



Prominence 2020

May 9, 2014

Fuji Heavy Industries Ltd.



Motion-V
(2011–15)

**New Mid-Term
Management Vision**
(2014–20)

Reasons for Developing a New Mid-Term Management Vision

- Main goals of Motion-V achieved ahead of schedule
- Significant changes in business conditions following faster-than-expected growth (stepping into a new stage)
- Growing need for accelerated response to changes in the business environment, such as tighter environmental regulations
- Resetting of management objectives with a view to further growth

Pursue the goal of sustainable growth and development by boosting competitiveness and building a solid business platform at a new stage

Development of New Mid-Term Management Vision



Review of Motion-V

Five Pillars

1. Confidence in Motion
2. Provide distinctive Subaru experience
3. Accelerate sales expansion
4. Solidify operational foundation
5. Improve quality of management



Achievement Review

Key Achievements

- XUV/SUV strategy succeeded
- Boosted sales through US-oriented product development
- Highly-rated collision safety and EyeSight
- Cost reduction activities paid off
- Achieved low-incentive sales
- Achieved highly efficient production ("stepwise" capacity increase)

Key Issues Remaining

- Compliance with future environmental regulations
- Production capacity shortages
- Responding to the needs of new customers
- Sensitivity to currency fluctuations

Quantitative Targets

Targets for FYE2016

Sales volume	850,000 units (Shipment-based incl. OEM and CKD products)
Consolidated operating income	120 billion yen
Consolidated operating margin	6% level



Results

Targets achieved ahead of schedule in FYE2014

Sales volume	850,000 units
Consolidated operating income	326.5 billion yen
Consolidated operating margin	13.6%

Development of New Mid-Term Management Vision



Management Philosophy (Unchanged)

A compelling company with a strong market presence and a “customer-first” philosophy at its core

Review of Motion-V (on current status)

- Quantitative key targets accomplished
- Performance aided by favorable conditions -
Business structure not yet solid
- Steady progress on five pillars
- With changes in business environment -
Some of key challenges remain to be addressed

Changes in the Business Environment

- Stricter environmental and safety regulations
- Increased use of information technology in vehicles and society
- Aging population
- Growth of emerging markets
- Changes in trade environment

Vision for 2020

Corporate vision

Not big in size, but a high-quality company with distinctive strengths

Specific goals

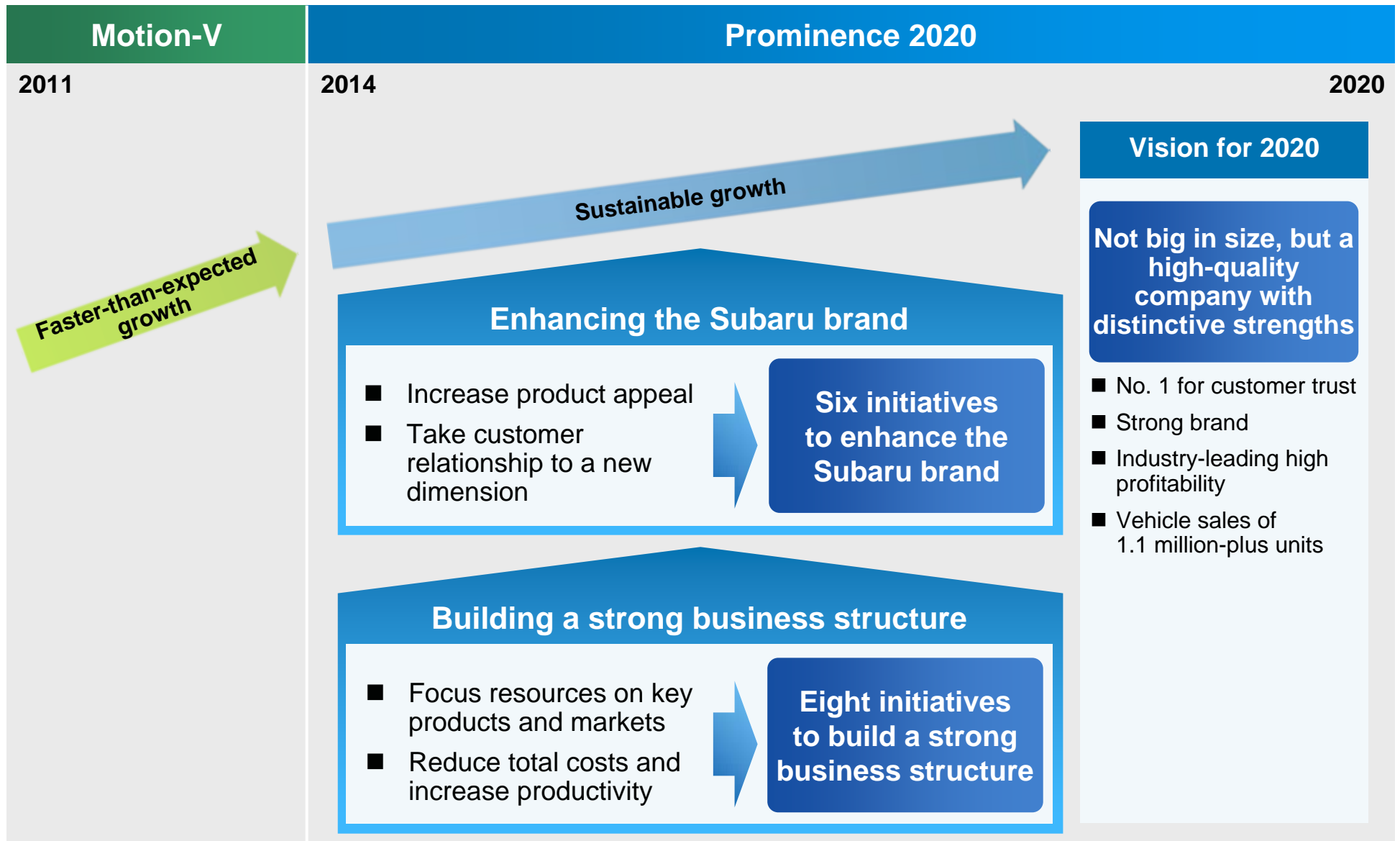
- No. 1 for customer trust
- Strong brand
- Among the most profitable companies in the industry
- Sales volume:
1.1 million-plus units

Direction for New Mid-Term Management Vision

As a small-sized automaker, FHI will focus on two activities to grow sustainably and achieve its corporate vision.

- Pursue added-value business
→ Enhancing the Subaru brand
- Increase tolerance to changes in the business environment
→ Building a strong business structure

Prominence 2020: New Mid-Term Management Vision



Brand Strategy

Confidence

Display self-assurance in all our auto-making activities and maintain an appealing presence

Value that Subaru offers to customers:

**“Enjoyment and
Peace of Mind”**

Put
“Confidence in Motion”
into practice

More Subaru fans

in Motion

Surge ahead as a brand with high emotional value; Generate innovative thought and action for a new era

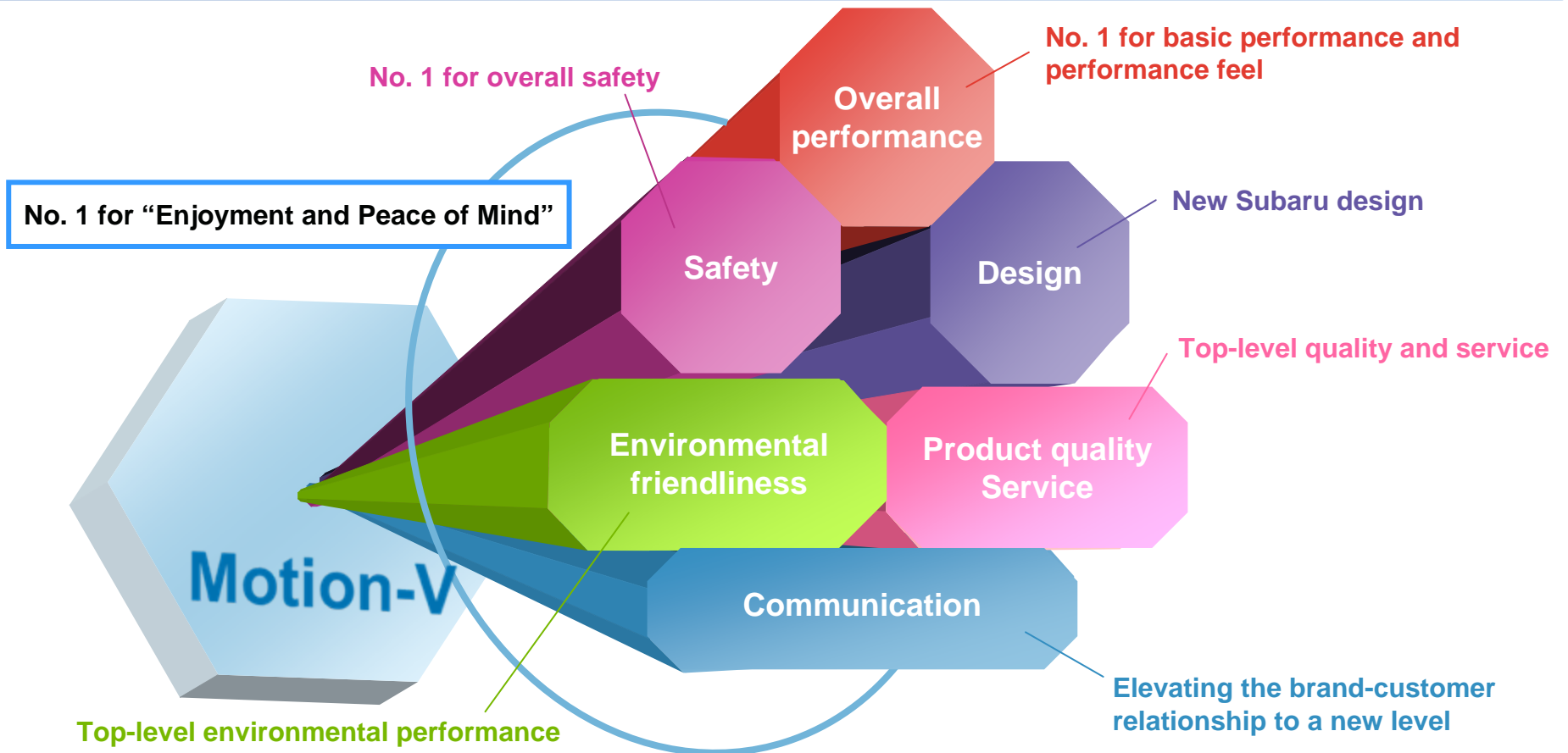
Subaru will continue to pursue engineering excellence and offer its customers “Enjoyment and Peace of Mind”.

Six Initiatives to Enhance the Subaru Brand

Subaru's key mission is to achieve prominence with "Enjoyment and Peace of Mind"



Focus on six initiatives



Six Initiatives to Enhance the Subaru Brand

1. Overall performance

Fundamental driving performance and quality are the starting points for Subaru's pursuit of "Enjoyment and Peace of Mind"

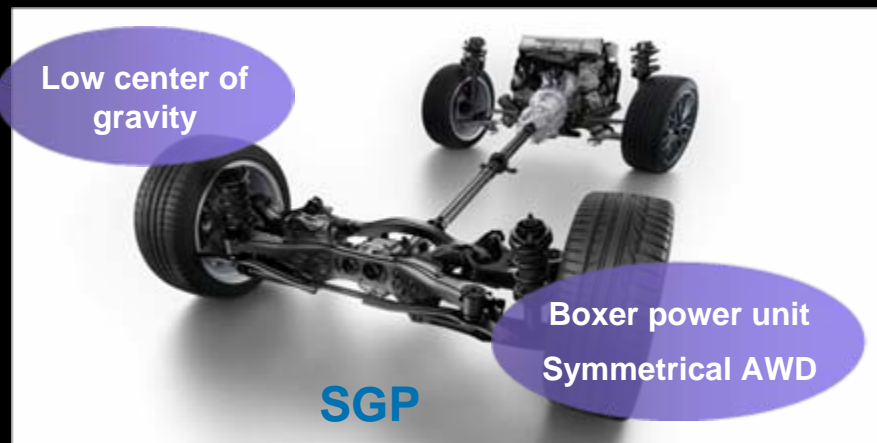
- Launch next-generation platform with all-new design: Subaru Global Platform (SGP)
- Introduce next generation of Boxer power unit (upgrade all vehicles to direct fuel injection)
- Achieve high-level balance of three integrated elements: SGP, Boxer power unit, and Symmetrical AWD
- Achieve prominence with distinctive Subaru quality

Fundamental performance

Enjoyable driving that makes emotional connection with drivers based on high maneuverability

Static and dynamic quality

Enhance Subaru quality in all areas, including steering stability, ride comfort, noise and vibration suppression, sound, exterior look, and interior



Six Initiatives to Enhance the Subaru Brand

1. Overall performance

Launch SGP beginning with next generation of vehicles

■ Enhance overall performance

- Maintain world-class collision safety (comply with the latest collision safety standards throughout the world)
- Achieve dynamic quality of a higher-class vehicle with practical structural layout
- Achieve high maneuverability with new suspension geometry (agility, stability, and hazard avoidance)
- Maximize interior space with highly efficient packaging

■ Standardize platform design concept for every model from Impreza to Outback

- Achieve much greater efficiency in development
- Ensure flexible production in Japan and overseas



Six Initiatives to Enhance the Subaru Brand

2. Safety

Maintain position as No.1 brand for overall safety

Primary safety

- Field of vision designed for security
- Comfortable driving position
- User-friendly interface



Active safety

- Symmetrical AWD
- Low center of gravity
- Reassuring chassis



Progress in every aspect of Subaru All-Around Safety Protecting the lives of all passengers and pedestrians

Pre-crash safety

- EyeSight
(Significant enhancement toward automated driving)



Passive safety

- Protect passengers
- Protect pedestrians

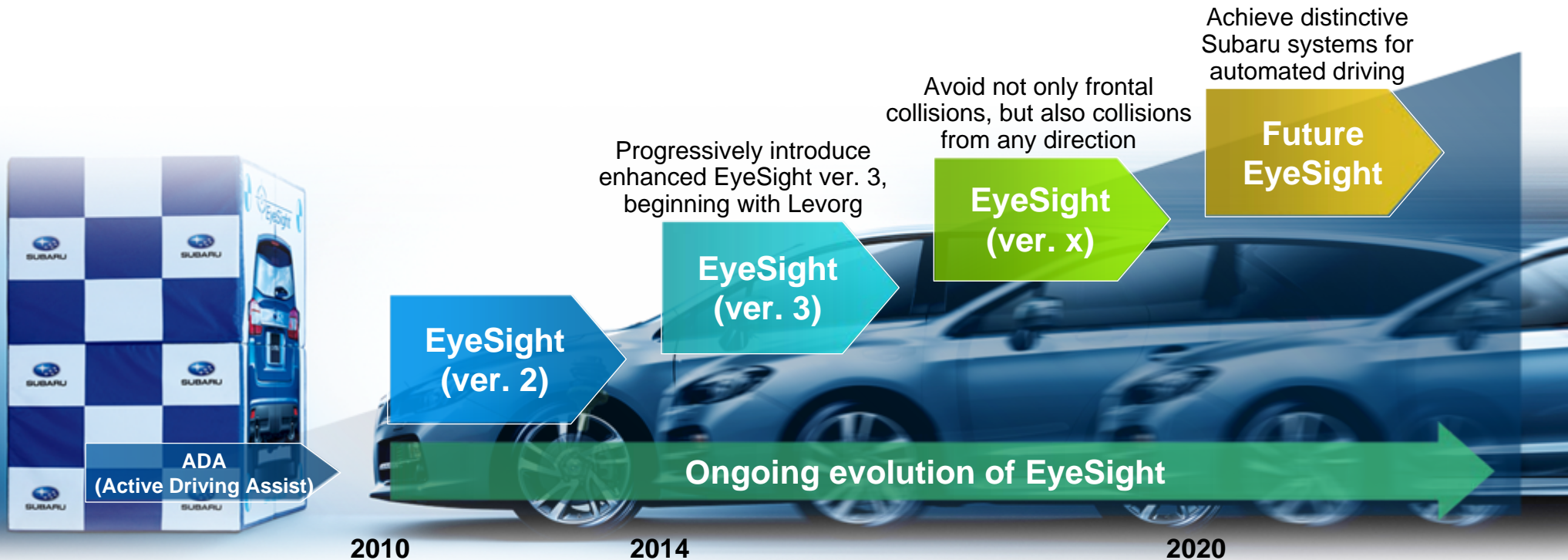


Six Initiatives to Enhance the Subaru Brand

2. Safety

Maintain position as No.1 brand for overall safety

- Maintain the leading position of EyeSight technology
- Create distinctive, safety-focused Subaru automated driving systems



Six Initiatives to Enhance the Subaru Brand

3. Design

New “dynamic & solid” design concept
to make Subaru vehicles instantly recognizable

“Enjoyment and Peace of Mind” / New Subaru distinctive design

DYNAMIC



SOLID

Sport and performance

Refined edge

Rugged beauty

Driving pleasure



Forms backed by functions

Beauty stripped of excess

Expressive forms of
Subaru’s technology

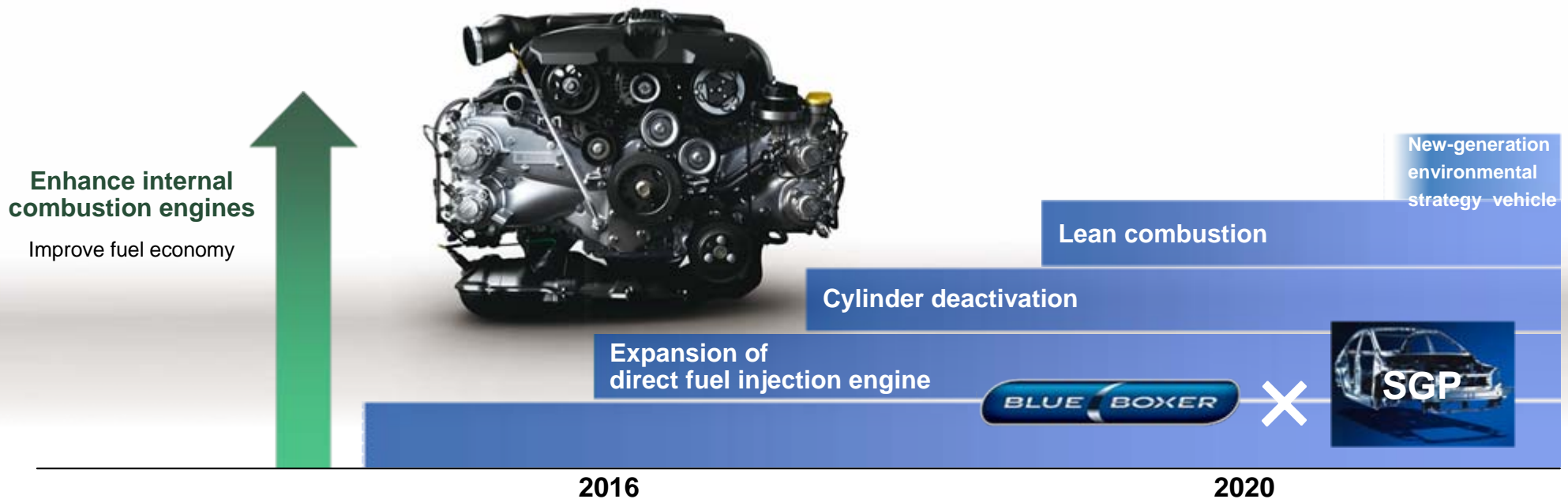
Six Initiatives to Enhance the Subaru Brand

4. Environmental friendliness

Achieve top-level environmental performance by 2020

■ Enhance internal combustion engines

- Rigorously pursue improvements in the fuel economy of the internal combustion engines expected to represent the greatest volume of sales for the time being ⇒ Net thermal efficiency: achieve top level in segment with 40% or more
- Fuel efficiency improvements with other enhancements (Body weight reduction with the SGP, aerodynamics improvements, and friction reduction in transmissions etc.)
- Looking beyond 2020, study the development of new-generation environmental strategy vehicle



Six Initiatives to Enhance the Subaru Brand

4. Environmental friendliness

Achieve top-level environmental performance by 2020

■ Advance vehicle electrification

- Integrate world-class environmental technology through alliances to develop hybrid vehicles true to the Subaru identity
- Progressive development starting with compliance with US zero-emission vehicle (ZEV) regulations
- Examine development of a new generation of electric-technology-based vehicles to comply with stricter environmental regulations

Advance vehicle electrification

Expand development



Develop new generation of electric-technology-based vehicles

Progressive development of next-generation hybrid vehicles

Launch next-generation Plug-in hybrid vehicles compliant with North American ZEV regulations

2016

2020

Six Initiatives to Enhance the Subaru Brand

5. Product quality / Service

Become a trusted brand that continues to be chosen by customers for the quality of its products and services

■ Product quality

- Strive to enhance fundamental product quality (fewer defects or breakdowns than any other manufacturer)
⇒ Raise quality to achieve level of product quality that will excite customers

■ Service

- Urgently build service networks and facilities to satisfy new customers
⇒ Improve responsiveness to provide trusted services from customers



Six Initiatives to Enhance the Subaru Brand

6. Communication

New efforts to reinforce brand strategy

Propose new value based on stronger ties with customers through the kind of closer communication that only a small, distinctive brand can achieve

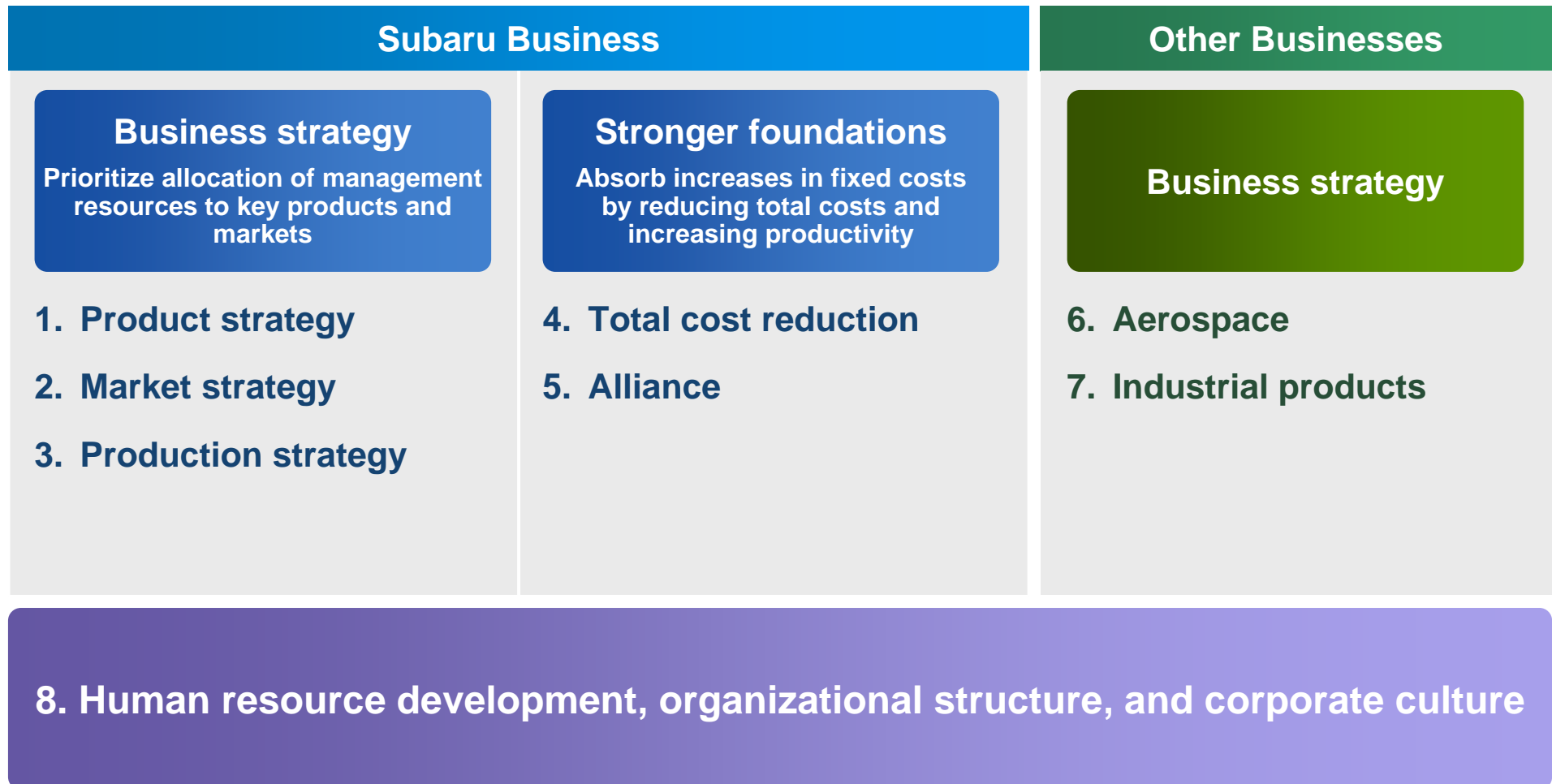
“Life is More Enjoyable with Subaru”

Expand “Enjoyment and Peace of Mind”
to lives and leisure experiences of Subaru customers

Launch **Subaru Next Story (SNS) project**



Eight Initiatives to Build a Strong Business Structure



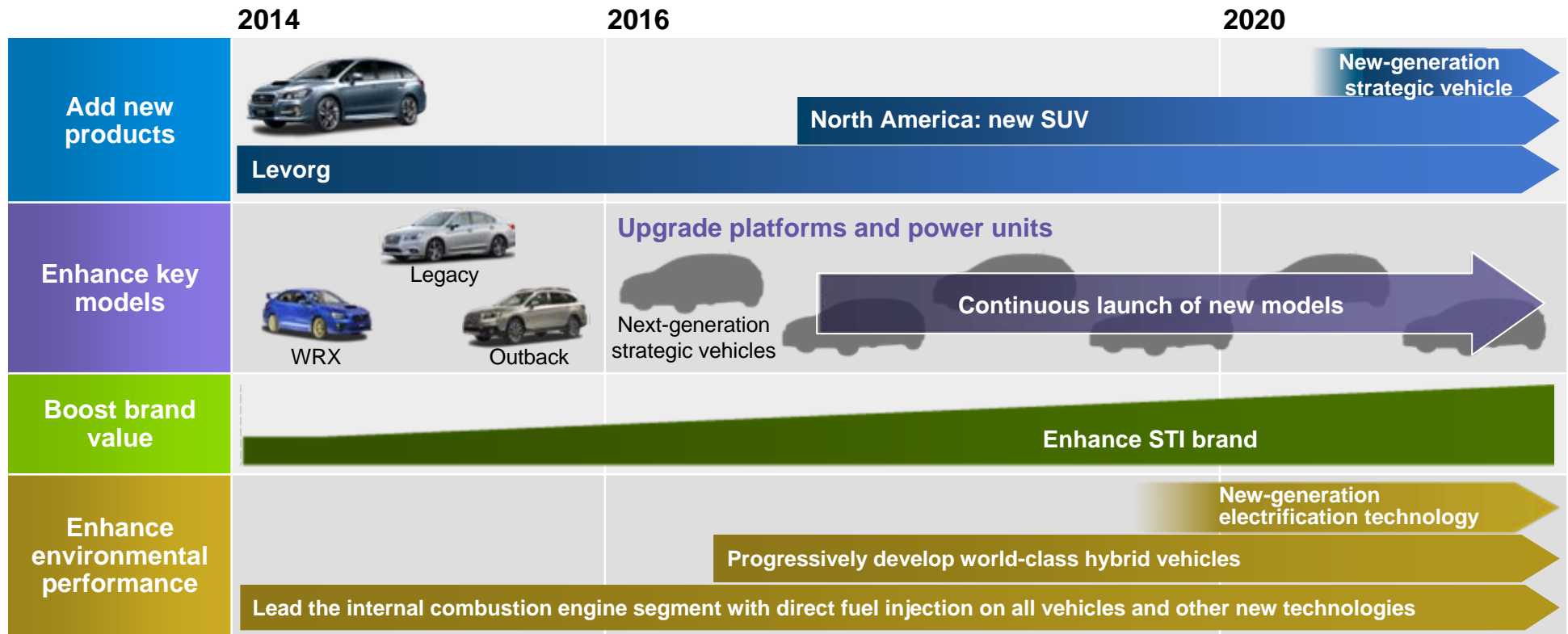
Prominence 2020: Building a Strong Business Structure



Eight Initiatives to Build a Strong Business Structure

1. Product strategy

- Enhance product lineup focusing on strengths in XUV/SUV segment
- Full model change for key models with continuous launch of new products
- Expand use of the STI brand and progressively develop environmentally friendly products

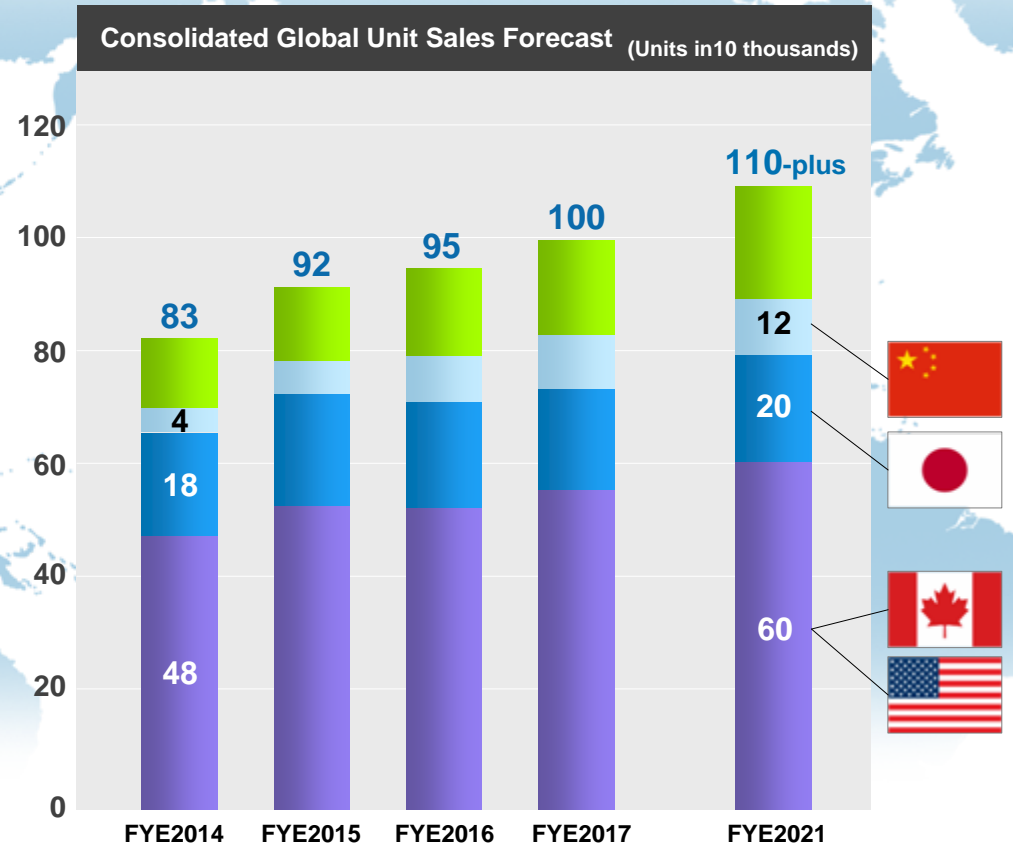


Eight Initiatives to Build a Strong Business Structure

2. Market strategy

- Sustainable growth toward sales of 1.1 million-plus vehicles
- 600,000 units projected for the top-priority North American market and 320,000 units for the second-pillar markets of Japan and China
- Reinforce efforts on Russia and Southeast Asia, where wealthy consumers are expected to increase

	Key measures to build stronger business
North America	<ul style="list-style-type: none"> • Launch a new SUV exclusive to North America • Efforts on Sunbelt sales growth • Increase local production to raise competitiveness
Japan	<ul style="list-style-type: none"> • Strengthen marketing as Subaru brand's home market • Lift quality of overall sales activities
China	<ul style="list-style-type: none"> • Expand sales networks and strengthen dealer sales capabilities • Aim for sales of 120,000-plus units with exports from Japan for the time being
Australia	<ul style="list-style-type: none"> • Important market where Subaru presence should be further increased • Continue efforts on brand enhancement
Russia	<ul style="list-style-type: none"> • Steadily expand market share by reinforcing sales networks
Southeast Asia	<ul style="list-style-type: none"> • Build a strong business foundation • CKD production expansion, Local office setup
Europe	<ul style="list-style-type: none"> • Comply with European CO₂ regulations



Eight Initiatives to Build a Strong Business Structure

3. Production strategy

- Production capacity increase up to 1.07 million units level.
- Maintain domestic production capacity while increase overseas production to around 40% of total capacity to reduce foreign exchange sensitivity.
 - SIA: Capacity increase planned for FYE2017. Increase up to 400,000 units level according to necessity.
 - Malaysia CKD production: Add the Forester production



		FYE2014		FYE2017		FYE2021	
		Production capacity	Proportion of total	Production capacity	Proportion of total	Production capacity	Proportion of total
Japan	Gunma Plants (Main Plant and Yajima Plant)	60	77%	63	66%	65	61%
Overseas	US (SIA Plant)	17	22%	31	32%	40	37%
	Malaysia CKD	0.5	1%	2	2%	2	2%
Production capacity (standard operations)		78		96		107	

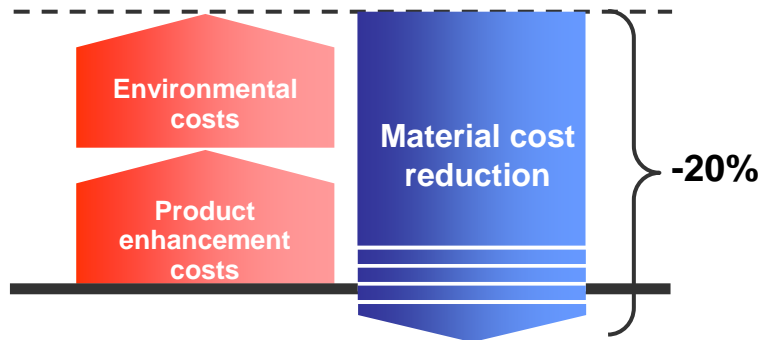
Eight Initiatives to Build a Strong Business Structure

4. Total cost reduction

- Achieve total cost reduction of 20% by 2020

Reduce direct materials costs:

Absorb costs of enhancing the Subaru brand by reducing unit costs by 20%



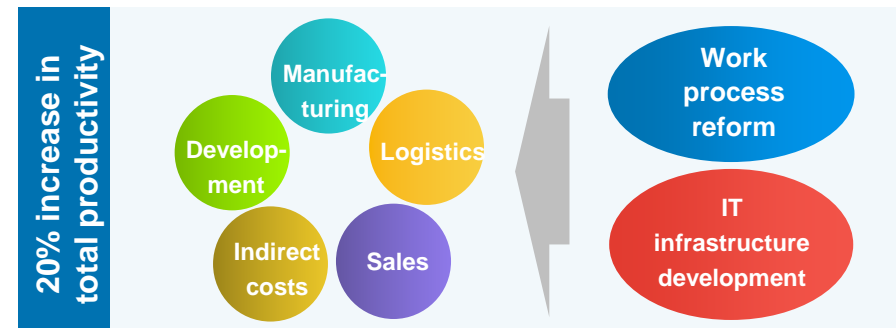
- Wide-ranging advances toward streamlined design structures
 - SGP: Standardize components, achieve economies of scale, and reduce number of parts
- Work with suppliers to improve productivity and thrive together
- Strive for optimum unit costs in Japan and the US

Improve overall productivity:

Launch company-wide activities to achieve 20% improvement in overall productivity by 2020

C (Create) 20-20

- In addition to direct material cost reduction, improve manufacturing productivity and manufacturing investment efficiency by 20%
- Reduce development, logistics, sales, and indirect costs by 20% and improve investment efficiency by 20%
- Reform work processes and develop IT infrastructure required to reach this goal



Eight Initiatives to Build a Strong Business Structure

5. Alliance

Advance Collaboration with Toyota Motor Corporation

- Further advance product/technology collaboration that leverages each company's strengths to increase medium/long-term competitiveness

2005

2008

2014

2020

[PHASE 1] Complement each other

- Contract production of Camry
- Engineer exchanges

[PHASE 2] Create new value

- Joint development of BRZ/86



- Compact vehicle OEM
- Mini vehicle OEM

[PHASE 3] Generate further synergies

Study/discussion underway with focus on environmental technology areas (incl. vehicle electrification)



TOYOTA

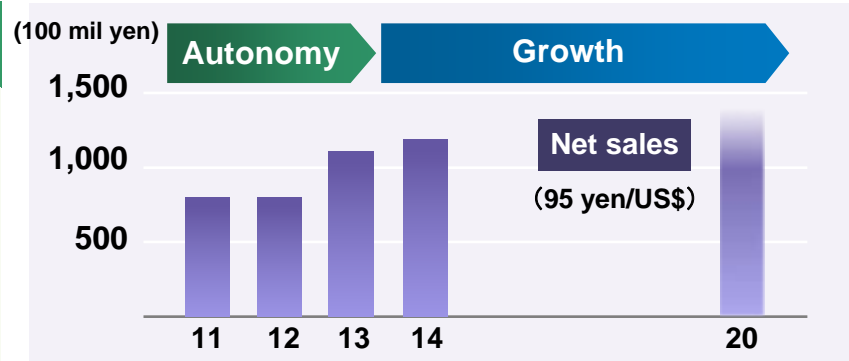
Eight initiatives to Build a Strong Business Structure

6. Aerospace

Enter a new stage - from autonomy to growth

Autonomy < Financial Strength >

- Boost operating margin
- Improve asset turnover
- Ensure sound cash flow



Growth < New business initiatives >

- Net sales of over 100 billion yen plus more from new businesses
- Maintain operating income at 10 billion yen level

“Global key player that continues to create new value”

Defense sector < Build solid technology base >



Commercial sector < Expand profitability >



Eight initiatives to Build a Strong Business Structure

6. Industrial Products

Achieve growth in both vehicle and general-purpose engines

Pursue Japanese manufacturing excellence with matching technology common in both fields



Vehicle engines

Matching



General-purpose engines

Added value

- Pursue manufacturing excellence that meets customer trust
- Technical support structures that exceed customer expectations.
- Aim to be industry leader for user-friendliness

Targets

- Operating income of over 2 billion yen (at 95 yen/US\$)
- Expand sales to cover more than 120 countries worldwide

Eight Initiatives to Build a Strong Business Structure

8. HR development, organization, culture

Human Resource Development

Subaru management philosophy

“A compelling company with a strong market presence”



- Enhancing the Subaru brand
- Building a strong business structure

Personnel Required

- Every employee who demonstrates integrity in their work recognizing that they are creating products that people entrust their lives in our hands
- Every employee who can make the most of its individual strength and who has its own expertise
- Every employee with tenacity



Aim high and engage with a wide range of work

Global human resource development

Strive to grasp essentials

Specialist development

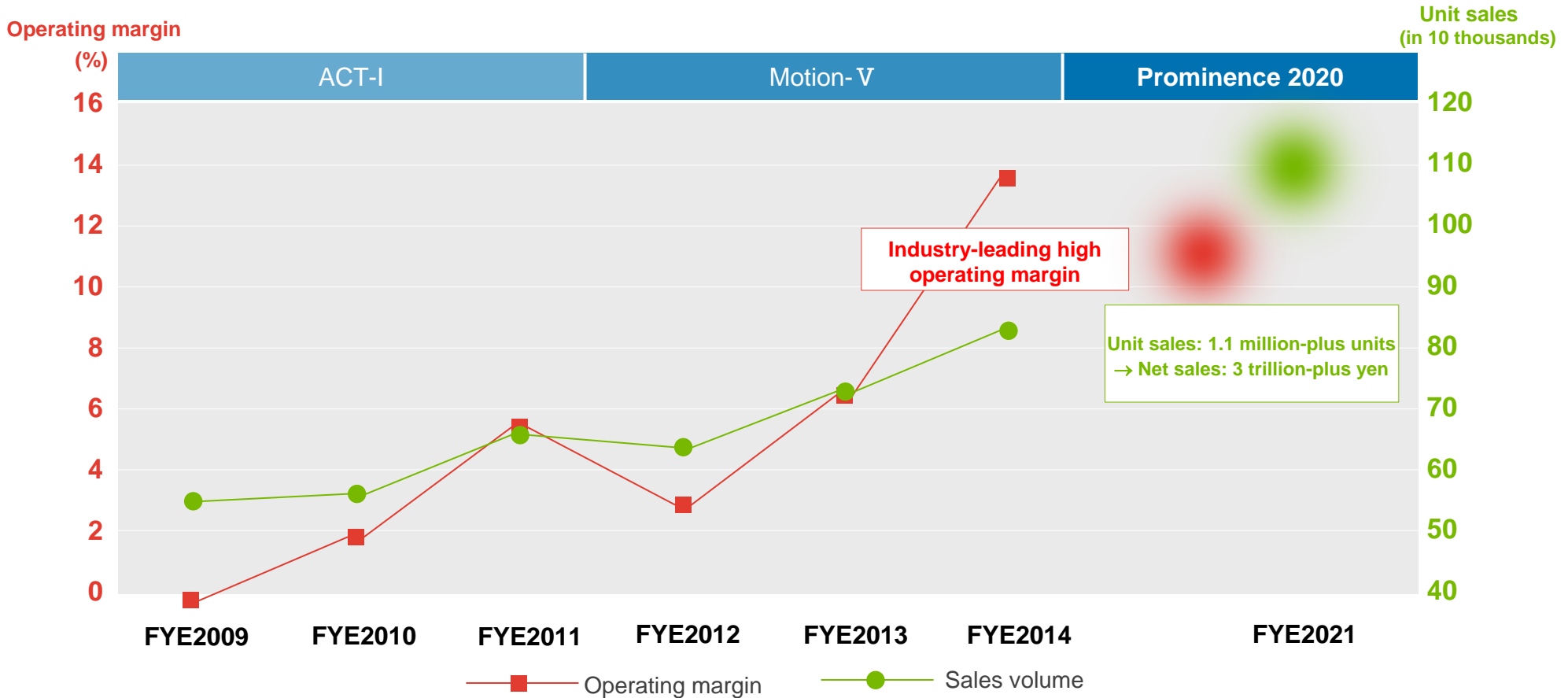
Strive to offer greater value by taking up challenges in new domains

Creativity enhancement

Organizational Structure and Corporate Culture

- Build management structures and processes to support sustainable growth
- Foster a culture that values challenge, individuality, and creativity
- Reform corporate systems to create an environment where discussion is thorough and decisions are fully implemented once made

Profit Projection for 2020



- Steadily achieve high level of operating margin within the industry
- Grow sustainably to achieve sales volume of 1.1 million-plus vehicles and net sales of 3 trillion-plus yen

Prominence 2020: Mid-Term Three-Year Profit Plan and Financial Policies



Three-Year Business Operation / Profit Plan

- Establish a foundation for the future by expanding R&D spending and capital expenditures during FYE2015–17 period.
- Maintain profit levels by having added-value enhancement and total cost reduction absorb rises in fixed costs due to increased investments.

	FYE2015-2017 (3 years)	(95yen /US\$)
Net sales	8 trillion yen	
Operating income	1 trillion yen	
Operating income ratio	12.5%	
R&D expenses	250 billion yen (159%)	
Capital expenditures	330 billion yen (171%)	
Depreciation and amortization	200 billion yen (122%)	

(): vs. previous 3-year period

Financial Policies

- Financial policy
 - Prioritize allocation of cash flows to investment for sustainable growth.
 - Implement a well-balanced strategy with attention to investment efficiency, financial health, and shareholder returns.
- Shareholder Returns
 - Profits are returned to shareholders basically in the form of dividends with business results for each term, investment plans, and the business environment taken into account.
 - Basic policy is to provide continuous dividend payments which are linked to business performance of the company.
 - Decide dividends for each fiscal year in view of circumstances, based on a consolidated dividend payout ratio of 20–40%.

Thank You !



SUBARU

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