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September 28, 2018  
Subaru Corporation

## **Results of Investigation into Improper Conduct during Final Vehicle Inspections at Gunma Manufacturing Division**

Subaru Corporation (“Subaru”) reported to the Ministry of Land, Infrastructure, Transport and Tourism (“MLIT”) on December 19, 2017 and April 27, 2018, and publicly announced the results of its investigations, with respect to certain incidents of improper conduct identified at its Gunma Manufacturing Division Main Plant and Yajima Plant involving final vehicle inspections being conducted by individuals who were not yet certified as final inspectors as well as certain incidents during vehicle sampling inspections in which fuel economy and emissions data was altered.

Furthermore, in relation to its vehicle fuel economy and emissions sampling procedures, on June 5, 2018, Subaru reported to MLIT that it had identified instances in which vehicle fuel economy and emissions measurements that had been obtained in conditions in which the subject vehicle’s running speed and/or the relevant inspection room’s humidity levels deviated from the margins stipulated under the Announcement that prescribes details of safety regulations for road transport vehicles, as prescribed, under the relevant laws and regulations of Japan (such deviations are referred to herein as “trace errors” and “humidity errors”), had been treated as valid measurements despite such trace errors and/or humidity errors, as applicable (hereinafter referred to as the “two newly-identified issues”). At the time such report was made, Subaru also announced that it would engage external experts to conduct a further detailed investigation into not only the specific facts, background, and causes of the two newly-identified issues, but also the company’s final vehicle inspection operations process as a whole. MLIT instructed Subaru to develop a thorough investigative process and thoroughly investigate and report on the two newly-identified issues as outlined above as well as any other instances of nonconforming final vehicle inspections identified, and, based on the results of this investigation from viewpoint of Japanese laws and regulations, to develop appropriate measures to prevent any recurrence.

Subaru takes a very serious view of its inability to identify the two newly-identified issues, despite its having conducted two prior investigations of its final vehicle inspections process. In order to ensure the thoroughness of this subsequent investigation from an objective and impartial standpoint, Subaru decided to engage a team of lawyers and other independent external experts and on June 6, 2018 retained Nagashima Ohno & Tsunematsu, a law firm, to carry out a supplemental investigation. Subaru received the expert report on this

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supplemental investigation today.

In addition to the nonconforming conduct already identified and publicly reported on by Subaru, the expert report on this supplemental investigation identified the following nonconforming and inappropriate conduct.

**(1) In relation to fuel economy and emissions sampling:**

- (a) Inappropriate processing of trace error periods
- (b) Inappropriate processing of measurement results relating to temperature and humidity errors
- (c) Inappropriate processing of data in measurement equipment
- (d) Other inappropriate practices in measurement processes

**(2) In relation to final inspection work other than measurement of fuel economy and emissions:**

- (a) Inappropriate conduct in brake inspections
- (b) Inappropriate steering tests
- (c) Inappropriate testing methods in speedometer calibration error tests
- (d) Inappropriate testing methods in side slip tests
- (e) Careless recording and management of measurement data
- (f) Other problems and inappropriate conduct

Items (a)-(f) under item (2) above are all incidents that were identified during the “line tests of final vehicle inspection” (i.e., tests carried out on all vehicles following final assembly). The results of these tests are not recorded and, therefore, the investigators could only rely on the testimony of inspectors regarding matters such as the period in which the inappropriate conduct occurred and number of vehicles affected, and were unable to confirm the precise extent to which such conduct occurred.

According to the expert report on this supplemental investigation, there were many reasons and motivations for this nonconforming and inappropriate conduct, but the following four factors were cited as the primary factors:

- (1) Excessive volume of work was imposed upon inspectors as compared to their ability to manage the processes related to final inspections.**
- (2) Weaknesses in internal controls to deter and promptly detect inappropriate conduct created an environment where inspectors could easily resort to such conduct.**
- (3) Inspectors’ awareness of standards had declined due to factors including the particular organizational characteristics of the departments responsible for final**

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**inspection work.**

**(4) Management recognition of issues with respect to the final vehicle inspection processes and taking steps to resolve such issues were inadequate.**

Subaru takes a very serious view of the specific issues identified in the report, and based on the analysis of their causes and remedial recommendations we will thoroughly review our processes to take effective measures to prevent any recurrence as follows:

- (1) Strengthen management commitment to quality assurance (including final vehicle inspections). As part of these efforts, final vehicle inspection departments will be made independent from the manufacturing departments to ensure the independence of their inspection work.**
- (2) Comprehensively analyze final inspection processes to enhance such processes and address work volume concerns.**
- (3) Review the operation of internal control systems with a view to deterring and promptly identifying any nonconforming inspections.**
- (4) Encourage thorough awareness of the applicable standards amongst all inspectors to ensure nonconforming practices are not engaged in.**

Repeated incidents of inappropriate conduct and nonconforming practices has resulted in Subaru losing the trust of its customers, partners, and all other stakeholders, as well as the wider public.

The expert report has highlighted that these incidents were caused not only by organizational issues relating to the corporate climate and poor employee awareness of applicable standards, but also due to the inadequacy of Subaru management's stance on quality assurance.

Under the current management structure established in June 2018, senior management will fulfill its responsibilities by taking the lead in steadily implementing the above-mentioned measures to prevent any recurrence of such issues and work to restore trust in Subaru step by step.

We would like to reiterate our deepest apologies for the significant trouble and inconvenience caused to our customers, partners, and all other stakeholders.

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