

Section 3

FOUNDATION UNDERPINNING VALUE CREATION

Roundtable Discussion with the Outside Directors

To realize sustainable growth and increase corporate value over the medium to long term, the TAIYO YUDEN Group is promoting the construction of a corporate governance system that enables transparent, fair, rapid, and decisive decision-making. Outside Directors Masashi Hiraiwa, Seiichi Koike and Emiko Hamada have offered their opinions on the current status of TAIYO YUDEN's governance and issues for the Company's focus moving forward.

Masashi Hiraiwa
Outside Director

Emiko Hamada
Outside Director

Seiichi Koike
Outside Director

Enhancing the Structure of Corporate Governance

Koike: It has been two years since I became an Outside Director at TAIYO YUDEN, and I feel that the governance system is being strengthened. Last year, Ms. Hamada was appointed, making it now three of the eight members of the Board of Directors who are Outside Directors. The respective compositions of the Board of Directors and the Audit & Supervisory Board, as well as the areas of expertise of their members, are very well balanced. As all the members make various statements from diverse perspectives based on their different careers and expertise, Board of Directors' meetings are being revitalized.

Hiraiwa: This is my fifth year of my tenure as an Outside Director. I also feel that the discussions at Board of Directors' meetings have deepened more than ever with the addition of both you Mr. Koike and you Ms. Hamada to the Outside Directors. Originally, the main role of Outside Directors was

that of supervising the management team, in other words of protecting them, but in recent years they have additionally been called upon to provide proactive support to improve corporate value. Thankful that you two who possess manufacturing knowledge have joined us, I think that we are increasingly entering into more specific discussions, such as what kinds of issues are being faced in each business and the kinds of risks that each is facing, and I think that is leading to deeper discussions at Board of Directors' meetings.

Evaluation of Board of Directors' Effectiveness

Hiraiwa: In its efforts to strengthen governance, TAIYO YUDEN is also focusing on evaluating the effectiveness of its Board of Directors. Following the introduction this time of a new evaluation system with an external organization, there has been an unprecedented awareness.

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Hamada: Effectiveness evaluations are conducted in the form of a questionnaire. The responses are our opinions as the persons concerned and are subjective, but by having an external organization set the questions, we become more aware of thinking about our work from a more objective perspective, and I feel that the external perspective is very effective. Furthermore, if this is continued for a few years, I believe that the accumulation of improvements in a certain period will be considerable, since changes, such as where things have improved, and points in need of further improvement are clarified, and PDCA cycles can be followed.



Koike: In an era of increasing uncertainty and incessant change, there is no way that can be said to be best practice for how boards of directors should function. I think it is necessary to constantly keep up efforts to improve their effectiveness. In TAIYO YUDEN's effectiveness assessment two years ago, the establishment of a forum for discussion on business risks was recognized as an issue, and subsequently the Board of Directors deepened discussions on that very subject.

The Nomination Committee and the Remuneration Committee

Koike: Participation and the giving of advice in an appropriate manner on matters of remuneration and nomination count among the most important roles for outside directors. Looking back on its history, TAIYO YUDEN's remuneration system has been reviewed in an appropriate and timely fashion as the business environment and performance levels have changed. We recognize that the current remuneration system is well thought out and designed, however here and there some tasks remain. The remuneration system for directors who execute business has high incentives for improving short-term business performance, but not so much over the medium to long term. I think that what is needed is to devise a way so

that remuneration is linked a little more to improvements in corporate value over the medium to long term.

Hamada: There is no doubt that medium- to long-term incentives are important. However, many companies are trying to figure out how best to achieve them. TAIYO YUDEN is also in the process of building and giving consideration to an optimal system.

Hiraiwa: The area of director remuneration is not alone in being beset with difficult problems, as their nomination process is, too. The Nomination Committee is required to report on the nomination and dismissal of managers, but to actually judge the aptness of the nomination or dismissal requires an evaluation of the manager. In that case, how should the evaluation of the manager be conducted? Short-term numerical evaluations are simple, but you need to look at managers' performance over some years to evaluate whether they are improving corporate value over the medium to long term. In contrast, competency evaluations are not easy, because we are probably not always working closely with one another. How to properly evaluate managers is one of the issues that should be considered on an ongoing basis.



Aiming to Continuously Increase Corporate Value from a Long-Term Perspective

Koike: As pointed out in actual evaluations of the effectiveness of the Board of Directors, it seems that TAIYO YUDEN has thus far not often held discussions with a focus on the medium to long term, such as five or 10 years from now. I think this is due to the fact that, in the electronic component industry, where the market environment changes incessantly in a short span of half a year or several months, we have had no choice but to mainly discuss strategies tailored to short-term market trends.

However, stakeholders are nowadays very interested not only in single-year performance, but also in solving major social issues that must be addressed from a medium- to long-term perspective, and in initiatives that address ESG, such as the environment and human resources.



When discussing from a medium- to long-term perspective, instead of setting our goals as an extension of the present, in a society that is undergoing incessant change and facing many challenges, we envision that TAIYO YUDEN will contribute to that society as its member and continue to exist. From there I think we would need to backcast to consider the ideal form.

And I think it is important to discuss investment in intangible assets, which is the source of competitive advantage. In addition to investing in human capital and R&D, I believe that the key to TAIYO YUDEN's sustainable growth is whether the Company is able to take drastic measures in the vertical division and partial optimization of its organization and whether it can achieve overall flexible optimization.

Hamada: I too think that achieving sustainable growth will necessitate efforts to develop and utilize human resources, which are the assets of a company, and to acquire human resources who possess the perspectives, skills, and capabilities that, up to now, have not been found in TAIYO YUDEN. In the new era, I think that a future-oriented human resources strategy matched to those efforts will gain in importance.

In the meantime, centered on multilayer ceramic capacitors (MLCCs), TAIYO YUDEN's business performance is robust and given added impetus by burgeoning markets, such as 5G in the telecommunications industry and CASE in the automobile industry. I think, however, that the time is approaching when we should be discussing how this business portfolio might change in the years to come. Should we enhance our product lineup centered on MLCCs? What kind of customers would we sell to? Should we build multiple markets or rather expand the customers within one market as well? I consider that there are a number of options like these, but unless we change to systems that are able to complement each other with multiple pillars, I think that difficult situations will arise in the future.

Hiraiwa: Up to now, TAIYO YUDEN has continued to grow steadily, centered on MLCCs, and has reached the point where it can aim for sales of ¥300 billion. However, I think the time is coming when sincere discussion about what is needed to provide new value to a society that is changing at a remarkable speed due to efforts for SDGs and the effects of the COVID-19 pandemic, and to become a company that grows sustainably with society is required. I think that, depending on their scale, companies will change their behavior and the perception of their surroundings, and the scenery they see will change. I hope that we will continue to grow and create new social value in the years to come.

