

January 13, 2006

**President's New Year Press Conference for 2006**

**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 an overall economic recovery in Japan proved to be extremely challenging for the automobile industry, especially in the domestic market.

Last year was the year in which the Tokyo Motor Show was held. Contrary to our expectations, we saw somewhat of a slowdown especially in sales of our midsize to luxury passenger vehicles during the latter half of the year.

While we maintained steady performance during the first half of the year in the U.S. market, we faced harsher market conditions in the latter half of the year due to skyrocketing gasoline prices in the aftermath of Hurricane Katrina as well as intensifying price-cutting competition that left dark clouds looming over the horizon just ahead.

Against this backdrop we, unlike other Japanese auto manufacturers, reluctantly made downward revisions to the goals set out in our mid-term business plan, FDR-1, in May last year. Over the past two years we have been focusing on building a sturdier foundation for our business operations.

Among all the challenges we faced, the most significant was the strategic change that accompanied the dissolution of our alliance with General Motors Corporation ("GM") last October. Our relationship over the past six years had simply not yielded the results we had anticipated.

Yet a strategic alliance was still necessary for a company of our size to survive in the face of cutthroat global competition. We entered an agreement with Toyota Motor Corp. ("Toyota") to build a new partnership and are now hammering out the specific details of our alliance.

While the development of our new alliance has attracted much attention, we are just now actively engaging in negotiations with respect to production of Toyota vehicles at our production facility in the U.S. and technology exchanges in vehicle research and development.

We will announce these details once they become finalized. I ask for your patience and forgiveness for not making mention of them at this time.

Let me give you a brief accounting of our performance and strategy during the past calendar year. Please see the distributed materials for more details.

[Subaru]

### 1. Domestic Sales

First of all, our sales performance in the domestic market was unsatisfactory, with the overall sales volume totaling 258 thousand units, down 7.3% from the previous year. Sales of mini passenger vehicles down to 90.3% of last year's level in counterbalance to the exceedingly favorable sales of R2, our then newly launched mini passenger car.

Looking at the number of passenger cars, while the sales volume of the Legacy declined slightly, the Impreza with its new design features fared well, resulting in sales of passenger cars that reached 96.3% of the previous year's total.

### 2. Overseas Sales

Next, let's turn our attention to overseas markets. In the U.S. market, our most important market in which the overall volume of retail sales totaling 196 thousand units was up 4.6% over the previous year, we achieved a record high number of sales for the third consecutive year.

Our new model, the B9 Tribeca, which was launched in June 2005, got off to a slow start due to a consumer trend away from SUVs as a result of the recent spike in gasoline prices. However, the sales volume reached 90% of our projections in December. We will devote our efforts to achieving our goals this year.

In markets other than the U.S., our sales continued to grow in Australia. We achieved a record high number of retail sales for the eighth consecutive year as the volume of sales reached 36 thousand units, up 7.2% over the previous year.

Our performance was also good in the European market, with the volume of sales totaling 62 thousand units, up 9.7% on a year on year basis.

In emerging markets such as Russia and China, though still small in scale for us, our sales grew steadily. Overall, we sold 33.8 thousand units in overseas markets, up 5.5% on a year-on-year basis.

Our combined sales of Subaru vehicles in both domestic and overseas markets last year totaled 596 thousand units, decreasing 0.3% from the previous year.

### 3. Overall Demand Forecast

Next, I would like to turn to our targets for automobile sales in 2006.

We expect overall demand will remain the same as last year in both the domestic and North American markets. Yet we believe that there are many reasons why we should remain vigilant.

### 4. Domestic Sales Strategy for the Current Calendar Year:

We have set a firm target for annual domestic sales, at 101 thousand units for passenger cars and 158 thousand units for minicars, totaling 259 thousand units for combined domestic sales, which is about the same level as last year. Since the latter half of 2005, we have focused our efforts on maintaining a good balance between sales and profits, rather than blindly trying to drive our sales volume up. This year's target has been set in line with this approach.

Due to the limited number of models available, our strategy for developing new products is based on introducing a completely new model and a model with significant minor changes each year.

Our main event for this year is the launch of our fourth new mini passenger vehicle. It will hit the market just in time for the summer bonus sales season. It will be added to the existing line of Subaru's unique concept vehicles such as the R2 and R1. We expect that this new model will be able to meet customers' diverse needs while contributing to boosting the volume of sales.

On the other hand, we recognize that our biggest challenge in our domestic sales is to increase the quality of our outlets, especially enhancing the quality of customer services. While our past sales strategies tended to emphasize sales volume, we now realize that we should encourage our customers to experience our distinctive quality, try out our products and then see if they're not satisfied with them. That's our target zone and that's where we should aim for. We will continue to make specific efforts to improve the quality of our sales and services in order to stay within this zone.

In addition to providing our people in sales and services with high-level training, as part of our new initiatives, we will leverage the features of "Partner 21", a dealer support network system for which implementation was completed at all of our dealerships last spring, in order to increase the efficiency of back-office operations and standardize our sales operations. By doing so, we will redistribute our resources to operations that directly deal with customers and enhance the quality of our customer services for each of our customers.

For the same purpose as stated above, we have decided to consolidate small local dealerships where it is not feasible to increase efficiency into new sales organizations. Please take a look at the release we have distributed to you for more details. We will consolidate two dealerships into one in six different areas nationwide. This will significantly reduce redundant back-office operations at our dealerships and allow us to apply resources directly to customer services.

With these measures, we will augment our entire domestic sales force by more than 10%. In addition to our human resources capabilities, we will continue to enhance our infrastructure by renovating and overhauling our sales outlets.

## 5. Overseas Sales

### 5-1. U.S. Sales Plan for the Current Calendar Year:

Let's turn our attention to overseas sales. We have a full line of products in the North American market and now have the opportunity to build our sales presence.

As part of the effort to strengthen our sales network, the first large-scale dealership to be directly invested in by our local subsidiary, Subaru of America, is scheduled to open in Dallas, Texas this coming summer. The opening is about a year behind the originally

scheduled date. We will also steadily expand our exclusive dealerships and separate showroom dealerships. Buoyed by these measures, we set our sales target in the U.S. market even higher than our longstanding challenging target of 200 thousand units, at 211 thousand units, a 7.7% increase over the previous year.

## 5-2. Other Markets

In the European market we will strengthen the marketing capabilities of Subaru Europe, our wholly owned subsidiary overseeing Subaru's entire European operation, while developing sales networks in each country.

We have been steadily building our sales networks in emerging markets such as Russia and Eastern Europe. Since our product characteristics fit these markets to a tee, we will strive to enhance our brand recognition.

We will also set on an aggressive approach toward the countries and areas we have had difficulties marketing Subaru vehicles, including entry into the Mexican market.

Unfortunately, we had to increase our inventory at the last minute towards the end of last year due to regulation changes in the Middle East. Consequently, our sales target for other overseas markets is 340 thousand units, up 0.5% over the previous year.

As for our plan to launch the B9 Tribeca, our new model introduced to the U.S. market last year, onto the global market on a full-scale basis shipping for the first time from our U.S. facility, SIA, we will phase in shipment to Europe, Asia and Japan starting the end of this year while assessing various changes in the economic environment such as foreign exchange factors.

Our sales target for 2006 that includes this plan is set at 599 thousand units, which is slightly over last year's level.

## 6. Internal Companies

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

### 6-1. Aerospace Company

The Aerospace Company experienced a significant increase in sales. In the commercial sector our sales to Boeing went up thanks to the recovery in airline industry demand. We also made the first delivery of main wing components for the next-generation Maritime Patrol Aircraft and Cargo Transport Aircraft (PX/CX) to the Japan Defense Agency.

We are expecting to see the following projects bear fruit by the end of this year: an increase in production of aircraft including the Boeing 777, mass production operations at our two new facilities in Handa, Aichi Prefecture for the next-generation mid-size airliner, the 787, and the first delivery of the attack helicopter, AH64D Apache Longbow, to the Japan Defense Agency in March, for which Fuji Heavy Industries Ltd. (FHI) won the contract to produce under license.

Additionally, we will start the mass production of wing assemblies for the Eclipse 500, light business jet. The seeds we have sown will begin to sprout all at once. We will carefully grow each one of them and do our best to harvest their fruits.

## 6-2. Industrial Products Company

The Industrial Products Company experienced an increase in the volume of both domestic and overseas sales. Production at our Chinese facility is also steadily growing. Enhanced merchandising capabilities through the selection and concentration strategy in the R&D area combined with the development of a new OEM relationship has led us to winning new contracts and increasing sales in many areas such as electric generators, high pressure washers and agricultural machinery.

Last year the production volume of engines totaled 1,260 thousand units, up 12.8% over the previous year. About 10% of these were produced in China. Our target for this year is set at 1,490 thousand units, an 18.2% increase over last year's level. We will move forward to build stable operating foundations from which we can reach this target.

## 5-3. Eco Technologies Company

The Eco Technologies Company achieved an increase in sales for its leading product, sanitation trucks, as a result of successfully implementing such measures as placing dealerships in the Kansai region under its direct management as well as the launch of next-generation sanitation trucks jointly developed with ShinMaywa Industries, Ltd.

One of our new developments for this year is the 2,000-kilowatt large-scale wind power generator. We completed the construction of a demonstration model in Ibaraki Prefecture at the end of last year and will start operating it on a trial basis this month. By leveraging our unique ideas we expect to successfully develop an epoch-making product that will be suitable for the topographical and climatic features of Japan.

## 6. Mid-term Business Plan

Lastly, this year marks the final year of the FDR-1, our five-year mid-term business plan. As you are already aware, unforeseen obstacles in the business environment necessitated that we make a second revision to our goals last spring. We have focused our efforts during last two years on reviving the Subaru brand and building foundations for future growth by reforming the overall cost structure and sales organization and streamlining our corporate structure.

If I were to compare us to an athlete, we have been building a leaner and more muscular body that will enable us to endure the long run ahead. We have consistently risen to meet the challenges before us such as a 16% reduction in costs, a 30% plus increase in investment efficiency for research and development as well as solicitation of voluntary retirement. These achievements will form the foundation for our profit source for the next period and onward.

Subaru still faces a bumpy road ahead in the domestic market and a declining growth in the U.S. market. On top of this, we have been hit by a spike in raw material costs that has forced us into an even darker corner.

Nonetheless, from here we will work quickly to strengthen sales organization in our main markets through the measures I have briefly explained to you today. At the same time we will move forward with a strong commitment to achieving our goals for this year while working on preparation and development of new products for the coming future.

We aspire to be an enterprising sprite company. That is, “an attractive company with a strong market presence.”

In other words, it is the company that looks forward to the future in the hopes of delivering the greatest benefit and excitement in order to enrich the lives of everyone through products that are uniquely Subaru. That is the kind of company each of our employees can be proud of.

We will keenly focus our resources on our areas of core competence to clearly distinguish ourselves from our competitors and create intrinsic value for our products and services that will keep us ahead of the pack.

With Subaru vehicles at the heart of what we do, we will continue to pursue development of our unique technologies and their applications. This will enable FHI to grow as a whole as we cultivate the independence of our Companies.

Finally, I would like to ask for your continued support and encouragement and wish you health and happiness this New Year.

Thank you very much.