

Striving for Highly Effective Governance

—Roundtable Discussion with the Outside Directors

Emiko Hamada
Outside Director



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TAIYO YUDEN is working to optimize its corporate governance structure in order to ensure sustainable growth and medium- to long-term improvements in corporate value. Outside Directors Masashi Hiraiwa, Seiichi Koike and Emiko Hamada have offered their opinions on TAIYO YUDEN's corporate governance initiatives to date and future challenges, in light of discussions on the formulation of the medium-term management plan 2025

Previous Corporate Governance Initiatives

Hamada: I feel TAIYO YUDEN is strongly committed to governance. As for the actual actions to be taken, for example, conducting the evaluation of the Board of Directors' effectiveness on an annual basis, the Company takes an objective view of the issues identified and enacts countermeasures to address them. I feel that the Board of Directors is highly transparent and has high quality discussions, including such initiatives. There is definitely an atmosphere of never being satisfied with the status quo and always trying to improve.

Koike: There is no "correct" way to work on governance in general. That is precisely why it is the right attitude to always be striving for the best and continually refine ourselves through ongoing improvements. One of the issues identified in the FY2019 effectiveness evaluation was discussion of medium- to

long-term management strategies, human resources development, and human resources strategy. In response, plenty of discussion of these topics was conducted last fiscal year, including among Outside Directors, and the results of this were utilized when formulating the medium-term management plan 2025. In terms of identifying issues and swiftly responding to the issues identified, I believe the Company has established the correct approach.

Hiraiwa: I am the longest serving member of us three, and I have been working as an Outside Director of TAIYO YUDEN for around five years. During this time, rapid progress has been made in organization building to strengthen governance. For example, in terms of the diversity of the Board of Directors, Ms. Hamada's appointment has seen an improvement in the ratio of Outside Directors. By conducting ongoing improvements on an annual basis, the composition of the Board of Directors now fulfils the requirements of Japan's Corporate Governance Code. Furthermore, a particularly striking aspect

of having three Outside Directors is that discussion has deepened through frank exchanges drawing upon each of our unique personalities.

But, as Mr. Koike said, there is no correct answer when it comes to governance initiatives. The size of the company should have changed quite significantly by FY2025, the final year of the medium-term management plan 2025. I therefore believe that it is necessary to start discussion now about what sort of system we should put in place as we head toward this time.

Diversifying the Board of Directors and Developing Talent for the Next Generation

Hiraiwa: Up until now, we have mainly been discussing governance structures, but it is people who create and enact structures and systems. Directors, in particular, need to be personnel with diverse knowledge, experience, and fields of expertise in order to achieve the management objectives of their company. With the revision of Japan's Corporate Governance Code, there has been a rapid increase in the disclosure of this situation as a skills matrix.

TAIYO YUDEN moved swiftly to disclose the skills matrix of all Directors. This led to an awareness among the next generation about what type of talent is needed. If there is some area

found to be lacking in the skills of potential next-generation Corporate Officers, I believe it is necessary to discuss things such as providing training or recruiting externally.

Hamada: I believe that the current TAIYO YUDEN skills matrix is well balanced. In order to maintain this good balance going forward, it will surely be extremely important to clarify the Director skills required for the Company's situation and management policies and strategies at that time as well as use this in securing and training talent. When it comes to leveraging female talent in particular, the Company is not fully ready, so we need to make a conscious effort to work on this.

Koike: You are both right. If I may add one more point, I also think that, in addition to a balance of fields of expertise, it is important to train talent and skills that match the unique characteristics of TAIYO YUDEN. This should improve its corporate resilience.

Hamada: To give a very specific example, digital transformation skills are going to be crucial moving forward. Personnel with these skills are still lacking in Japan in particular, and companies are competing over what limited talent there is. In future, demand is only going to grow and the required level will also increase, so I feel that it is necessary to make efforts with a strong awareness of the issue.

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Hiraiwa: Looking at societal trends, more companies are acquiring digital transformation ventures because it is difficult to train digital talent in a short period of time. However, at the end of the day, I think our only option is to proactively hire and train any talent that is appropriate for TAIYO YUDEN.

Mission: Stronger and More Socially Aware Through the Wonders of Science

Koike: This year, TAIYO YUDEN outlined a mission of “stronger and more socially aware through the wonders of science.” By establishing a clear written mission in addition to the existing management philosophy and vision, I believe the Company has further clarified its ideal vision and purpose of existence.

Hiraiwa: One aspect of the phrase “the wonders of science” is having on-site employees use science to create new value and contributing to society through products and solutions. TAIYO YUDEN has set “employee well-being,” “betterment of local communities,” and “responsibility to provide returns to shareholders” as its three management philosophies. I feel that “the wonders of science” mission both grows our business and contributes to employee well-being and local communities. I hope that all stakeholders will feel the wonders of TAIYO YUDEN.

Hamada: I feel that the TAIYO YUDEN company culture really comes through in the new mission. Perhaps you could call it the Company’s tradition or DNA. “Stronger and more socially aware” has been a phrase since the founder’s age, and I feel

the DNA of the founder, himself a researcher, in “the wonders of science.” At first, I was unsure about the use of the word “wonders,” but then I felt that it really does fit TAIYO YUDEN, and it is the wonders that generations of researchers found in various materials and physical properties that led the Company to where it is now. I have now come to like the word.

Toward the Achievement of the Goals of Medium-Term Management Plan 2025

Hiraiwa: The medium-term management plan 2025, which was launched this year, has outlined some objectives for economic value to be achieved five years from now, including net sales of ¥480 billion and ROE of at least 15%. I believe that these goals will be well within reach if production capacity is increased in light of demand predictions for multilayer ceramic capacitors and the capital investment that is being carried out now.

On the other hand, new environmental, social and governance (ESG) objectives have been established from the perspective of social value. Among them, discussion is currently underway about concrete measures to achieve the “environment” goal of reducing the absolute amount of greenhouse gas emissions by 25% by FY2030 (compared to FY2020).



Koike: For TAIYO YUDEN, this goal means reducing emissions while increasing profits—in other words, while increasing production. It is therefore an extremely ambitious goal. One method to achieve this goal is the procurement

of renewable energy, but this would put pressure on profits. An important measure is determining how much can be achieved through self-reliant efforts, such as by thoroughly implementing production efficiency improvements or lowering the rate of defects.

Hamada: The demands of society are high when it comes to the environment, and stakeholders have increasingly high expectations toward goal achievement. The electricity situation differs from country to country, including Japan, so it is necessary for companies to carefully examine what they can and cannot do. No company can achieve goals relating to environmental issues of its own accord, so it is important to devise strategy while drawing on external knowledge and expertise. I myself hope to join considerations by giving advice with an eye on the external environment.

Nomination and Remuneration of Corporate Officers as a Foundation to Support the Improvement of Corporate Value

Hiraiwa: Discussions have begun in the Nominations Committee and Remuneration Committee based on the idea that it is necessary to shift to a corporate governance structure that matches the scale of the Company as it grows. Specifically, considerations are underway as to the scope of the deliberations of each committee. A key role of the Nominations Committee that I head is selecting the President and Chief Executive Officer (CEO) and nominating candidates for Directors. In an ideal world, Director skill matrices would also be made for potential next-generation leaders, which would be used to judge whether someone is a suitable candidate for Director or President. However, further discussion is required before a direction can be seen.

Koike: The Remuneration Committee that I head has started discussion of how to make systems of remuneration to corporate officers that enable continuous improvements in corporate value. The current TAIYO YUDEN compensation system is designed with comparatively strong short-term incentives, and I think it is necessary to have more in-depth discussions about long-term incentives moving forward.

Hamada: Society has no single correct answer as to how Corporate Officers should be incentivized. I feel that it is necessary to think of the optimal compensation system for TAIYO YUDEN, not only focusing on the remuneration amount alone, but designing the system to promote the achievement of goals and execution of strategy in line with revisions to medium-term targets, management policies, and strategies.

Toward the Future of TAIYO YUDEN

Hiraiwa: TAIYO YUDEN is right in the midst of a period of growth, launching the new mission of “stronger and more socially aware through the wonders of science” and embarking on an ambitious medium-term management plan. In light of this, I will aim for the Company to become bigger in a positive way and grow into a company that contributes to society. Since TAIYO YUDEN is making electronic components that are essential for the society of the future, it has enough potential to do so.

Koike: I want TAIYO YUDEN to fulfil its new mission and become a company that brings wonder and value to society. The first step toward this is achieving the economic value and social value goals of the newly formulated medium-term management plan 2025. I will strive to contribute to the realization of these goals from my position supervising the execution of business operations.



Hamada: While many industries are facing difficult circumstances due to the COVID-19 pandemic, the electronic components industry has very fortunate market circumstances. With continued future growth in communications technologies and digital devices, I believe that TAIYO YUDEN has been given a great opportunity to grow. I hope my work in management helps the Company grow larger, gain recognition as a company with social value, and be an attractive place to work.