COMPANY PROFILE

Fuji Heavy Industries, Ltd.

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COMPANY OVERVIEW

Fuji Heavy Industries, Ltd. (FHI or "the company") is engaged in the manufacture, sale, repair, and leasing of automobiles, aerospace-related products, and industrial products. The company operates in Japan, the US, Europe and Asia. It is headquartered in Tokyo, Japan and employed 27,123 people as on March 31, 2012.

The company recorded revenues of JPY1,517,105 million ($19,267.2 million) during the financial year ended March 2012 (FY2012), a decrease of 4% as compared to FY2011. The operating profit of the company was JPY43,959 million ($558.3 million) during FY2012, a decrease of 47.8% as compared to FY2011. The net profit was JPY38,453 million ($488.4 million) in FY2012, a decrease of 23.6% as compared to FY2011.

KEY FACTS

Head Office	Fuji Heavy Industries, Ltd. Subaru Building, 7-2 Nishi-Shinjuku 1-chome Shinjuku-ku Tokyo 160-8316 JPN
Phone	81 3 3347 2111
Fax	81 3 3347 2338
Web Address	http://www.fhi.co.jp/english/
Revenue / turnover (JPY Mn)	1,517,105.0
Financial Year End	March
Employees	27,123
Tokyo Stock Exchange Ticker	7270

SWOT ANALYSIS

FHI is a manufacturer of transportation, aerospace-related products and industrial products as well as Subaru automobiles. The company has a strong research and development (R&D) capability, which allows it to bring new, innovative products to market and maintain technological leadership, which in turn enables the company to expand its customer base and generate incremental revenues. However, increasing competition may result in a further downward price pressure and adversely impact the company's financial condition and results of operations.

Strengths	**Weaknesses**
Strong research and development capability Diversified geographical spread mitigates business risks	Increasing recalls impacts the company's reputation Unfunded employee post retirement benefits
Opportunities	**Threats**
Increasing demand for hybrid vehicles globally Strong outlook for the global new car market Strengthening sales structure in China	Competition in the global automotive market Stringent emission standards Appreciating Japanese Yen against US Dollar

Strengths

Strong research and development capability

FHI has a strong research and development (R&D) capability. Focused on delivering innovative products and technologies, the company's R&D efforts are directed at developing new products and processes and improving the capabilities of existing products. Some of the key recent developments by the company include the introduction of the EK30 model of the Subaru general-purpose engine EK series for agricultural equipment, in December 2012. The EK series engine, including EK30, will meet the Japanese exhaust emission voluntary regulation (Phase 3) and Chinese exhaust emission regulation (Stage 2). In addition, the company introduced the all-new Subaru Forester in Japan, in November 2012.

Moreover, in FY2012, the company launched the new model Impreza and the new model sports car SUBARU BRZ. The SUBARU BRZ was developed jointly with Toyota Motor. Both of these strategic brands have received high customer ratings. Mainly as a result of these factors, R&D expenses increased by JPY5,200 million ($66 million), or 12.1%, year on year, to JPY48,100 million ($610.9 million). Therefore, the company's continuous focus on R&D allows it to bring new, innovative products

to market and maintain technological leadership, which in turn enables the company to expand its customer base and generate incremental revenues.

Diversified geographical spread mitigates business risks

The company has a wide geographic base. It operates in North America, Asia, and Europe through 70 subsidiaries and nine affiliated companies. FHI generated significant revenues across all the geographic regions it operates in. In FY2012, the US, the company's largest geographic market, accounted for 40.9% of the total revenues. This was followed by Japan, which accounted for 32.9%; Europe, which accounted for 7.4%; Asia (excluding Japan), which accounted for 6.4%; North America (excluding the US), which accounted for 5.9%; and other regions, which accounted for remaining 6.5% of the total revenues.

Thus, the diversified and evenly spread revenue base not only provide protection against unfavorable forces in specific market but also enable the company to benefit from opportunities available in both mature and emerging markets.

Weaknesses

Increasing recalls impacts the company's reputation

The company has issued a number of product recalls in the recent past. For instance, in January 2013, FHI announced a recall of nearly 634,000 cars and SUVs in the US because lights beneath the doors can overheat and catch fire. The recall covered all Outback and Legacy cars from model years 2010 and 2011 as well as Tribeca SUVs from 2006 through 2012 and Forester SUVs from 2009 through 2012. Similarly in January 2012, the company recalled 7,133 units of imported Legacy and Outback vehicles in China due to flaws with brake master cylinders. The Subaru Legacy and Outback vehicles have design flaws in the brake master cylinders that could lead to traffic accidents by adding to the vehicles' stopping distance.

Furthermore, in 2011, FHI recalled 1,386 cars in South Korea for failure of windshield wipers. These also included vehicles with improperly installed sunroofs that could dismantle when driving. The recalled vehicles included 496 units of the Subaru Legacy mid-size sedan and 392 units of the Outback station wagon, both produced between January 2010 and May 2011 with faulty wipers. An additional 254 units of the Legacy and 244 units of the Outback, both produced between August 2010 and July 2011, were also recalled for unstable sunroofs. In addition, the company recalled a total of 36,728 units of its Legacy and Outback in China due to a problem in the motor for wipers. The problem cause overheating and have the resin inside melted or burned.

Hence, significant product recalls such as these reflect lapses in quality control procedures of the company, which in turn negatively impacts the consumer confidence in FHI's products and impacts its brand image.

Unfunded employee post retirement benefits

FHI has significant unfunded employee post retirement benefits. The company and its consolidated domestic subsidiaries have lump-sum retirement payment plans, qualified retirement pension plans, contributory defined benefit employees' welfare pension funds, defined benefit pension plan, and defined contribution pension plans. In addition, additional retirement payments are made to employees for their retirement. As on FY2012, FHI and 50 of its consolidated domestic subsidiaries had lump-sum retirement payment plans. In FY2012, the company's pension obligations stood at JPY173,101 million ($2,198.4 million) as compared to the planned assets of JPY150,396 million ($1,910 million), resulting into an unfunded status of JPY22,705 million ($288.4 million).

Hence, unfunded pension benefit obligation forces the company to make additional cash contributions toward bridging the gap between pension obligations, which, in turn, reduces cash flow available for growth initiatives.

Opportunities

Increasing demand for hybrid vehicles globally

Due to the rising concerns on environment, the demand for eco-friendly cars has grown exponentially over the last few years. Moreover, rising energy costs and increased emissions regulations are likely to increase the demand for hybrid electric vehicles (HEVs), as hybrid engines are more fuel efficient and less polluting than conventional gasoline and diesel engines. Cost disparities between HEVs and conventional light vehicles are expected to decline as production volumes increase. According to industry estimates, electric vehicles globally are expected to grow at a CAGR of 6%. Also hybrid cars, which include plug-in hybrid and electric battery, are projected to grow at a CAGR of 39% for the 2012- 2020 periods. It is further projected that, the primary markets for HEVs will be within the Japan, US, Western Europe, and Japan, although the rapidly growing Chinese and Indian market is also expected to experience relatively strong demand for these fuel efficient and environmentally friendly vehicles.

FHI is keen to capitalize on the growing demand for hybrid electric vehicles. The company has spent a large amount of resources for the development of hybrid vehicles over the years. FHI launched its Subaru Plug-in STELLA electric vehicle in 2009. Additionally, in 2010, the company unveiled Subaru Hybrid Tourer Concept, which is equipped with highly efficient lithium-ion batteries. Moreover, the company is scheduled to launch its first hybrid vehicle, which will be equipped with a horizontally opposed engine, in 2013. Hence, the company's emphasis on hybrid technology will enable it to capitalize on the positive market trends thus boosting revenues and market share.

Strong outlook for the global new car market

The global new cars market has experienced moderate growth during 2008-2012. However, forecasts suggest this will accelerate to strong double digit growth during the 2012-2016 periods. According

to MarketLine (a unit of Informa plc), the global new cars market generated total revenues of $1,426.6 billion in 2012, representing a growth of 9.2% compared to 2011. The performance of the market is forecast to accelerate, with an anticipated CAGR of 10.8% for the four-year period 2012-16, which is expected to drive the industry to a value of $2,153.2 billion by the end of 2016.

The automobile segment of FHI is engaged in the manufacture and sale of mini cars, small cars, passenger cars and other automotive components. The company's brands include Legacy, B4, Outback, Exiga, Impreza, Forester, Trizia, Lucra, Stella, Pleo, Dias Wagon, Tribeca and Sambar models of Subaru. Thus, the strong outlook for the global new car market coupled with FHI's offerings provides a growth opportunity for the company.

Strengthening sales structure in China

FHI focuses on strategic agreements and joint ventures to increase the opportunities for sales and growth in earnings. For instance, the company entered into a joint venture agreement with China's auto distributor Pangda Automobile Trade, in January 2013. Subaru of China, presently a wholly-owned subsidiary of FHI, would become a joint venture sales company with Pangda Automobile Trade. Through this initiative, FHI aims to strengthen its sales structure and engagement in the local sales activities. This transaction would expand sales and enhance the Subaru brand by focusing on sales and service performance improvements, effective implementation of sales boosting measures and strategic dealer development.

Therefore, such strategic agreements and joint ventures would further strengthen FHI's market position and product portfolio.

Threats

Competition in the global automotive market

The worldwide automotive market is highly competitive. FHI faces strong competition from automotive manufacturers in its various markets. The competition among various auto players is likely to intensify in light of continuing globalization and consolidation in the worldwide automotive industry. The factors affecting competition include product quality and features, the amount of time required for innovation and development, pricing, reliability, safety, fuel economy, customer service, and financing terms. Some of the company's competitors include Ford, General Motors, Honda Motors, and Nissan Motors, among others.

Thus, increased competition may lead to lower vehicle unit sales and increased inventory, which may result in a further downward price pressure and adversely affect the company's financial condition and results of operations.

Stringent emission standards

FHI is subject to laws in various jurisdictions regulating the levels of pollutants generated by its plants. In addition, the company is subject to regulations relating to the emission levels, fuel economy, noise and safety of its products. The Air Pollution Control Law of Japan and the Road Vehicle Law and the Law Concerning Special Measures for Total Emission Reduction of Nitrogen Oxides from Automobiles in Specified Areas regulate vehicle emissions in Japan. Similarly, in the US, the federal Clean Air Act directs the Environmental Protection Agency (EPA) to establish and enforce air quality standards, including emission control standards on passenger cars, light trucks and heavy-duty vehicles. In 2007, EPA regulations that restrict emissions from passenger cars and light trucks operating at cold temperatures became effective. The new emissions standards set by these regulations are being phased in between 2010 and 2013. Similar standards that further restrict emissions from heavy-duty vehicles operating at cold temperatures are expected to be phased in from 2012 to 2015.

Furthermore, these emission regulations are periodically updated. For instance, in 2010, the EPA and the NHTSA issued a joint final rule to reduce the emission of greenhouse gases from passenger cars, light-duty trucks and medium-duty passenger vehicles for model years 2012 through 2016. In addition, in 2011, the EPA and the NHTSA issued a joint proposed rule to further reduce greenhouse gas emissions and improve fuel economy for passenger vehicles, light-duty trucks and medium-duty passenger vehicles for model years 2017 through 2025. In the proposed rule, these vehicles would be required to meet an estimated combined average emission level of 163 grams of carbon dioxide per mile in model year 2025, equivalent to 54.5 miles per gallon if these requirements were met through improvements in fuel economy standards. At the same time, the NHTSA also issued proposed CAFE standards for passenger vehicles and light trucks that would require manufacturers to meet an estimated combined average fuel economy level of 49.6 miles per gallon in model year 2025. The two agencies are expected to release a joint final rule in 2012.

Hence, the emission standards adopted across various regions can result in additional costs for product development, testing and manufacturing operations of FHI, which could affect the operating margins of the company.

Appreciating Japanese Yen against US Dollar

According to the current trends, the Japanese Yen is appreciating in relation to the US Dollar and is expected to grow further strong in the future. The company generates over 67% of its revenues in markets other than Japan. The financial results of each overseas subsidiary of the company are consolidated into the results of the parent company after translation into Japanese Yen. In addition, transactions between the parent company and overseas subsidiaries or customers are generally denominated in the local currencies. The payments received in local currencies on such transactions are converted to Japanese Yen.

In the recent period, the Japanese Yen appreciated significantly against the US Dollar. For instance, the average exchange rate for Japanese Yen during the third quarter of 2012 (July 2012 to September 2012) stood at $1=JPY78.64, a decrease of 1.8% (per $1) compared to the second quarter of 2012 (when the average was $1=JPY80.11). Therefore, the strengthening of the Japanese Yen against

the US Dollar and fluctuations in foreign exchange rates would have a material adverse impact on FHI's reported operating results, which may in turn distress the valuation of the company.