

Corporate Governance

Basic Policy on Corporate Governance

- Based on the corporate philosophy, SUBARU aspires to be a compelling company with a strong market presence. The enhancement of corporate governance is one of the management's top priorities as SUBARU works to gain the satisfaction and trust of all its stakeholders by achieving sustainable growth and improving its corporate value in the medium to long term based on the "Customer First" principle.
- 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 enhances compliance and its risk management system through the monitoring of its 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 instituted the Corporate Governance Guidelines with the objective of clearly defining its basic policy on corporate governance, governance framework, and operating policy.

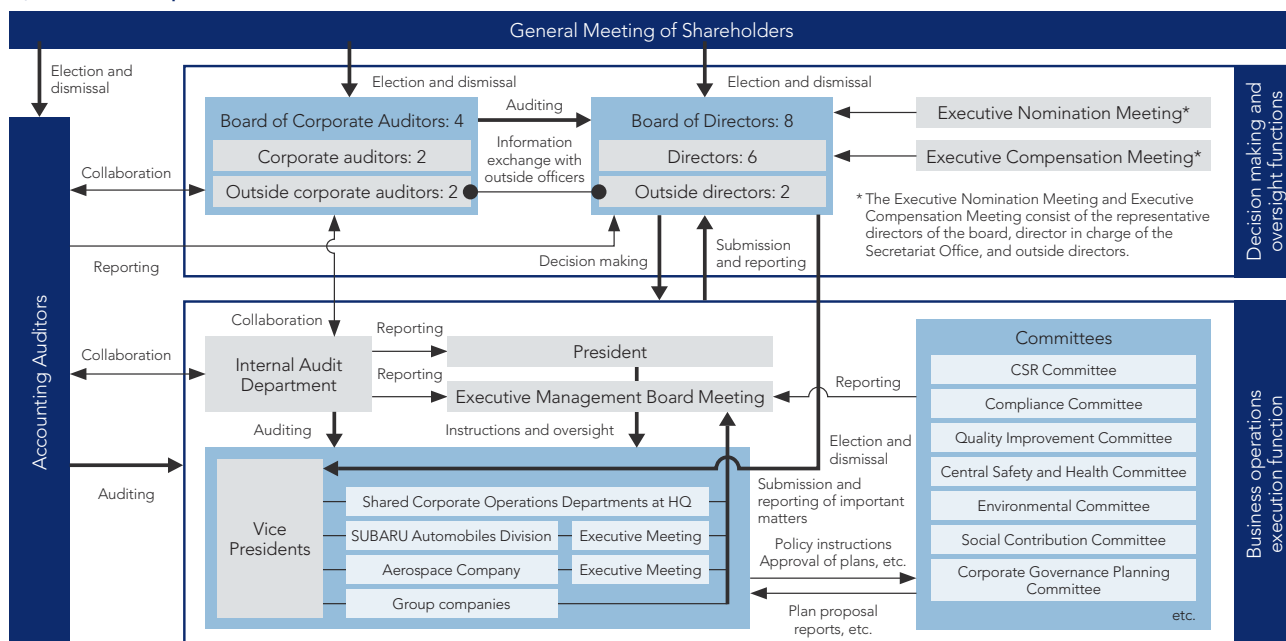
 [Corporate Governance Guidelines and Corporate Governance Report](https://www.subaru.co.jp/en/csr/governance.html)
<https://www.subaru.co.jp/en/csr/governance.html>

*We plan to revise the guidelines and report by December 31, 2018 in light of the content of the June 2018 revisions to Japan's Corporate Governance Code.

Management Organization

The Company has chosen to be a company with a board of corporate auditors as its corporate governance structure, and the Board of Directors decides and supervises, and the Board of Corporate Auditors audits, the execution of important business. The Board of Directors is composed of eight directors, two of whom are highly independent outside directors to further strengthen governance. The Board of Corporate Auditors is composed of four corporate auditors, two of whom are outside corporate auditors to provide objective oversight of management.

System of Corporate Governance



With regard to the business operation system, the Company has 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' Meeting. In addition, the Company has adopted a vice president system and established the Executive Board Meeting as the decision-making body of each business department, and converted the Aerospace division into an internal company, in order to clarify responsibilities and accelerate the execution of business operations.

The Company currently has three special advisors, none of whom is a retired representative director of the board and president or CEO. The principle role of special advisors is to make themselves available on a regular basis to provide business advice upon request. The special advisors do not participate in meetings and are not involved in management. In principle, the term of office of special advisors is one year.

SUBARU has abolished the Senior Advisor System.

Development of Internal Control Systems

The Company has adopted by resolution of the Board of Directors a basic policy on development of a system to ensure that execution of duties by directors complies with laws and regulations and the Articles of Incorporation in accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act as well as other systems stipulated by ordinance of the Ministry of Justice as necessary to ensure the properness of operations of a stock company and a corporate group consisting of the stock company and its subsidiaries. SUBARU occasionally plans, develops, and applies revisions to this basic policy.

Internal Audits and Auditing by Corporate Auditors

SUBARU has established the Audit Department as an internal auditing organization and conducts internal audits of business execution at SUBARU and its domestic and overseas Group companies. 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 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 in accordance with the audit policy and audit plan established by the Board of Corporate Auditors.

The Audit Department and corporate auditors work to deepen collaboration and strengthen the auditing function through monthly internal audit report meetings held by the Audit Department and quarterly dialogues about internal control. The Audit Department and corporate auditors endeavor to strengthen the auditing function through quarterly information sharing with the accounting auditors.

Evaluation of Internal Control System for Financial Reporting

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 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.

Policy on Appointing Senior Management and Nominating Candidates for Director and Corporate Auditor

The Board of Directors, when nominating candidates for directors and corporate auditors and appointing vice presidents, nominates persons with extensive experience, high levels of ability and insight, and advanced expertise commensurate with a position as a director, corporate auditor, or vice president within the Company in order to contribute to achieving the Company's corporate philosophy and effective corporate governance, as well as sustainable growth and improvement in corporate value in the medium and long term.

The Board of Directors appoints two or more independent outside directors from the viewpoint of giving consideration to diversity, etc., within the Board of Directors, and improving the transparency of management and shareholder value through independent oversight of management.

Reasons for Appointing the Outside Officers and Status of Principal Activities

Outside Directors	Independent Officer Status ¹	Reasons for Appointing	Meeting Attendance	Significant Concurrent Positions ²
			Board of Directors	
Yoshinori Komamura	○	Mr. Yoshinori Komamura has served three years as an independent outside director of the Company as of the conclusion of the 87th Ordinary General Meeting of Shareholders. He has drawn on his career in management as a representative director of Komatsu Ltd. to provide valuable advice on the management of the Company based on his abundant experience and extensive knowledge as a business manager and his deep insight into corporate social responsibility. Therefore, the Company has appointed Mr. Komamura with the expectation that he will contribute to maintaining and improving management transparency and soundness and strengthening corporate governance by continuing to provide advice on all aspects of the Company's management from an independent standpoint as an outside director.	Attended 17 of 17 meetings	Adviser, Komatsu Ltd. Member of the Board, Institute for Strategic Leadership (ISL)
Shigehiro Aoyama	○	Mr. Shigehiro Aoyama has served two years as an independent outside director of the Company as of the conclusion of the 87th Ordinary General Meeting of Shareholders. He has drawn on his career in management as a representative director of Suntory Holdings Limited to provide valuable advice on the management of the Company based on his abundant experience and extensive knowledge as a business manager and his deep insight into corporate social responsibility. Therefore, the Company has appointed Mr. Aoyama with the expectation that he will contribute to maintaining and improving management transparency and soundness and strengthening corporate governance by continuing to provide advice on all aspects of the Company's management from an independent standpoint as an outside director.	Attended 17 of 17 meetings	Supreme Advisor, Suntory Holdings Limited External Director, Takamatsu Construction Group Co., Ltd. President, The Distribution Economics Institute of Japan Director, Japan Marketing Association

Outside Corporate Auditors	Independent Officer Status ¹	Reasons for Appointing	Meeting Attendance		Significant Concurrent Positions ²
			Board of Directors	Board of Corporate Auditors	
Shinichi Mita	○	Mr. Shinichi Mita has served three years as an independent outside corporate auditor of the Company as of the conclusion of the 87th Ordinary General Meeting of Shareholders. The Company has appointed him in the belief that he is well qualified as an outside corporate auditor since he has management experience and knowledge in both oversight and business execution, and particularly extensive experience and insight into accounting and finance in corporate activities, gained as a director and executive officer of Kao Corporation.	Attended 17 of 17 meetings	Attended 12 of 12 meetings	Adviser, Mizuho Capital Partners Co., Ltd. Member of the Board, Japan Association for Chief Financial Officers (JACFO)
Yasuyuki Abe	○	Mr. Yasuyuki Abe has served two years as an independent outside corporate auditor of the Company as of the conclusion of the 87th Ordinary General Meeting of Shareholders. The Company has appointed him in the belief that he is well qualified as an outside corporate auditor since he has a management career in both oversight and business execution and abundant experience and extensive knowledge as a business manager gained as a senior managing executive officer and member of the board of Sumitomo Corporation.	Attended 15 of 17 meetings	Attended 11 of 12 meetings	Advisor, Sumitomo Corporation Director of the Board (External), Chairman of the Board, JVC KENWOOD Corporation Advisor, ORANGE AND PARTNERS CO., LTD.

Inappropriate practices, such as the performance of final vehicle inspections by persons not certified as final inspectors, inappropriate conduct in the form of alteration of measurement data at the time of fuel economy and emissions sampling in the final vehicle inspection process, and inappropriate measurement procedures by which vehicle fuel economy and emissions measurements were treated as valid measurements despite trace errors and humidity errors have been identified at the SUBARU Gunma Manufacturing Division. Although the outside directors and outside corporate auditors were not aware of these facts before they came to light, they regularly offer opinions about the importance of compliance and internal control based on their extensive experience and keen insights and, since the time these facts came to light, have discharged their official responsibilities by receiving reports on and ascertaining the status of progress with investigations into the facts, responding to demands from the Ministry of Land, Infrastructure, Transport and Tourism in a timely and appropriate manner, striving to further strengthen and inculcate compliance, and calling for appropriate measures to prevent any reoccurrence of such issues.

1 Outside directors and outside corporate auditors unlikely to have conflicts of interest with general shareholders as stipulated by the Tokyo Stock Exchange

2 As of March 31, 2018

Executive Nomination Meeting

To ensure fairness and transparency of decisions on executive appointments, the Executive Nomination Meeting deliberates nominations of candidates for director and corporate auditor and appointments of vice presidents and submits reports to the Board of Directors on nomination proposals unanimously approved by its members. Nominations are decided by resolution of the Board of Directors. Explanations of matters such as the candidate's background, the status of concurrent positions, insight, and expected roles at the Company are provided for each nomination and appointment. Approval of the Board of Corporate Auditors is obtained for nominations of candidates for corporate auditor.

The Executive Nomination Meeting consists of the representative directors, the director in charge of the Secretariat Office, and outside directors and is chaired by the representative director of the Board and chairman (the representative director of the Board and President if the position of representative director of the Board and chairman is vacant or an accident has occurred).

The Executive Nomination Meeting was convened twice in FYE 2018 and submitted reports mainly on the executive structure and appointments, the division of duties of executives, and the appointment of representatives of major subsidiaries.

Policy for Determining the Amount of Compensation for Directors and the Calculation Method

Compensation, etc., of directors is determined in view of the following items.

- Compensation, etc., is at a level commensurate with the roles and responsibilities of directors and is appropriate, fair, and balanced.
- The compensation structure is determined by giving consideration to providing motivation for sustained improvement in corporate performance and corporate value and securing talented personnel.

By a resolution passed at the 85th Ordinary General Meeting of Shareholders, held on June 28, 2016, the maximum total amount of annual compensation, etc., for directors is 1.2 billion yen (including 200 million yen for outside directors), and the Executive Compensation Meeting determines compensation within that limit by delegation of the Board of Directors. The specific composition of compensation, etc., is as described below. The total amount of compensation and level of each compensation type is set according to job responsibilities and status as inside or outside director utilizing survey data from specialized outside agencies, etc. The maximum total amount of monetary compensation related to long-term incentives is 200 million yen per year.

- 1) Basic compensation: a fixed portion, with the specific amount determined based on job position, taking into consideration the business environment and other factors
- 2) Short-term performance-linked compensation: a performance-linked portion, with the specific amount determined based on consolidated ordinary income for the current fiscal year, taking into consideration improvement in ROE and the shareholders' equity ratio, personnel development, and the business environment
- 3) Long-term incentives: compensation to grant restricted stock for the purpose of providing an incentive for sustained improvement of the Company's corporate value and further value sharing with the shareholders

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

By a resolution passed at the 75th Ordinary General Meeting of Shareholders, held on June 27, 2006, the maximum total amount of annual compensation, etc., for corporate auditors is 100 million yen. An amount determined through discussion among the corporate auditors based on position, taking into consideration the business environment and other factors, is paid as basic compensation for corporate auditors.

Total Amount of Compensation for Directors and Corporate Auditors by Type

Classification	Number	Total compensation (millions of yen)			
		Basic compensation (paid in fixed monthly installments)	Performance-linked compensation		
			Short-term performance-linked compensation	Long-term incentives	
Directors (excluding outside directors)	8	298	151	37	486
Corporate auditors (excluding outside corporate auditors)	2	56	—	—	56
Outside executive officers	4	46	—	—	46
Total	14	400	151	37	588

Note: The above table includes two directors who resigned before the last day of the fiscal year under review. At the end of the fiscal year under review, there were 8 directors (including 2 outside directors) and 4 corporate auditors (including 2 outside corporate auditors).

Executive Compensation Meeting

The Executive Compensation Meeting determines the compensation of directors and vice presidents, while taking into consideration factors such as the compensation levels of appropriately comparable other companies, the compensation of the Company's employees, the social situation, and the performance evaluation of vice presidents. The Executive Compensation Meeting consists of the representative directors of the board, the director in charge of the Secretariat Office, and outside directors and is chaired by the representative director of the board and chairman (the representative director of the board and president if the position of representative director of the board and chairman is vacant or an accident has occurred).

The Executive Compensation Meeting was convened twice in FYE 2018, engaged in discussion of the compensation structure, and determined matters such as performance-linked compensation for directors (excluding outside directors) and vice presidents in accordance with performance evaluation and the amount of monetary compensation claims in respect of restricted stock compensation for each individual recipient.

Policy on Cross-Shareholdings

Regarding major listed stocks held by the Company as cross-shareholdings, the Board of Directors ascertains whether the holding of these shares will contribute to management of the Company in the medium to long term, after a comprehensive consideration of factors such as medium- to long-term corporate value enhancement, importance to business strategy, and business relationships with business partners and an assessment of economic rationality in view of risks and returns. As of March 31, 2018, the number of issues of investment securities held for purposes other than pure investment and the total amount reported on the balance sheet were 49 issues and 9,371 million yen, respectively.

Number of Issues of Investment Securities Held for Purposes Other than Pure Investment and Total Amount Reported on the Balance Sheet

Category	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Number of issues	91	63	62	49
Amount reported on the balance sheet (millions of yen)	39,055	28,764	13,339	9,371

Board of Directors' Meeting Participation Rate (Most Recent Five Years)

Category	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Number of meetings held	17 times	14 times	15 times	15 times	17 times
Attendance rate	82.4%	100%	96.3%	96.3%	99.0%

*Attendance rates for newly elected directors and corporate officers are calculated based on the number of Board of Directors' meetings held after they assumed office.

So that the directors and corporate auditors fully discharge their duties, the Company holds study meetings to continuously provide them with information and knowledge related to business activities necessary for management oversight. In addition, to continuously provide the outside officers with information about SUBARU's management philosophy, corporate culture, and business environment, etc., the Company provides business reports from the operating divisions and opportunities for plant tours and has prepared an environment that encourages sharing of information and exchange of ideas among executives.

Analysis and Evaluation of the Effectiveness of the Board of Directors

In accordance with the Corporate Governance Guidelines, the Company's Board of Directors analyzes and evaluates the effectiveness of the Board, then considers and implements measures to improve any issues identified. In FYE 2018, the Board confirmed measures to address issues identified in previous evaluations and, in response to the occurrence of improprieties relating to final vehicle inspections, performed analysis and evaluation after changing the implementation procedure and questionnaire items in the interest of performing a detailed evaluation of the effectiveness of the Board of Directors' oversight function. A report on the analysis results follows.

Evaluation and Analysis Methods

Timing of implementation: March 2018

Respondents: All directors and auditors (12 in total, including outside officers)

Implementation procedure: Self-evaluation using a questionnaire prepared by a third-party organization

(An anonymous questionnaire format has been adopted beginning in FYE 2018.)

- 1) A third-party organization conducted a self-evaluation questionnaire survey of all directors and corporate auditors using an anonymous questionnaire.
- 2) The third-party organization aggregated and analyzed the questionnaire data.
- 3) A report received from the third-party organization was verified and discussed by the Board of Directors.

Questionnaire items: 1) Board of Directors' management structure 2) Board of Directors' oversight function 3) Shareholder dialogue

Evaluation Results

- As was the case with the evaluation results up to FYE 2017, it was confirmed that open and frank discussion is conducted from a Company-wide perspective at meetings of the Board of Directors on the basis of the chairperson's leadership and mutual understanding among the members.
- There was a consensus on the appropriateness of the size of the Board of Directors and proportion of outside directors, directors comprising the Executive Nomination Meeting and Executive Compensation Meeting, and on matters such as the appropriateness of sharing of feedback from shareholders and investors was confirmed.

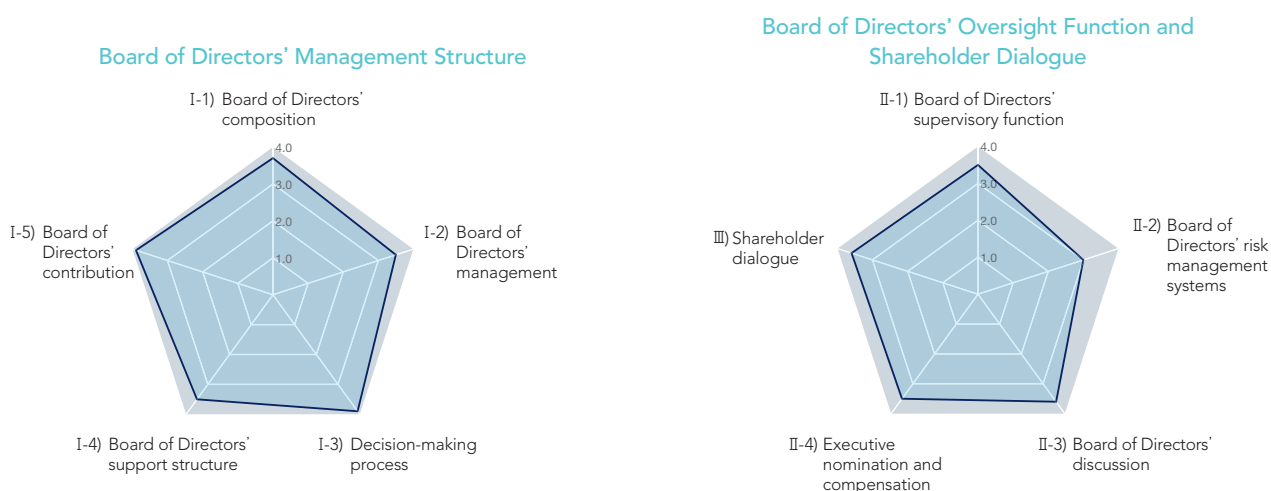
- Further strengthening of the Board of Directors' risk identification and management system and enhancement of discussion of medium- to long-term business strategy were identified as areas in which future improvement and functional enhancement can be expected.

Future Initiatives

- The Board of Directors confirmed that it will discuss medium- to long-term management strategy and take action to ensure rigorous implementation of measures to prevent any reoccurrence of improprieties, focusing on further strengthening of the risk identification and management system.
- On April 1, 2018, the Company established the "Tadashii-Kaisha" Promotion Department and the Compliance Office to reinforce efforts to address issues the Company faces with respect to legal compliance and corporate culture reforms, and the Board of Directors confirmed that it will carefully watch Group-wide activities spearheaded by these organizations and work to restore stakeholder trust.

The Board of Directors will improve Board functions, strengthen corporate governance, and promote continuous enhancement of corporate value by continuing to evaluate the effectiveness of the Board of Directors.

Aggregated Questionnaire Responses



Questions

Category	Matters Examined		
I. Board of Directors' management structure			
1) Board of Directors' composition	Board of Directors' size	Board of Directors' composition (proportion of inside and outside directors)	Board of Directors' composition (diversity and specialty)
2) Board of Directors' management	Frequency, duration, and distribution of meetings	Appropriateness of agenda	Quality and quantity of documents
	Timing of document distribution	Pre-meeting explanation	Content of explanations and reports
3) Decision-making process	Chair's leadership	Adequate discussion	
4) Board of Directors' support structure	Environment and systems for providing information	Provision of information to outside directors	Training of outside directors
	Training of inside directors		
5) Board of Directors' contribution	Stance toward initiatives	Company-wide perspective	Mutual respect
	Diverse values	Stakeholder perspective	
II. Board of Directors' oversight function			
1) Board of Directors' supervisory function	Reporting systems	Supervision of management	
2) Board of Directors' risk management systems	Risk management systems	Subsidiary management systems	Information-sharing on risks and risk response
	Systems for managing progress of response measures	Thorough awareness of compliance issues	
3) Board of Directors' discussion	Discussion of management strategy	Discussion of capital policy	Discussion of cross holdings
	Discussion on strengthening governance	Responses to social and environmental issues	
4) Executive nomination and compensation	Composition of Executive Nomination Meeting and Executive Compensation Meeting	Successor development	Incentive-based compensation
III. Shareholder dialogue			
Shareholder dialogue	Sharing shareholder and investor views	Enhancement of shareholder and investor dialogue	

Messages from the Outside Directors



Outside Director

Yoshinori Komamura

My Role as an Outside Director

I think that the role of outside directors is to actively speak out and participate in decisions at Board of Directors' meetings from an outside, independent position unconstrained by internal company logic, implicit knowledge, or personal relationships. I base my thinking as an outside director on maximization of the interests and value of all SUBARU stakeholders (customers, employees, partner companies, dealers, shareholders and investors, and local communities). Furthermore, the outside and inside directors are not in an oppositional relationship. Rather, although our approach differs due to differences in position, experience, and knowledge, we share the same goal of enhancing SUBARU's corporate value and aiming for sustained growth.

Thoughts as an Outside Director on what is Necessary to be "a Company that does the Right Thing in the Right Way"

I think that SUBARU deserves praise for having rapidly increased sales from the one-trillion yen to the three-trillion yen level in the short period of the past few years. On the other hand, to maintain continuity as a three-trillion yen company, SUBARU must not only be able to sustain business performance but also to think and act in a way appropriate to its social position. A high level of awareness of safety, the environment, compliance, and governance will increasingly be necessary in addition to maximization of sales and profits.

I think that as SUBARU aims to achieve further quantitative and qualitative growth into the future, it must meet and exceed higher standards of responsibility.

How Discussion and Advice Take Place at Board of Directors' Meetings

I am convinced that SUBARU's Board of Directors must rank near the top among Japan companies in the number of comments by outside directors at Board meetings. That SUBARU's top management has the flexibility to listen to outside opinions and the strength to heed them is cause for great pride, and I have deep respect for the executive team.

It is only natural that SUBARU, a company with an overseas sales ratio exceeding 85% and a foreign shareholding percentage exceeding 30%, pursues globally high standards of value. I hope to engage in more in-depth discussion at Board meetings going forward.

What is Required for Sustained Corporate Value Enhancement

From the viewpoint of all stakeholders, including customers, the SUBARU brand consists of trust and confidence in SUBARU. I think that from SUBARU's perspective, the brand may consist of a promise from SUBARU to its stakeholders. It is often said that although it takes decades to win trust and confidence, they can be lost overnight. For SUBARU to continue to win the trust and confidence of stakeholders, I think it is necessary to draw a sharper distinction between what to preserve and what to change in step with changes in the world and business scale expansion. Personally, I think what should be preserved is an insatiable spirit of inquiry with respect to advanced technology development and the earnestness to face customers sincerely, and what should be changed is to undertake a transformation of awareness as a company that has grown from one trillion yen to three trillion yen.

In my role as an outside director, I want to contribute to the best of my ability to SUBARU's evolution to the next operational level together with the inside directors, executive officers, and employees.



Outside Director

Shigehiro Aoyama

My Role as an Outside Director

The outside directors are expected to engage in management oversight, provide multifaceted advice on improving business performance, and express their views on scandal prevention and risk avoidance. We must also make judgments from the perspective of customers, shareholders, and other external stakeholders and perform the role of reforming a corporate culture that has become entrenched in internal logic. The recent repeated improprieties indicate the necessity of transforming a corporate culture that was incapable of restraining internal logic that had been repeated over many years. In my role as an outside director, I will strive to ensure that such incidents never happen again.

Thoughts as an Outside Director on what is Necessary to be “a Company that does the Right Thing in the Right Way”

I consider high quality to be the key factor influencing the value of SUBARU’s corporate brand. However, there is risk of confidence in quality leading to over-confidence. Times change, and to continue to create the quality that is SUBARU’s core competence, the Company must constantly refine and perfect that quality and also add transformation of manufacturing processes. Of particular importance, a compliance perspective is essential in business management today. Work-style innovation isn’t only a matter of working hours and work-life balance. It also involves inculcating ways of working imbued with the spirit of compliance required in this day and age. That is a necessary condition for SUBARU to be “a company that does the right thing in the right way.”

How Discussion and Advice Take Place at Board of Directors’ Meetings

Frank discussion takes place. The outside directors are provided many opportunities to speak, and the meeting management of the chairman of the Board of Directors is excellent. The outside directors actively express their opinions to promote a governance system aligned with current global standards.

However, I think further effort is required to ensure that our opinions fully mesh with those of the directors in charge of business execution. That is to say, since there is a tendency for discussion at SUBARU to disproportionately emphasize individual optimization, I would like discussion to extend to total optimization of business.

What is Required for Sustained Corporate Value Enhancement

For corporations today, there can be no growth without consideration of sustained value enhancement. Although enhancement of financial value is essential, companies must also consider non-financial value from an environmental, social and governance (ESG) perspective. SUBARU must implement environmental measures including a response to emissions regulations, must respond to social needs such as automobile safety and security, and, in the area of governance, must develop an organizational structure to implement these initiatives. This will contribute to enhancing the value of the SUBARU brand. A sense of urgency and alacrity is necessary for accomplishing this, and I hope to see a higher level of innovation from a management structure capable of pursuing sustained growth for SUBARU.