



## Our Basic Approach to Corporate Governance

- Subaru works on the enhancement of corporate governance as one of the top priorities of management in order to gain the satisfaction and trust of all of our stakeholders by achieving sustainable growth and improving our corporate value in the medium and long term aiming to be “A Compelling Company with Strong Market Presence” based on the “Customers Come First” principle under the corporate philosophy outlined on the right.
- Subaru clearly separates the function of decision making and the oversight of corporate management from that of the execution of business operations and aims to realize effective corporate management by expediting decision making.
- Subaru ensures proper decision making and the oversight of corporate management and the execution of business operations as well as enhancing compliance and our risk management system through monitoring of our management and operations and advice provided by outside officers.
- Subaru implements proper and timely disclosure of information in order to improve the transparency of management.

## Corporate Philosophy

1. We strive to create advanced technology on an ongoing basis and provide consumers with distinctive products with the highest level of quality and customer satisfaction.
2. We aim to continuously promote harmony between people, society, and the environment while contributing to the prosperity of society.
3. We look to the future with a global perspective and aim to foster a vibrant, progressive company.

We have also created the Corporate Governance Guidelines with the objective of clarifying the basic policy, framework, and operating policy of our corporate governance.

See here for the Corporate Governance Guidelines and the Corporate Governance Report.

> [Corporate Governance Guidelines](#)  PDF/93kB

# Company Organizational Bodies

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We have adopted a Board of Corporate Auditors system, in which Board of Directors and the Board of Corporate Auditors perform decision making, oversight and auditing of the execution of important business operations.

In order to maintain diversity and balance in knowledge, experience, and ability for the Board of Directors that is required for the sustainable longevity of the company and improvement of corporate value over the mid- and long-term, several outside directors have been selected for the Board of Directors, taking into consideration the experience, insight, and expertise of corporate managers and experts.

In addition, internal directors are selected by comprehensively evaluating and judging experience, insight, and expertise in light of the requirements for directors derived from the corporate philosophy and management strategy.

The Board of Directors consists of 15 directors maximum, including both in and out of our company, in accordance with the Articles of Incorporation.

The Board of Directors in FY2017 is composed of eight directors, two of whom are highly independent outside directors to further strengthen governance. The chairman of the board is concurrently served by President, not by executive officers.

The Board of Auditors is composed of four corporate auditors, two of whom are outside corporate auditors to provide objective oversight of management.

With regard to the system for the execution of business operations, important issues that require consultation with the Board of Directors are thoroughly discussed at the Executive Management Board Meeting, which deliberates on company-wide management strategy and the execution of key business operations. In addition to employing an executive officer system, we have placed the Automotive Business at the core and have introduced an in-house company system for the Aerospace business division with the aim of clarifying responsibility and speeding up execution of business operations.

Along with expanding the scope of management, we are striving to strengthen the functionality of the board of directors with the aim of improving oversight and speeding up execution of business operations by separating management and execution of business operations, and to strengthen global business management and industrial monitoring functionality related to management overall by newly establishing a business management headquarters, a Chief Quality Officer (CQO), a Chief Technology Officer (CTO), and a Chief Information Officer (CIO).

## [Prevention of Conflicts of Interest by Members of the Board of Directors]

- Receive prior approval from the Board of Directors when there is a risk of a transaction that has a conflict of interest.
- Reporting on the status of concurrent positions of each director in the previous fiscal year at the annual Board of Directors' Meeting in April (reporting illegal transactions or that there were no concurrent obligations that interfere with duties).

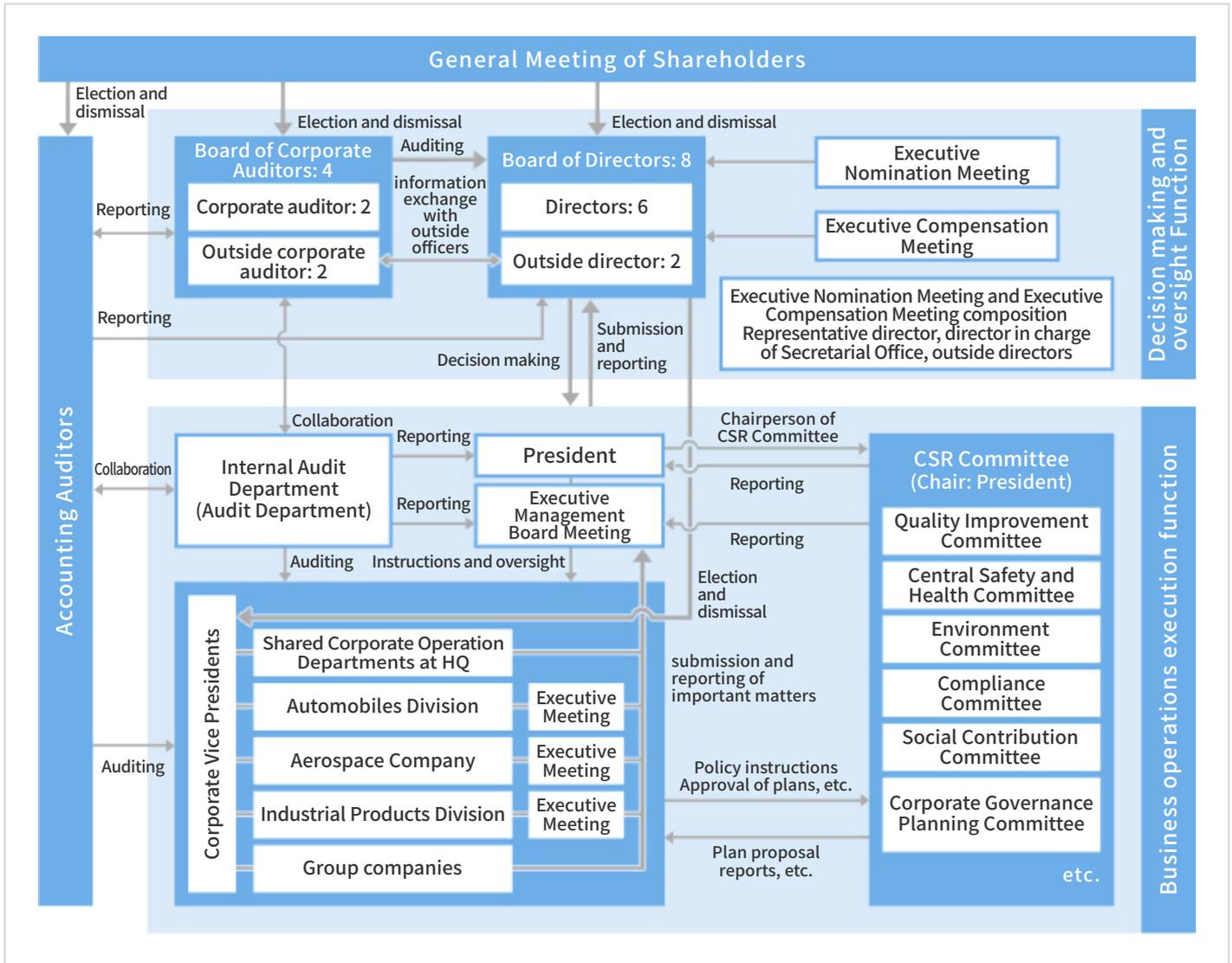
### Attendance at Board of Directors' Meetings (last five years)

|                          | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|--------------------------|--------|--------|--------|--------|--------|
| <b>No. of times held</b> | 16     | 17     | 14     | 15     | 15     |
| <b>Attendance</b>        | 87.5%  | 82.4%  | 100%   | 96.3%  | 96.3%  |

※For newly appointed directors in each period, attendance was calculated for Board of Directors' Meetings held after taking office.

In order for them to fulfill their responsibilities, study groups are held for directors and auditors so that they can continually provide the information and knowledge related to industrial activities that are required to give oversight to management. In addition, in order to provide information continuously to the external directors on our management philosophy, corporate culture, and management environment, opportunities are provided for plant tours and business reports from the executive departments and an environment to encourage sharing of information and the exchanging of ideas among executives has been established.

# System of Corporate Governance



## Executives Appointment Committee

In order to maintain fairness and transparency in the decision process for nominating directors, the Executives Appointment Committee reports the names of those proposed as candidates for Executives and Auditors and nominations for Executive Officers to the Board of Directors.

The Executives Appointment Committee is made up of the President, the Director of the Office of the Executive Secretariat, in addition to External Directors, and for FY2017, the President served as its chairman. In addition, one meeting was held in FY2017 and made recommendations focused primarily on the structure of executives, personnel, and the roles for each, and on representative personnel for important subsidiaries.

## Executive Compensation Committee

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The Executive Compensation Committee set compensation by considering compensation standards of other corporations that are suitable for comparison, compensation of employees at Subaru, and social conditions. The Council is made up of the President, the Director of the Office of the Executive Secretariat, and External Directors, and for FY2017, the President served as its chairman.

The council met four times in FY2017 and performance-based compensation for directors (excluding external directors) and executive officers was determined based on evaluations. In addition, as part of a review of the executive compensation system, a stock transfer compensation system with a transfer restriction was designed and proposed to the Board of Directors.

Total compensation for directors was resolved to be no more than 1.2 billion yen (of which 200 million was earmarked for external directors) per year at the 85th Ordinary General Meeting of Shareholders held on June 28, 2016. Within this framework, the Executive Compensation Council deliberated and the Board of Directors resolved that the following be paid: (1) basic compensation (fixed portion amount based on position held and taking into consideration the business environment, etc.); (2) short-term performance based compensation (performance based portion based on consolidated ordinary income results and taking into consideration ROE\*, capital adequacy ratio improvement, human resources development, business environment, etc.); and (3) long-term incentives (compensation for granting shares with transfer restriction to provide incentive for sustained improvement of corporate value). Note that standards for each item were set according to corporate responsibilities and differentiated between internal and external status by using survey data from external expert institutions. In addition, the total for (3) has an upper limit of 200 million yen per year. External directors do not qualify for (2) or (3).

\*ROE : Return On Equity

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## Development of Internal Control System

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We resolved our basic policy on the development of a system to ensure that the execution of the duties of the directors complies with laws and regulations and the Articles of Incorporation as well as to the development of necessary systems to ensure proper operation of a stock company, at a meeting of the Board of Directors in April 2015.

# Status of Development of Risk Management System

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At our company, the Corporate Planning Department, which plays a central role in the common functions of each business, and other company-wide shared corporate operations departments maintain close links with each department and company to enhance risk management.

In addition, the Audit Department performs planned audits of each department and Group company. We have also created and operate a system and organization to ensure compliance, which is the foundation of risk management, in order to assist with the development of the internal control system.

We have established the Compliance Committee which deliberates, discusses, determines, exchanges information, and liaises on important compliance issues to promote the implementation of company-wide compliance.

We have assigned a compliance officer and compliance staff for each department and company to organize a system that meticulously implements compliance at each workplace. We also systematically provide education and training for officers and employees on a routine basis as well as raising awareness about compliance through such means as in-house publications as necessary.

Furthermore, in order to promote the implementation of compliance in the Subaru Group, we conduct education and training and provide information through in-house publications for Group companies in addition to raising the effectiveness of these activities through the participation of Group companies in the Subaru internal reporting system (Compliance Hotline.)

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## Status of Internal Audits and Auditing by Corporate Auditors

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Our standing corporate auditors (including the standing outside corporate auditors), attend meetings of the Board of Directors and other important meetings, visit work sites, investigate subsidiaries, hear opinions from the internal audit department, and audit the execution of duties by the directors and others based on the audit policy and audit plan established by the Board of Corporate Auditors. The non-standing outside corporate auditors attend meetings of the Board of Directors and other important meetings, hear opinions from the internal audit department and the standing corporate auditors, and audit the execution of duties by the directors and others based on the audit policy and audit plan established by the Board of Corporate Auditors.

We have established the Audit Department as an internal auditing organization to implement planned audits of the execution of business operations in each in-house department as well as Group companies inside and outside Japan. At the beginning of the fiscal year, the department coordinates its internal audit plan for the fiscal year with the Board of Corporate Auditors' policy in advance. The Audit Department reports the results of all internal audits to the corporate auditors and reports on the status of internal audit activities and exchanges opinions with them on a monthly basis to achieve collaboration. The Audit Department also endeavors to strengthen the auditing function in conjunction with audits by the Accounting Auditor.

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## Evaluation of Internal Control System for Financial Reporting

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An evaluation of the internal control system related to financial reporting in connection with the internal control reporting system based on Japan's Financial Instruments and Exchange Act is conducted using the final date of the fiscal year of the consolidated financial statements as the reference date. The evaluation conforms to the standards for evaluation of internal control related to financial reporting that are generally accepted to be fair and reasonable.

The President & Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluated the status of the development of the internal control system related to financial reporting as of March 31, 2017 and affirmed that it has been established properly and functions effectively and issued an internal control report audited by the Accounting Auditors to that effect.

# Crisis-level Risks

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We define risk as uncertain elements with the potential for negative impact on our business operations. While there are many types of risk, we call those risks that are particularly dangerous to our business operations and that we cannot handle through regular decision-making channels “crisis-level risks” and categorize them as follows: natural disaster, accident, internal human factors, external human factors, social factors (domestic, overseas), and compliance.

We have created manuals for dealing with each type of emergency, which delineate what communication channels are to be used once a risk is recognized, how to form crisis management headquarters, and other methods to follow to respond optimally to the situation.



Our emergency response procedure manual and crisis management (disaster prevention) guidelines

## Location-specific Business Continuity Plans (BCPs)

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With the goal of minimizing any reduction of service to customers and preventing loss of market share and corporate value, we have created a BCP for each business unit to maintain business operations or restore them as quickly as possible in the event of an emergency.

In FY2017, our Emergency Task Force has conducted for the first time an initial response training in cooperation between our Head Office and Tokyo Office assuming the occurrence of large scale earthquake. We will continue the training and confirm and review our BCP to prepare. Should our resources (employees, physical assets, monetary assets) be affected by an emergency, we will leverage our remaining resources to minimize the shutdown of priority operations and restore all operations to their original state as quickly as possible.

### Emergency Response Policy

1. Give first priority to people's survival and physical safety.
2. Minimize loss of stakeholder interests and corporate value.
3. Act always with honesty, fairness, and transparency, even in an emergency.