

# Corporate Governance

## Basic Policy for Corporate Governance

The corporate philosophy of the TAIYO YUDEN Group involves the implementation of the three principles of “employee well-being,” “betterment of local communities” and “responsibility to provide returns to shareholders.” The Board of Directors and operating officers believe that the Company’s social responsibility and the mission of management is to support continued development of its business while serving society and public interests and ensuring the public nature of our business with a global perspective.

Our management vision is “to be an excellent company that enjoys the trust and highest regard from our customers.” To realize this management philosophy and vision, we will perform the following: engage in measures to improve profitability based on the dual facets of growth strategy and structural reform; emphasize management transparency, fairness as well as information disclosure; and build systems and mechanisms to ensure agile decision-making and operational execution to enhance competitiveness.

## Structure of Corporate Governance

### Overview of Corporate Governance Structure, Reasons for Adoption

Having adopted an Audit & Supervisory Board system, the Company has a Board of Directors, an Audit & Supervisory Board, and an accounting auditor. Furthermore, all our Outside Directors and Outside Audit & Supervisory Board Members are appointed as independent officers as they meet our standards for independence and are deemed unlikely to have any conflicts of interest with general shareholders. Through a governance system that promotes close collaboration with the Audit & Supervisory Board and internal audit department, the Company works to enable Audit & Supervisory Board Members to perform their roles effectively and strengthen their supervisory function vis-à-vis management.

### Roles and Responsibilities of the Board of Directors

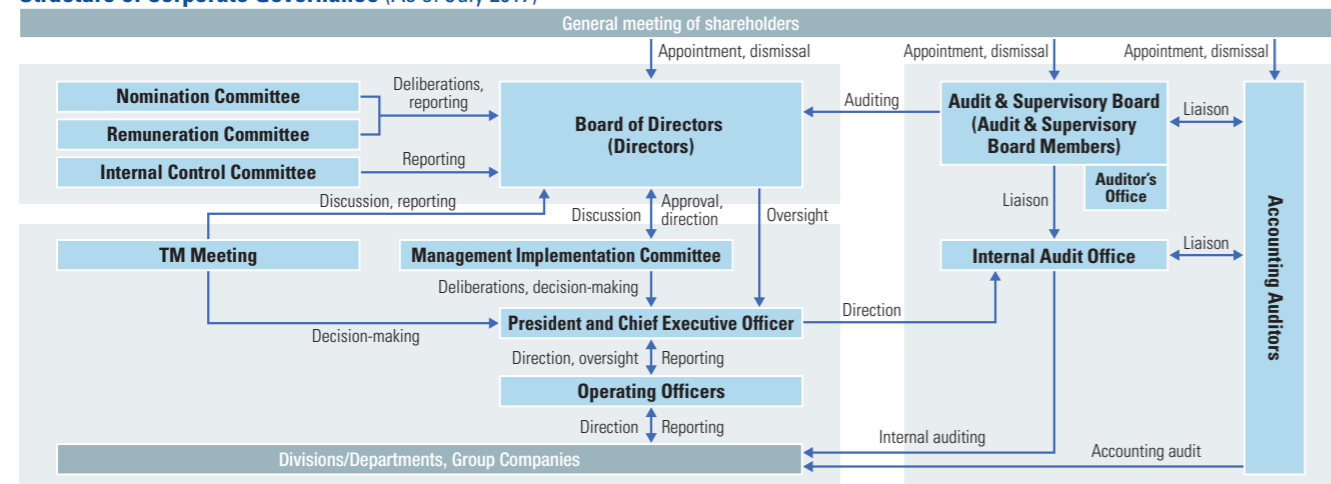
1. The Board of Directors shall aim for corporate management to be an excellent company that enjoys the trust and highest regard from stakeholders, including shareholders, customers, employees and local communities, to accomplish the fiduciary responsibility entrusted by shareholders and increase the Company’s interests and the common interests among shareholders.

- The Board of Directors shall deliberate and determine important matters for the entire Group with ample time, including management policies, management strategies, business plans, capital policy and the matters on internal control, for the purpose of continuously increasing corporate value from a long-term perspective.
- The Board of Directors shall strengthen the management system for risk factors surrounding corporate management of the Company and always monitor the execution of business operations.

### Delegation of Matters by the Board of Directors to Management

- To ensure the effective decision-making by the Board of Directors, the Management Implementation Committee shall deliberate in advance policy matters regarding execution of business duties for Group management, whereas the TM (Top Management) Meeting shall deliberate in advance matters concerning personnel, organization and remuneration systems for the entire Group. Both organs shall determine matters delegated by the Board of Directors.
- Operating Officers are in place in order to further clarify roles and responsibilities of Directors who monitor and supervise the

## Structure of Corporate Governance (As of July 2017)



Note: The TM Meeting is an advisory panel for deliberations and decisions on matters concerning personnel and organizations.

## Transition of Corporate Governance Structure for Recent Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Enhancement of Supervision Functions	Introduction of Operating Officers System since April 2001										
	One Outside Director since July 2006										
	Two Outside Directors										
	Board of Directors Term of Office Changed to 1 Year										
Policy	Establishment of Nomination Committee (Voluntary)										
	Establishment of Remuneration Committee (Voluntary)										
	Establishment of Independence Standard for Outside Officers										
Compensation System	Stock Compensation Plan since June 2005										
	Implementation of Evaluation of Board of Directors' Effectiveness										
	Establishment of Corporate Governance Basic Policy										

management of business and persons who execute business operations. The Operating Officers shall conduct business flexibly and quickly as an executor responsible for the section he or she is in charge, under the direction of the Chief Executive Officer, in accordance with management policies and strategies determined at meetings of the Board of Directors.

4. Except for Outside Directors, the Directors concurrently serve as operating officers who are in charge of both oversight and the execution of business operations. Directors shall report to the Board of Directors with an emphasis on the business performance and oversight operations of the divisions/departments for which they are in charge of to the Board of Directors.

### Effectiveness of the Board of Directors

- To ensure the fairness of meetings and strengthen the authority of management oversight, the Board of Directors shall be chaired by an Outside Director.
- At the Board of Directors meeting, the Directors and the Audit & Supervisory Board Members shall evaluate by themselves the effectiveness of the Board of Directors every year. The Board of Directors shall disclose issues to be addressed and others based on analysis results and address how to resolve such issues.

### Directors

- The Company has seven Directors, at present. Two of them are appointed as independent Outside Directors.
- To clarify management responsibilities during a given fiscal year and increase shareholders’ confidence, Directors’ term of office is one year.
- The reason for the selection of Directors is disclosed by taking into account their knowledge, experience, history of achievement and other factors.

### Audit & Supervisory Board, Audit & Supervisory Board Members

- The Company has adopted an Audit & Supervisory Board Members system. The Audit & Supervisory Board meeting is held monthly, in principle.
- The Company has four Audit & Supervisory Board Members including Outside Audit & Supervisory Board Members. Two of them are appointed as independent Outside Audit & Supervisory Board Members.
- To raise the effectiveness of audits, each Audit & Supervisory Board Member attends Board of Directors meetings and attends meetings related to the execution of business operations and other important meetings by sharing the tasks with each other. Moreover, Audit & Supervisory Board Members strive to strengthen the auditing system through frequent communications with the accounting auditor and the internal audit department by meeting regularly, witnessing accounting audits as observers and conducting joint audits with the internal audit department.
- The Audit & Supervisory Board has its own dedicated staff to smoothly conduct auditing operations, such as information communications and data management.

### Voluntary Advisory Panels

1. For the purpose of conducting “highly transparent and fair management,” the Company has established a Nomination Committee and a Remuneration Committee.
2. Both Committees are composed of the President and Chief Executive Officer, Outside Directors and one Audit & Supervisory Board Member. They are chaired by independent Outside Directors to ensure objectivity of each deliberated matter.

3. The Nomination Committee deliberates matters such as the designation of candidates for corporate officers to be elected/dismitted and disciplinary actions. The Remuneration Committee deliberates systems of remuneration to corporate officers, as well as details of remuneration to each corporate officer. The matters deliberated at the respective committees are discussed at the Board of Directors for determination.

	Total members (persons)	Internal Directors (persons)	Outside Directors (persons)	Audit & Supervisory Board Members (persons)	Chairperson (Head of committee)
Board of Directors	11	5	2	4	Independent Outside Director
Nomination Committee	4	1	2	1	Independent Outside Director
Remuneration Committee	4	1	2	1	Independent Outside Director

### Policy on Election of Outside Directors and Outside Audit & Supervisory Board Members and Their Roles

1. In electing Outside Directors, to ensure transparency in the authority of management oversight, the Company has established rigorous “Standards for the Independence of Outside Directors/Outside Audit & Supervisory Board Members” as requirements for their appointment referencing, and making it more rigorous than, other standards for independence established by financial instrument exchanges and organizations advising the exercise of voting rights, including the “Securities Listing Regulations” set forth by the Tokyo Stock Exchange.
2. The two Outside Directors meet the Company’s independency requirements. They make efforts to strengthen the supervisory capability of the Company and strive to strengthen objective management. Specifically, they fulfill a role that is important to the

- decision-making process and provide opinions from the perspective of either technical experts or shareholders independent of executive management, based on a broad view that leverages knowledge of corporate legal affairs and the experience of corporate managers.
3. The two Outside Audit & Supervisory Board Members meet the Company’s independency requirements. They cooperate with each other to monitor the status of internal control of operations on a daily basis. Specifically, they are responsible for investigating and verifying whether the Directors’ duties are legally conducted in compliance with the relevant laws. In addition to possessing technical and practical knowledge of their own in the fields of law and accounting, they objectively monitor the execution of duties by Directors.

### Reasons for Appointment of Independent Outside Directors

#### Hisaji Agata, Independent Outside Director

Mr. Hisaji Agata is an expert in corporate incubation aiming to formulate a highly transparent and sound business structure, and has a long history of achievement and proven insight as a business manager. Mr. Agata serves as Chairman of the Company’s Board of Directors, Nomination Committee and Remuneration Committee, providing advice and proceeding with the meetings from a constructive, independent and fair standpoint. In this way, he fulfills his role to help improve the effectiveness of the Company’s Board of Directors and strengthen the corporate governance functions. For these reasons, it was judged that Mr. Agata would be able to execute his duties as an Independent Outside Director who supervises business execution. Therefore, the Board of Directors has selected him as Independent Outside Director.

#### Masashi Hiraiwa, Independent Outside Director

Mr. Masashi Hiraiwa has served as an officer or in a similar position at investment corporations, and possesses abundant experience and high-level expertise as an attorney specializing in corporate legal affairs. He has demonstrated a high sense of ethics by offering constructive opinions and organizing points of discussion or debate from an objective perspective, and fulfilling the monitoring function over the Company’s overall management such as governance and legal compliance including internal control, at meetings of the Company’s Board of Directors. For these reasons, it was judged that he would be able to fulfill his duties as Independent Outside Director who supervises business execution. Therefore, he was appointed as an Outside Director.

### Reasons for Appointment Outside Audit & Supervisory Board Members

#### Hajime Yoshitake, Independent Outside Audit & Supervisory Board Member

Having amassed many years’ experience of auditing operations at financial institutions and internal control consulting operations at business corporations, Mr. Hajime Yoshitake possesses exceptional insight, abundant experience and a good track record regarding auditing operations. It is expected that he can help establish a highly transparent and fair management oversight system, supervise the appropriateness of deliberation and decision-making on important matters, and offer insight from his objective “auditor’s perspective” based on his knowledge and experience. For these reasons, the Board of Directors appointed him as an independent Outside Audit & Supervisory Board Member. Mr. Yoshitake has significant knowledge of finance and accounting nurtured through his experience with related operations.

#### Kazuhiro Yamakawa, Independent Outside Audit & Supervisory Board Member

Well versed in general legal affairs, including corporate legal practices based on his abundant experience as a public prosecutor, attorney and university professor, Mr. Kazuhiro Yamakawa has ample insight into auditing management. After becoming an independent Outside Audit & Supervisory Board Member, he has examined whether there are any blind spots unique to the Company in its internal controls and risk management system and has audited business judgments made by the Board of Directors and the discharge of responsibilities by Directors. For these reasons, he was appointed as an independent Outside Audit & Supervisory Board Member.

### Policies for Determining Remuneration Paid to Corporate Officers and its Details Thereof

The following are policies we have established to determine the remuneration paid to corporate officers.

1. Remuneration shall be transparent and fair based on quantitative rules.
2. The appropriateness of remuneration levels shall be assessed following the full investigation of other companies in the industry as well as the economic and social situation.
3. The remuneration of Directors, excluding Outside Directors and Audit & Supervisory Board Members, employs the remuneration system based on performance-linked incentives, aiming at performance improvement.

Based on such policies, the company has established the Remuneration Committee as an advisory organ to the Board of Directors to ensure

transparency and fairness in the process of setting remuneration paid to corporate officers. The Remuneration Committee, chaired by an independent Outside Director, deliberates on policies, systems, the formulas, and individual remuneration for the remuneration of corporate officers, and prepares and submits reports thereon. Regarding specific remuneration, an amount is calculated in accordance with the regulations laid down by the Company, within a remuneration framework approved at the general meeting of shareholders.

Following deliberations by the Remuneration Committee, the Board of Directors determines the remuneration of Directors, while Audit & Supervisory Board determines the remuneration of its members.

### Total Remuneration Paid to Directors and Audit & Supervisory Board Members for the Fiscal Year Ended March, 2017

	Total remuneration paid and number of persons		Total remuneration paid by type of compensation					
			Monthly remuneration		Director bonus		Stock options	
	Number of persons	Total (Millions of yen)	Number of persons	Total (Millions of yen)	Number of persons	Total (Millions of yen)	Number of persons	Total (Millions of yen)
Directors	9	213	9	160	6	28	5	25
Audit & Supervisory Board Members	6	76	6	76	–	–	–	–
Total	15	289	15	236	6	28	5	25
Of which, Outside Directors and Outside Audit & Supervisory Board Members	(6)	(46)	(6)	(46)	(–)	(–)	(–)	(–)

- Notes: 1. The “Number of persons” refers to the number of persons subject to remuneration for the fiscal year ended March 2017, not the number of persons in office.  
2. The upper limit of remunerations paid to Directors was resolved to be ¥450 million or less per year at the 66th Ordinary General Meeting of Shareholders held on June 28, 2007. The upper limit of remunerations paid to Audit & Supervisory Board Members was resolved to be ¥8 million or less per month at the 75th Ordinary General Meeting of Shareholders held on June 29, 2016.