



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 vision of our corporate philosophy.
- 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.

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

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

› [Corporate Governance Guidelines/Corporate Governance Report](#)

* Corporate Governance Code used here is the one before its revision took place in June 2018. The Contents will be updated according to the revised Code before the end of December 2018.

Company Organizational Bodies

As its corporate governance system, Subaru has chosen a company with board of company auditors, 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 nominating candidates for director and auditor positions, the Board of Directors seeks to bring to fruition Subaru's corporate philosophy, achieve effective corporate governance and sustainable growth, and enhance its corporate value in the medium to long term by selecting individuals with the wealth of experience, high levels of skill and insight, and advanced expertise befitting Subaru directors and auditors.

In consideration for the diversity of the Board of Directors and from the point of view of independently performing oversight and auditing of management to maintain transparency of management and improve shareholder value, several independent outside directors have been selected for the Board of Directors. 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 at the most, including both in and out of the company, in accordance with the Articles of Incorporation.

The Board of Directors in FYE2018 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 and establishing Executive Meeting as decision-making function of business divisions, an in-house company system has been introduced for the Aerospace business division with the aim of clarifying responsibility and speeding up execution of its business operations.

Policy on Selection of Executive Officers and Appointment of Candidates for Directors and Auditors

Appointment of candidates for directors and auditors and selection of executive officers is carried out taking into consideration the experience, ability, insight, and expertise required to perform as our directors/auditors and executive officers so that our company philosophy and effective corporate governance as well as sustainable growth and improvement of corporate value over the medium and long term are realized.

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Executives Appointment Committee

In order to maintain fairness and transparency in the process for nominating directors and corporate auditors, the Executives Appointment Committee deliberates on the nomination, reports the names of candidates determined by unanimous vote by the members of the committee to the Board of Directors meeting, and they are finally decided by resolution of the Board of Directors. For each candidates, their background, key posts held concurrently, insight and roles they are expected to play at Subaru are explained. Upon appointment of nominee for corporate auditors, consent of the Board of Auditors is obtained.

The Committee is made up of Representative Director, Director in charge of Secretarial Office, and External Directors, and Chairman serves as its chairman (in case when there is no Chairman or of accident, the President).

The committee met twice in FYE2018 and made recommendations mainly on the structure of executives, personnel and the roles for each, and on representative personnel for important subsidiaries.

Outside Directors: Reasons for Selection and Main Activity Status (FYE2017)

Name	Independent Director*1	Reasons for Selection and Main Activity Status in the Current Period	Number of Meetings Attended		Key Posts Held Concurrently*2
			Board of Directors	Board of Auditors	
Outside Directors					
		Mr. Komamura's term of office as an independent outside director of Subaru will be three years at the conclusion of the 87th Ordinary General Meeting			

<p>Yoshinori Komamura</p>	<p>○</p>	<p>of Shareholders. Based on his involvement in corporate management as a Representative Director of Komatsu, Ltd., Yoshinori Komamura has used his abundant experience and extensive knowledge as a business manager and deep insight into corporate social responsibility to provide useful advice on the management of Subaru. The company therefore selected him to continue in his post as outside director in the belief that he is capable as a director and should be able to contribute to maintaining and improving transparency and soundness in our business operations, as well as to reinforcing corporate governance, through his advice from an independent standpoint on all aspects of Subaru's management.</p>	<p>17 of 17</p>	<p>-</p>	<p>Advisor, Komatsu Ltd. Member of the Board, Institute for Strategic Leadership (ISL)</p>
<p>Shigehiro Aoyama</p>	<p>○</p>	<p>Mr. Aoyama's term of office as an independent outside director of Subaru will be two years at the conclusion of the 87th Ordinary General Meeting of Shareholders. Based on his involvement in corporate management as a Representative Director of Suntory Holdings, Ltd., Shigehiro Aoyama has used his abundant experience and extensive knowledge as a business manager and deep insight into corporate social responsibility to provide useful advice on the management of Subaru. The company therefore selected him to continue in his post as outside director in the belief that he is capable as a director and should be able to</p>	<p>17 of 17</p>	<p>-</p>	<p>Senior Advisor, Suntory Holdings, Ltd. External Director, Takamatsu Construction Group, Co., Ltd. President, The Distribution Economics Institute of Japan Director, Japan Marketing Association</p>

		contribute to maintaining and improving transparency and soundness in our business operations, as well as to reinforcing corporate governance, through his advice from an independent standpoint on all aspects of Subaru's management.			
Outside Corporate Auditors					
Shinichi Mita	○	Mr. Mita's term of office as an independent outside corporate auditor of Subaru will be three years at the conclusion of the 87th Ordinary General Meeting of Shareholders. Shinichi Mita has experience of both the supervisory and executive aspects of corporate management as a Director of Kao Corporation and knowledge gained from such experience. In particular, he has extensive insight into accounting and finance in corporate activities. The company therefore judged him to be the right person for the post of outside corporate auditor.	17 of 17	12 of 12	Advisor, Mizuho Capital Partners Co., Ltd. Member of the Board, Japan Association for Chief Financial Officers (JACFO)
Yasuyuki Abe	○	Mr. Abe's term of office as an independent outside corporate auditor of Subaru will be two years at the conclusion of the 87th Ordinary General Meeting of Shareholders. Having been involved in both the supervisory and executive aspects of corporate management as Senior Managing Executive Officer, Member of the Board of Sumitomo Corporation, Yasuyuki Abe has abundant experience and extensive knowledge as a business manager. Based on the above, the company selected him as	15 of 17	11 of 12	Advisor, Sumitomo Corporation Director of the Board (External) (Chair of the Board of Directors), JVC KENWOOD Corporation Advisor, ORANGE AND PARTNERS CO., LTD.

	the right person for the post of outside corporate auditor at Subaru, expecting at the time of his appointment that he should be able to fulfill the relevant duties appropriately.		
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During the aforementioned outside executives' period of office, Subaru's Gunma Plant was found to be operating inappropriately, with personnel who were not qualified as final vehicle inspectors performing final inspections, while measurements and data were inappropriately altered in a sample test of fuel efficiency and gas emissions in the final inspection process. In addition, measurements taken under inappropriate testing conditions – specifically trace errors, in which the vehicle's speed deviated from the prescribed test mode, and humidity errors, in which the humidity in the inspection room deviated from the stipulated margins – were treated as valid data. These individuals had no prior knowledge of such facts and were routinely providing advice on the importance of compliance and internal control based on their abundant experience and extensive knowledge. After the facts were revealed, they fulfilled their responsibilities by, for instance, receiving reports as needed on the progress status of the investigation into relevant facts to understand the situation, responding appropriately to requests and so on from the Ministry of Land, Infrastructure, Transport and Tourism in a timely manner, further enhancing and ensuring compliance, and seeking the implementation of appropriate measures to prevent the recurrence of similar problems.*³

- *1 Outside directors and outside corporate auditors who do not pose a risk of a conflict of interest with the ordinary shareholders as stipulated by the stock exchange
- *2 As of March 31, 2018
- *3 Please refer to "[Cases of Improper Conduct of Final Vehicle Inspections and Measurement of Fuel Economy and Emissions](#)" for information about the impropriety concerned.
- * Please refer to the [Corporate Governance page](#) on Subaru's website for the Corporate Governance Guidelines (attachment: Independence Standards for Outside Executives) and the Corporate Governance Report.

Executive Compensation Committee

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 amount, the Executive Compensation Council entrusted by the Board of Directors decides on the specific amounts.

The Committee is made up of Representative Director, Director in charge of Secretarial Office, and External Directors, and Chairman serves as its chair (or by the Representative Director of the Board and President, in the event of an accident or the company having no Chairman).

The Executive Compensation Committee set compensation by considering compensation standards of other corporations that are suitable for comparison, compensation of employees at Subaru, social conditions, and assessment of executive officers' performance.

Compensation of directors is determined based on the following:

- An appropriate, fair, and well-balanced level commensurate with the directors' roles and responsibilities.
- A system that takes into account the need to secure outstanding personnel and motivate them to achieve sustained improvements in corporate performance and corporate value.

Specific compensation consists of the following items. Note that standards for each item are set according to corporate responsibilities and are differentiated between internal and external status by using survey data from external expert institutions. The total for the "Long-term Incentives" has an upper limit of 200 million yen per year.

(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.
(3) Long-term incentives	Compensation for granting shares with transfer restriction to provide incentive for sustained improvement of corporate value and to further enhance value sharing with shareholders.

Note that external directors do not qualify for the above (2) or (3) considering their role of independently performing oversight and auditing of management.

Total compensation for auditors was resolved to be no more than 100 million yen per year at the 75th Ordinary General Meeting of Shareholders held on June 27, 2006. Within this amount, the basic compensation to be paid is determined based on the rank with consideration to business environment, etc.

The committee met twice in FYE2018 to deliberate on compensation systems, and performance-based compensation for directors (excluding external directors) and executive officers was determined based on evaluations. In addition, individual claims for monetary compensation associated with the stock transfer compensation system with a transfer restriction was determined.

* ROE : Return On Equity

Total Compensation, etc. of Directors and Auditors by Category

Classification	Number	Total Compensation, etc. (million yen)			
		Basic Compensation (monthly fixed sum)	Performance-based Compensation		
			Short-term Performance-based Compensation	Long-term Incentive	
Directors (excluding outside directors)	8	298	151	37	486
Auditors (excluding outside auditors)	2	56	-	-	56
Outside Directors	4	46	-	-	46
Total	14	400	151	37	588

* The table above includes two directors appointed before the final day of this financial year. As of the end of this financial year, there are 8 directors (2 of whom are outside directors) and 4 corporate auditors (2 of whom are outside corporate auditors).

Policies for Cross-shareholding

In the case of major listed shares held for policy purposes, Subaru's Board of Directors will review whether or not these shareholdings contribute to the corporate management of the company in the medium to long term by examining economic rationality on a risk-return basis, while giving overall consideration to such factors as medium- to long-term improvements in corporate value, their importance from the perspective of business strategy, and relationships with business partners. As of the end of March 2018, Subaru's equity investments for purposes other than investment alone amounted to 49 securities, which are recorded in the balance sheet as being worth a total of 9.371 billion yen.

Subaru's Shareholdings for Purposes Other Than Investment Alone: Number of Securities and Total Value as Recorded in the Balance Sheet

Category	FYE2015	FYE2016	FYE2017	FYE2018
Number of Issues (Securities)	91	63	62	49
Value Listed on Balance Sheet (million yen)	39,055	28,764	13,339	9,371

Preventing Conflicts of Interest Involving Members of the Board of Directors

- The approval of the Board of Directors is obtained in advance where a transaction poses the risk of a conflict of interest.
- A report on the positions that each director has held concurrently over the past financial year is provided once a year at the April meeting of the Board of Directors (A report to confirm that there have been no improper transactions or positions held concurrently that would hinder the performance of their duties).

Participation of Directors (Overview of the last five years)

	FYE2014	FYE2015	FYE2016	FYE2017	FYE2018
Number of Meetings	17	14	15	15	17
Attendance rate	82.4%	100%	96.3%	96.3%	99.0%

*The attendance rates for the newly appointed directors is calculated for board of directors meetings held after the appointment.

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 Subaru's 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.

Summary of the Results of Effectiveness Evaluation of the Board of Directors

In accordance with the Corporate Governance Guidelines, the Board of Directors analyzes and evaluates its effectiveness and examines and implements improvement measures to tackle the issues identified. In response to the improper conduct that occurred during final vehicle inspections during the current period, the focus of questions was revised to ensure that the effectiveness of the supervisory functions of the Board of Directors was evaluated in greater detail. The results are reported below.

Timing: March 2018

Respondents: All directors and all corporate auditors (12, including outside directors)

Method: Self-appraisal using a questionnaire drawn up by a third-party body

- (1) Third-party body conducts an anonymous self-appraisal questionnaire among all directors and corporate auditors.
- (2) Third-party body collates and analyzes results.
- (3) Board of Directors reviews and discusses the report received from the third-party body.

Focus of questions

- 1) Operational structure of the Board of Directors
- 2) Supervisory functions of the Board of Directors
- 3) Dialogue with shareholders

Results of evaluation

- As in the past, the evaluation found that frank discussion from a company-wide perspective took place at meetings of the Board of Directors, based on mutual understanding among the members and under the leadership of the Chair.
- It found a shared awareness that matters such as the scale of the Board of Directors, the proportion of outside directors, the suitability of members of the Executives Appointment Committee and Executive Compensation Committee, and the sharing of the views of shareholders and investors were all appropriate.
- Matters where future improvements or enhancements in function were anticipated include the strengthening of the Board of Directors' systems for identifying and managing risk, as well as enhanced discussions about medium- to long-term management strategy.

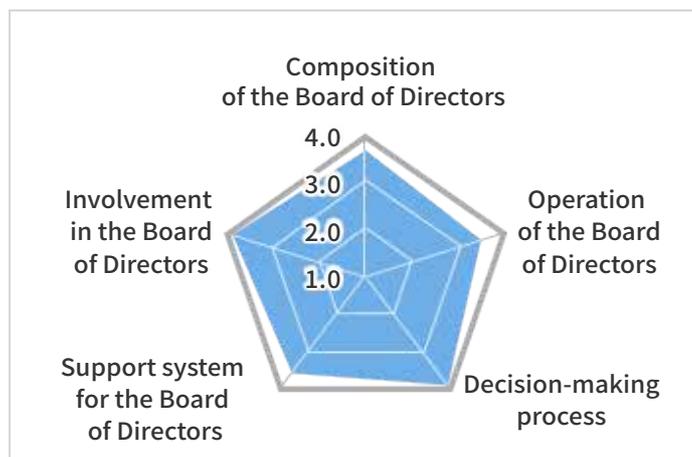
Future initiatives

- As well as discussion of medium- to long-term management strategy, the Board of Directors was found to be focusing its efforts on further strengthening its systems for identifying and managing risk by striving to ensure that measures to prevent recurrence of impropriety are executed thoroughly.
- On April 1, 2018, Subaru established the "Tadashii-Kaisha" Promotion Department (Tadashii-Kaisha: A company doing the right thing in the right way) and the Compliance Office with the objective of enhancing initiatives to address the legislative compliance and corporate culture reform issues faced by Subaru. The evaluation found that the Board of Directors intended to regain the trust of shareholders by keeping a close eye on activities throughout the group, primarily via these organizations.

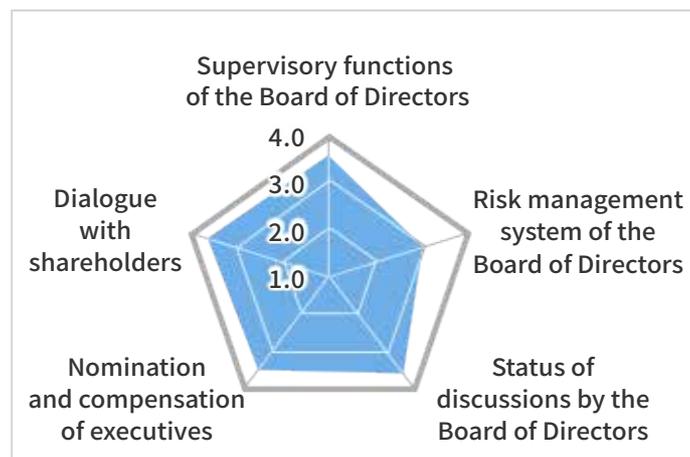
The Board of Directors will continue to undertake these evaluations of its effectiveness in the future, thereby promoting efforts to improve the functions of the Board of Directors, enhance corporate governance, and achieve ongoing increases in corporate value.

Collated Results of the Questionnaire

Operational structure of the Board of Directors



Supervisory functions of the Board of Directors and dialogue with shareholders

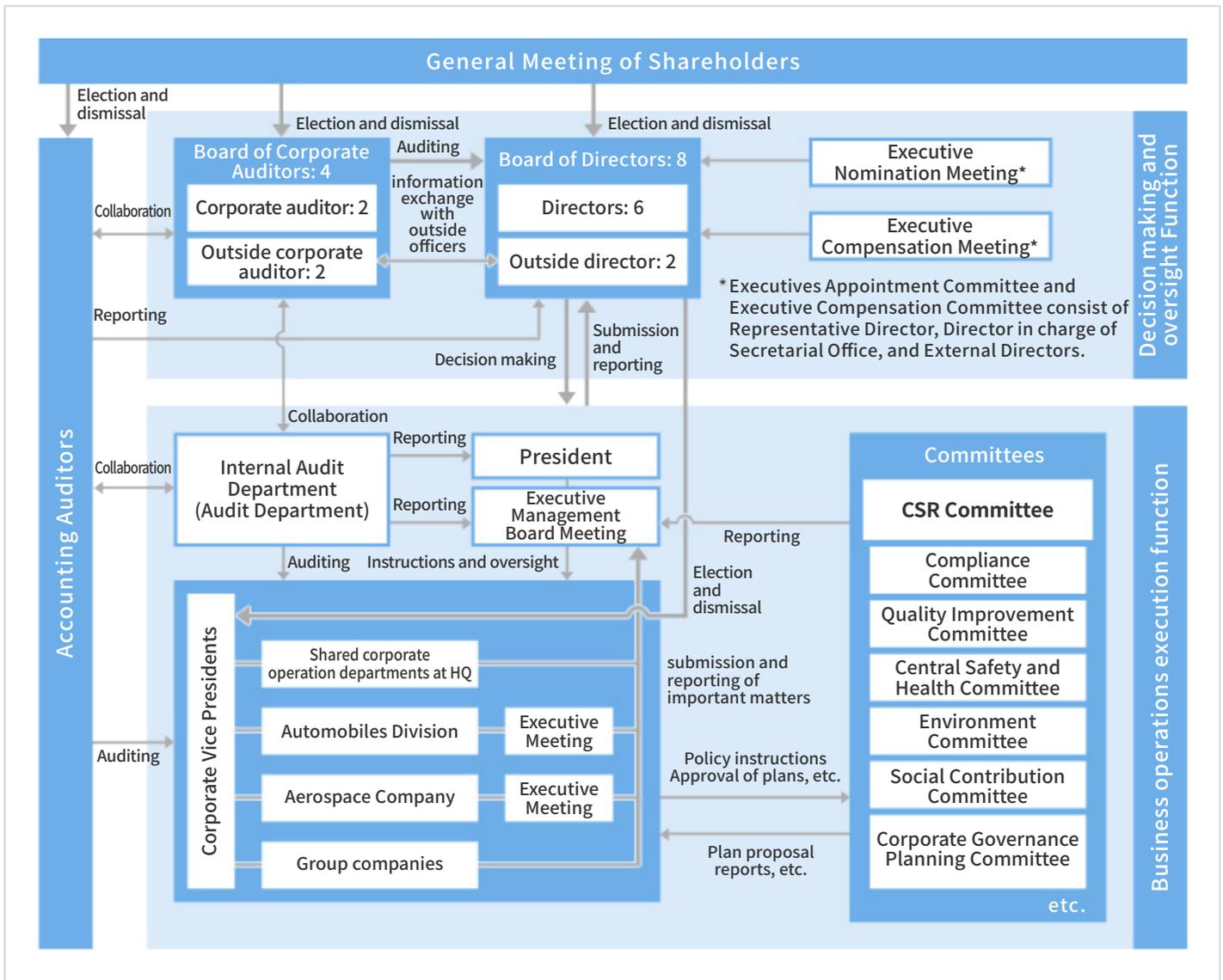


Focus of Questions

Category	Diagnostic Item		
I. Operational structure of the Board of Directors			
(1) Composition of the Board of Directors	Scale of the Board of Directors	Composition of the Board of Directors (ratio of inside to outside directors)	Composition of the Board of Directors (diversity and expertise)
(2) Operation of the Board of Directors	Frequency, length, and time allocation of meetings	Relevance of agenda items	Quality and quantity of documents
	Timing of document distribution	Prior explanation	Content of explanations and reports
(3) Decision-making process	Leadership by the Chair	Adequate discussion	-
(4) Support system for the Board of Directors	Environment and systems for the provision of information	Provision of information to outside directors	Training of outside directors
	Training of inside directors	-	-

(5) Involvement in the Board of Directors	Attitude to initiatives	Company-wide perspective	Mutual respect
	Diverse values	Stakeholder perspectives	-
II. Supervisory functions of the Board of Directors			
(1) Supervisory functions of the Board of Directors	Reporting system	Supervision of corporate management	-
(2) Risk management system of the Board of Directors	Risk management system	Subsidiary management system	Provision of information and measures to combat risk
	System for managing progress of response measures	Penetration of compliance awareness	-
(3) Status of discussions by the Board of Directors	Discussion of management strategy	Discussion of capital policy	Discussion of cross-shareholdings for policy purposes
	Discussion of strengthening governance	Response to social and environmental problems	-
(4) Nomination and compensation of executives	Composition of the Executives Appointment Committee and Executive Compensation Committee	Cultivating successors	Incentive compensation
III. Dialogue with shareholders			
(1) Dialogue with shareholders	Sharing the views of shareholders and investors	Enhancing dialogue with shareholders and investors	-

System of Corporate Governance



Development of Internal Control Systems

In accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act, Subaru's Board of Directors has adopted a basic policy on putting in place systems that ensure that the performance of duties by directors is in conformity with laws and regulations and with the Articles of Incorporation, and other systems prescribed in the ordinance of the Ministry of Justice as being necessary to ensure the appropriate operations of the company and the corporate group consisting of the company and its subsidiaries. The Board of Directors maintains and operates this basic policy, reviewing it as needed.

Status of Internal Audits and Auditing by Corporate Auditors

Subaru has 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 taking into consideration the internal audit status of the entire group, and implements it as planned. The Audit Department creates a report on the results of internal audits and delivers it to directors, corporate auditors and concerned personnel, and report it quarterly at the Executive Management Board Meeting. Subaru's 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.

Subaru's Audit Department and corporate auditors strengthen their collaboration and auditing function by holding monthly internal audit reporting meetings to hear the results from the Audit Department as well as quarterly opinion exchanges among them on the status of internal control activities. The Audit Department and corporate auditors also endeavors to strengthen the auditing function by exchanging opinions on the quarterly basis with Accounting Auditors.

> [Message from the Outside Directors](#)  PDF/90kB

Evaluation of the Internal Control System Related to Financial Reporting

Regarding internal control reporting systems pursuant to the Financial Instruments and Exchange Act, the evaluation of the internal control system related to financial reporting is dated the final day of the consolidated accounting period and is conducted in accordance with generally accepted assessment standards for internal control over financial reporting.

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, 2018 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.