

Presentation of Financial Results

President's Speech

May 9, 2006

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

First, I would like to talk about some changes in management before moving on to the presentation of financial results.

Next, I will give you a brief overview of our financial results for fiscal year ended 2006. Mr. Takagi will then talk about our financial results in more detail.

1. Personnel Changes

Details about the changes in directors including president and executive officers are provided in the materials we have distributed. This fiscal year marks the final year for FDR-1, our medium term business plan, implementing during my presidency. Unfortunately so far we have not achieved our initial numerical goals due to a number of problems we could have never predicted earlier on. On the other hand, these problems provided us with a springboard for streamlining our corporate structure and paving the way to more efficient research and development practices.

This fiscal year we will develop a new medium term business plan to guide us through to 2007 and beyond.

We are now in a transitional phase with a shift in alliance with General Motors Corporation (GM) to Toyota Motor Corporation (Toyota). The main task before us remains making more dynamic yet specific changes across the spectrum from manufacturing to sales. We viewed this juncture as a perfect opportunity to reshuffle management.

We are poised to build a thriving Fuji Heavy Industries Ltd. (FHI) upon the new organizational foundation you see in the materials before you.

Here are some details about the new organization.

I, Kyoji Takenaka, will step down as president at the June 27 Shareholders' Meeting. I would like to express my sincere gratitude to everyone here for your support and assistance during my years of service.

Mr. Ikuo Mori, the current corporate senior vice president and chief general manager of the Subaru Overseas Sales and Marketing Division, has been appointed to take over as the next President, Chief Executive Officer and a Representative Director of the Board. The appointments will become effective after approval at the next General Meeting of Shareholders.

You can read about Ikuo Mori's business career in the material we have provided. He joined FHI in 1970 and worked in the manufacturing division, the origin of manufacture. He was involved in the launch of Subaru of Indiana Automotive, Inc. (SIA), our production facility in the U.S., and

oversaw the areas of sales planning in both Japan and overseas as well as the Subaru Parts and Accessories Division. He led branding and sales activities in Australia and Europe while in the Subaru Overseas Sales and Marketing Division. With his extensive experience in every facet of Subaru operations from manufacturing to sales and marketing, I'm convinced that he is the best person to establish the branding strategies related to both hard and soft assets that will enable us to grow in the future.

I will do everything I can to support the newly appointed president in my position as Director of the Board (not a Representative) and senior corporate adviser.

Mr. Takagi who is attending this meeting today will continue to serve as CFO and run our corporate communications.

While we currently have 6 Directors of the Board ("Directors"), the new organization will consist of 8 Directors, including the 2 retiring and 4 newly appointed officers, as of the next General Meeting of Shareholders.

The names of the other Senior Vice Presidents and Vice Presidents will be announced on June 1 prior to the General Meeting of Shareholders. Among the new officers will be Mr. Masatsugu Nagato, from Mizuho Corporate Bank, Ltd. who will take office as a Director of the Board and Executive Vice President.

With all these changes, the number of corporate officers including Directors and Corporate Auditors, which was 37 as of the previous General Meeting of Shareholders, will be trimmed down by 5 to 32 after the next General Meeting of Shareholders.

I would like to ask for your continued support of our new management team.

Now let me introduce Ikuo Mori, who is appointed our new president.

I'm Ikuo Mori of the Subaru Overseas Sales and Marketing Division. (Unofficially at this point,) to tell you the truth, I feel that I was given an enormous task, but I'm confident that my passion for Subaru makes me the right person for the job. With your help, I know I will be able to provide the driving force that will turn FHI into a global player with a premium brand.

Let me talk a little about my career, which is also outlined in the materials we have distributed.

After joining FHI, I worked mainly in production control at our Gunma plant. In 1986 I joined the U.S. Project Preparation Team in preparation for the launch of our U.S. production base, SIA, and became the head of SIA's production control division in 1988.

When I came back to Japan in 1993, I expressed my desire to work in sales. I worked in overseas sales and marketing, mainly in the administrative areas including U.S. business administration, overseas production development and planning. I was also involved in dealing with

the domestic market when I was with the Sales Planning Department and the Subaru Parts and Accessories Division, which was a valuable experience.

I now work in the area of overseas sales and I believe that it was my years of experience in manufacturing that gave me a solid foundation for my current work. While working in sales, I always try to see things from the manufacturing point of view Plan, Do, Check, Action (PDCA).

I have a special attachment to SIA because I was involved with it since its establish.

Among the reasons why Mr. Takenaka appointed me was probably my background in sales. FHI has given priority to technology ever since I joined the company, which is great. Yet while we have recently been taking a more customer-oriented approach, what we hear from our customers is that they are not really satisfied.

I don't think it's our products. It's not that the staff in engineering and development Division don't listen to staff in sales Division but rather because our overall organization is still developing both in terms of organizational structure and human resources. Watching the sales floor and keeping an eye on the customer is always the first order of business, but in truth, we are not executing this on the job. Mr. Takenaka has focused on this point, and I want to make sure we don't lose sight of it. Changing this situation will involve changing our entire corporate culture. Maybe it takes someone from outside that culture with an entirely different outlook, a non-technical person like me, to clearly see where the changes are needed.

Another reason Mr. Takenaka mentioned was that he believed we should make a fresh start with a new organization as we move ahead into a new era in alliance with Toyota. I look forward to working with young employees as we make an effort to move ahead together. We stand to learn a lot from them as we work to change our corporate culture.

While working under the guidance of Mr. Takenaka to keep in step with FDR-1 during the last five years we have been faced a number of unforeseen problems. We will take a hard look at what we did wrong and work quickly to complete the unfinished tasks as we move ahead to get where we should be.

Despite all the difficulties we have faced, we have made steady progress in such areas as accelerated cost reduction, leaner management and more efficient research and development. I also have a positive feeling about the Subaru products to be launched in the future, which is the most essential element for us as a manufacturer. We have plans for new lines of products that are sure to capture the hearts of consumers.

Anyway, I'm the kind of person who always sees the glass as being half full rather than half empty. I would like to make FHI 's glass overflow with enthusiasm.

My wife always tells me that I do well because I'm tall and loud and also because I'm just plain lucky. I totally agree with her but right now I still don't know whether I'm lucky or not.

Whatever the case may be, I'll continue to count my lucky stars.

That's about all I have to say today. I look forward to the same continued support and assistance you have given to Mr. Takenaka. Thank you very much.

2. Overview of Financial Results

Now I will give you a brief overview of our financial results for the fiscal year ended March 2006.

This past fiscal year's consolidated sales totaled 1,476.4 billion yen, with an operating income of 58.3 billion yen, ordinary income of 46.8 billion yen and net income of 15.6 billion yen. We saw increases in income and profit over the previous year with the exception of net income.

A weaker yen as well as cost reduction were the biggest factors contributing to the increases in operating income and ordinary income in comparison with our forecast which was announced at the release of financial results of 3rd Quarter in February. Reduced overseas inventories slowed down further deterioration in our sales volume and product mixture. This all led to an increase of 9.3 billion yen in operating income than forecasted.

Operating income was 7.8 billion yen more than our February forecast thanks to the improvement of the rate of forward exchange contracts. Net income also increased by 3.6 billion yen despite some extraordinary gains and losses.

Although we achieved a satisfactory level in terms of numerical figures, we have still been facing difficulties in automobile sales. Despite our accelerated efforts in reducing costs and expenses to offset increases in costs for meeting safety and environmental regulations in overseas markets and soaring materials prices, we were, in the end, saved by fluctuations in foreign exchange.

Faced with the competitive domestic market where our competitors launched a number of new models, we dared to make the tough decision not to undersell our products in the second half term. However, we believe that our decision to stand firm has put us in a stronger position and look forward to reaping the benefits with the launch of new models this year.

With regard to our non-automotive three internal Companies, the Aerospace Company saw a significant increase in sales due to the launch of a new project for the Japan Defense Agency as well as a recovery in the civil -sector demand for Boeing products. The Industrial Products Company and the Eco Technologies Company also recovered steadily to boost earnings.

The fiscal year saw a large amount of extraordinary losses derived from the implementation of asset-impairment accounting, the termination of joint development projects as a result of the dissolution of the strategic alliance with GM, as well as the expenditure for premium allowances for employees leaving the company under the early retirement program. This led to a drop in net income by 2.6 billion yen from the previous year, to 15.6 billion yen.

3. Outlook for FY2007

Now, let's turn to our outlook for this fiscal year.

First of all, enhanced Subaru product lines will include a major face lift for the Legacy, featuring the Subaru Intelligent Drive (SI-DRIVE) system, which was unveiled at the New York International Auto Show in April. This all new Legacy is scheduled to be released at the end of this month on the domestic market and in the fall on the European and Australian markets.

The SI-DRIVE is based on the concept of three engines in one. This unique feature provides driving performance that will appeal to both those concerned about the environment who value better fuel economy and those who enjoy the sporty driving pleasure. Please watch for these products in the near future.

We will also launch a new minicar model in June. We named it Stella, which means "star" in Italian. It is a tall wagon types of car for which the market is booming in Japan. We hope that, as its name implies, it becomes the shining star of the market.

Starting this fall we will start exports and sales of our SIA produced model, the B9 Tribeca, in the European and Australian markets. In addition to that, we are reaching the final development phase of our much expected new products to be launched in 2007 and onward.

In pursuit of reforming our sales organization and strengthening our sales network for marketing new products, we will focus our efforts on sales strategies to improve customer services and customer satisfaction by consolidating dealerships to improve productivity of distributors and strengthen our sales staff.

In our US sales network, on the other hand, new large-scale dealerships are scheduled to open in Philadelphia and Dallas this fall. We are looking to steadily implementing measures to improve overall quality of dealerships with exclusive dealers and dealers with separate showrooms (245 exclusive dealers, 157 dealers with separate showrooms, 589 in total as of March 31, 2006).

In Europe the number of dealers is increasing at a better rate than we initially planned (The total number of dealers at 1,220 is 80 more dealers than initially projected: 1,086 dealers as of March 31, 2006, 1,140 dealers projected for 2006 in the revised FDR-1, currently 1,220 dealers).

With steady sales in Russia, China and Australia, we will continue to take aggressive measures in these markets so as to supplement stalling domestic and U.S. sales.

We set our target for this year's operating income at 50 billion yen based on a foreign

exchange rate of 110 yen against the U.S. dollar in light of the current sales status in the domestic and US markets. More details on our specific target for this fiscal year will be explained later by Mr. Takagi.

In addition to projected increases in R&D costs and capital investments for the launch of new products in the next year and onward, we are facing harsher market conditions for nonferrous metals such as precious metals and aluminum than we had expected. This will offset our diligent efforts to reduce overall costs as planned in the revised FDR-1.

Although we are not the only one facing this problem, we are aware that we must rise to the new challenge of developing innovative technologies that will provide a foundation for designing and manufacturing vehicles built to weather such harsh economic conditions.

4. Closing Remarks

As we announced in mid March, per our agreement with Toyota, the Toyota Camry will be built by SIA on an OEM basis and FHI will jointly develop Toyota vehicles. FHI and Toyota agreed to consider commissioning the development of vehicles to FHI as well as future joint development possibilities, including the development of a hybrid vehicle based on the Toyota Hybrid System.

Both companies are working every day with the aim of starting the production of the Camry at SIA by the end of this year. We are very grateful that Toyota is sharing its latest technologies, including the Global Body Line (GBL), with us. We will strive to make the most out of our alliance with Toyota while continuing to maintain our unique identity as we establish a solid foundation upon which we will build our future.

As for our three internal Companies including the Aerospace Company, we have completed a series of organizational streamlining projects and are now entering the phase where we can begin reaping what we have sewn with our new projects. Yet we can't stop here, we must move on and implement measures for more efficient management in order to establish a stronger foundation and achieve further growth.

This fiscal year marks the final round of the FDR-1 and at the same time a year for building a solid foundation for our strategies as we move forward into the new post FDR-1 era.

In light of all these developments and with your unchanged support we will continue to do our utmost best as we move ahead. Thank you very much.