

Report on Improprieties Relating to Final Vehicle Inspections

Here, we provide an overview of improper conduct during final vehicle inspections and SUBARU's response to those instances, and report on specific measures to prevent any reoccurrence.



Please refer to the SUBARU corporate website for details.

<https://www.subaru.co.jp/en/jpfvi/top.html>

Overview of Improprieties Relating to Final Vehicle Inspections

On December 19, 2017 and April 27, 2018, SUBARU reported to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) about improper conduct during final vehicle inspections discovered in October 2017. On June 5, 2018, SUBARU was required by the MLIT to conduct a thorough investigation and develop measures to prevent any reoccurrence of improprieties in connection with vehicle fuel economy and emissions sampling procedures and other final vehicle inspections. In response to this, SUBARU commissioned a team of external professionals, including an attorney, to conduct a thorough investigation from an objective and neutral perspective. The investigation newly identified inappropriate conduct in connection with final vehicle inspections and on September 28, 2018 SUBARU released the investigation report. Furthermore, an internal investigation triggered by an on-site inspection conducted by the MLIT in October 2018 found that some inappropriate conduct had continued.

Since the end of 2017, SUBARU has reinforced education for final vehicle inspectors, reviewed personnel assignments, and promptly implemented feasible facilities modifications, updating of inspection equipment software, and various other measures. Taking this all into account, executives and managers spent considerable time participating in inspections at final inspection sites, holding discussions with final vehicle inspectors, and verifying the effect of various measures already implemented to prevent reoccurrence of improper conduct, and worked to ensure compliance. Subsequently, as a result of halting production lines to verify the effect of preventive measures, on October 26, 2018 SUBARU found that the preventive measures function effectively and that the soundness of the final vehicle inspection process had been ensured, and SUBARU confirmed that the identified improper conduct had ended. No improper conduct similar to that identified in the investigations conducted to date has been discovered since the resumption of production.

Given the background to the above repeated improprieties, on November 14, 2018 SUBARU received from the Minister of Land, Infrastructure, Transport and Tourism a recommendation of actions, such as a review and thorough implementation of prevention measures. Also, on December 19, 2018, MLIT notified the Tokyo District Court to apply a civil fine against SUBARU pursuant to the Road Transport Vehicle Act, since part of the improper sampling tests constituted a case of partial non-implementation of important final vehicle inspections. As a result, on March 8, 2019, the Tokyo District Court imposed a non-penal fine of 83.4 million yen.

Response to Improprieties Relating to Final Vehicle Inspections

The Company takes the current situation resulting from repeated improper conduct extremely seriously. We have resolved to recover the trust of all stakeholders as quickly as possible by further accelerating activities to become "a company that does the right thing in the right way." We are boldly implementing corporate culture reforms and have implemented various measures to prevent a reoccurrence of improper conduct, which can be divided into the following four categories.

- Measures that strengthen management's sense of ownership and clarify its responsibility for compliance and quality assurance
- Measures to detect and prevent improper work
- Development of a structure to promptly correct improper work when it occurs
- Measures that are promptly implemented and continuously operated in the future

SUBARU has further subdivided the abovementioned preventive measures into 65 items and is currently implementing the measures. Implementation of 57 items has been completed as of April 23, 2019, when the quarterly progress report was submitted to the MLIT. SUBARU will continue to mount a group-wide effort to implement measures to prevent any reoccurrence of improper conduct and to constantly improve and increase the reliability of those measures.

Status of Implementation of Measures to Prevent any Reoccurrence of Improprieties Related to Final Vehicle Inspections

Changing Our Mindset, Starting with Management

Senior management is taking the initiative in ascertaining the situation on the ground, ensuring that a change in employee mindset reaches every corner of the workplace, and engaging in activities to foster a corporate culture that places the highest priority on quality.

In addition to regular efforts to raise awareness of quality and compliance through an in-house newsletter, SUBARU uses feature articles and extra issues of the in-house newsletter to convey senior management's commitment to corporate culture reform throughout the Group. Also, SUBARU holds discussions between senior management and employees for the purpose of invigorating communication with frontline workers.

Since November 2018, President Nakamura has visited plants and offices throughout the Group, including the Gunma Plant and Aerospace Company Utsunomiya Plant, to communicate face to face with employees about management's firm resolve to prevent any reoccurrence of the repeated final vehicle inspection problems and to recover trust. Also, SUBARU has implemented organizational changes in order to steadfastly and more robustly implement measures to prevent any reoccurrence of the final inspection problems, including establishment of the Vehicle Inspection Department within the Quality Assurance Division effective December 1, 2018 and institution of a new organizational structure with respect to the director in charge of manufacturing, effective January 1, 2019.

Improvement of Communication

At final inspection sites, team leaders and final vehicle inspectors review each day's work together and mutually confirm whether inspections have been carried out in accordance with standard operations and whether the standard operations themselves are appropriate. Also, to realize various improvements, senior personnel and inspectors periodically hold meetings to discuss improvements to all aspects of work and consider improvement measures. Furthermore, department general managers hold monthly regular meetings at all workplaces, at which they directly confirm the status of improvement of inspection sites and individual problems and concerns, introduce best practice examples from other worksites, and discuss problems for which improvement has been delayed. In this way, following sharing of workplace problems at each level of management, workplace-level measures for improvement are rapidly implemented. Furthermore, measures for improvement that, according to their nature, must be implemented beyond the workplace level are realized through discussion with team leaders, assistant managers, section managers, or department general managers. This daily communication is contributing to raising the awareness of final vehicle inspectors and to continuous improvement activities.

Improvement of Facilities

SUBARU has implemented various improvements in the final vehicle inspection process to ensure reliable inspections and quality. One example of a facilities improvement is the conversion of a device used in speedometer tests. Whereas previously a monitor constantly displayed the speed being measured, now only the speedometers' measurement results are displayed, enabling inspectors to focus their attention on the speedometers. In addition, final vehicle inspector trainees wear different colored caps and helmets to clearly indicate that they are trainees. Work training is conducted at actual production lines on a one-to-one basis by inspectors with trainer qualifications. Through these improvements, SUBARU is developing a reliable inspection system and rigorously ensuring quality.

Note: This is an English translation of the original Japanese text. If there are any discrepancies between this text and the original Japanese text, the original Japanese text prevails

