



New Mid-Term Management Vision (2018-2025)

July 10, 2018
SUBARU CORPORATION

STEP



Development of New Mid-Term Management Vision

Intentions in developing the new Mid-Term Management Vision

Prominence 2020
(2014-2020)

New Mid-Term Management Vision
(2018-2025)

■ Background

- Changes in the external environment: Once-in-a-century changes in a mobility society
- Strains from the company's rapid growth: Lacking fundamental corporate strength

■ Intentions in developing the new Mid-Term Management Vision

- Restore trust by cultivating fundamental corporate strength as soon as possible.
- Stay true to the brand principle of providing “Enjoyment and Peace of Mind” to our customers.
- Make SUBARU more than just a company that is trusted by, and resonates with, our customers.

Development of New Mid-Term Management Vision

Progress on “Prominence 2020” initiatives

| Goals | Marks | Current status | Directions to take in the new Vision |
|---|-------|---|---|
| No.1 for customer trust | × | Issues stemming from “quality” and “corporate culture”. Facing a loss of trust. | Corporate culture reforms. Comprehensive quality enhancement to restore trust. No.1 for safety and peace of mind. Accelerate efforts to enhance the brand. |
| Strong brand | △ | | |
| Industry-leading high profitability | ○ | Changes in the sales environment. Deteriorating cost structures. | Achieve product enhancement and cost structure reforms at the same time. |
| Vehicle sales of 1.2 million-plus units | △ | Efforts underway for growth in each market. Targeting 2020 to achieve the goal. | Further growth in the U.S., and steady growth in other markets. |



- Still half-way to achieving “Initiatives to enhance the Subaru brand” and “Initiatives to build a strong brand” set out in the Prominence 2020 vision.
- Pressing need to address issues and challenges that have emerged in recent years. It is vital to restore trust and enhance fundamental corporate strength with a view to future growth.

Development of New Mid-Term Management Vision

Principle



Management philosophy

Aim to be a compelling company with a strong market presence built upon its customer-first principle.

Vision

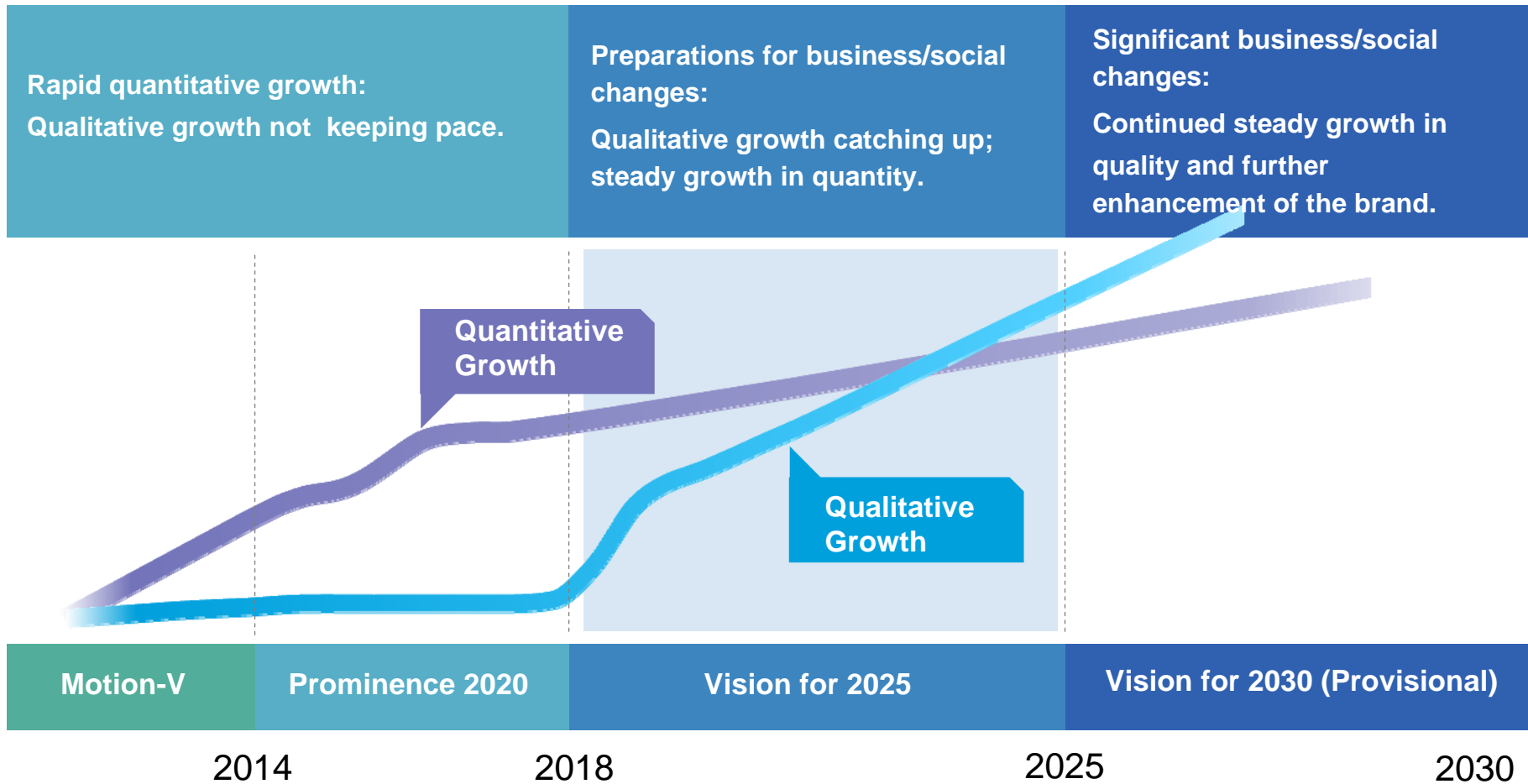
From a company making things, to a company making people smile

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.

Development of New Mid-Term Management Vision

Concept and timeline



Development of New Mid-Term Management Vision

Name of the vision



Speed

Trust

Engagement

Peace of mind and enjoyment

Speedily advance
initiatives

Restore trust

Engage and
resonate with
customers

Provide “Peace of
Mind and Enjoyment”
to customers

**Take “Steady, Strong Steps”
before a future JUMP over social changes.**

New Mid-Term Management Vision: Three Key Pillars of Initiatives



Initiatives overview (9 Boxes + 1)

| 0 | “Change the Culture” Corporate culture reforms | <ul style="list-style-type: none"> - 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 | 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 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 |

Corporate culture reforms

“Change the Culture”

Become 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.

**Rid the company of the “sore” that has been festering within it.
Become a company where non-conforming conduct will never recur.**

■ **Accelerate efforts to become a company that does the right thing in the right way.**

Compliance

- Conduct comprehensive checks of compliance with all internal rules and the work of all employees. Strengthen compliance education.

Governance

- Reinforce group governance systems and ensure a high degree of transparency in information disclosure.

Management

- Strive harder to stay close to the “genba” (the actual worksite). Learn more from the outside.

Corporate culture reforms

“Change the Culture”

Become 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.

■ Corporate culture and human resources/organization:

- In order to develop an energetic, open-minded corporate culture, implement efforts to change, starting with the senior management and progressively moving downward.
- Strengthen the critical thinking abilities of individual employees. Reform systems, mechanisms, and the organization to support the effort.

■ Review CSR activities:

- Six priority areas redefined to step up activities .

■ IT adoption to overall business activities

6 Priority Areas for CSR

| | |
|-------------------------------|-----------------------------|
| Priorities specific to Subaru | People-oriented car culture |
| | Resonance and coexistence |
| | Peace of mind |
| Society's expectations | Diversity |
| | Environment |
| | Compliance |

Enhance corporate quality

Strive to be No. 1 for “the quality that enables customers to enjoy long-term ownership with peace of mind.”

- **Review all processes, from product planning to production, to ensure quality**
- **Step up the level of manufacturing plants:**
 - Simultaneously step up quality, productivity, efficiency, and flexibility through IT adoption.
 - Maximize strengths of our Japan / U.S.-centered manufacturing footprint.
- **Reinforce quality management systems:**
 - Strengthen the CQO’s authority. Enhance quality assurance functions (concentrate functions on Quality Assurance Division and reinforce the organization).
- **Improve quality at customer contact points:**
 - Improve service operations to address rapid growth in customers.
- **Invest in facilities for quality enhancement**

Investment framework of 150 billion yen (over 5 years) in enhancing overall quality

Sustainable growth based on focus strategy

Launch a new initiative aimed at raising customer value with “high quality,” “high added value,” and “low costs.”

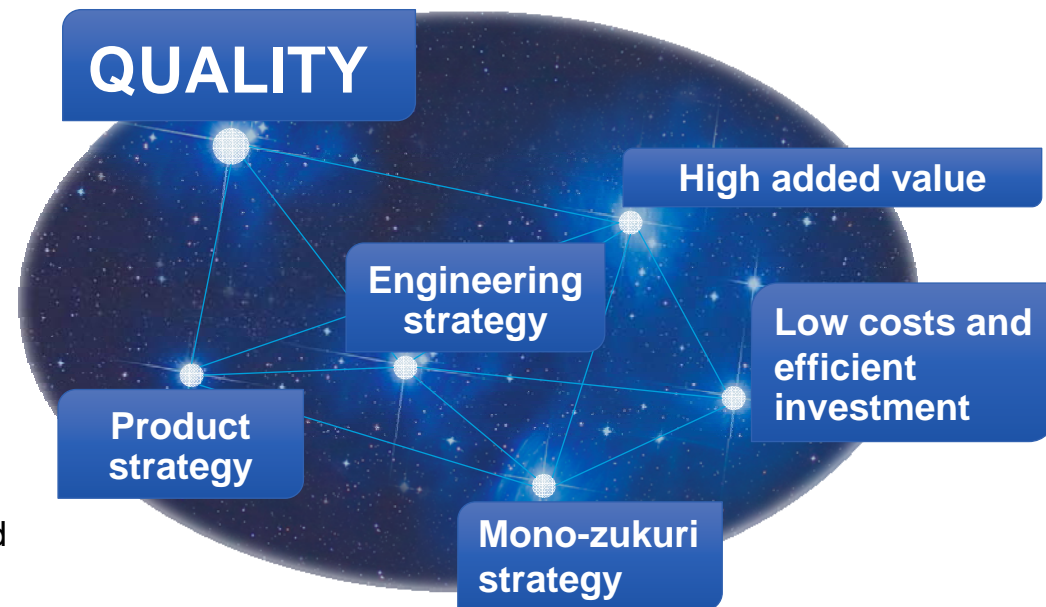
Launch “Subaru-zukuri” (Make-a-Subaru) Project

“Subaru-zukuri” :

Comprehensive efforts in elevating “car-making” to “a-Subaru-making” that go beyond manufacturing, involving the whole process of raising customer value ranging from product planning to service activities.

Key points in the project

- Involves initiatives from all directions with quality at the core.
- Coherent activity, with every area of initiatives linked to one another.
- To be conducted with a long-term perspective.



Raising customer value

Build a strong brand

Pursue “protecting people’s lives.” Aim to eliminate traffic accident deaths* by 2030.

* Traffic accident deaths of Subaru drivers/passengers and people including pedestrians/cyclists Subaru cars collide with.

- **Ensure safety of mobility by enabling vehicles to assist with tasks where humans can make mistakes with, while respecting tasks that humans are skilled at.**
 - Start with enhancing the Level 2 driving assist technologies and further strengthening crash safety performance.

SUBARU’s automated driving



Rather than develop high-cost driverless vehicles, develop vehicles with affordable automated driving technologies that anyone can enjoy their driving with.

2020
Expressways, etc. (Level 2)

2024
Expressways, etc. (Level 2 or higher), Automated parking (Level 4)

Actively collaborate with other companies in infrastructure partnerships and big data utilization.

Build a strong brand

Aim to have customers feel greater “peace of mind with Subaru.”

- Enhance safety and peace of mind while driving by adding connected car technologies and intelligent technologies to Subaru’s overall safety.
- Evolution of EyeSight:
“Just stopping isn’t enough.” ... Comfort and peace of mind for all driver and passengers.

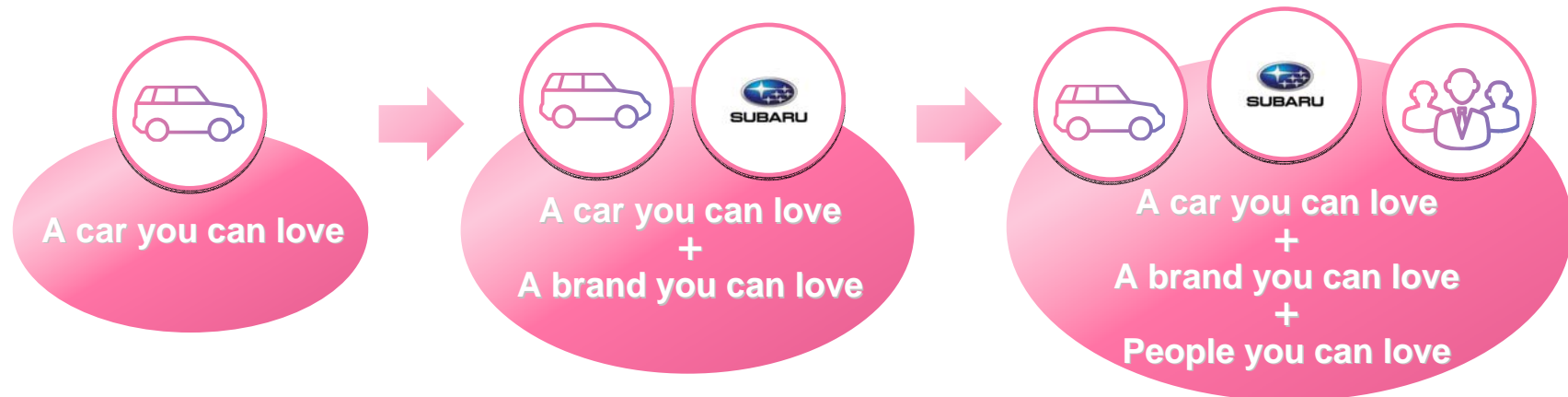


Efforts to Build a Strong Brand (1)



Build a strong brand

Value connections between people and implement activities where SUBARU, dealers, customers, and the community interact.



U.S.



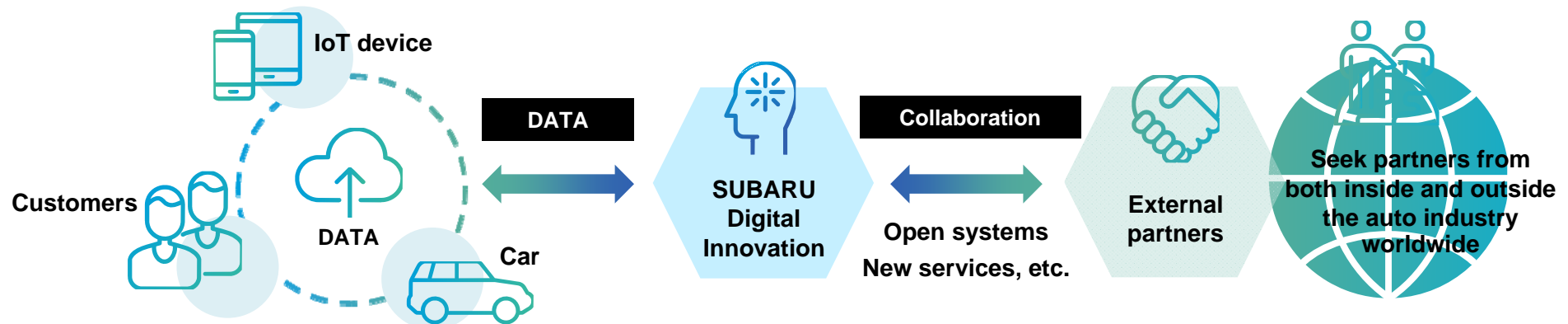
Japan



Build a strong brand

Launch SUBARU Digital Innovation.

Enhance communication with customers utilizing connected car technologies.



Collaborate with external partners to generate new customer value utilizing connected car technology and data, in order to engage and resonate with individual customers.

SUBARU's connected car



Global roll-out of Subaru's STARLINK connected car service. Make connected car services available in more than 80% of new vehicles sold in major markets (Japan/US/Canada) by 2022, while examining future possibilities for collaboration to develop and expand future service platforms.

Build a strong brand

Product launch direction: Enhancement of SUV and sports models

- **Launch fully-redesigned versions for key models every year. Enhance distinctive SUV and sports models.** Enhancement of
 - SUV lineup and variations.
 - Sports models incl. STI models.
 - Subaru Global Platform (SGP) (pursue “dynamic quality feel”).

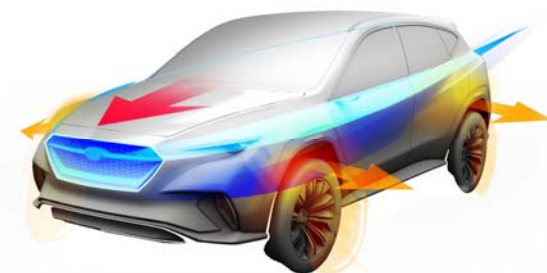
| | 2018 | 2021 | 2025 |
|---------------------------|--------------------|------|--|
| New model | | | Global strategic SUV |
| Existing model | | | Continuous launch of new models Expansion of SUV variations |
| Sports | | | Enhance sports models incl. STI models |
| Platform | | | Enhance Subaru Global Platform |
| Environmental initiatives | Plug-in Hybrid | | Redesigned horizontally-opposed DST* Global launch of EV New HEV |

* DST: Downsized turbo engine

Design direction: New concept design

- **Evolve Subaru’s “Dynamic x Solid” design identity to “bolder” expression.**

BOLDER



Make environmental contributions by enhancing environmental performance of products and through overall efforts in business activities and product offerings.



Subaru's views on the relationship between its products and the environment

Reliability/Longevity

Domains where Subaru can make environmental contributions to society by reducing waste associated with accidents, traffic congestion, and unnecessary parts replacements, etc.

Safety

Utility

Fuel economy

Environmental performance of the products

- Aim to reduce CO₂ emissions from Subaru cars by expanding electric vehicle line-up (EV, PHEV, HEV) and improving fuel economy of existing gasoline-engine vehicles (electric power management, weight reduction, etc.).
- Gradually increase proportion of eco-friendly vehicles and form optimum product line-up for each market, with utility and customer preferences in mind.

SUBARU's electrification

Focus Subaru's original technologies on creating distinctive, non-commoditized electric vehicles. Actively collaborate in base technology development and standardization.

Enhance corporate quality

Drive forward collaboration with Toyota in the areas of “making ever-better cars ” and “addressing transformation in a mobility society,” while maintaining the distinctiveness of Subaru’s management and products.

- **Joint development of eco-cars and environmental technologies to address the demands of the times:**
 - Collaboration with a view toward expanding electrification, including joint development of basic structural technologies* for electric vehicles. (* Through participation in EV C.A. Spirit Corporation)
- **Broad collaboration with a view toward providing new value and services for vehicles through new-generation technologies:**
 - Strengthening of partnerships in new-generation technologies for connected cars, security, etc.
- **Efforts to make “emotion-evoking” cars and foster car culture:**
 - Joint development of 86/BRZ.
 - Jointly-run initiatives and events to cultivate car culture.



TOYOTA

Sustainable growth based on focus strategy



Establishment of SUBARU-SBI Innovation Fund (July 9, 2018)

Overview

- Invest 10 billion yen over 5 years in start-up companies.
- Aim to generate new value through synergy between the Subaru brand and the seeds of new technologies and businesses possessed by start-up companies.

Objectives

- Obtain information on advanced technologies and business models from outside and seek new technologies and business models.
- Supplement efforts to raise value provided by automotive and aerospace businesses.
- Create frameworks for generating innovation and cultivate human resources.

Sustainable growth based on focus strategy

Maintain growth in the U.S.

Aim for sustainable growth in the approach suited to each market.

| Region | Approach |
|---|---|
| North America | Target 5% share in the U.S. Strengthen retailer networks in low-share states centered on the Sunbelt. |
| Japan | Home market to be retained. Maintain current monthly sales level of 10,000 units*, while overall industry demand is expected to gradually diminish. (*Passenger vehicles excl. mini vehicles.) |
| Asia, Oceania, Russia, Latin America | Accelerate efforts in each market with a view to growth, including expanding sales networks. Aim for substantial growth in Asian markets, with the Forester production launch (2019) in the CKD assembly plant in Thailand. |
| China, Europe | Maintain the current sales volume level. Speed up responses to market and policy changes and constantly update strategy on a rolling basis. |

■ **Sales plans (FYE2019 vs FYE2026)**

(10 thousand units)

| | Japan | North America | Other | Total |
|-----------------------|-------|---------------|-------|-------|
| FYE2019 (plan) | 15 | 77 | 18 | 110 |
| FYE2026 (plan) | 15 | 92 | 23 | 130 |
| Change | ±0% | +20% | +27% | +18% |

■ **Production capacity (FYE2021)**

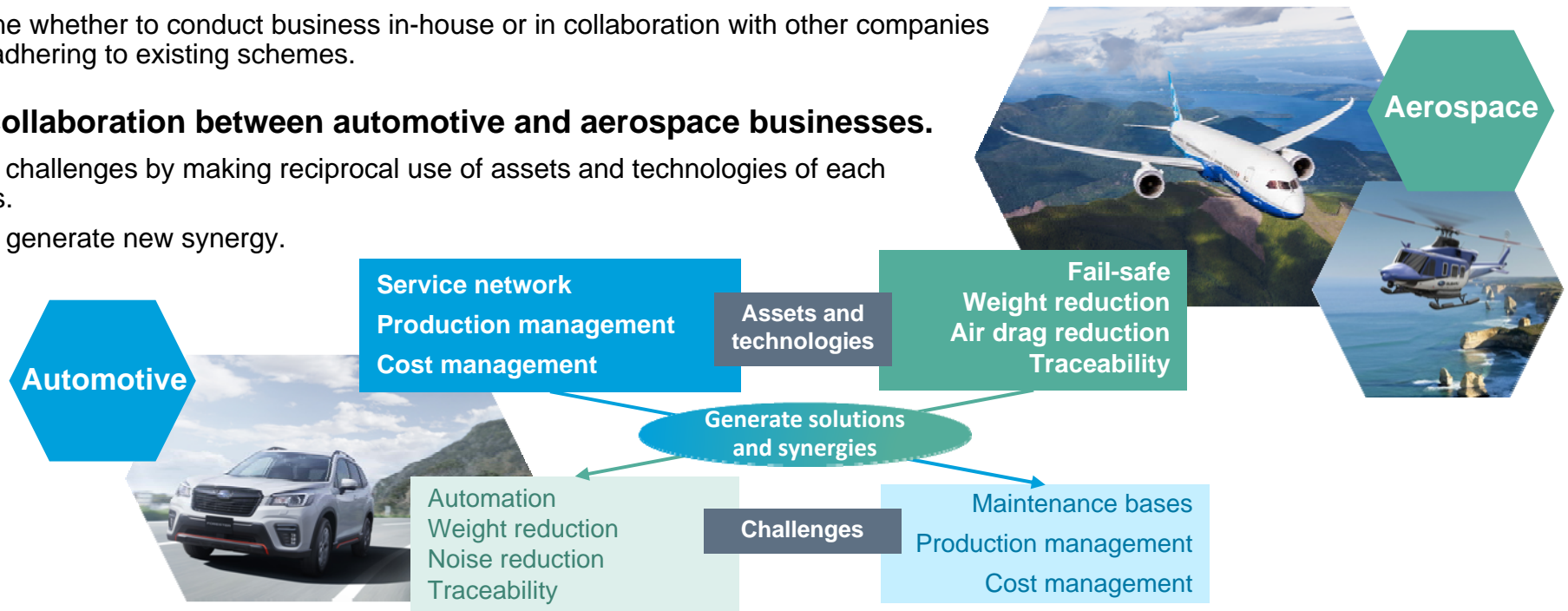
(10 thousand units)

| | 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 |

Enhance aerospace business with a view to expanding the Subaru brand in the sky and space.

- **Continue efforts aimed at shifting from self-sustainability to stable growth.**
- **Promote technology verification project with a view to the next generation.**
 - Create next-generation businesses and technologies and prepare for development of mobility society.
- **Establish partnering strategy.**
 - Determine whether to conduct business in-house or in collaboration with other companies without adhering to existing schemes.
- **Promote collaboration between automotive and aerospace businesses.**
 - Address challenges by making reciprocal use of assets and technologies of each business.
 - Strive to generate new synergy.

| Business plan (FYE2019-2026 total) | |
|------------------------------------|------------------|
| Operating profit | 60 billion yen |
| New investment | 50 billion yen |
| Cash flow | + 30 billion yen |



- Increase strategic investment and R&D spending.
- Ensure industry-leading profitability while implementing the above. (Target operating margin of 10% or higher)
- Ensure equity ratio of 50% or higher. Ensure ROE of 10% while aiming for 15% or higher.
- Manage net cash in light of business conditions, with a minimum level set at two months' worth of net sales.
- Deliver well-balanced return of profits to all stakeholders. Position dividends as the main form of return to shareholders, with an emphasis on stable, continuous returns.
- Yearly dividend for the next three years at 144 yen per share. Conduct share repurchases flexibly depending on cash flow.

Profit Plan for FYE2019-2021 (3 years)

(105 yen/USD)

| | |
|-------------------------------|-------------------------|
| Net sales | 10 trillion yen |
| Operating income | 950 billion yen |
| Operating margin | 9.5% |
| R&D expenses | 400 billion yen (+ 18%) |
| Capital expenditures | 450 billion yen (+ 3%) |
| Depreciation and amortization | 300 billion yen (+ 29%) |

() : Percent change from previous 3-year period (FYE2016-2018)

Capital Policy

| | | |
|---------------------|---|---------------------|
| Net cash | Two months' worth of net sales at minimum | |
| Equity ratio | 50% at minimum | |
| ROE | Minimum | 10% |
| | Target | 15% |
| Shareholder returns | Yearly dividend per share | 144 yen |
| | Share repurchases | To conduct flexibly |



SUBARU