetheless we still retained our major share of the market. We are currently jointly developing new sanitation trucks for the future with ShinMaywa Industries, Ltd. The prototype made its first public debut last May and we have incorporated feedback from our customers in later designs.

So far I have given you a brief summary of our operations. As I have said before we have passed the half-way mark in the FDR-1, our five-year mid-term management plan, and are now entering a phase where we should harvest the fruits of what we have invested in each area of our operations. At the same time we must remain aware that we operate within a rapidly changing environment that has witnessed extreme fluctuations in the exchange rate and increasingly fierce competition in the U.S. market and be ready to adapt to any change in order to survive.

<Targets and Plans for 2005>

Now, I would like to turn to some of our targets for 2005.

Let me start with our targets for automobile sales. We expect overall demand will remain the same as last year in both the domestic and North American markets. This isn't a major concern for us but we are hoping no unforeseen developments crop up to alter the direction of the market.

We, at Subaru, will strive to achieve the volume of sales necessary to secure a firm

foundation upon which we will build our future.

1. Domestic Sales

We have set our target for combined domestic sales of passenger cars and minicars at 279,000 units, 100.2% of last year's level.

At the beginning of last year we set a target of over 300,000 units in annual sales, which at that time was even viewed as being bullish. We were unfortunately unable to achieve this target although we did manage a year-on-year increase.

We have added the R1 to our lineup of our minicars that includes the R2 and the Pleo. We have high expectations for the R1, which was just released on January 4, since the concept behind it resonated with so many visitors who came to see its debut. This year we will continue to strive to communicate the new and unique concept of Subaru's minicars and increase their sales. Combined with sales of the Sambar, a light commercial vehicle that has been in strong demand, we set the sales target for minicars at 166,000, 0.3% higher than the previous year's level.

Among our lineup of passenger cars, the Legacy remains our flagship model. We are on the lookout for signs of a luxury SUV boom in Japan in which we can accelerate sales of the Outback and the Forester, our two pioneering models in this category, through enhanced product strength of the Outback and a big change in the Forester.

We are planning to implement a big change in the Forester on January 27. The product strategy that will accompany this big change has never before been offered by any other company and is uniquely ours. The strategy seeks to supplement the limited number of models lineup by enhancing product performance through availability of function options that make it comparable to a full model change. We will implement a similar strategy in marketing as well.

With this in mind, we aim to increase total sales of passenger vehicles by 0.1% over the previous year to 113,000 units.

In our domestic sales operations, we clearly recognize that our biggest challenge in achieving our sales targets is to enhance our customer service capability.

We will add new sales offices and renovate existing ones. In addition to the enhancement of our infrastructure, we will strengthen our human resources capabilities with an aim to making our customer service in sales, service and management better than ever. We will focus specifically on improving the quality of our sales service and standardizing user services nationwide.

Most of our customers choose Subaru because of their strong loyalty to a brand they have a particular affinity for. They buy a Subaru because it suits their style and is

something that expresses their personality and not just because it's an affordable utilitarian car. We must value these customers who drive Subaru cars because they share in Subaru's ideal of what a car should be and strive to satisfy their needs. We must make that our guiding principle. In order for us to remain committed to this principle, we must foster a special awareness in every one of us who serves our customers.

We will establish the Subaru Academy to provide opportunities for people in manufacturer and sales dealerships to learn together and upgrade their skills to augment on-the-job training. We will establish a training system for more practical sales and services as well as dealership operations that will be of suitable use in the field. We will actively introduce external curriculums and instructors from other industries to prevent us from going into inward looking logic. We will also employ diverse training materials that will keep us up to date on customers' perspectives and increase the hours of training for the group employees who provide customer services by 50%. Furthermore, we will provide training to not only sales personnel and mechanics but also dealership managers and executive managers because we think it is important to develop leadership abilities as well as enhance the conduct of each employee in order to increase customer satisfaction. We will provide courses similar to those offered at a business school in order to change in the way of management thinking and enhance the quality of the overall dealership group.

We will complete implementation of the Partner 21 system at almost all dealerships by the end of this March. We have been working toward nationwide implementation of this standardized management system for two years with an aim to reforming dealership operations. This will help us realize equal quality services for all our customers nationwide. We will then have a standardized system to support all sales activities. This approach to developing the strengths of our people, system and infrastructure will give us the ability to carve out a competitive edge.

2. Overseas Sales

Let's turn our attention to overseas sales. We will launch the Subaru B9 Tribeca, which is the biggest project within our FDR-1 product strategy, in the North American market in the middle of this year. As you may be aware, I just gave a press briefing at the Detroit Auto Show for the worldwide debut of the model on Monday, the 10th of this month.

The briefing was attended by so many people who were excited by the fact that a Subaru car was finally introduced into this class of SUVs. The response exceeded my expectations and gave me a pleasant surprise.

It started out as the B11S, a concept car unveiled in Geneva in the spring of 2003, and was developed into the B9 Scrambler released at the Tokyo Motor Show in the fall of 2003. Finally it evolved into the B9 Tribeca, a mass-production model.

I was deeply moved when I realized we had finally made it.

The B9 Tribeca is our flagship car as I have mentioned repeatedly. While in development, we focused on the North American market as our target. However, since demand for this type of car is growing globally, we started thinking about producing it at SIA and shipping it to worldwide markets. We want to realize this as early as possible not only as our product strategy but also as part of our strategy to strengthen and stabilize our group operations, including SIA.

Returning to sales in the U.S. market, we hope to secure our sales target with the Legacy, which was launched last year, while laying the groundwork for increasing sales of the B9 Tribeca in the U.S.

As a new strategy for enhancing our sales strength, we will continue our ongoing effort to increase the percentage of our exclusive dealerships and signature facility program and enhance the sales structure in the south with an emphasis on urban areas. Additionally, we will open the first large-scale dealership in Dallas, Texas through a direct investment in order to strengthen sales in strategic areas and standardize premium sales.

This strategy is designed to strengthen the sales structure by linking product launches with strategic areas. It will be implemented first in Melbourne, Australia, followed by Japanese dealerships in Kuryu, Miyagi Prefecture and Tachikawa, Tokyo; Chinese dealerships in Peking and finally strategic areas in the U.S.

With this strategy, we aim to achieve annual retail sales of over 200,000 units for this calendar year and record sales figures for the third straight year.

In the European market demand for SUVs is gradually increasing. In addition to steady sales of the Legacy Outback and the Forester, we will boost the demand for the Impreza by leveraging the Subaru team's success at the WRC.

We will enhance our sales structure, especially in the U.K., which is one of our major markets, through the change of management at our dealerships.

We will continue to develop new markets and increase brand recognition in Russia and East Europe as we did last year. Through these initiatives, we plan to increase our retail sales by 3.3% over the previous year to 58,500 units.

In the Australian market, where we have enjoyed favorable sales over the past few years, we will aim for record sales for the 8th consecutive year, with a sales target of 34,000 units, the same level as last year.

Taking into consideration the sales plans in other areas including China where we started full-scale sales operations last year and expect an increase of sales to 2,000 units through enhanced marketing activities, we set our target for overseas shipments, including automobile parts for overseas production at SIA, at 321,000 units, 2.8% higher than last year's level.

Consequently, the sales target for this calendar year for the Subaru Automotive Business, both domestic and overseas combined, is 600,000 units, 0.2% higher than last year's level.

3. Internal Companies

Let me give you a brief account on developments in other divisions besides the Automotive Business.

The Aerospace Company is finally seeing signs of recovery after a long downturn in the aviation industry. We are hoping to see specific developments this year.

Some of the developments we expect to see this year include increased production of the Boeing 777 long-range aircraft. We will begin shipments of the AH-64D Apache combat helicopter to the Japan Defense Agency at the end of 2005. We have been working on designing domestic production of the AH64D as a prime contractor. We will also start shipping prototype of next-generation Maritime Patrol Aircraft (PX) and Cargo Transport Aircraft (CX) in the spring of 2005. We are planning these specific efforts in order to return to profitability.

We plan to begin full-scale development of the center-wing for the Boeing 7E7. The new facility for welding composite materials, which I mentioned earlier, will start operation and we will build a new assembly factory for the center-wing for the Boeing 7E7 next to the existing assembly factory for the 777 center-wing on the premises of our Handa Plant. I will announce details such as the size of these facilities and the amount of investment at a later date.

In a joint project with Eclipse Aviation Corporation for the mass production of a small business jet aircraft, we enjoyed a successful first flight with the new engine at the end of last year. After passing the next milestone of earning type certification in the spring of 2006, we will get set for mass production using our mass-production technology for automobiles.

Other ongoing projects besides these include participation in the research and development project for domestic production of environmentally-friendly regional jetliner. We will select and focus on the projects that will take us into the future.

The Industrial Products Company will streamline overseas production bases to avoid risks involved in exporting to the dollar block, which account for more than 50%

of total sales, due to the appreciation of the yen against the dollar. Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. (FCR), a joint venture in China, increased its production volume from 10,000 units two years ago to 60,000 units last year and plans a further increase to 110,000 units this year. Along with this, we will increase our use of locally procured parts.

Robin Manufacturing U.S.A., Inc. (RMI) will increase the percentage of locally procured engine parts for the North American market. It plans to move some of the machining equipment from Kitamoto City and produce 110,000 units.

The company will aggressively enter into the North American consumer market to increase sales of EX engines. New OEM products for the EX engine loaded high-pressure cleaner, which was launched last year, will be released this year. New OEMs for power generators have also been developed. Power generators equipped with the newly developed EX engine (EX30) will be released this year.

In order to expand sales of multipurpose engines, the company is planning to develop and launch high-power ones for use in various types of vehicles that are totally different from current conventional multipurpose engines.

The Eco Technologies Company will start introducing the new G-PX sanitation truck, which was jointly developed with ShinMaywa Industries, Ltd. We are fully committed to expanding sales. After winning the public trust as the top brand for sanitation trucks, we have started licensing the technology to China. The first sanitation truck made in China will be launched in the Chinese market this summer. We will take advantage of this opportunity and explore the possibilities for further development.

While it is not widely known, we have developed and manufactured service robots for practical use that combine our own unique technologies. This new area operation has been highly valued by the industry. It will be featured at the industry's premier event, the Expo 2005 Aichi, Japan. Since our robots are designed to be of a more practical nature and blend seamlessly into our daily lives they have garnered less attention than others. Four outdoor sweeper robots and three outdoor garbage collection robots will be working at the Expo 2005 Aichi, Japan.

Our sweeper robots will also be used in the soon-to-open Central Japan International Airport that will complement the existing Narita International Airport. Although this business is still in its infancy, we will steadily develop it into a solid full-scale operation.

4. Human Resources

As part of our efforts to steadily achieve these targets, we implemented a new

personnel system for management level employees in October 2004 that places a stronger emphasis on achieving target. We will fully leverage this new system so that each employee's improved level of performance will lead to the company's improved performance.

We consider effective use of personnel and enhanced quality of human resources as the key to strengthening the group's operational capability and management. We will implement measures to give fresh stimulus to our operations such as rotating executive managers among our group companies and a review of the personnel placement and training program for nurturing next-generation executives.

5. Mid-term Management Plan

Finally, I will briefly discuss the FDR-1, our five-year mid-term management plan.

As we mark the half-way point in the five-year plan, we are entering the final phase for 2006. We now find ourselves facing challenges in the external and internal environment that are significantly different from what we had initially anticipated.

These challenges include exchange rate fluctuations, which we are especially susceptible to and a competitive U.S. market left in the wake of September 11. We also face more internal challenges that include SIA, our production facility in the U.S., becoming a wholly-owned subsidiary as a result of the dissolution of a joint venture, as well as the recent rise in material costs.

The FDR-1 is a brand strategy that was designed to reinforce our operational foundation so that it would be strong enough to weather any changes in the business environment, but it has not been proven fully effective.

Therefore, we decided that we needed to revise our strategies mainly in the area of sales as soon as possible and we have been addressing this issue through repeated discussions. We will put together a revised plan and share its details with you at a later date. I appreciate your understanding in this matter.

This year we will endeavor to move forward step by step to resolve these issues and become a company full of promise, one that is small but with a global presence, and continue to create value that is uniquely our own.

Finally, I would like to ask for your continued support and encouragement. Thank you very much.