

Round-table discussion with Outside Directors

Evolving Murata and leaping forward to enhance corporate value

Outside Director
Audit and Supervisory Committee
Member
Remuneration Advisory Committee
Member

Hyo Kambayashi

Outside Director
Audit and Supervisory Committee
Member

Naoko Munakata

Outside Director
Audit and Supervisory Committee
Member
Nomination Advisory Committee
Member

Takatoshi Yamamoto

Outside Director
Nomination Advisory Committee
Member
Remuneration Advisory Committee
Member (Committee Chairperson)

Yuko Yasuda

Outside Director
Nomination Advisory Committee
Member
Remuneration Advisory Committee
Member

Takashi Nishijima



The Board of Directors has further evolved over the past year

Nishijima A year has passed since I was appointed as an Outside Director, and I think that the Murata Board of Directors engages in open, dynamic discussions that contain high levels of expertise from a diverse group of members.

Sometimes the opinions stated are critical, but the management members address them with open-mindedness and speak candidly when they disagree. I think these discussions are constructive.

Also, as individual employees take pride in Murata's strong technological capabilities, their technical explanation was tended to be detailed accordingly, time tended to be devoted to technical discussions in spite of the limited time of Board of Directors meetings.

However, this has improved due to the efforts of the Board of Directors secretariat and feedback based on our opinions. I feel that over the last year, meetings have changed into venues for discussing substantive, strategic, long-term management issues.

Kambayashi Improvements were made in the content and delivery of advanced briefings when compared to where we were before. As we attend meetings with a better understanding of the details the executive committee wants us to know, we can contribute in a more focused way.

Time for review has been arranged for after the meetings, which did not happen before. This provides a platform to speak freely about

the issues we noted during the meetings and to receive additional explanations, which help deepen our understanding.

Additionally, Board of Outside Directors meetings provide an excellent opportunity to share our perspectives and reconfirm our understanding of matters, such as responses and planned direction, before the next Board of Directors meeting. However, it is a shame we always seem stretched for time. If we had more flexibility during meetings, I expect we would be able to further enhance Board of Directors meetings.

Munakata As Mr. Kambayashi said, I think the advance briefings are a vast improvement. They are provided more often and explain the discussion points ahead of the meeting, which makes it easier to move these conversations forward.

Also, as Mr. Nishijima mentioned, it feels like the overall agenda for Board of Directors meetings and the allocated time for each item have been improved, which has made the meetings more efficient.

Yamamoto The increase in the number of advance briefings means more time is required. Since each agenda item incorporates the perspective of the business divisions and key functional staff departments, we must understand this and communicate with a sense of urgency to objectively identify issues and a path forward.

Concerning the changes over the last year,

the Board of Directors has developed a strong recognition of material issues. With that, we are mindful of allotting time to discuss and share information about matters such as corporate governance or reports from the CSR Management and Risk Management Committees to facilitate the establishment of a global risk management structure and promote sustainability. This has improved the effectiveness of the Board.

I also feel that the Chairman (Chairman of the Board and Representative Director Tsuneo Murata) has been eager to steer discussions in a broader and more strategic direction, particularly during the last year. He is facilitating the discussions skillfully, such as consciously giving Inside Directors opportunities to speak, which is leading to richer discussions.

Fiscal 2022 was a turning point for Murata due to factors such as the two downward revisions of business results pegged to yen depreciation. There were dramatic changes in the external environment, including the maturing demand for smartphones, semiconductor shortages, the rapid escalation of the situation in Ukraine, and a rise in tensions between the U.S. and China. Affected by these changes, there was a slump in orders for our main products and a prolonged struggle in the acquired businesses. In other words, I think it was a year where we got a clearer view of the challenge of realizing continuous growth in Murata's corporate value over the medium to long term. With this in mind, we had to address how much progress we made on substantive discussion

toward medium- to long-term growth in the future. Regarding challenges like this, we were able to share them at Board of Directors meetings and discuss what direction we should take. In this sense, I think it was an extremely significant year.

Yasuda I also felt it was a year that was lacking in good news, but as President Nakajima said when explaining the one-year plan at the start of the year, we needed to maintain a solid footing and strive for substantive discussions in a demanding situation. Within this, we should engage in discussion based on regular self-examination, including whether we, as Outside Directors, have asked questions and provided advice that gets to the heart of a matter, and whether we have fulfilled our responsibilities. However, I think the ability to move forward with a positive attitude, even when there is little good news to be had, is one of Murata's strong points.

Another change I have noticed is how the company uses Outside Directors has improved. One of the characteristics of this group is that we all have subject matter expertise. The Board of Directors now operates in a way that encourages its five Outside Directors, who each possess specialist knowledge in different fields, to add to discussions and provide counsel. Also, since the start of 2023, we held Advisory Meetings on topics such as value creation processes and gathered feedback on the annual securities and integrated reports. This shows that the Outside Directors are well-leveraged. It is one way in which Murata demonstrates its operational excellence.

A governance approach for enhancing corporate value

Nishijima During the Board of Directors meetings, we discussed our vision for the group's future, which was a worthy conversation. Each Board Member was engaged in sharing their perspectives, and we identified areas where our opinions differed, shared points, and what directions we wanted to take. If we continue and deepen this discussion, I think it will provide us with ideas for further raising the level of governance of Murata's Board of Directors.



Kabayashi Both Chairman Murata and President Nakajima have spoken about steering the Murata Board of Directors towards a monitoring model, but I feel this needs to be combined with advisory functions as well.

At meetings, Chairman Murata often starts discussions that test the quality of management. I think he is asking Outside Directors questions on the most critical thing for Murata's management, or in other words, what is the most important thing we could do to support value creation. Regarding Chairman Murata's vision for the Board of Directors, I have realized that Chairman Murata believes that we should discuss on not only just interprets of legal obligations or social norms, but also what the Board should look like in the context of management in thinking of the vision for the Board of Directors.

I think that for Outside Directors, a monitoring model for the Board means asking appropriate questions. Rather than, "Why don't you do it like this?" It is essential to ask questions like "Why do you do it like that?" This is the approach I have tried to take in Board meetings. However, it would be better if Outside Directors are more proactive in suggesting how things should be done. In future meetings, I would like to discuss how the Board should be operated, including how we could

incorporate an advisory function.

Yamamoto Value can be gained from organizing and clarifying discussions about how the Board of Directors should be. In other words, we must dynamically change the Board to align with Murata's objectives. This will require linking discussions about how the Board of Directors should be to the management strategy and the enhancement of corporate value and changing the Board according to what Murata needs. However, raising the effectiveness of governance will require us to make the Board of Directors more dynamic and ensure appropriate and high-quality discussion and decision-making is practiced at Management Committee meetings. I think we need to pursue these two points persistently. I would like to see more ideas applied toward discussions, the sharing of materials, and other aspects of Management Committee meetings.

Munakata The business environment is changing rapidly, so I feel that the company has become very focused about how the Board of Directors can be leveraged.

Various challenges need to be addressed, and I think we should organize and clarify which issues truly need to be discussed by the Board. Then we can have focused discussions on them. We would gain a clearer focus of the direction we want to emphasize as a company. This clarification would also make it easier for people with differing recognition or ideas to express their opinions.

Nishijima If we raise the level of governance of Murata's Board of Directors, another point we need to tackle is linking the company's overall strategy and direction to individual strategies and management issues. When discussing individual strategies and management issues, it is sometimes a challenge to see how they fit into the overall blueprint for the company. These connections might be intuitive to senior management members, but if we could



clarify these links, discuss them in the context of the big picture, and monitor them, then I think we can take the governance of the Board to the next level.

Yasuda Currently, time is fairly limited during Board of Outside Directors meetings, and some people feel it is difficult to have in-depth discussions. Making the Board of Outside Directors a venue

Changing the nature of the Board of Outside Directors

Yasuda From my perspective, how Outside Directors should participate in the Board of Directors is a matter of role allotment.

If we recognize that we, as Outside Directors, are expected to make discussions more efficient and sophisticated through observations and counsel, then we will be mindful of what we should be saying and can contribute in a more useful manner.

Munakata There have been significant changes in the external environment, so I am focusing on geopolitics, cybersecurity, and supply chain risk management. Also, recently, how we incorporate global environmental conservation, resource-saving, and recycling into corporate activities has become important from a sustainability perspective. Within this situation, while I will also consider customers and other matters, we need to emphasize discussing the correct way to think about the major trends occurring in the world. I want to continue contributing from this perspective.

Yamamoto It is important to ask questions from a different viewpoint rather than only approaching a topic from your own expertise. If each of us asks questions that suddenly come to us from outside of our specializations, it might add a new dimension to discussions and lead to new realizations.

When asking questions, I try to question whether things that have been assumed up to now are true and test things that might be considered common knowledge. I think that now, due to changes in the external environment, it is especially important that we fully utilize our wisdom and hold discussions that dig into the assumptions we have held up to today and question whether they still hold true.

Nishijima This is also a time for questioning whether things are true. Murata's organization and its employees are both highly capable. Since the values centered on the company motto are shared, the matrix organization functions well, which naturally leads to optimal overall management. In addition, each employee has a high awareness of self-discipline. Our achievements to date

that allows for all members to engage in comprehensive conversations would also be beneficial to enhancing the effectiveness of the Board of Directors. I think there is room for improving the way Board of Outside Directors meetings are operated, including establishing what should be on the agenda and what outcomes we are aiming for.



have also produced high levels of self-esteem. However, when the times change, we must question whether these statements still hold true. As a flipside to this self-esteem, I think now is truly the time for both management and employees to adopt a crisis mentality. To achieve this, I believe asking questions from that kind of perspective is essential.

I have been on the executive side, so I fully understand how difficult it can be to respond when questioned. For example, I mentioned earlier about wanting to see an overall blueprint for the company, but I also understand that this is difficult. This asking of questions that I would find difficult to answer shows how I have evolved since becoming an Outside Director.

Kabayashi I have tried to contribute from a perspective that questions whether the current company framework is enough to manage a matter or whether something new is needed. When risk presents, I check what structure is in place and whether an appropriate process has been established. For example, a team reports back to the Board of Directors, the executive side takes action, and details of the execution and results are all reported back to the Board, which then takes follow-up action. I feel there is not enough follow-up regarding the agenda items discussed at Board meetings. We need to organize and

strengthen follow-up systems and reconsider the framework for implementing PDCA cycles. Also, I think we should reconsider how roles are divided between the Board of Directors and the Audit and Supervisory Committee, what the functions of the Audit and Supervisory Committee are, and what its operating structure needs to be.

Munakata I also think we should delineate the functions of the Audit and Supervisory Committee in comparison to the Board of Directors. In addition, we should continue discussing the relationship

and functions between the Audit and Supervisory Committee and the Office of Internal Audit.

Yamamoto I agree. We must also build a framework to improve collaboration between these three organizations. In 2016, we switched to an Audit and Supervisory Committee, so we should reconfirm the role required by Audit and Supervisory Committee Members and deepen the discussion of what they should be doing.

constructive discussions with the executives about issues to further consider about operating under the current framework. We discussed topics such as whether it is right only to have short-term targets like operating income and ROIC (pre-tax basis), how we can operate a remuneration system that is unique to Murata and that unifies employees, and what would be the best indicators for a framework that encourages long-term value co-creation with shareholders. I would also like to see these reflected in the agenda going forward.



Cooperation through joint meetings of the Nomination and Remuneration Advisory Committees



Yasuda A notable change made in fiscal 2022 regarding the Nomination Advisory Committee and Remuneration Advisory Committee was holding joint meetings between the two. The most important achievement of this initiative was the collaborative discussion regarding the evaluation, appointment, and dismissal of the President and Representative Director.

Nishijima I participate in both committees, and they are highly transparent and have atmospheres that facilitate objective discussion. They both play a vital role in raising the effectiveness of the Board of Directors, and I think both are functioning well. One thing that left an impression is that, as Ms. Yasuda mentioned, they have established and implemented a framework for evaluating the President and Representative Director. Without a thorough evaluation, remuneration cannot be decided, and we cannot deliberate on nominations and reappointments. In this way, the joint meetings were highly significant. This coordination between evaluation, remuneration, and reappointment was also a first for President Nakajima, and I think he appreciated it. While I

believe we can make further improvements on the implementation of PDCA cycles, this initiative sets excellent precedence in setting the selection criteria for the next President and Representative Director.

Yamamoto I think holding joint committee meetings is one of the most impressive new initiatives trialed at Murata. Combining evaluations of the President and Representative Director with self-evaluations provides a multifaceted approach that is highly objective and transparent. I believe it will lead to improvements in management quality. I am confident the initiative will further raise the level of both committees. This issue holds great interest for stakeholders, and I expect it will result in constructive dialogue in the medium to long term.

Kabayashi It was extremely positive that the two committees shared information and established a base for making judgments on nominations and remuneration. Regarding the remuneration process, there is still room for further discussion on individual bonuses, but it now truly fits well with Murata's "Value for Fee," reflecting what the company values now and for the future. I think we have reached a level that is higher than most Japanese companies. We should create a framework to explain this to global stakeholders, and hopefully, it will further raise the motivation of employees, including future recruits.

Yasuda I think this has been a year of improvement for the Remuneration Advisory Committee in terms of both the number and content of meetings. Our main activities included discussing an action plan, values for executive remuneration, social value target coefficients, and collaborating with the Nomination Advisory Committee. This has been the first year since the adoption of our new executive remuneration system, so I feel there are still matters to be discussed regarding its operation. On the other hand, we had high-level,

Hurdles to be overcome to drive Murata further forward

Kabayashi The Murata Philosophy includes, "creating innovative products and solutions." I feel that we need to deepen the discussion on research and development. We need to more clearly define whether the current framework is sufficient and its impact on the third-layer business.

Munakata As the external environment is harsher than ever before, I think the most essential challenge is how to raise earning power.

The first layer is driving our earning power, but we need to consider what to do if commodification makes it impossible to maintain those profit margins. On the other hand, the profitability of second-layer products is low, so we urgently need to find ways to raise the vitality of this layer. Further, we must determine how to acquire the resources we require for our third-layer business. On that, I think a fuller discussion on evolving our business portfolio is warranted.

Yamamoto As the global No. 1 component and module supplier, raising corporate value is a key management issue. First, it is instrumental in recruiting and developing diverse talent worldwide and creating opportunities for these human resources to take on challenges. This will lead to the establishment of information security, quality and safety, compliance frameworks, technological innovation, and the development of third-layer businesses.

Other issues include raising profitability by strengthening our new products and materials capabilities and correcting our dependence on capacitors for profits and rare resources. I also want to monitor the contribution level of

differentiating technologies acquired through M&A to new product development and the decision-making process for exiting unprofitable lines of business.

Yasuda Diversity is a prominent issue. In a panel discussion with women in managerial positions last year, it was clear how insightful and capable Murata's women managers are. What surprised me further was that employees were fully receptive to diversity. There is a world of knowledge within Murata, but I want to communicate this and visualize initiatives that turn communication and messaging abilities into concrete action. I think this will be one of Murata's challenges going forward.

Nishijima I think innovation creation is an issue. As mentioned previously, Murata has a culture of focus, drive, and discipline.

Going deeper into this, I think we should be bolder in incorporating people from diverse backgrounds and outside corporate cultures. Maintaining the knowledge and experience we have accumulated to date while also adding new, unique Murata qualities may be a fast way to generate innovation.

This is my opinion, but I plan to share it on a regular basis.