

## Subaru Corporation Board of Directors Effectiveness in FYE2022: Evaluation Results

April 18, 2022

Subaru Corporation

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

The Guidelines can be viewed at:

[https://www.subaru.co.jp/csr/pdf/governance\\_guideline\\_e.pdf](https://www.subaru.co.jp/csr/pdf/governance_guideline_e.pdf)

In accordance with Article 23 of the Guidelines, the Subaru Corporation Board of Directors (“BoD”) periodically analyzes and evaluates the effectiveness of the Board and then considers and implements measures to improve any issues identified.

In the fiscal year ended March 31, 2022, the BoD confirmed efforts to address issues recognized in previous evaluations, based on the monitoring of specific points that emerged in the evaluation for the previous fiscal year. It also gathered, analyzed, and evaluated views on issues that the BoD should address quickly considering the impact of the COVID-19 pandemic and dramatic changes in the business environment surrounding the automotive industry. The results of this process are reported below.

### 1. Methods of evaluation and analysis

- (1) Timing: January 2022
- (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 reports 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 fiscal year
  - V. Issues for the next fiscal year onward
  - VI. Views on other matters

Respondents evaluated themselves on a four-point scale. They also added their own thoughts on areas where the Subaru Corporation BoD excels and on points requiring improvement in order to enhance the effectiveness of the BoD. They then submitted their questionnaire responses directly to the third-party body.

### 2. Evaluation Results (see attachment)

Based on the third-party body’s report detailing the aggregation and analysis of the responses, the BoD

discussed and confirmed the following points.

- As in previous fiscal years, the evaluations of BoD management confirmed that the BoD conducts free, open, and sound discussions.
- Points that previous evaluations have shown to be strengths of the BoD (the chair's leadership, responses to cross-shareholding, and the size of the BoD) once again received high marks, confirming that the current framework is sustaining the BoD's strengths.
- Active discussions of revisions to the executive compensation system led to noticeable improvements in how respondents assessed the design of the incentive-based compensation framework and the other components of the executive compensation system, which emerged as an issue to address in the evaluation for the previous fiscal year.
- The respondents also rated governance enhancements and responses to social and environmental issues more highly thanks to active discussions of revisions to the corporate governance code.
- There were also slight improvements in the scores for discussions of medium- to long-term management strategy, an ongoing issue. Factoring into these improvements were the thorough discussions that the BoD engaged in leading up to the release of the Company's STEP 2.0 Mid-Term Management Vision.
- Although scores for the risk-management system declined, the results are largely attributable to supply-chain confusion stemming from the semiconductor shortage. The BoD has confirmed that the risk-management system and the operations thereof are functioning properly.
- When comparing evaluation results for this fiscal year against those for the previous fiscal year, one should note that there may have been some discrepancies in the criteria that the executives used for the current evaluations as four of the thirteen respondents (three directors and one auditor) were newly appointed.

Issues recognized in the previous fiscal year's evaluation

**(1) Deepening discussions of medium- to long-term management strategy**

The BoD engaged in thorough discussions leading up to the release of the STEP 2.0 Mid-Term Management Vision, and social gatherings of management personnel addressed the Company's "environmental portfolio" to a sufficient degree. These dialogues helped establish a stronger, deeper understanding of the Company's business environment, especially among the outside directors. With these results in mind, the BoD recognized the need to improve both the quantity and the quality of discussions concerning medium- to long-term management strategy, especially given the ambiguity and uncertainty surrounding trends in the automotive industry, and decided to continue addressing the issue accordingly.

**(2) Discussing the design of the executive compensation system, including incentive-based compensation**

The BoD was active in its discussions of the executive compensation system, with outside directors contributing constructive views on compensation structures and incentive design. As a result, the BoD decided to revise the system in conjunction with the formulation of the STEP 2.0 Mid-Term Management Vision. Considering the growing demands for corporate governance and the Company's business standing, the BoD decided that Executive Compensation Meeting will continue exploring ways to ensure that the executive compensation system functions as an appropriate incentive for the management team.

**(3) Discussing enhancements of group governance**

The management system for group governance is making steady progress from year to year as the BoD continues to receive timely reports on key issues. With its responsibility for overseeing group governance increasing in scope, the BoD decided to continue conducting periodic monitoring of pertinent matters to

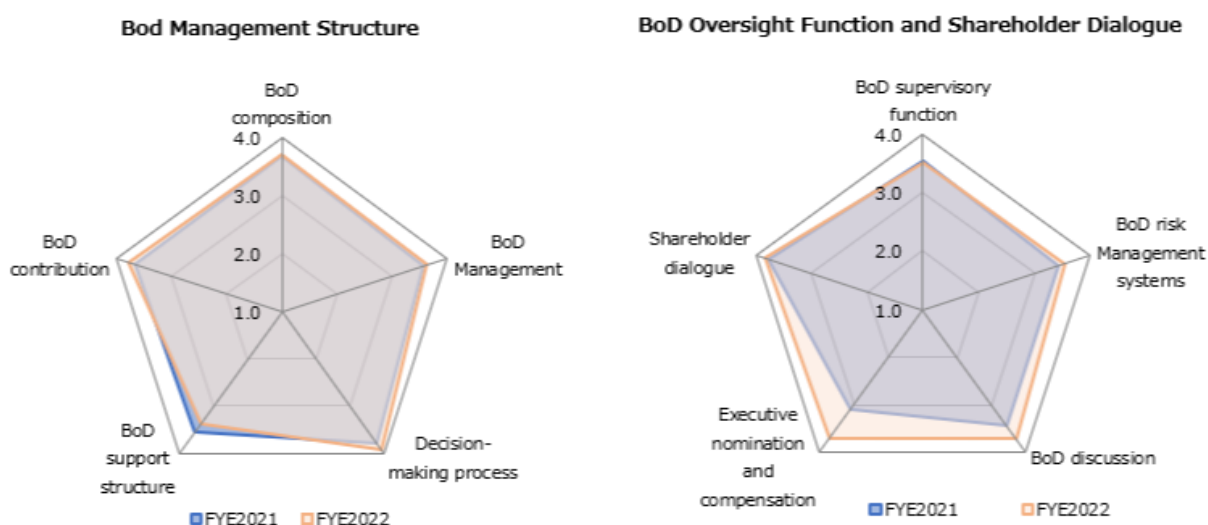
ensure further improvements to the management system.

### **3. Future initiatives**

The BoD will continue to deepen discussions of medium- to long-term management strategy and make efforts to improve the quality of such discussions. It will also enhance discussions on establishing a structure for responding effectively to newly identified risks, as the semiconductor shortage and ensuing confusion along the supply chain have heightened sensitivity to risk management. In pursuing these and other improvements, it will strive to maintain and improve the effectiveness of the BoD 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  |  |  |
|--|--|--|--|
| <b>1. BoD management structure</b>       |  |  |  |
| 1) BoD composition                       | BoD size   | BoD composition (proportion of inside and outside directors) | BoD composition (diversity and specialty)      |
| 2) Bod 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) BoD support structure                 | Environment and systems for providing information                              | Provision of information to outside directors                | Training of outside directors                  |
|  | Training of inside directors   |  |  |
| 5) BoD contribution                      | Stance toward initiatives  | Company-wide perspective                                     | Mutual respect                                 |
|  | Diverse values   | Stakeholder perspective                                      |  |
| <b>2. BoD oversight function</b>         |  |  |  |
| 1) BoD supervisory function              | Reporting systems  | Supervision of management                                    |  |
| 2) BoD risk management systems           | 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                      |  |
| 3) BoD discussion                        | Discussion of management strategy  | Discussion of capital policy                                 | Discussion of cross-shareholdings              |
|  | 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                   |
| <b>3. Shareholder dialogue</b>           |  |  |  |
| Shareholder dialogue                     | Sharing shareholder and investor views   | Enhancement of shareholder and investor dialogue             |  |