

Message from the CEO

A portrait of Tomomi Nakamura, a middle-aged man with grey hair and glasses, wearing a dark grey suit, white shirt, and patterned tie. He is sitting at a dark wooden table with his hands clasped in front of him. The background is a plain, light grey wall.

Representative Director of the Board,
President and CEO

Tomomi Nakamura

Steadily build up intrinsic strengths and
take strong steps in preparation for
a future jump to overcome social changes.

Aspirations upon Becoming President

Allow me to begin by introducing myself. I am Tomomi Nakamura. I assumed office as Representative Director, President and CEO of SUBARU CORPORATION in June 2018.

Having assumed management of the Company during a period of transformation in today's mobility society, I feel a great weight of responsibility. In keeping with SUBARU's unchanging management philosophy of "Aiming to be a compelling company with a strong market presence built upon its customer-first principle," I intend to assess this sweeping change in the business environment and respond with a sense of urgency and alacrity. Issues accompanying SUBARU's rapid growth have come to light since the end of 2017, but I consider it my mission as president to cultivate SUBARU's true capabilities, and I will make every effort to achieve sustained growth. I consider SUBARU's current difficulties an opportunity to bring genuine change to the Company and accomplish transformation in a number of areas. I will carefully ascertain what needs to be changed and what should not be changed and implement reforms together with the new management team.

For four years beginning in 2014, I served as chairman and CEO of U.S. sales and marketing subsidiary Subaru of America, Inc., where I spearheaded management and experienced firsthand the growth momentum of the U.S. market. At the same time, I constantly watched SUBARU from the outside with a sense of impending crisis, wondering what might occur to stop ongoing growth and what would be necessary to sustain it. One solution that occurred to me was pushing quality in products, services, operations, and every other aspect of the business, and another was fundamental reform of car-making. In formulating the mid-term management vision, we made these two solutions key priorities.

Response to Improprieties Relating to Final Vehicle Inspections

Inappropriate practices, such as the performance of final vehicle inspections by persons not certified as final inspectors, and inappropriate conduct in fuel economy and emissions sampling in the final vehicle inspection process and other final vehicle inspection work at the SUBARU Gunma Manufacturing Division have been identified. I sincerely apologize for the significant trouble and inconvenience we have caused our customers, partners, and all other stakeholders.

An investigative report by a team of external experts cited not only organizational issues relating to the corporate climate and poor employee awareness of applicable standards but also the inadequacy of SUBARU management's stance on quality assurance, as causes of the long-term, various, and wide-ranging repeated incidents of nonconforming and inappropriate conduct, and we take a very serious view of management's responsibility. It is the responsibility of senior management to prevent any reoccurrence of such issues and produce results, and we will spearhead efforts to restore trust in SUBARU step by step.

A Review of Prominence 2020

Through initiatives set out in Prominence 2020, the mid-term management vision announced in 2014, SUBARU has implemented a business strategy aimed at establishing a prominent presence in the minds of customers. Growth in sales volume in the North American market became a major pillar of business growth. We pursued a course of practicing selection and concentration to focus allocation of limited management resources and leverage strengths. Our product focus was mainly on SUV and sports models, and our market focus was on the U.S. and other developed countries in mature stages of motorization. At the same time, in the U.S. market, a combination of products, sales network restructuring, and marketing measures featuring the word "Love" became a powerful driving force that resulted in sales of 671,000 units in the fiscal year ended (FYE) March 2018, with sales reaching a record high for the ninth consecutive year.

Although we may take a measure of satisfaction in our recent business growth, the fact is that issues remain. In Prominence 2020, we articulated our vision for 2020, consisting of four goals: No. 1 for customer trust; strong brand; industry-leading high profitability; and vehicle sales of 1.2 million-plus units. With regard to the goals No.1 for customer trust and strong brand, we recognize that we have lost the trust of customers and society due to recent quality-related problems and issues stemming from the corporate culture. Although at present we have achieved our goal of an industry-leading profit margin, profitability is trending down due to changes in the sales environment and deteriorating cost structures. On the whole, we are still halfway to achieving the management vision. From a quantity and quality perspective, qualitative growth has not kept pace with quantitative growth, and we realize that restoration of trust and improvement of SUBARU's fundamental capabilities are indispensable for achieving sustained growth.

STEP: the New Mid-term Management Vision

In July 2018, SUBARU announced STEP, which is our new mid-term management vision to make SUBARU a company that is trusted by, and resonates with, customers through providing "Enjoyment and Peace of Mind."



Vision for 2025

Our vision for 2025 is "From a company making things, to a company making people smile." We want more and more customers to love SUBARU. To make this happen, we intend to provide products and services that will make customers smile by constantly thinking about customer value. Accordingly, we have established three specific visions for 2025.

1. Become a brand that is "different" from others by enhancing distinctiveness.

We often hear from customers and SUBARU dealers comments such as "I like that SUBARU is different from other automakers" and "SUBARU enables my life." We take pride in our reputation for being different and want to establish a unique presence in the minds of customers.

2. Engage in business activities that resonate with customers by putting them center-stage.

At SUBARU, we always put customers center-stage and sincerely engage with each individual customer. SUBARU cars reflect not only an automaker's passion for cars, but also our commitment to remain a company that engages with customers, makes cars that people want to buy, and engages in business activities that resonate with people.

3. Fulfill corporate social responsibilities by contributing to diversifying social needs.

Having reflected on the fact that, at a time of rapid corporate growth, we have been insufficiently mindful of the social responsibilities of a company of SUBARU's size, we will squarely face up to and fulfill our social responsibilities, including in the area of governance.

Corporate Culture Reforms and Three Key Pillars of Initiatives

We have made corporate culture reforms the centerpiece of specific initiatives. We will strengthen efforts to enhance corporate quality with the aim of becoming a company that can respond swiftly and flexibly to change by being more sensitive to the times and the outside world while preserving SUBARU's DNA.

First of all, we will strengthen compliance by undertaking a comprehensive compliance check covering all operations and internal regulations and correcting issues and by bolstering internal compliance education. We will also work to further reinforce groupwide governance systems and their operation. By changing our management to administer these governance systems, we will then accelerate reinforcement of the corporate structure.

Next, we will create a culture that enables employees to work with greater energy. To accomplish this, individual employees must raise their own awareness and cultivate the ability to think and act autonomously, and I want top management to take the lead in developing policies and systems to support this effort. These corporate culture reforms cannot be accomplished overnight, and we will take our time and continuously

implement reform efforts. On the basis of this new culture, we will aim to realize our corporate vision. Three key pillars of initiatives are described below.

Initiatives overview (9 Boxes + 1)				
0	"Change the Culture" Corporate culture reforms	Accelerate efforts to become "a company that does the right thing in the right way." Continuous efforts aimed at corporate culture reforms.		
		"Monozukuri" (Car-making)	Sales and service	New mobility domain
1	Enhance corporate quality	Quality reforms	Enhance quality at customer contact points	Alliance enhancement
2	Build a strong brand	More enjoyment, more peace of mind	From "A car you can love" to "A car, a brand, and people you can love"	Generate new value through connected car technologies
3	Sustainable growth based on a focus strategy	Launch "Make-a-Subaru" project	– Target 5% share in the U.S. – Steady growth in each region	Initiatives to create new technologies and businesses

1. Enhance corporate quality

We have made quality the centerpiece of this mid-term management vision. In addition to the recent final vehicle inspection and airbag problems, other market quality issues have arisen, and we are keenly aware that fundamentally improving quality, which is the foundation of customer trust, is an urgent priority. We consider quality something customers expect of SUBARU, and believe that it is essential to transform SUBARU into a company that makes quality the highest priority, from senior management right down to the workplace level, and we will work to achieve this transformation.

2. Build a strong brand

SUBARU defines "Enjoyment and Peace of Mind" as the core value we deliver to customers through all processes from product development to sales and service. Reliable automobile manufacturing based on functionality, safety, and reliability is indelibly encoded in SUBARU's DNA, and we will redouble our efforts in pursuit of automobile safety performance. We are committed to the uncompromising pursuit of protecting people's lives and aim to eliminate fatal traffic accidents* by 2030. We will not settle for ordinary automation, but rather think in terms of ensuring safety of mobility by assisting with tasks people find difficult while respecting tasks at which people excel. At first, we will place the highest priority on enhancing Level 2 driving assist technologies. At the same time, we will accelerate efforts to enable drivers and passengers to feel peace of mind by adding connected car technologies and intelligent technologies.

SUBARU places importance on connections between people, and SUBARU, dealers, customers, and communities will join together in activities unique to SUBARU at every touch point to make SUBARU a brand that is trusted and loved by customers.

SUBARU, like other automakers, tends to be car-centric in its thinking. Going forward, we will create new added value by collaborating with external partners from different industries, utilizing connectivity services, and deepening communication with individual customers. We want to develop SUBARU into an inimitable brand that is slightly different from other brands.

*Elimination of accidents resulting in the death of drivers or passengers in SUBARU vehicles and accidents resulting in the death of pedestrians, cyclists, or other persons due to collision with SUBARU vehicles

3. Sustainable growth based on a focus strategy

To SUBARU, a small automaker with global sales share of 1%, an important management challenge is to overcome the current period of transformation in the automotive industry and somehow maintain our earning power. We realize that the most important thing for accomplishing this is for customers to recognize value unique to SUBARU. We will reinforce efforts to enhance the customer value SUBARU delivers through high quality, high added value, and low cost, not only in manufacturing, but in all aspects of the products and service we provide. These days, enormous costs and investments are necessary for environmental initiatives and regulatory response as well as for meeting customer needs for advanced safety technologies and connected car technologies. However, at present it is no simple matter to convince customers to pay prices that fully cover these outlays. We will review our conventional ways of doing things and, making quality the cornerstone, steadily enhance value by coherently tying together all of our technology, product,

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and cost strategies from a medium- to long-term perspective and ensuring mutual collaboration among the divisions.

With regard to market strategy, we will aim for steady overall growth, centered on a higher level of growth in the U.S., and plan to achieve sales of more than 1.3 million units worldwide in 2025. In the U.S. market, we will aim for market share of 5%. If, for instance, total demand in the U.S. is 17 million units, this means we will aim for U.S. sales of 850,000 units. Although Japan remains an extremely difficult market, we want to reliably maintain the current level of sales of 10,000 passenger cars per month in our home market. In Asia, we will begin knockdown production (local assembly) of an all-new Forester at a complete knockdown (CKD) plant in Thailand in 2019 and aim to take advantage of this capacity to further increase sales. Although trends in Russia are highly uncertain, we consider it a market with high affinity for SUBARU products and want to grow our sales there. In Europe and China, we aim to maintain our current business scale and will review our strategies while closely observing changes in markets and government policies. As we execute our sales strategies, a major issue is how to deal with local environmental regulations. There is currently a gap between markets and environmental regulatory trends, and the future direction is uncertain. We intend to take appropriate measures while ascertaining the balance between the market formation process and the progress of environmental regulations.

Sales plans (FYE 2019 vs FYE 2026) (10 thousand units)

	Japan	North America	Other	Total
FYE 2019 (plan)	15	77	18	110
FYE 2026 (plan)	15	92	23	130
Change	±0%	+20%	+27%	+18%

Production capacity (FYE 2021) (10 thousand units)

	Japan	Overseas		Global Total
	Gunma	SIA	Asia CKD	
Standard operations	69.6	43.6	1.4	115
At full capacity	77.9	49.7		129

Sales Strategy for the U.S.

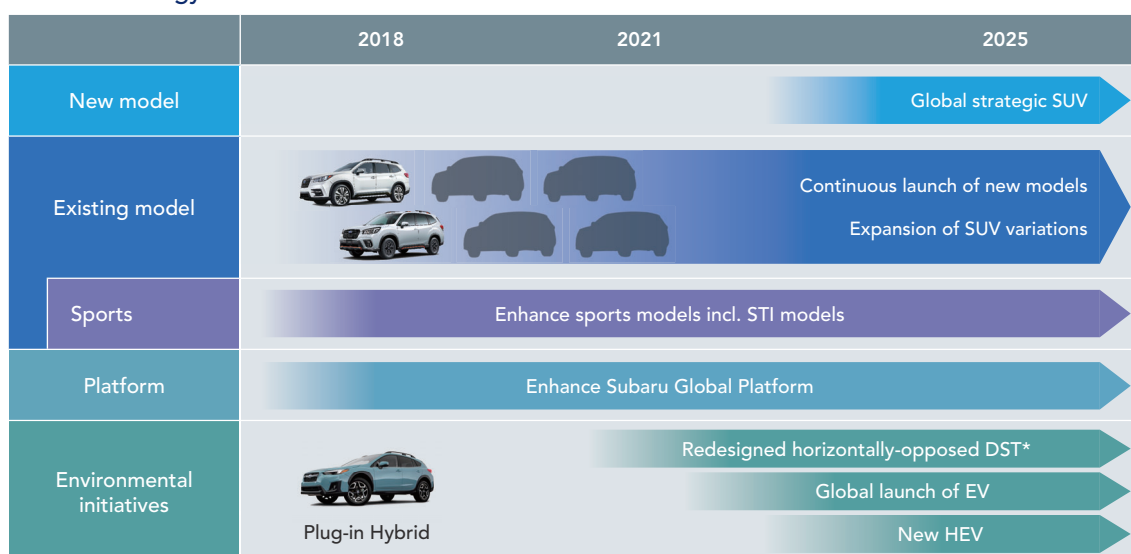
We expect total automobile demand in the U.S. market to remain at about 17 million vehicles and aim to achieve a higher level of growth by increasing competitiveness, with a strategic focus on our products, marketing, and sales network. We believe that there is room for sales growth in the Sun Belt (the southern U.S.) in particular. With regard to products, we introduced the Ascent, a 3-row SUV for North America, this summer and plan to introduce an all-new Forester in the second half of the fiscal year. We will continue to engage in product development with the U.S. market in mind and enhance the product appeal of existing models to the maximum extent possible. In sales network development, we plan to appoint dealers to fill open points (areas with no dealers), mainly in the Sun Belt, and increase the number of dealers from the current 631 to about 650. In the Sun Belt, we have finally achieved market share of 2% (up 0.2 points year on year) and reached the point where we can expect income from service in addition to new vehicle sales. To ensure customer satisfaction, we intend to work together with dealers to increase the number of service facilities and parking lots, enhance facilities such as customer lounges, and upskill dealer sales and service representatives.

Product Strategy

Our product strategy is in principle to release a fully redesigned version of a key model every year. In addition, we aim to enhance the lineup of distinctive SUV and sports models and model variations. We will also evolve SUBARU's "Dynamic x Solid" design identity toward a bolder direction.

With the automotive industry having entered a period of transformation, responding to technological innovations in the areas of electrification, automated driving, connected car technology, and car sharing is a matter of urgent importance. However, since the outlook for the future is uncertain and our management resources are limited, we cannot adopt an omnidirectional business strategy. We realize that it is essential to chart a course forward while carefully ascertaining market trends. We will meet high customer expectations with vehicles that only SUBARU can offer, such as electrified vehicles that go beyond conventional with features like go-anywhere packages in addition to driving stability and safety performance.

Product Strategy



*DST: Downsized turbo engine

Strategy for the Aerospace Business

In FYE March 2018, SUBARU completed withdrawal from the industrial products business and established a corporate structure focused on two businesses: automotive and aerospace. In the aerospace business, as in the automotive business, we are at the stage of enhancing the SUBARU brand. However, aerospace is a business with a very long timescale, and the outlook until 2025 has to some extent taken shape. We do not anticipate dramatic change or evolution and will continue efforts to shift from independence to stable growth. We will also press ahead with verification of technologies as a part of the development of next-generation products and implement a partnering strategy focusing on broad-based collaboration with other companies. In addition, the automotive and aerospace businesses will utilize each other's strengths and work to compensate for their weaknesses and generate new synergies.

CSR Initiatives

We have organized CSR activities identified in light of our business domains into the following six priority areas from the perspective of what society requires from SUBARU: 1) People-oriented Car Culture, 2) Resonance and Coexistence, 3) Peace of Mind, 4) Diversity, 5) Environment, and 6) Compliance.

Our environmental policy is to make environmental contributions throughout the entire value chain and across the entire business in addition to improving the environmental performance of our products by means such as boosting fuel economy and reducing CO₂ emissions.

Since SUBARU is an automaker, of course our products have outsized influence on environmental impacts across the full range of business activities in the areas of purchasing, production, logistics, sales, products, and management. We will work to reduce total waste in society through product attributes such as reliability, longevity, safety, and utility. Specifically, in addition to proceeding as planned with introductions of plug-in hybrid vehicle (PHEV) and electric vehicle (EV), we will improve the fuel economy of our models through measures such as further expansion of the electric vehicle lineup and introduction of a downsized turbo engine and weight-reduction technologies.

To comply with local regulations in each market, we will utilize available development resources to maximum effect, including collaboration through alliances, to develop an optimal product lineup for each market that is adapted to market needs and customer preference.

*Please refer to the SUBARU corporate website for details on the STEP mid-term management vision.



STEP: the Mid-term Management Vision

<https://www.subaru.co.jp/en/ir/management/plan/>