We must restore trust in quality, the cornerstone of the SUBARU brand, and rebuild a foundation for sustained growth.

Representative Director of the Board, President and CEO
Tomomi Nakamura
A Look Back at My First Year as President

During the fiscal year ended (FYE) March 2019, my first year as Representative Director, President and CEO, we swiftly moved ahead with various reforms under STEP, our new mid-term management vision, aimed at making SUBARU a company that is trusted by, and resonates with, customers. It was a very difficult year in terms of financial performance because of having to operate some domestic production lines at reduced speed as part of placing the highest priority on stable, high-quality production and inspections, as well as dealing with the occurrence of new quality problems. Nevertheless, there are positive signs that the corporate culture reforms, which we have made our top priority, have led to changes in our workplaces and to the mindsets of employees. FYE March 2019 was also a year in which latent issues at SUBARU came to light, which enabled us to confirm that we are moving in the right direction with corporate culture reforms, quality reforms, and the Make-a-Subaru project, the initiatives we have made the centerpiece of STEP. We will now proceed with rebuilding the foundation on which to achieve sustained growth for SUBARU by further accelerating these activities.

SUBARU is a brand that has been and is nurtured by customers. Why have customers chosen SUBARU? Why is the SUBARU brand loved? The basis for this affinity is trust in the SUBARU brand, and I believe that the source of that trust can be found in functional characteristics, such as drivability and safety, and high quality that includes vehicle durability. Nevertheless, recently the quality that is the cornerstone of the brand has slipped, and I consider it my mission to implement fundamental reforms to right the situation. I intend to heed the voice of customers, fully meet their expectations, and respond to their sentiments and will strive to enable SUBARU to regain the trust of our customers, shareholders, and other stakeholders as quickly as possible.

The Business Environment

Today’s mobility society is in a once-in-a-century period of transformation, and to respond to this change, SUBARU is investing and pursuing development in the new technology fields known as CASE*. Nevertheless, as a relatively small player in the automotive industry, SUBARU cannot develop everything on its own. For SUBARU to compete into the future by enhancing its strengths and distinctive attributes, we must select sectors and domains on which to focus in-house development and allocate resources accordingly. In other fields, we want to efficiently and effectively respond by utilizing business alliances and collaborative initiatives with other companies. In the area of electrification, we have already introduced a plug-in hybrid in the U.S. in cooperation with Toyota Motor Corporation. Moreover, in June 2019 we announced that we will jointly develop with Toyota a platform dedicated to battery electric vehicles (BEVs) for the midsize and large passenger vehicle category and jointly develop a C-segment-class BEV SUV model for sale under each company’s own brand. In connection with this agreement with Toyota, we will shift its existing BEV development resources to joint project and pursue greater efficiency in technology, development, procurement, and other areas. Our approach to automated driving is to focus mainly on advanced driver assist technologies that substantially alleviate driver burden, rather than on driverless systems, and we are further evolving the driver assist system EyeSight, which already enjoys widespread popularity. In the area of connectedness, we have begun development of new technologies and services that utilize connected car technologies and data, and will accelerate planning and development to meet expanding customer needs. Although SUBARU is not involved in car sharing at this time because we think that most of our customers prefer to own their own cars in order to enjoy active car lifestyles, I think that it will become necessary to consider an approach to car sharing if customer needs for it increase. At the end of June 2019 we announced a capital and business alliance with MONET Technologies as an initiative to realize and popularize mobility services. We intend to pursue “Enjoyment and Peace of Mind” appropriate to a new era and want to collaborate with other automakers to contribute to resolving social issues relating to mobility.

One change in the business environment we are carefully watching is the trend in trade negotiations between Japan and the U.S., which is a key market that accounts for a high proportion of SUBARU’s sales. Although we have expanded local production in the U.S. in step with increases in unit sales in the market, even in 2018 about half of the vehicles we sold in the U.S. were exported from Japan, and we also export from Japan some parts used in locally assembled vehicles. SUBARU’s business is expected to be affected depending on the outcome of trade negotiations, and we are envisioning various scenarios and considering responses.

* An acronym of the words: Connected, Autonomous, Shared & Services, and Electric

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STEP Initiatives
In July 2018, SUBARU announced STEP, a new mid-term management vision, with the aim of making SUBARU a company that is trusted by, and resonates with, customers through the provision of “Enjoyment and Peace of Mind.” A variety of initiatives are set forth in STEP, and in FYE March 2019 we focused particularly on implementing corporate culture reforms and quality reforms. An explanation of these reforms follows.

Corporate Culture Reforms
We are implementing corporate culture reforms, the foundation of STEP, with the strong determination to never again cause problems such as the repeated improprieties in final vehicle inspections (see pages 19–20). I and other senior managers have visited plants and offices throughout the Group to directly communicate management’s firm resolve and engaged in communication with employees by holding discussion meetings to exchange views. We have also engaged in vigorous, constructive discussions in Japan with labor unions for the purpose of promoting corporate culture reforms and confirmed that labor and management will work together to accelerate reform initiatives. Workplace visits have given me many opportunities to sense a restoration of self-confidence and an increase in motivation among our employees, and I feel that a change of mindset has steadily progressed over the course of the year.

Of course, corporate culture cannot be changed overnight, and it is important to maintain a sense of urgency while continuing efforts to change the mindset of employees. To enable all employees to feel that SUBARU is an open and transparent company where people are free to speak their minds, I think that all managers, from senior management to frontline managers, must change their own mindset and behavior. I intend to actively solicit the views of individual employees and carry on with corporate culture reforms until they become deeply rooted and irreversible.
Quality Reforms

Quality reforms are the highest priority in STEP. SUBARU aims to be No. 1 in the kind of quality that makes our products suitable for long-term use with peace of mind, and we will pursue quality improvement in every business process, from product planning to production, sales, and service.

The number of recalls resulting from product defects occurring during design or manufacturing has increased recently. SUBARU caused considerable concern and inconvenience to customers because of numerous recalls, including major ones, in FYE March 2019. These recalls also had a major impact on financial performance because of the large number of vehicles and considerable expense involved. As I mentioned earlier, quality is the cornerstone of the SUBARU brand. I am keenly aware that fundamentally improving quality is an urgent task, and in FYE March 2019 we focused on implementing quality reforms in engineering and product development and in manufacturing. Our engineering and product development divisions have studied and begun implementing fundamental quality reforms starting from the development planning and design stages. These reforms include a review of development schedules and supplier selection and collaboration to enable reliable confirmation of quality, sharing of parts across models, updating of durability testing facilities, and increasing personnel. In manufacturing, we will achieve better quality production by making investments in facilities necessary to ensure quality, including updating aging facilities, reviewing and improving processes; making investments for the purpose of securing the necessary number of employees and for employee upskilling; and reviewing the approach to line operation and labor management.

Also, to instill a quality-first mindset in all employees, on April 1, 2019 we revised the Quality Policy (see page 53), which articulates a vision of quality that SUBARU should aspire to realize. As SUBARU makes a new start toward restoring trust, we conducted a top-to-bottom review to ensure that the revised policy can be continuously used for a long time and that it will serve as a guidepost for quality that all employees can share. Furthermore, we used language that is simpler and easier to understand than that of the previous policy to ensure that all employees thoroughly understand the policy content and can apply the new policy in their own daily work behavior. I am convinced that the way to change the company is to change the mindset and behavior of each employee.

Market Strategy

In STEP, we announced a target of unit sales of 1.3 million vehicles worldwide in 2025. Although trade-related concerns remain as an external factor to be considered, sales are strong in the U.S., the largest growth driver for SUBARU, and we will continue to press ahead to achieve sales of 1.3 million vehicles.

Although some say that overall demand in the U.S. has peaked, we consider the U.S. a market that continues to offer high potential. We forecast continued underlying strength in demand at a level of 17 million vehicles, supported by a robust economy. We are receiving highly positive feedback from the market. Sales of the Ascent, introduced in the middle of last year, are strong, and SUBARU has been able to acquire new customer segments. Although we are planning for sales at the 700,000 unit level (up 3% year on year) in calendar year 2019, we intend to ensure the success of the upcoming introduction of all-new versions of two key models, the Outback and Legacy, in the second half of the year and link that success to

The all-new Outback (U.S. market specification) was announced on April 17, 2019 at the New York International Auto Show. The vehicle will be manufactured at Subaru of Indiana Automotive and is scheduled for launch in the U.S. and Canada in fall 2019.
further sales expansion next year and beyond. Although we plan to expand the dealer network from the current 631 to about 650 dealers in the future, we have no intention of increasing dealers merely on the basis of numbers. Rather, we plan to develop our sales network by opening dealers to fill open points (areas with no dealers), mainly in the Sunbelt. To encourage dealers to invest in the SUBARU business, it is necessary to secure dealer income, and we consider it important to increase unit sales per dealer to accomplish this. A cooperative framework with dealers is essential for achieving our growth strategy, and we will grow together with our dealers and pursue U.S. market share of 5% in partnership with them.

In the Japanese market, we are strengthening new proposals, using products such as all-new Forester and SUBARU XV (known as Crosstrek in North America) models equipped with e-BOXER and special edition vehicles as a hook, and stepping up communication with customers using media messaging and exhibitions. Also, by improving and supporting the dealer network, the actual point of contact with customers, as well as the work performed by dealer staff and the working environment, we aim to make SUBARU a brand whose products, dealers, and dealer staff are loved by people. In so doing, we will restore customer trust. Although total demand in Japan is contracting, we want to maintain annual passenger car sales of approximately 120,000 vehicles.

Although extremely strict environmental regulations make China and Europe difficult markets for SUBARU, which does business mainly in the U.S., we will aim to utilize all-new Forester and SUBARU XV models equipped with the e-BOXER system to support sales in these markets. These are the first SUBARU hybrid models to be introduced in Europe, and I think their reputation in the market will represent a new departure in our sales strategy.

With regard to production capacity, we believe we have a foundation in place to support sales of 1.3 million vehicles. Although future changes in the business environment may necessitate changes to our production plans, there is no major change in our existing plans at this time.

Aerospace Business
FYE March 2019 marked the start of a number of new projects in the aerospace business, including the center wing section of the Boeing 777X and complete products such as helicopters. We intend to carefully nurture each of these projects and develop them into pillars that will support the growth of the Aerospace Company. Aerospace is a growth industry, and the aerospace business requires leading-edge technologies in all areas of development and manufacturing. The mutual utilization of strengths is progressing within the SUBARU Group in ways such as the application of leading-edge technologies from the aerospace business in automobile development and introduction in the aerospace business of expertise in cost-cutting and other areas cultivated in the automotive business. We will continue efforts to generate new synergies and aim to contribute to overall business growth by further utilizing the strengths of both business units.
Initiatives to Enhance Corporate Value

SUBARU considers it necessary to promote and ensure the penetration of CSR initiatives on a group-wide, global scale to contribute to solving social issues through our businesses and meet stakeholder expectations and demands. We have defined Six Priority Areas for CSR in STEP and are implementing initiatives aimed at achieving a balance between creating a sustainable society and achieving sustained growth. By applying the Six Priority Areas for CSR in our business activities, we will contribute to diversifying social needs and fulfill our social responsibilities as a corporation. In so doing, the SUBARU Group will become a corporate group trusted by society as a truly global company and contribute to the creation of a more affluent and sustainable society.

The SUBARU Group has made the automotive and aerospace businesses the pillars of its business operations. In the SUBARU Environmental Policies, revised in April 2017, we defined SUBARU's fields of business as the earth, the sky and nature and made protecting the Earth's environment a key priority in business activities. The Group aims to reduce direct CO₂ emissions* by 30% compared to FYE March 2017 levels by FYE March 2031 and is currently implementing reduction initiatives group-wide. In addition to installing a captive-consumption solar power system and purchasing CO₂ emissions-free hydropower, we have initiated new CO₂ emissions reduction measures. We forecast reduction of approximately 20,000 t-CO₂, equivalent to around 3% of annual emissions, by FYE March 2021.

In product-related environmental measures, in addition to focusing on improving the environmental performance of existing models, we will shift to joint development of BEVs with Toyota Motor Corporation and expand our line of products with enhanced environmental performance.

SUBARU considers corporate governance one of the management’s top priorities. To strengthen management oversight of business execution, we obtained approval at the 88th Ordinary General Meeting of Shareholders to increase the number of outside directors from two to three. As a result, outside directors now make up one-third of the Board of Directors (three of nine members). In addition, we have appointed SUBARU’s first female officer (an outside corporate auditor) and are promoting diversity management. In April 2019, we reorganized the departments responsible for oversight of business execution, established the Risk Management Group under the direction of a Chief Risk Management Officer (CRMO), and clarified reporting lines. This will enable us to increase the effectiveness of group-wide internal controls and risk management.

* CO₂ directly emitted from SUBARU Group plants and offices (Scope 1 and 2)