

Message from the President



Contributing to the development of a connected society while expanding economic and social value

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President and
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Our Goals

Continued Acceptance of the Group's Mission

In the year 2020, TAIYO YUDEN celebrated the 70th anniversary of its founding. On this occasion, we clarified our mission to become stronger and more socially aware through the wonders of science in 2021 to restate our commitment to become a company that will contribute to society for the next 30 years up to the time of our 100th anniversary, and beyond. This new mission combines the concept of stronger and more socially aware, the direction that the TAIYO YUDEN Group has historically followed and passed down from generation to generation, with the excitement embodied in the wonders of science. Two thoughts underpin the notion of the wonders of science. First, science itself is the wellspring that supports every facet of TAIYO YUDEN's business development. The wonders of science bring about exciting experiences, unexpected discoveries, and surprises. Second, we believe that for a company to remain a viable going concern, its employees must find their work worthwhile and interesting. Our hope is that our employees are keenly aware of these two distinct thoughts as they go about their daily duties.

One year has now passed since we put forward this mission statement. I am heartened by the fact that employees are increasingly asking such questions as, "What does the wonders of science mean to me?" and "How can I become stronger and more socially aware through the wonders of science and my work?" Against this backdrop, I feel that employees are becoming increasingly aware and are steadily accepting our mission.

Changing Business Conditions

Advancements in Digital Transformation (DX) and Component Demand Growth

Amid advancements in digital technology across 5G, the automotive market or "connected, autonomous, shared & service, and electric" (CASE), and various other related fields, the semiconductor market is projected to expand from ¥60 trillion in 2021 to ¥100 trillion in 2030. Despite the downturn in economic activity attributable to such factors as the COVID-19 pandemic, I can see the steady shift toward DX with new trends in the market including remote work, which is creating opportunities and increased demand for electronic equipment. In addition to the accelerated shift to electric vehicles and the expansion of data centers commensurate with growth in the volume of telecommunications data, power supplies are becoming increasingly efficient in a bid to curb power consumption. Electronic components, including capacitors, are vital to the operation of the semiconductors used in these devices. With these market forces in place, we will expand our supply capacity to meet increasing demand.

Although the global impact of COVID-19 is beginning to dissipate, conditions remain uncertain and in certain regions there are factors such as the large-scale lockdowns implemented to prevent further spread of the pandemic. Against this backdrop, we continue to implement various response countermeasures based on our Business Continuity Plan (BCP), taking into consideration the health and safety of stakeholders. At our production bases, we are following the instructions and guidance of national and local governments in each country. We are engaging in safe operations based on the thorough implementation of infection prevention measures. In areas other than production, we are working to ensure continued smooth operations through a variety of measures, which include the introduction of a work-from-home system depending on conditions in a particular region. While geopolitical risks have increased since entering this year, the TAIYO YUDEN Group has no bases, major customers or suppliers in Russia or Ukraine, and sales to both countries are insignificant. Despite this minimal direct impact on our business activities, events in Ukraine have resulted in higher procurement and logistics costs as well as longer logistics lead times.

Unexpected changes in the external environment, including large-scale natural disasters, can be expected to occur around the world at some time in the future. TAIYO YUDEN will address each

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incident according to the circumstances that prevail in order to engage in continuous and stable business activities.

Medium-term Management Plan 2025

First Year Financial Results Targets Achieved, Certain ESG Activity Issues Linger

Backcasting from 2030, the medium-term management plan 2025 covers the five-year period starting from FY2021. In this first year of the Plan, sales and profit increased. In specific terms, net sales climbed 16% compared with the previous fiscal year, to ¥349.6 billion and operating income jumped 67% year on year, to ¥68.2 billion. These results substantially exceeded forecasts at the beginning of the period owing to such factors as robust demand, the modest decline in product prices, and the positive impact of fluctuations in foreign currency exchange rates. TAIYO YUDEN reported a fifth consecutive fiscal year of record high net sales, a third consecutive fiscal year of record high operating income, and a second consecutive fiscal year of record high ordinary as well as net income. The Company has identified four economic value key performance indicators for net sales, operating margin, ROE, and ROIC under the medium-term management plan 2025. Drawing on financial results in FY2021, we have achieved our established targets except for net sales, and made an excellent start in the first year of the Plan.

For environmental, social, and corporate governance or ESG activities aimed at improving social value, we surpassed our targets for greenhouse gas (GHG) emissions, water usage, and the rate of newly recruited female graduates. In contrast, we fell short of our targets for waste, the incidence rate of injuries and illness, the accident frequency rate, and work engagement. In working to increase production capacity commensurate with the growth in demand, it is vital that we strengthen efforts to reduce our impact on the environment, improve safety, and motivate employees. After completing the first year of the medium-term management plan 2025, we have a much clearer picture of what is required to meet our targets. We will analyze those areas where we need improvement to achieve plans and adopt appropriate countermeasures. We will work to catch up by accelerating the pace of efforts in the current fiscal year and beyond.



Business Strategies

— Pioneering Focus Markets

TAIYO YUDEN has identified automobiles and IT infrastructure/industrial equipment as focus markets. The goal moving forward is to have these focus markets account for 50% of total sales. In FY2021,

focus markets already made up 46% of total sales. Looking at profitability trends over the past few years, the Company has enjoyed a steady increase in stability thanks to the expansion of sales in the focus markets. We will work to achieve the 50% target through concerted efforts to expand our product lineup to meet the specifications of customers that serve these focus markets. These measures include expanding our lineup of high-voltage-resistant products in mainstay multilayer ceramic capacitors (MLCCs), where demand is expected to increase due to the shift to electric vehicles, and the rollout of inductors for use in automobiles, data centers, and memory.

— Product Information (Capacitors, Inductors, and Communication Devices)

In order to respond to the expanding market and the requirements of our customers, we recognize the critical need to focus on product development and production capacity expansion. From a product development perspective, we are working to increase the sophistication of our material and multilayer technologies. We are engaging in medium- and long-term R&D activities and are continuing to pursue technological breakthroughs through sudden serendipitous events.

Turning to MLCCs, work is underway on the construction of a materials building at the Group's Yawatabara Plant in Gunma Prefecture, Japan (scheduled for completion in December 2022) as well as new plants at TAIYO YUDEN (SARAWAK) in Malaysia and at TAIYO YUDEN (CHANGZHOU) in China (both scheduled for completion in June 2023). With the market expected to grow by about 10% annually, we will continue to increase production capacity by 10-15%, exceeding market growth. In conjunction with these endeavors, we will maintain our focus on smart.E productivity enhancement activities. We are continuing our efforts to increase capacity in real terms, mainly through yield improvements by putting in place a mechanism to horizontally disseminate good practices throughout the Group and promoting other productivity enhancement measures.

As far as inductors are concerned, we are also looking to expand beyond the Group's current mainstay smartphone market while promoting the diversification of markets and customers by developing products that incorporate the use of metal materials, ferrite materials and multilayer structures as well as wire-wound configurations to address customer needs. In FY2021, applications for information equipment, automobiles as well as IT infrastructure/industrial equipment are expanding. Moving forward, we will continue to promote further application expansion.

In addition to the mainstay smartphone market, the Group's communication devices are highly regarded for their reliability, which draw on a robust filter package structure in the automotive telematics, M2M, and IoT markets. Building on this track record, we are looking to expand into a wide range of applications.

Creating New Businesses

Promoting the Creation of Solutions for Social Issues

One of the Group's guiding new business principles is to provide people-oriented solutions. By combining TAIYO YUDEN's original technologies with an enhancement from outside resources, we are working to provide equipment, and develop businesses that solve social issues through proposals that incorporate solutions that ensure optimal use.

An example of this is regenerative electric assist systems for electric assisted bicycles, which have already been commercialized and have been favorably received as a new mobility system with low environmental impact. Sales are expanding steadily in line with the uptick in cycling interest. In addition, we are taking steps to promote the practical application of a wide range of products including river water level monitoring systems, LTE modules for smart meters, and location detection solutions with our IoT solution soliot™. The river water level monitoring system consists of a radio wave water level gauge that employs a millimeter wave sensor based on the Group's original optical recordable media technology. Here, we are conducting demonstration tests at various locations in Japan's Gunma and Hiroshima prefectures.

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TAIYO YUDEN's stance on new businesses is to systematize an evaluation process that seeks to match various social issues (needs) with the Company's technologies (seeds), while taking into consideration future demand forecasts, and the competitive environment. On completing this process, we select themes with the potential for commercialization. We intend to promote the creation of new businesses while carefully selecting those that can contribute to the enhancement of economic and social value.

ESG Strategies (Environment)

Upward Revision of GHG Emissions Reduction Target

TAIYO YUDEN is a signatory to the United Nations Global Compact (UNGC) and strongly supports its 10 Principles in the four areas of human rights, labor, environment, and anti-corruption. We are strengthening our ESG endeavors with an emphasis on sustainable corporate activities, and we have put in place both economic and social value indicators in the medium-term management plan 2025. From an environmental perspective, we identified reduction indicators for GHG emissions, waste generation, and water use.

Looking first at GHG emissions, we reviewed our roadmap to 2030 in a bid to achieve the 1.5°C target agreed at COP26* in 2021. As a result, we upwardly revised the 25% reduction target (compared with FY2020) set at the start of the medium-term management plan 2025 to 42%.

As a manufacturing company, TAIYO YUDEN must first work diligently to conserve energy. The Company will focus on minimizing loss to the greatest extent possible relating to its manufacturing activities. In addition to increasing the sophistication of a number of core technologies including the development of materials, efforts taken to improve the yield per unit will directly contribute to energy savings. We believe that the next step is to generate power including the creation of renewable energy. One example is the conversion to 100% renewable energy at the Company's R&D Center by FY2024. In specific terms, we will install solar power generation and storage batteries at the R&D Center premises to create energy and switch to electricity derived from renewable energy sources to cover any shortfall. Among various other measures, we are working to ensure that plants currently under construction in China and Malaysia are environmentally friendly. The Group as a whole will build an energy-saving, energy-creating, and energy-recycling manufacturing system to help realize a decarbonized society, while expanding information disclosure in line with the recommendations put forward by the Task Force on Climate-related Financial Disclosures (TCFD).

ESG Strategies (Human Resources)

Setting a New Female Manager Ratio Target

Employees should be energized by their work, focus on staying healthy, and exhibit their ability with vitality. TAIYO YUDEN recognizes that this is the source of its value creation, and as such the Company is totally committed to its human resources. Under the medium-term management plan 2025, we set a ratio of new graduate women hired target of 30% or higher. Building on this target, we have added the new female manager ratio target of 10% or higher from FY2022. Drawing on the steady progress made in vigorously hiring female employees as well as its human resources development activities, the pool of TAIYO YUDEN's female manager candidates has deepened. Under these circumstances, we believe that we can accelerate our activities by setting and committing to targets for managerial positions.

In addition, we have set a work engagement target score of 2.5 or higher and achieved a score of 2.25 in FY2021, which fell short of the target. From this score, we can conclude that employees have not yet met to the level of interesting and rewarding work levels that we have identified in the Company's mission. Moving forward, we will carefully analyze all pertinent issues including work procedures and communication. We will put in place a variety of measures in a bid to achieve our goals.

ESG Strategies (Governance)

Employing Advisory Panels Comprised Mainly of Outside Directors

Corporate governance serves as the foundation for long-term, sustainable corporate growth. TAIYO YUDEN practices the principles of the Corporate Governance Code. The Company shares with the Board of Directors and deliberates on the information acquired through various means including dialogue with stakeholders. In principle, the fruits of deliberations are reflected in the Company's management.

Even before the Corporate Governance Code came into force, TAIYO YUDEN established the voluntary Nomination and Remuneration Committees, both chaired by an Outside Director. The Company continues to address the important issues of director nomination and remuneration, which can be considered the cornerstones of corporate governance. With the Remuneration Committee playing a leading role, we reviewed systems of remuneration to corporate officers in FY2021.

As far as the nomination process is concerned, we became aware of the need to deliberate on the composition of the Board of Directors from a medium- to long-term perspective following the effectiveness evaluation of the Board of Directors conducted in February 2022. To optimize the composition of the Board of Directors in light of the management policies and strategies of the time, we understand that it is increasingly vital to systematically develop the next generation of CEOs and Director candidates, mainly through the Nomination Committee.

In Conclusion

Guided by its mission to become stronger and more socially aware through the wonders of science, we formulated the medium-term management plan 2025 taking into consideration the medium- to long-term business environment. We have set targets relating to the enhancement of economic and social values. We are looking to take the next leap forward through management that balances the improvement of each of these values. To achieve our established goals, the trust and collaboration of stakeholders including shareholders, customers, employees, and local communities are essential. I therefore humbly request the continued support of each.



J. Tsuchida

President and Chief Executive Officer

WE SUPPORT



*COP26
The 26th session of the
Conference of the Parties to
the United Nations Framework
Convention on Climate Change