



STEP 2.0



Mid-Term Management Vision Progress Briefing

May 11, 2021
SUBARU CORPORATION



Vision for 2025

- 1** Become a brand that is “different” from others by enhancing distinctiveness.
- 2** Engage in business activities that resonate with customers by putting them center-stage.
- 3** Fulfill corporate social responsibilities by contributing to diversifying social needs.

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.		
		“Mono-zukuri” (Car-making)	Sales and service	New mobility domain
1	Enhance corporate quality	- <u>Quality reforms</u>	- 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 focus strategy	- <u>Launch “Make-a-Subaru” initiative</u>	- Target 5% share in the U.S. - Steady growth in each region	- Initiatives to create new technologies and businesses

We originally announced our mid-term management vision STEP in July 2018.

Under the three key aspects of our vision for 2025, we have been executing these initiatives laid out in a 9 Boxes + 1 model with the focus on corporate culture reforms, quality enhancement, and the “Make-a-Subaru” initiative.

Changes in the business environment



Meanwhile, the business environment has been changing rapidly.

Concern over climate change is growing.

Even apart from the environment itself, companies are asked what they are going to do to help achieve a sustainable society.

There's also been rapid innovation in the domains of CASE.

How are we going to deliver future-generation technologies that will keep Subaru "different" from other brands?

With the new work styles prompted by the coronavirus pandemic, what should we do to promote the growth of our employees and elevate their engagement?

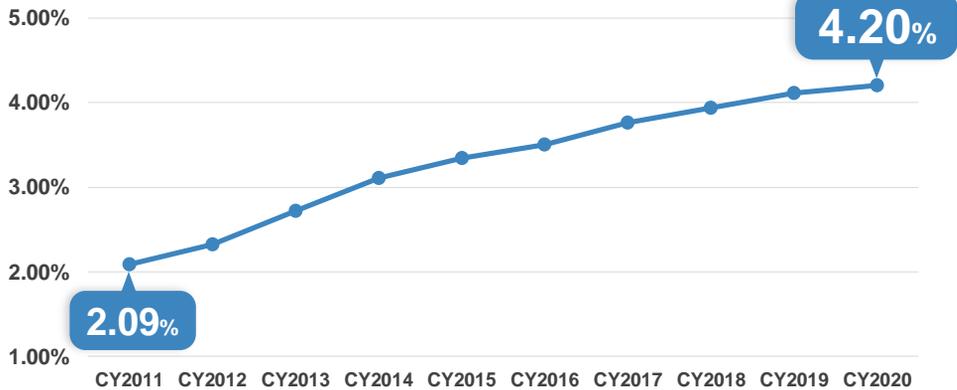
As the business environment continues to change, it seems that companies are increasingly judged not just by our performance, but also by our corporate attitude and the purpose of our existence.

As we are now in the intermediate period of our mid-term management vision, I would like to discuss the efforts we've made so far over the past three years and our future direction.



Nine straight years of market share growth in the U.S.

Subaru market share in the U.S.



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4

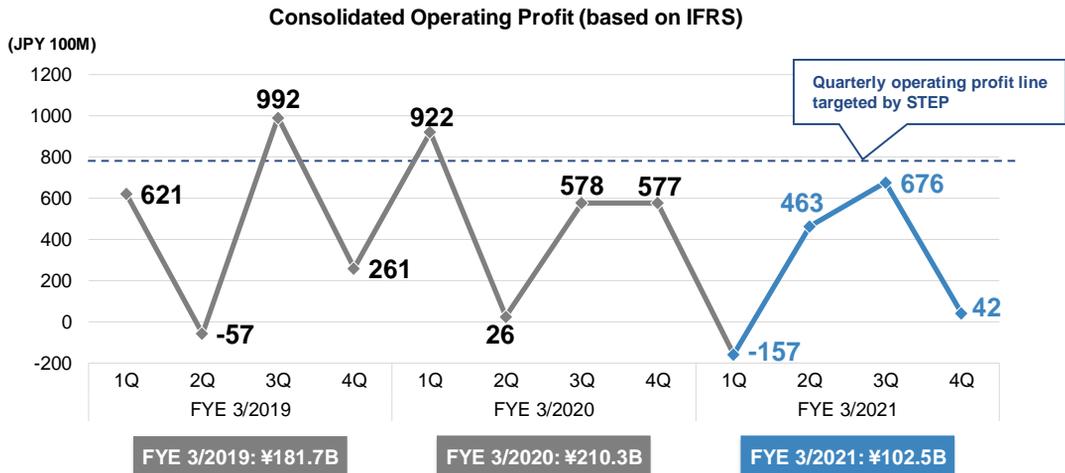
First, let's look back on sales.

In 2020, our sales in each market dropped in terms of absolute figures due to the impact of the coronavirus pandemic, but in the U.S., our key market, Subaru's market share reached a new record of 4.2%.

With this, we've achieved our 9th consecutive year of market share growth in the U.S.

We are making steady progress toward our target of 5% market share in the U.S. set forth in STEP.

Need to achieve stable profits throughout the fiscal year

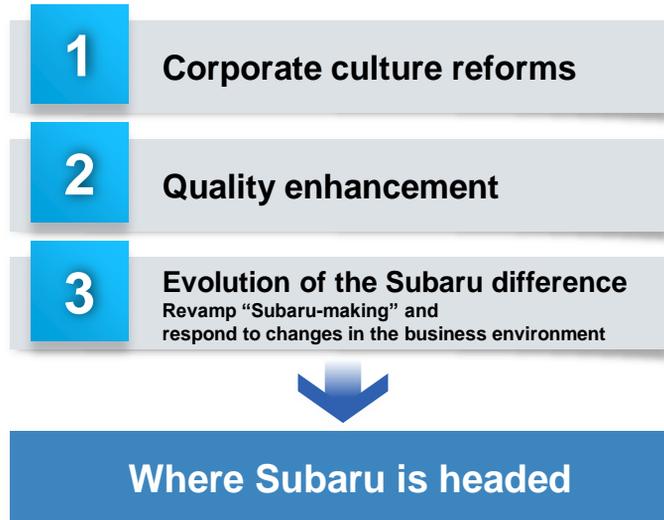


Next on financial performance.

As to the three-year target set forth in STEP, we were not able to achieve it due to various factors.

The graph shows our quarterly operating profit figures over the past three fiscal years. We did have some decent quarters, but it is evident that we still have more work to do to be able to overcome the unexpected, including control of quality expenses throughout the year and response to the current semiconductor supply shortages.

We are not quite there yet, but we will further push forward with our STEP initiatives so that we can deliver results in financial performance.



We have been making concrete progress on these three priority initiatives laid out in STEP. We've also been committed to further strengthening the Subaru difference in the changing business environment through our “Make-a-Subaru” initiative.

More and more, we have been made to realize that Subaru is here because of our customers, and how essential they are to us. We strongly feel that Subaru needs to be facing the new era together with our customers.

Now I'd like to outline the progress and direction in these priority areas and discuss where Subaru is headed.

1 Corporate culture reforms

Efforts and results so far

“Change mindset, change behavior, change the company”

Efforts have been made to develop a culture of **open communication** in the workplace by closing the distance between ranks such as management and the “genba” (actual worksite).



The rapid adoption of digital tools prompted by the pandemic has spontaneously led to **active communication between different departments.**



Resulted in improvements in employee survey

Let's start with corporate culture reforms.

We've been advancing the corporate culture reforms under our company-wide slogan, “Change mindset, change behavior, change the company.” Instead of merely following precedent, all individual employees should think for themselves and be encouraged to take the initiative. This attitude is surely taking root.

In pursuit of the goal of developing a culture of open communication in the workplace where anyone can say anything, we are carrying out several concrete programs across the company, on a continuing basis: the Officer's talk relay, the dialogue with General Managers relay, and the workplace dialogue. These programs are aimed at eradicating the old corporate culture of authoritarianism and top-down control.

“Changing mindset” is not an easy thing to do, but some changes were prompted by the pandemic.

The rapid adoption of digital tools driven by the pandemic has spontaneously led to active communication between different departments and divisions.

There are now more opportunities in our day-to-day activities where employees are made aware of their needs and chances to change their mindset, such as discussions to share the company's business challenges and study sessions to learn from the outside.

As a result, in our employee survey results observed at fixed points, scores for workplace communication and workplace atmosphere have improved for two years running.

Focus areas going forward

More focus on growth and development of individual employees

Respond to
new work styles.



Invest in human
resource
development.



Help the growth of
those who take on
challenges.



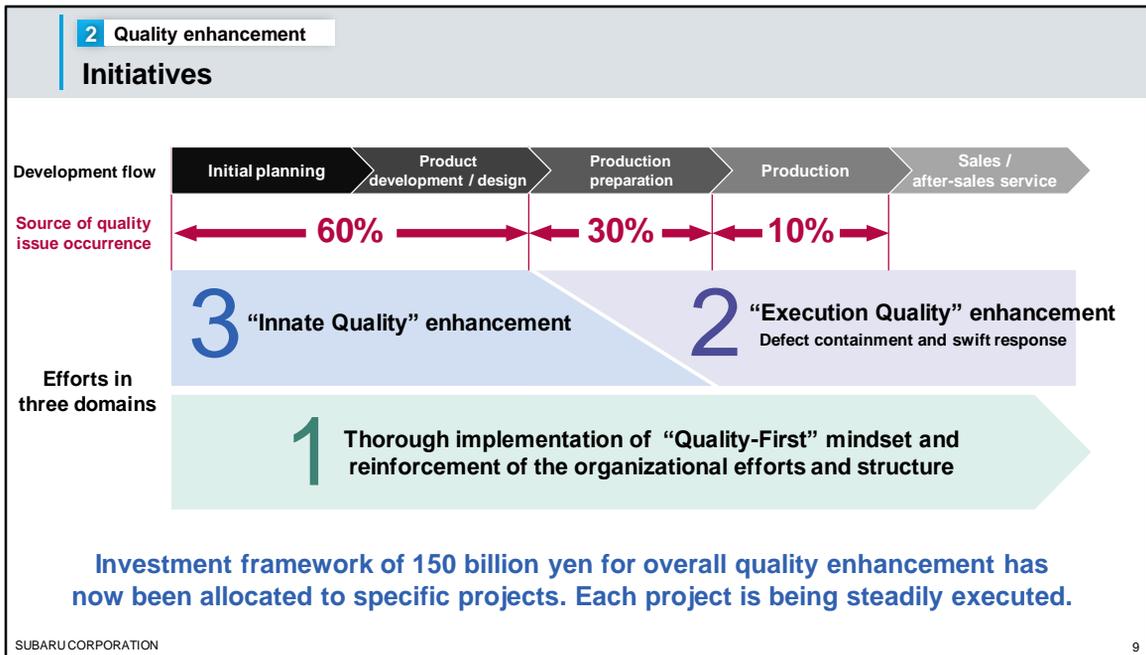
Shifting to the phase of elevating employee engagement

We are now moving on to a phase to encourage growth and development of individual employees, make development palpable by connecting it to output, and elevate a sense of purpose and engagement.

While responding flexibly to the new work styles imposed by the pandemic, we will actively invest in human resource development in areas such as digital technology, upskilling and relearning.

Meanwhile, we will develop a corporate culture that not only is open, but also encourages employees to take the initiative and take on challenges.

Starting this fiscal year, we have introduced a new personnel system aimed at further accelerating these efforts.



Now I will talk about our quality enhancement initiatives which we've positioned as our top priority in STEP. We are advancing efforts in three key domains.

The first one is our base, "Thorough implementation of Quality-First mindset and reinforcement of the organizational efforts and structure."

The second one is "Execution Quality enhancement." 40% of quality issues originate from the production preparation stage or later. We intend to prevent such defects originating from this stage from making their way into the market.

The domain of "Execution Quality" enhancement includes after-sales service efforts to swiftly respond to defects that unfortunately occur in the market.

The third one is "Innate Quality enhancement." This concerns the very origins of development, such as product planning, development, and design. 60% of quality issues originate from this stage.

In STEP, we announced the investment framework of 150 billion yen for overall quality enhancement.

Now we have finished earmarking it for specific projects. These include capital investment for quality enhancement at our plants in Japan and the U.S., introduction of test and research facilities, allotment of human resources, and other projects. We are now steadily executing these projects.

Initiatives

3 “Innate Quality” enhancement

- **Ensure quality all the way from the very start of development down through component logistics and production.**
 - Fully check past issues in development, production, and suppliers.
 - Grasp changes in new parts and systems and prevent issues before they occur.
- **Clarify the quality responsibilities of the Project General Managers in charge of product development and enhance their authority.**
- **Stricter development process where meeting criteria of each quality gate (checkpoint) is given top priority.**

2 “Execution Quality” enhancement

- **New “final vehicle inspection” facility (Start of operation scheduled for FYE 3/2023)**
- **Swift response to quality issues**
 - North American quality team “FAST” (FastAction & Solution Team)
 - Early detection of defect trends based on analysis using AI.
 - Direct gathering of quality data via telematics systems.
 - Early determination of the scope of affected parts with traceability systems.
 - New “QA lab” facility for enhancing capability to investigate defects.

1 Thorough implementation of “Quality-First” mindset and reinforcement of the organizational efforts and structure

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| <ul style="list-style-type: none"> ■ Redefine goals. <ul style="list-style-type: none"> - Quality Policy revised for the first time in 25 years. - The quality manual fully revised. | <ul style="list-style-type: none"> ■ Quality awareness, look-back activities <ul style="list-style-type: none"> - “Quality Caravan” events - Company-wide efforts aimed at “not letting past incidents fade away” | <ul style="list-style-type: none"> ■ Increase in personnel <ul style="list-style-type: none"> - Increase in Quality Assurance Div. personnel by 50% over 3 years |
|---|--|--|

Next let's look at the details of our quality enhancement initiatives. We've implemented a large number of measures so far, but these are just some of the key initiatives of each area.

I won't go over everything, but here are some highlights.

#2: “Execution Quality” enhancement

Our new “final vehicle inspection” facility is scheduled to begin operations from the next fiscal year (FYE 2023), gradually by production line.

To address defects that have made their way in to the market, we have adopted new measures such as the use of AI and telematics systems for defect trend analysis and the introduction of enhanced traceability systems. We now have a structure and system that will allow us to analyze issues faster, respond more swiftly, and determine and minimize the scope of affected parts/vehicles more accurately.

#3: “Innate Quality” enhancement

The Innate Quality enhancement initiative includes full checks of past quality issues and various development process changes. For example, we have adopted stricter gate management for quality targets from the very early stages of development and specified that development cannot proceed if these are not met.

Going forward

Quality enhancement efforts are steadily proceeding, but results haven't yet been demonstrated to our customers and retailers.



Deliver quality enhancement with results.

Deliver results to our customers with new models which incorporate all quality enhancement initiatives.

Never slow down efforts to respond swiftly to quality issues in the market.

While our quality efforts are making steady progress, we do realize we still have challenges and I must say we haven't been able to demonstrate results to our customers and retailers at this point.

Quality is the critical root of the Subaru brand and is positioned as the source of our added value. We will further advance our initiatives, including response to new technologies and other aspects, and ensure that we deliver results.

We'll continue to be committed to our enhancement initiatives until our customers, retailers and the market tell us, "You did reduce quality issues," "I see you respond faster now."

Previously-announced direction

Direction announced at the Subaru Technology Briefing in January 2020

**Aim for
zero fatal road accidents
by 2030.**

**Contribute toward achieving
a carbon-free society
with Subaru strengths and
technological innovation.**

**Further advance our technologies to deliver “Enjoyment and Peace of Mind.”
Maintain the Subaru Difference even in the age of vehicle electrification.**

Next on the evolution of the Subaru difference that we intend to achieve with the “Make-a-Subaru” initiative.

At the Technology Briefing we held in January of last year, we outlined the future direction of our technology development efforts.

I will not go over details here, but the key message at that briefing was our commitment to maintaining the Subaru Difference even in the age of electrification.

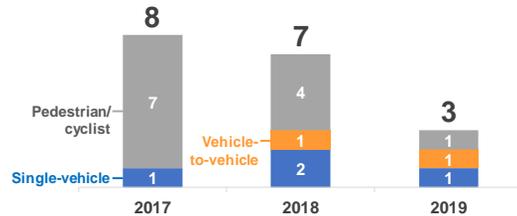
I'd like to discuss some of the key points about this subject.

3 Evolution of the Subaru difference

Toward the goal of zero fatal road accidents

Evolution of preventive and passive safety

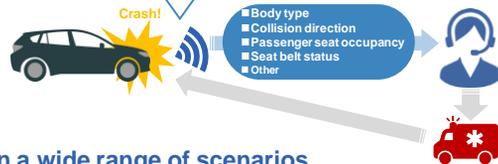
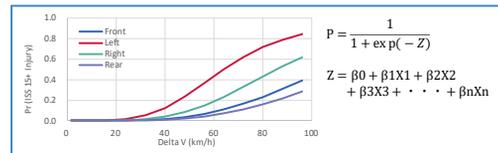
Number of road accident fatalities involving Subaru passenger vehicles (excl. mini vehicles) newly registered as new cars in the preceding five years (incl. reference year) in Japan



- Subaru calculations based on data from the Institute for Traffic Accident Research and Data Analysis
- Numbers are road accident fatalities (excl. those from secondary accidents) among occupants of Subaru vehicles and people who collided with Subaru vehicles including pedestrians and cyclists

Greater peace of mind with connected safety

- U.S. introduction of the upgraded Advanced Automatic Collision Notification system is under consideration.
- Subaru's original injury prediction algorithm to analyze the degree of damage is under development, with the aim of saving as many lives as possible with prompt, effective response to emergencies.



We will continue to enhance safety in a wide range of scenarios by combining advanced sensing technologies and AI judgment capabilities.

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13

First on “safety and peace of mind,” an integral part of Subaru’s strengths. We have always been committed to evolving Subaru’s safety, like we did our preventive safety with EyeSight and our passive safety with the Subaru Global Platform.

While Japan has around 3,000* traffic fatalities per year, the number of those involving EyeSight-equipped Subarus has been declining every year. In Japan, the number of traffic fatalities which involved Subarus of the latest 5 model years (excluding mini vehicles) was three** in 2019.

Starting with the all-new Levorg released in Japan last year, we introduced the new-generation EyeSight featuring further-upgraded safety technology. While “EyeSight X,” Subaru’s advanced driver assist system for highways, tends to draw more attention, the new-generation EyeSight, which is standard on all trims of the Levorg, represents a great evolutionary leap toward our goal of zero fatal road accidents. We are rolling out our new-generation EyeSight to other models as well.

Our focus is also on connected safety for preventing accidents from becoming fatal through technologies such as advanced automatic collision notification (AACN). The right figure shows part of Subaru’s original injury prediction algorithm. It is currently under development for future use for analyzing the severity of occupant injuries in the event of a vehicle crash using the accident database and a wide range of data collected from the vehicle.

With a focus on vehicle intellectualization, Subaru will continue to enhance safety in a wide range of scenarios by combining advanced sensing technologies and AI judgment capabilities.

Note:

* Number of fatalities from all kinds of road accidents.

** Among Subarus (excl. mini vehicles) newly registered as new cars in the preceding five years (incl. reference year).

3 Evolution of the Subaru difference

Environmental efforts with commitment to enhancing the Subaru difference

CO2 reduction roadmap (announced at the Subaru Technology Briefing in January 2020)

By 2030 ▶ Make at least 40% of Subaru global sales BEVs or HEVs.

By the 1st half of the 2030s ▶ Apply electrification technologies to all Subaru vehicles sold worldwide.

By 2050 ▶ Reduce average well-to-wheel CO2 emissions from new vehicles sold worldwide by at least 90% compared to 2010 levels.

Contribute toward achieving carbon neutrality

With highly responsive electric motors, Subaru's AWD capability and driving dynamics will be further enhanced.



We will continue to enhance the Subaru difference in the age of electrification and **accelerate the roadmap toward 2050.**

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14

Next, on our electrification and environmental efforts.

At our Technology Briefing in January of last year, we announced our milestones toward electrification.

While we do not have any changes to the nature of the initiative, we intend to accelerate our efforts with the aim of contributing toward carbon neutrality by 2050.

Our plan for the near future is to raise the ratio of electrified vehicles, but it is expected that some sorts of electric drive systems will be adopted across our model lineup eventually.

We are often asked what will make Subaru different in the age of electrification, but we believe the importance of safety will never change, no matter what powertrain is used.

There will be quick acceleration response, obviously. Not only that, our long-cultivated AWD capability will be further enhanced by precise, highly-responsive electric motors, which will lead to an increase in Subaru's strengths such as stability, driving dynamics, and handling.

Subaru's first global all-electric SUV

SOLTERRA

Name Solterra Start of sales Middle of 2022 Markets Japan, U.S., Europe, China, etc.



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15

As our first step toward the age of electrification, Subaru is launching its first global all-electric vehicle, the Solterra, next year.

It's a C-segment-class BEV SUV under joint development with Toyota, as part of our joint efforts to make "ever-better cars" by combining each other's strengths.

The Solterra features a new, dedicated all-electric platform jointly developed with Toyota, the e-Subaru Global Platform.

We are developing this model with the goal of creating a new Subaru SUV which offers added benefits of electric vehicle technology.

As I discussed earlier, with the highly-responsive electric motor technology, Subaru's long-cultivated AWD technology will be further enhanced.

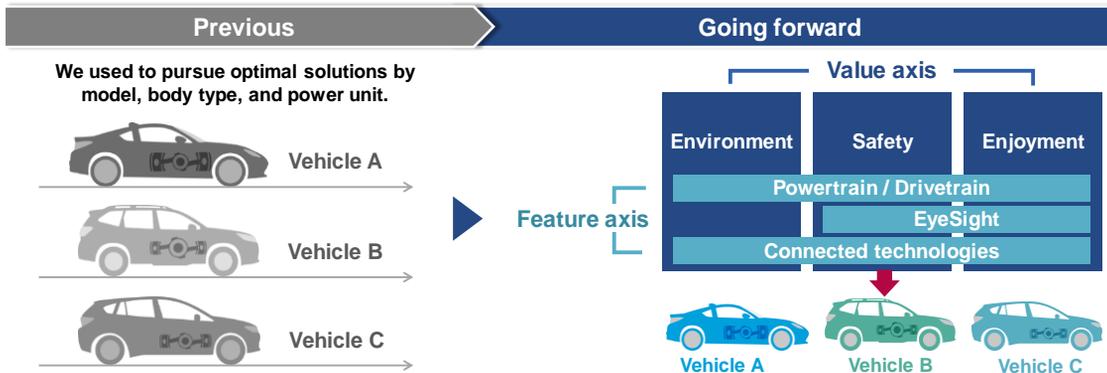
The Solterra will go on sale in Japan, the U.S, Europe, China and other regions around mid-2022.

Please look forward to our further announcements.

3 Evolution of the Subaru difference

Enhancement of the organizational structure for future product development

We have shifted to the new structure where we cultivate, enhance, and accumulate future-generation core technologies that will underpin Subaru's future products and maintain our competitiveness.



Prioritizing the development of future-generation technologies with more efficient and flexible organizational structure.

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16

Here's our effort to enhance the structure of new car development.

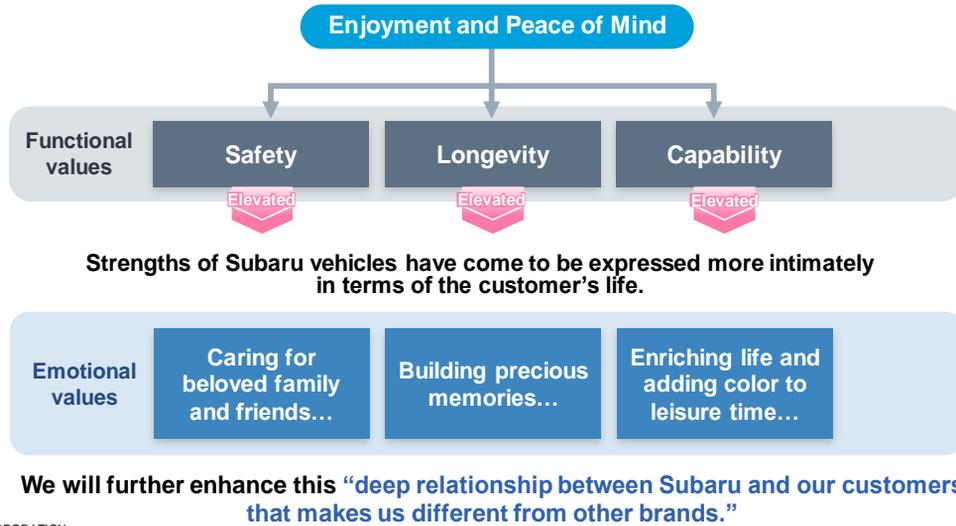
We have changed our Engineering Division to a new structure where we can create, cultivate, enhance, and accumulate future-generation core technologies that will underpin Subaru's future products and maintain our competitiveness into the future while also responding to the drastic changes to come.

In order to address the challenges of vehicle development that is becoming more complex and advanced, we have changed the structure of new product development from one that's organized around functional features such as bodies and power units to one that organically combines a value axis and a feature axis.

This should allow more flexible response to future technologies as well as vehicle development from a company-wide perspective rather than vertically divided divisional optimization and model optimization.

Also, this year we newly established a CTO's office. This should speed up decision-making and enhance technology management to help us succeed in our shift.

In addition, by linking these efforts to other operations such as purchasing, manufacturing, and after-sales service, we aim to build a structure that will accelerate the company-wide "Make-a-Subaru" initiative set forth in STEP.



So far, I've discussed how we're adapting to changes, but through our STEP efforts, we've come to realize more clearly what we have to protect and keep developing further.

In STEP, we laid out our vision to “Become a brand that is ‘different’ from others by enhancing distinctiveness.”

Under our value statement “Enjoyment and Peace of Mind,” we have been pursuing Subaru’s functional benefits such as safety and longevity.

But our customers, through their lives, experiences, and emotional connection with Subaru, have come to express these values more intimately in terms of their lives.

For example:

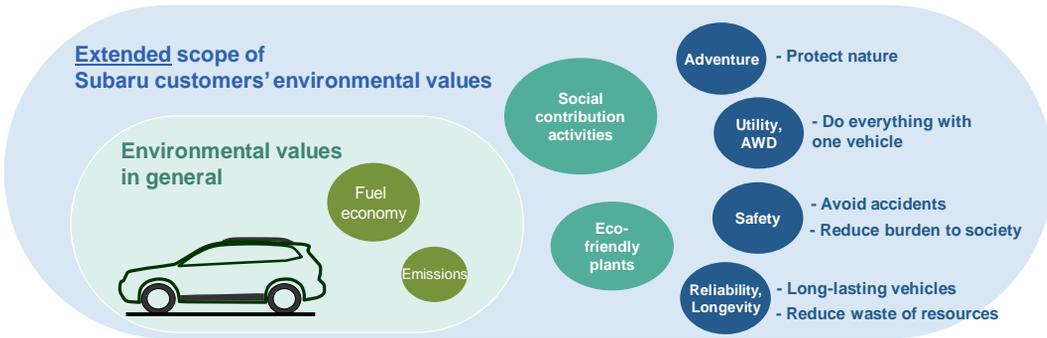
Safety: More than just “safety performance,” it’s caring for beloved family and friends.

Longevity: Durable, long-lasting cars can be used for a long time to build many precious memories.

We perceive that Subaru’s functional values have elevated into emotional values in our customers’ minds.

Beyond our expectations, we now see the development of a “deep relationship between Subaru and our customers that makes us different from other brands.”

This “difference” is truly an asset to the Subaru brand, and we strongly realize that we must continue to enhance it.



**Subaru customers do not believe in "looking out only for their own needs and interests."
They are characterized by their high social and environmental awareness,
which makes the Subaru brand "different" as well.**

Our data shows that Subaru customers, especially those in our key U.S. market, are environmentally conscious in general.

As we look into the background closely, we've come to learn that in an extended scope, the environmental values of our customers exist in "Enjoyment and Peace of Mind" that we offer through our products and services.

For example:

Whereas environmental values in general are things like fuel economy, emissions, and vehicle size, our customers value the following Subaru attributes in addition:

- Utility/AWD (Do everything with one vehicle)
- Safety (Avoid accidents, Reduce burden to society)
- Reliability/longevity (Long-lasting vehicles, Reduce waste of resources)

Subaru customers, who do not believe in "looking out only for their own needs and interests," are characterized by their high social and environmental awareness. We believe this is what makes the Subaru brand "different" as well.

Subaru customers are taking further steps to **help others** in need.



"I want to help people in need."



"I want to improve society and the environment."



While continuing to support and enrich the lives of our customers, Subaru will advance hand-in-hand with them to create a society that is both enjoyable and sustainable.

Here's what we perceive in particular from our U.S. customers who participate in social contribution activities of our retailers across the U.S.

They're putting their thoughts like these into action.

"I want to help people in need."

"I want to improve society and the environment."

We see them taking further steps to help others in need, and these are the customers who support our brand.

People look to companies for contribution to society.

While we will continue to support and enrich the lives of our customers, we want to advance hand-in-hand with them, rather than independently from each other, to create a society that is both enjoyable and sustainable.

Where Subaru is headed



This time, we have integrated our principles into these three key pillars.

It was by watching our customers that we learned what Subaru should do: Deliver happiness to all.

Subaru will continue to pursue our goal of delivering happiness to people, society, and even Earth.

Profit Direction and Capital Policy

- We aim to maintain and expand our market share by advancing our added-value business model. We will pursue a 5% market share in our key U.S. market.
- We aim for an industry-leading operating margin (8%).
- Capital expenditures and R&D expenditures will be steadily executed for initiatives aimed at enhancing the Subaru difference:

Next 3 years

- Capital expenditures: 3.5%–4% of sales revenue (3.5%)*
- R&D expenditures: 120 billion yen level/year (107.7 billion yen/year)*

* Figures in () show results for FYE 2019–2021

- We aim for an ROE of at least 10% while ensuring net cash of two months' worth of revenue levels and a capital equity ratio of 50%.
- Our stance on shareholder return remains unchanged.
 - Positioning dividends as the main form of return to shareholders with emphasis on stable, continuous returns. Based on the performance-linked approach, dividend payments will be determined considering the business performance of each fiscal year, investment plans, and the business environment. (Consolidated payout ratio: 30%–50%)
 - Conducting share repurchases flexibly in line with our cash flow.

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21

Finally, I'd like to outline our view on profits and capital policy. We don't have major changes to our basic approach, but we have made updates in light of the changes in the business environment and the current business situation.

We are aiming for an industry-leading operating margin and a 5% market share in the U.S. by increasing the value we provide customers and further enhancing the Subaru brand. We will steadily execute capital expenditures and R&D expenditures to push forward the goals we've discussed today: zero fatal road accidents, contribution to a carbon-free society, and the evolution of the Subaru difference.

We also intend to invest in human resource development.

Our stance on shareholder return remains unchanged. We position dividends as the main form of return to shareholders with emphasis on stable continuous returns. Dividend payment will be determined taking into account conditions such as business performance, investment plans, and cash flow.

That concludes my presentation today. Thank you for listening.



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