

Subaru Corporation Board of Director Effectiveness in FYE2021: Evaluation Results

April 16, 2021
Subaru Corporation

In order to achieve sustainable growth and enhance the medium- to long-term corporate value of the Subaru Group, Subaru Corporation has determined and published Corporate Governance Guidelines (“Guidelines”) for the purpose of communicating to all its stakeholders the Company’s fundamental ideas, frameworks, and management policies relating to corporate governance.

The Guidelines can be viewed at:

https://www.subaru.co.jp/en/csr/pdf/governance_guideline_e.pdf

The Subaru Corporation Board of Directors (“BoD”) periodically analyzes and evaluates BoD effectiveness in accordance with Article 23 of these Guidelines and considers and implements improvements to address any issues identified.

In the fiscal year ended March 31, 2021, the BoD confirmed efforts to address issues recognized in the previous year, based on monitoring of points raised in the previous year’s evaluation. It also gathered, analyzed, and evaluated views on issues for investigation based on changes in the business environment due to the COVID-19 pandemic. The results of this process are reported below.

1. Methods of evaluation and analysis

- (1) Timing: January 2021
- (2) Respondents: Directors and auditors (13 in total)
- (3) Process: Self-evaluation using a questionnaire prepared by a third-party body
 - (a) Third-party body conducts anonymous self-evaluation survey of directors and auditors
 - (b) Third-party body aggregates and analyzes responses
 - (c) BoD verifies and discusses report received from third-party body
- (4) Questions:
 - I. BoD management structure
 - II. BoD oversight function
 - III. Shareholder dialogue
 - IV. Views on key efforts undertaken this year

V. Issues for next year onward

VI. Views on other matters

Respondents evaluated themselves on a four-point scale. They were also free to add their own thoughts on points of excellence relating to the Subaru Corporation BoD and points requiring enhanced BoD effectiveness, before submitting the questionnaire directly to the third-party body.

2. Evaluation Results (see attachment)

Based on the report received from the third-party body aggregating and analyzing results, the BoD discussed and confirmed the following points:

- As in previous fiscal years, the results confirmed that BoD management entails the conduct of free, open, and sound discussion.
- Points confirmed as strengths in previous evaluations (chairman's leadership, responses to cross-shareholding, and size of BoD) continued to be evaluated highly, confirming that BoD strengths are ongoing.
- Improvements were apparent in overall evaluation of BoD management structure, BoD oversight function, and shareholder dialogue, and decision-making processes and shareholder dialogue were evaluated especially highly across the board.
- However, the report also confirmed expectations that BoD functions could be further improved through deeper discussion of executive compensation system design, including incentive-based compensation, as well as discussion of ways to improve group governance and enhancement of report content. While acknowledging certain improvements in the evaluation of discussion relating to medium- to long-term management strategy, the report also confirmed the need for qualitative improvements in the future.

Areas previously recognized as problematic where significant progress was acknowledged this year:

- CEO succession plan
Developed and announced abilities required of the Subaru Group's CEO and five key qualities required of the CEO.
- Reinforcing risk identification/management systems
Established mechanisms ensuring effectiveness by preparing risk maps, identifying risks in each business department, developing codes of conduct, etc., and shared information with the BoD in a timely and appropriate manner.

Issues recognized in the previous fiscal year's evaluation:

(1) Enhancing discussion of medium- to long-term management strategy

The BoD added depth to its discussion of medium- to long-term management strategy by

setting agendas for medium- to long-term strategy, including production strategy, IT strategy, and Aerospace Company initiatives, and through reporting on progress towards mid-term management plan goals. With regard to upcoming rapid changes in the operating environment for the automotive business, last year's evaluation pointed out that continuing efforts to bridge the information gap between outside directors and internal directors were required to improve the quality of discussion, and ongoing efforts are being made to address this issue.

(2) Enhancing discussion of information security systems and sustainability

With regard to IT strategy including information security systems, the BoD created opportunities for reporting, shared views on issues faced, and conducted ongoing discussion. Last year's evaluation expressed the view that the BoD should exercise leadership and stimulate discussion aimed at utilization of IT and advancement of digital transformation, and the BoD will continue to create opportunities for such discussion in its meetings.

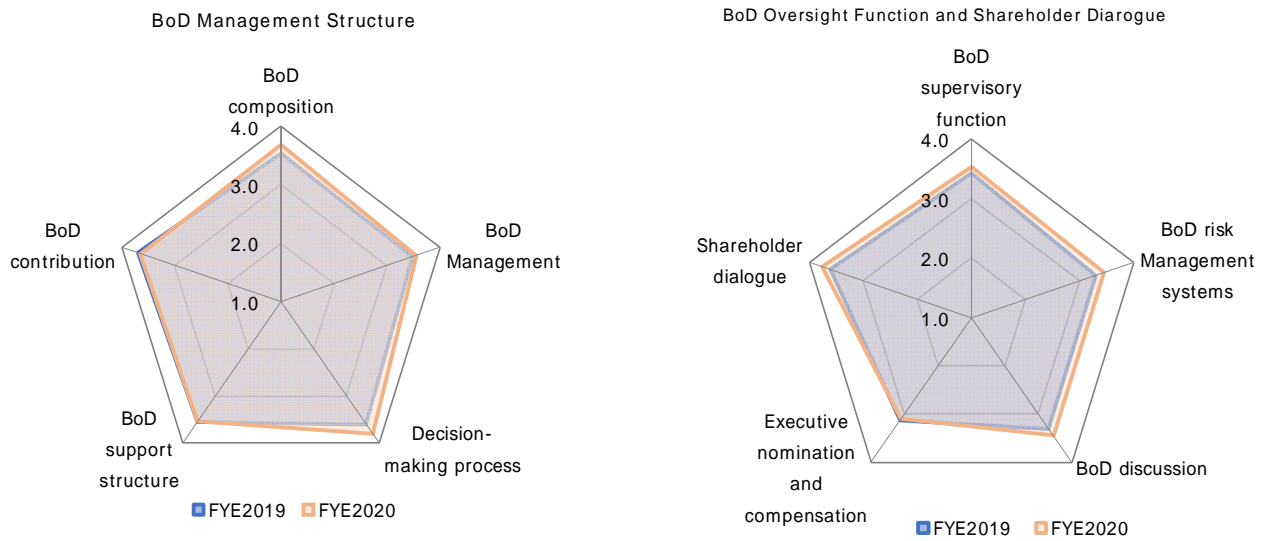
The report recognized steady progress on sustainability, including the establishment and announcement of policies such as the Subaru Global Sustainability Policy and Human Rights Policy, as well as timely reporting of the efforts of the CSR Committee, which meets twice a year.

3. Future Initiatives

The BoD will continue to deepen discussion of medium- to long-term management strategy and make efforts to improve the quality of such discussion. It will also create opportunities for discussion of executive compensation system design, including incentive-based compensation, and enhancement of group governance. In doing so, it will strive to maintain and improve BoD effectiveness in the aim of continuing to enhance medium- to long-term corporate value and achieving sustainable growth.

Attachment

1. Aggregate Results of Questionnaire Responses



Four-point evaluation scale: 1 (low) – 4 (high)

2. Items Evaluated

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