



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 for a vision of “From a company making things, to a company making people smile” based on our corporate philosophy and management 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.

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](#)

Overview of Corporate Governance System

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.

The Board of Directors consists of 15 directors at the most, including both within and outside the company, in accordance with the Articles of Incorporation.

Due to the resignation of one director effective December 31, 2018, the Board of Directors consisted of seven directors as of March 31, 2019, two of whom were highly independent outside directors. At the 88th Ordinary General Meeting of Shareholders held on June 21, 2019, Subaru increased the number of outside directors by one to bolster the supervisory functions of corporate management. Accordingly, the Board of Directors is now composed of nine directors, three of whom are highly independent outside directors. The chairman of the company, who has no major executive responsibilities, chairs the meetings of the Board of Directors.

The Board of Auditors is composed of four corporate auditors, two of whom are outside corporate auditors. This structure enables Subaru to achieve sounder, more efficient business by increasing the effectiveness of monitoring of corporate management through the involvement of highly independent outside directors and outside corporate auditors.

Subaru has established two voluntary meetings: the Executive Nomination Meeting and the Executive Compensation Meeting. In order to maintain fairness and transparency in the process for nominating directors and corporate auditors, the members of the Executive Nomination Meeting, including the independent outside directors, engage in ample deliberations on candidates referred by the Board of Directors. The Meeting then reports the approved nomination proposals for directors and corporate auditors, and approved proposals for appointment and removal of executive officers, including the chief executive officer (CEO), to the Board of Directors. Nominations are discussed and decided by resolution of the Board of Directors. In order to maintain objectivity and transparency in the process for determining executive compensation, the Executive Compensation Meeting decides on the compensation system and specific sums paid in compensation to executives after ample deliberation by the meeting members, including the independent outside directors, based on the authority delegated to the Meeting by the Board of Directors. Where matters concern the executive compensation system in general, such as its revision, the Board of Directors deliberates on proposals approved by the Executive Compensation Meeting and decides on them by resolution. The Executive Nomination Meeting and Executive Compensation Meeting are made up of Representative Directors, the Director in charge of the Secretarial Office, and Outside Directors, and are chaired by Representative Director Tomomi Nakamura.

The Executive Nomination Meeting was convened five times in FYE2019 and submitted reports mainly on the executive structure and appointments, the division of duties of executives, and the appointment of representatives of major subsidiaries.

The Executive Compensation Meeting was convened twice in FYE2019 to deliberate on compensation systems, and performance-based compensation for directors (excluding outside directors) and executive officers was determined based on evaluations and the amount of monetary compensation claims in respect of restricted stock compensation for each individual recipient.

With regard to the business operation system, we have established the Executive Management Board Meeting as a preliminary consultation body to conduct deliberations on companywide management strategies and the execution of important business before their presentation at the Board of Directors. The Executive Management Board is composed of the Representative Directors, directors who execute business, and Executive Vice Presidents, and is chaired by the President and Representative Director, who is the CEO. Full-time corporate auditors also attend the Executive Management Board Meeting.

In addition to employing an executive officer system, Subaru has established the Executive Meeting to serve as the decision-making body for the operations of the automotive business. The executives involved in the Executive Meeting are the Representative Directors, directors who execute business, the executive vice presidents, and the executive officers for the automotive business, with meetings chaired by the President and Representative Director, who is the CEO. Standing corporate auditors also attend the Executive Meeting. In addition, 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.

Participation of Directors (Overview of the last five years)

	FYE2015	FYE2016	FYE2017	FYE2018	FYE2019
Number of meetings	14	15	15	17	16
Attendance rate	100%	96.3%	96.3%	99.0%	98.4%

* 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.

Outside Directors: Reasons for Selection and Main Activity Status (as of the end of June 2019)

	Independent Director*1	Reasons for Selection of Outside Directors and Main Activity Status	Number of Meetings Attended		Key Posts Held Concurrently*2
			Board of Directors	Board of Auditors	
Outside Director					
Shigehiro Aoyama	○	Having held key posts at Suntory Holdings, Ltd., Shigehiro Aoyama has abundant experience and extensive knowledge as a business manager, as well as a high level of expertise in the field of marketing. Mr. Aoyama's term of office as an independent outside director of Subaru will be three years at the conclusion of the 88th Ordinary General Meeting of Shareholders. During this time, he has used his abundant experience, extensive knowledge, and deep insight into corporate social responsibility to provide useful advice on the management of Subaru. We therefore selected him to continue in his post as outside director in the belief that he is capable of providing adequate advice and supervision from an independent standpoint on all aspects of Subaru's management.	16 of 16	-	External Director, Takamatsu Construction Group, Co., Ltd. Outside Director, Miraca Holdings Inc. President, The Distribution Economics Institute of Japan

<p>Yasuyuki Abe</p>	<p>○</p>	<p>Having been involved in both the supervisory and executive aspects of corporate management as Representative Director Senior Managing Executive Officer of Sumitomo Corporation, Yasuyuki Abe has abundant experience and extensive knowledge as a business manager, as well as a high level of expertise in the field of IT. Mr. Abe's term of office as an independent outside corporate auditor of Subaru will be three years at the conclusion of the 88th Ordinary General Meeting of Shareholders. During this time, as well as auditing the execution of duties by directors, he has gained an understanding of the true nature of the challenges faced by Subaru and has provided frank comments to the senior management team in a timely and appropriate manner. The company therefore selected him for the post of outside director, expecting at the time of his appointment that he should be capable of providing adequate advice and supervision from an independent standpoint on all aspects of Subaru's management.</p>	<p>14 of 16</p>	<p>12 of 13</p>	<p>Director of the Board (External), JVC KENWOOD Corporation Advisor, ORANGE AND PARTNERS CO., LTD.</p>
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<p>Natsunosuke Yago</p>	<p>○</p>	<p>Having held the posts of President and Representative Director, and Chairman of the Board at Ebara Corp., Natsunosuke Yago has abundant experience and extensive knowledge as a business manager. Moreover, he has a particularly high level of expertise in the field of internal controls and governance. The company therefore selected him for the post of outside director, expecting at the time of his appointment that he should be capable of providing adequate advice and supervision from an independent standpoint on all aspects of Subaru's management.</p>	<p>-</p>	<p>-</p>	<p>Representative Director, The Ebara Hatakeyama Memorial Foundation</p>
<p>Outside Corporate Auditor</p>					
<p>Shigeru Nosaka</p>	<p>○</p>	<p>Having been involved in both the supervisory and executive aspects of corporate management as Director and Executive Vice President, and Vice Chairman of the Board of Oracle Corp. Japan, Shigeru Nosaka has abundant experience and knowledge as a business manager. Having also served as Oracle Japan's Chief Director of Finance for many years, Mr. Nosaka has a high level of expertise in finance and accounting. The company therefore selected him 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.</p>	<p>-</p>	<p>-</p>	<p>Vice Chairman of the Board, Oracle Corp. Japan (Due to retire in August 2019)</p>

Kyoko Okada	○	Kyoko Okada has abundant experience and knowledge, primarily in the fields of CSR and corporate culture at Shiseido Co., Ltd., and also has experience of corporate auditing as a corporate auditor at Shiseido. As Ms. Okada comes from a company that handles a great deal of products for women, the company selected her for the post of outside corporate auditor at Subaru, expecting at the time of her appointment that she should be able to fulfill the relevant duties appropriately, such as commenting on the challenges faced by Subaru from the standpoint of a woman, thereby providing a perspective that had not hitherto been available.	-	-	Director, Japan Cancer Society Corporate Auditor, NS Solutions Corp.
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(Notes) 1. Aside from the number of meetings of the Board of Directors listed in the table above, there was one resolution in writing, which is regarded as a resolution of the Board of Directors based on Article 370 of the Companies Act and the Articles of Incorporation.

2. Cases of improper conduct in other final vehicle inspection processes and during vehicle sampling inspections involving fuel economy and emissions data were discovered after the identification of improper conduct in final vehicle inspection processes in October 2017. The outside directors and outside corporate auditors were not previously aware of the facts in question. The outside directors and outside corporate auditors routinely made recommendations concerning compliance and internal controls based on their abundant experience and deep insight. After the facts in question were revealed, they received reports as required concerning the investigation of the causes of the improper conduct and steps being taken to prevent recurrence, and made various recommendations. In the wake of these recommendations, Subaru made organizational changes and appointed a Chief Risk Management Officer (CRMO) effective April 1, 2019, with the objective of increasing the effectiveness of internal controls and risk management.

Aside from meetings of the Board of Directors, the Executive Council, which is composed of directors and corporate auditors, provides another forum for discussion of changing the culture and quality reforms. In these discussions, the outside directors and outside corporate auditors fulfill their responsibilities by contributing their external viewpoints and offering the recommendations needed to transform Subaru in such areas as changing the culture, improving quality, and achieving stronger, more thorough compliance, including at affiliated companies.

*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, 2019

* 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, etc.

Policy for Determining the Amount of Compensation for Subaru Executives or the Calculation Method Thereof

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.

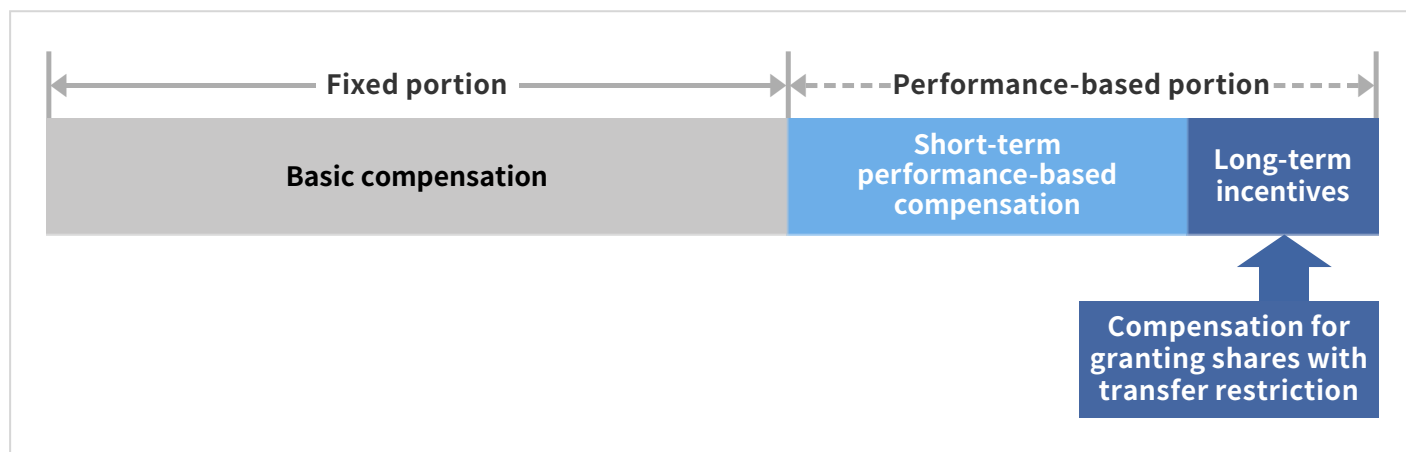
Specific compensation consists of the following items. Note that standards for each item are set according to corporate responsibilities and are differentiated between internal and external status by using survey data from external expert institutions.

(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.

*ROE: Return on Equity

In view of the role of outside directors in management monitoring and oversight from an independent standpoint, we do not provide short-term performance based compensation or long-term incentives to outside directors.

Compensation System for Directors (excluding outside directors)



Total compensation for directors was resolved to be no more than 1.2 billion yen per year (of which, compensation for outside directors was to be no more than 200 million yen per year) at the 85th Ordinary General Meeting of Shareholders held on June 28, 2016. Within that sum, total monetary compensation associated with long-term incentives is capped at 200 million yen per year. Subaru's Articles of Incorporation stipulate that the company may have no more than 15 directors.

In determining the compensation paid to directors, the Executive Compensation Meeting decides on the compensation system and specific sums paid in compensation to executives after ample deliberation by the Meeting members, including the independent outside directors, based on the authority delegated to the Meeting by the Board of Directors. Where matters concern the executive compensation system in general, such as its revision, the Board of Directors deliberates on proposals approved by the Executive Compensation Meeting and decides on them by resolution. The Executive Compensation Meeting is made up of Representative Directors (two), the director in charge of the Secretarial Office (one), and Outside Directors (three), and is chaired by Representative Director Tomomi Nakamura.

In STEP, the mid-term management vision published in July 10, 2018, Subaru set out a profit plan for operating income of 950 billion yen over the three years from FYE2019 to FYE2021. Under this plan, Subaru will ensure an equity ratio of 50% or higher and ROE of 10%, while aiming for 15% or higher. Consolidated ordinary profit in FYE2019 was 196.2 billion yen, while the equity ratio was 53.8% (down 0.4% from the previous year) and ROE was 9.4%. Under the authority delegated to it by the Board of Directors, the Executive Compensation Meeting determined the sums to be paid in short-term performance-based compensation to each director based on these results.

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.

Subaru's Articles of Incorporation stipulate that the company may have no more than five corporate auditors.

Total Compensation of Executives by Executive Category, Total Sum by Compensation Type, and Number of Executives Eligible

88th Term (FYE2019)

Classification	Number (persons)	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)	9	291	80	51	422	
Auditors (excluding outside auditors)	2	56	-	-	56	
Outside Directors	4	46	-	-	46	
Total	15	393	80	51	524	

Note: The table above includes four directors who stepped down before the final day of this financial year. As of the end of this financial year, there are 7 directors (2 of whom are outside directors) and 4 corporate auditors (2 of whom are outside corporate auditors).

Reference: 87th Term (FYE2018)

Classification	Number (persons)	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	

Note: 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

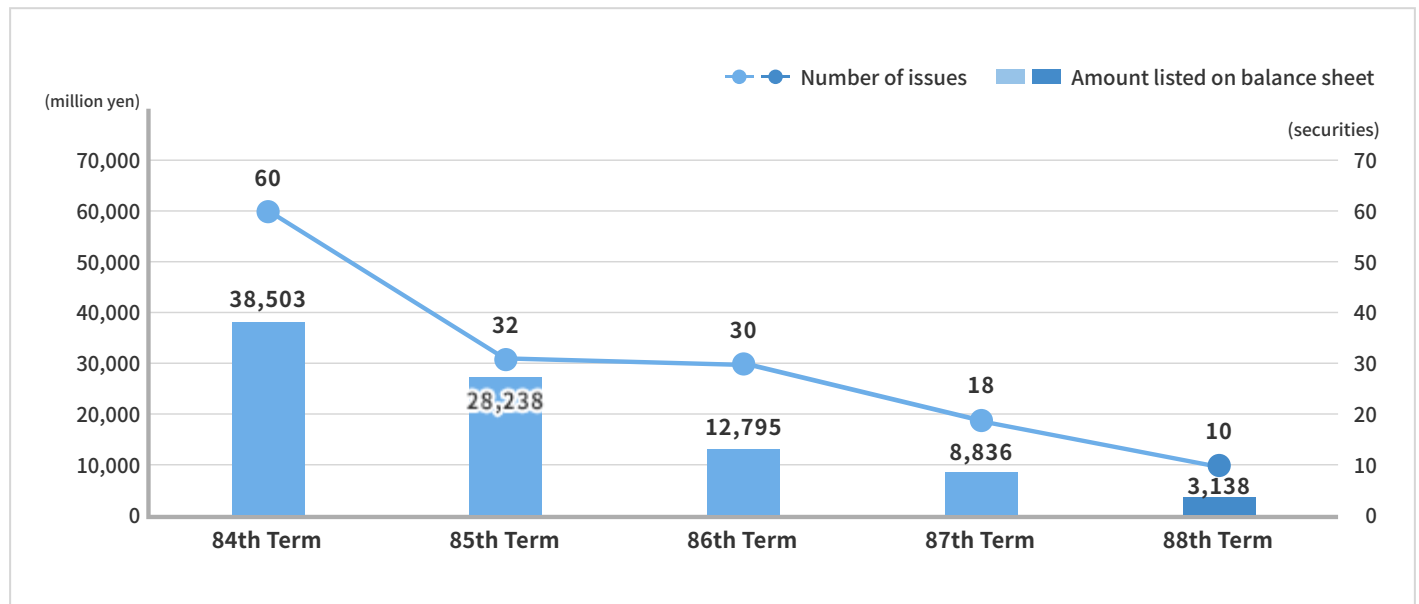
In FYE2019, Subaru reviewed whether the holdings of these shares will contribute to the corporate management of the company in the medium- to long-term by examining economic rationality on a risk-return basis, while giving comprehensive consideration to such factors as medium- to long-term improvements in corporate value, their importance from the perspective of business strategy, and relationships with business partners. Starting in FYE2020, Subaru will scrutinize each of its major listed shares held as cross-shareholding at annual meetings of the Board of Directors, examining the purpose of the shareholdings and whether their benefits are commensurate with the capital cost, and will continue to hold those deemed to contribute to the company's medium- to long-term management and business strategies.

Subaru has steadily reduced its major listed shares held as cross-shareholding since the Corporate Governance Code entered into force. As a result, Subaru's major listed shares held as of March 31 each year for policy purposes fell from 60 securities in 2015 to 32 in 2016, 30 in 2017, 18 in 2018, and 10 in 2019.

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

		84th Term FYE2015	85th Term FYE2016	86th Term FYE2017	87th Term FYE2018	88th Term FYE2019
Number of Issues (Securities)	Listed	60	32	30	18	10
	Unlisted	31	31	32	31	31
	Total	91	63	62	49	41
Value Listed on Balance Sheet (million yen)	Listed	38,503	28,238	12,795	8,836	3,138
	Unlisted	552	526	544	535	535
	Total	39,055	28,764	13,339	9,371	3,673

Subaru's Shareholdings for Purposes Other Than Pure Investment: Number of Securities and Total Amount as Recorded on the Balance Sheet



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).

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

Subaru has created and published the [Corporate Governance Guidelines](#) with the objective of informing all stakeholders about the basic concept, framework, and operating policy of our corporate governance, in order to ensure the sustainable growth of the Subaru Group and enhance its medium- to long-term corporate value.

In accordance with the Guidelines, the Board of Directors analyzes and evaluates the effectiveness of the Board and examines and implements improvement measures to tackle the issues identified.

In FYE2019, as well as conducting fixed-point observation based on the FYE2018 evaluation, the Board of Directors undertook analysis and evaluation focused primarily on checks of initiatives to tackle issues identified in the FYE2018 evaluation. The results are reported below.

Timing of implementation: March 2019

Respondents: All directors and all corporate auditors (11, including outside directors)

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

- (1) Third-party body conducts an anonymous self-evaluation questionnaire among all directors and all 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
- 4) Initiatives to tackle issues identified in the FYE2018 evaluation

As well as the self-evaluation section in which each person rates themselves on a four-rank scale, the questionnaire has a free-response section in which respondents can list the areas in which Subaru's Board of Directors is achieving excellence and areas where it needs to increase its effectiveness. The questionnaire is submitted directly to the third-party body.

Results of Evaluation

Subaru has received the following report on the results from the third-party body commissioned to conduct the evaluation.

- As with the evaluations conducted through to FYE2018, the evaluation found that healthy, frank discussion from a company-wide perspective took place at meetings of the Board of Directors.
- On the other hand, the trend in the FYE2019 evaluations was for results to be the same as or lower than in the previous evaluation (see Collated Results of the Questionnaire). This appears to be due to the increased awareness of the need for further improvements that has resulted from the cases of improper conduct and the directors' and corporate auditors' involvement in dealing with them.
- The evaluation showed that there was a strong awareness of issues in such areas as cultivating successors and providing information to outside directors, so further improvements and functional enhancements are expected in these areas.

[Issues recognized in the FYE2018 evaluation]

- In FYE2019, directors and corporate auditors tackled the following issues recognized in the FYE2018 evaluation.
 - (1) Strengthening the system for identifying and managing risk
Efforts to address the cases of improper conduct have been a catalyst for progress with efforts to promote revisions and improvements, and questionnaire responses demonstrated the importance of sustaining future initiatives and ensuring that they become firmly established.
 - (2) Enhancing medium- to long-term discussions
Responses demonstrated a common awareness of the need to further increase opportunities for discussion of Subaru's medium- to long-term business strategy and ambitions concerning the company that it aspires to be.
- Effective April 1, 2019, Subaru established the new Corporate Planning Division to accelerate management strategy planning and implementation, and established the Market Strategy Department and Logistics Management Department under the new division; we also established the post of Chief Risk Management Officer (CRMO) and the Risk Management and Compliance Office overseen by the CRMO, to increase the effectiveness of internal controls and risk management.

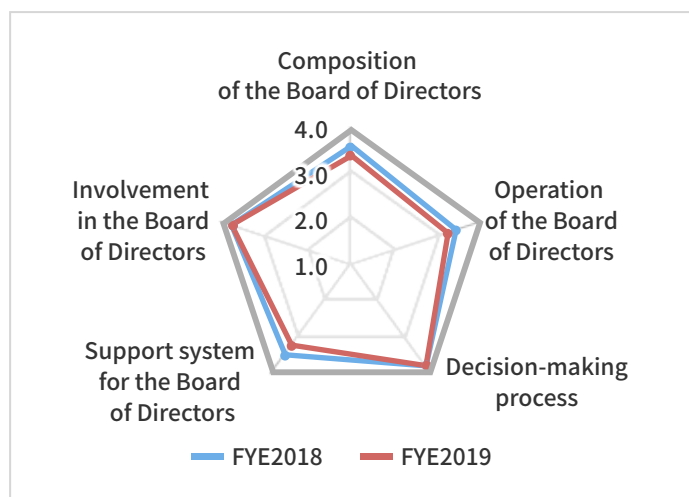
Future Initiatives

The Board of Directors reviewed and discussed the evaluation report received from the third-party body. As a result, the Board of Directors confirmed that it will continue to work on strengthening Subaru's risk identification and management system and ensure that it becomes firmly established, as well as striving to enhance discussions about medium- to long-term management strategy and discussing policies for successor planning and cultivation at meetings of the Board of Directors.

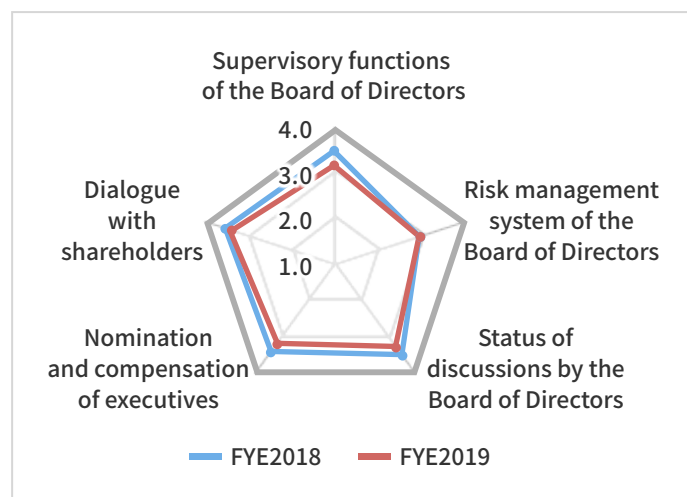
The Board of Directors will continue to undertake the evaluation of its effectiveness in the future, thereby promoting efforts to improve the functions of the Board of Directors, enhance corporate governance, and achieve ongoing increase in corporate value.

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	-

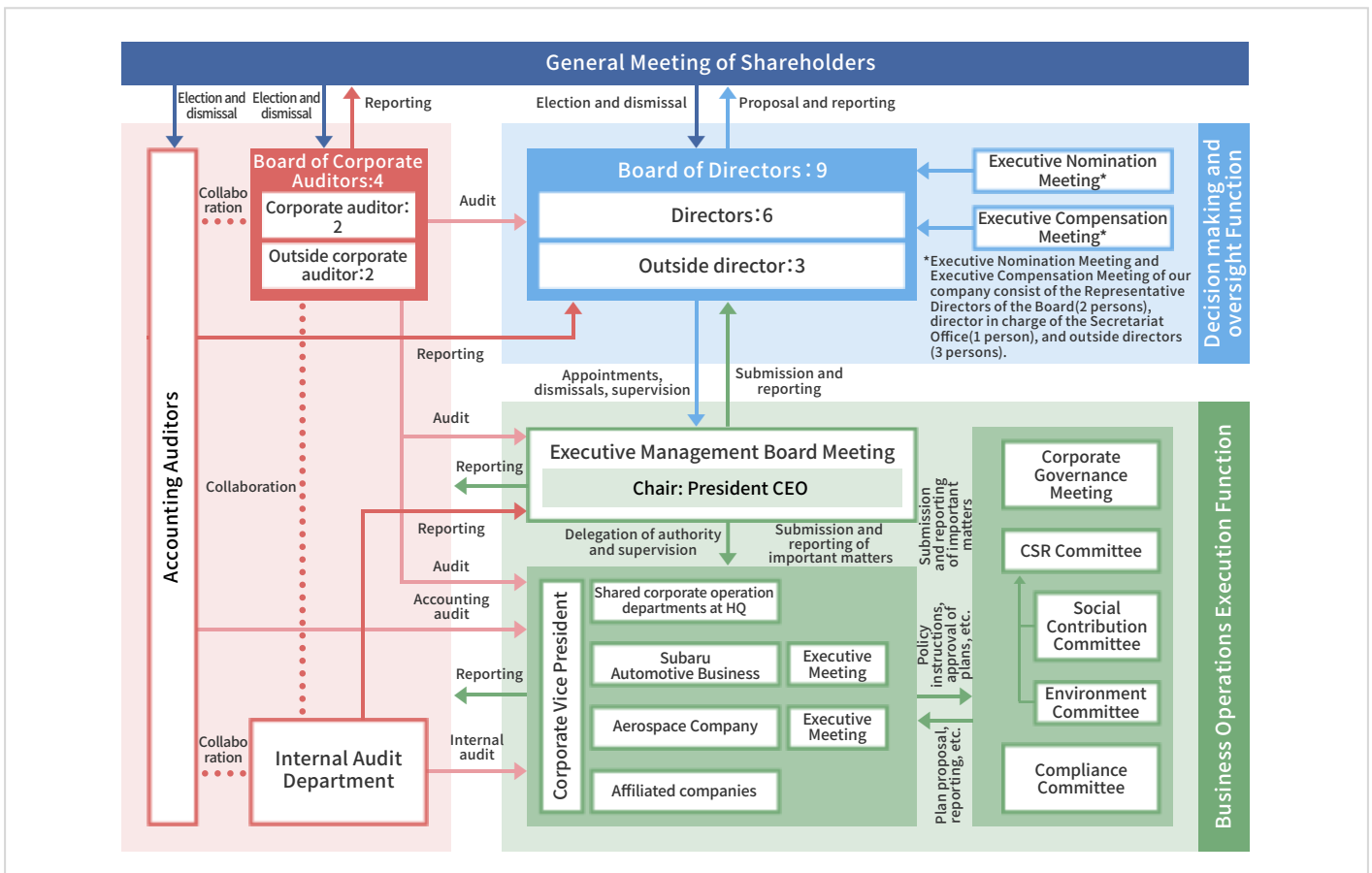
II. Supervisory functions of the Board of Directors

(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	-
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System of Corporate Governance



Strengthening Internal Controls and Governance

Subaru has established two new departments—the Risk Management and Compliance Office and the Sustainability Promotion Department—to increase the effectiveness of internal controls and risk management by consolidating organizations and clarifying reporting lines.

In conjunction with this, Subaru established the new post of Chief Risk Management Officer (CRMO) and created the Risk Management Group as an overarching structure bringing the two new departments together with the General Administration Department, the Group Company Management Department, the Legal Department, and the Internal Audit Department.

<Risk Management & Compliance Office>

The Compliance Office was restructured to add the role of planning and implementing group-wide internal controls and risk management to its existing function of enhancing Subaru's compliance initiatives.

<Sustainability Promotion Department>

The CSR & Environment Department was restructured to add the role of planning and implementing group-wide activities focused on the environment, society, and governance to the department's existing functions in the area of the environment and corporate social responsibility.

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 Auditing

Status of Auditing by Corporate Auditors

Subaru's corporate auditors attend meetings of the Board of Directors and other important meetings, inspect business sites and subsidiaries, interview members of the 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.

(Status of efforts to ensure the effectiveness of audits by corporate auditors)

Subaru has put in place a system that enables corporate auditors to gather information as required from directors and employees in the event of risks causing significant harm to the company, or a serious breach of laws, regulations or the Articles of Incorporation, or any other critical compliance issue. Under this system, Subaru employees are deployed to assist the corporate auditors in their duties, to enable the corporate auditors to execute their duties smoothly.

Subaru's corporate auditors attend important meetings, including meetings of the Board of Directors, the Executive Management Board Meeting, the CSR Committee, and the Compliance Committee, at which they give their opinions as needed, thereby ensuring the effectiveness of the audit process.

The corporate auditors also check the state of the development and operation of internal control systems by holding regular meetings with the directors and executive officers, and making site visits to major business establishments and affiliated companies.

They receive monthly reports from the Internal Audit Department and the Legal Department, as well as receiving reports as needed from departments in charge of managing subsidiaries concerning the state of those subsidiaries. In addition, the corporate auditors hold meetings with the corporate auditors of major group subsidiaries.

The corporate auditors met with the accounting auditors quarterly to exchange information and opinions, thereby facilitating their efforts to work together, and also held discussions concerning the appointment of Accounting Auditors.

Status of Internal Auditing

Subaru has established the Audit Department as an internal auditing organization and conducts internal audits of business execution at Subaru group. At the beginning of the fiscal year, the Audit Department prepares an internal audit plan for the fiscal year that takes into consideration the internal control status of the Group as a whole and systematically implements the plan. The Department prepares and distributes to the directors, corporate auditors, and concerned parties audit reports on the results of internal audits and reports quarterly at the Executive Management Board Meeting.

Subaru's Internal Audit Department and corporate auditors achieve closer collaboration and strengthen their auditing functions by holding monthly internal audit reporting meetings to hear the department's findings, as well as quarterly dialogues on the status of internal control activities, which are also attended by the director in charge of the Internal Audit Department. The Audit Department and corporate auditors also endeavor to strengthen auditing functions by quarterly information sharing with accounting auditors.

[Message from the Outside Directors](#)  PDF/101kB

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, 2019 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.

Group Governance (Affiliated Companies in Japan)

Affiliated companies will play an ever-greater role in enabling Subaru to survive the automobile industry's epochal transformation once in a hundred years. As well as further highlighting the strengths of Subaru's affiliated companies and striving to improve them as companies in qualitative terms, Subaru faces the pressing issue of enhancing the group governance of these companies to ensure that society trusts them as members of the Subaru Group.

Group companies

In the Subaru Group, the Business Oversight Department administers the businesses of group companies, while the Group Company Management Department supports the management of those group companies. They work in partnership to strengthen group governance by three-in-one activities for ensuring sound business activities by group companies. In FYE2020, the Group Company Management Department became part of the new Risk Management Group, which is overseen by the Chief Risk Management Officer (CRMO). In conjunction with these efforts to strengthen the organization, Subaru will seek to make these three-in-one activities more effective in FYE2020 by promoting initiatives focused on the following three priority issues.

1. Three-in-one activities tailored to the actual circumstances at each company
 - (1) Ensuring that the Business Oversight Department and Group Company Management Department work as a more integrated team to assist each group company in formulating a medium-term business plan and promoting activities
 - (2) Dispatching personnel from the Business Oversight Department and Group Company Management Department to play a part in the management of group companies by serving as part-time directors and part-time corporate auditors
2. Supporting efforts to strengthen each company's corporate management (strengthening and enhancement of auditing system and education/training system)
 - (1) Strengthening the auditing system by increasing the number of full-time corporate auditors (from 8 to 11)
 - (2) Holding periodic directors' workshops (once a year) and corporate auditors' workshops (twice a year)
 - (3) Strengthening governance through the Subaru Internal Audit Department's efforts to share examples of auditing with each company
 - (4) Promoting highly comprehensive auditing through the introduction of computer-assisted audit techniques (CAATs)
3. Revising means of communication with each company
 - (1) Revitalizing decision-making bodies
Revising and revitalizing the regular Meeting of Group Company Presidents to make it a forum more conducive to two-way exchanges of opinions
 - (2) Use of the web
Sharing information via the Subaru Group Multi Communication Site website for group companies

Subaru Dealerships

Subaru dealerships are the company's point of contact with customers. Subaru is therefore striving to strengthen group governance at its dealerships, believing that getting even closer to the voice of the customer and working with Subaru dealerships to become an integrated team serving customers is crucial to foster trust on the part of our customers.

1. Management system support

- (1) Deploying directors (part-time) and corporate auditors (all presiding companies)
- (2) Holding periodic training for executives (newly appointed directors, directors in their third year, corporate auditors)

2. Sharing Subaru's policies with Subaru dealerships

- (1) Directors Council meeting (twice a year)
- (2) Specialist committee meetings (sales and marketing / used cars / service and parts / general affairs and IT)
- (3) Internal Audit Department Liaison Committee meeting (twice a year)