Financial Review

Performance Overview

The economic environment for the TAIYO YUDEN Group improved moderately in the fiscal year ended March 31, 2014, supported by recovery in global economic conditions, which was led mainly by developed countries while certain segments remained sluggish. Demand for electronic components was strong in the electronics industry. The Group's business domain and positive results were supported by the expanding smartphone and tablet device markets and increasing use of electronics in automobiles. Demand remained stagnant in the personal computer and TV segments.

In these conditions, the Group implemented growth strategies and structural reform aimed at improving revenue. Growth strategies carried out during the year leveraged our competitive advantage in super high-end products to expand the sales in the growing smartphone and tablet device markets. We also strengthened our sales structure and enhanced the lineup of high-reliability products in our focused markets: automobile electronics, industrial equipment, healthcare, and environmental and energy. Structural reform included the restructure of the optical media products business as part of our ongoing effort to improve the breakeven point. As a result, net sales increased 7.9% year over year to ¥208,222 million in the fiscal year ended March 31, 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses rose ¥3,373 million year over year to ¥36,223 million for the fiscal year ended March 31, 2014. The main elements were increases in employee bonus and allowances and R&D expenses. Operating income amounted to ¥11,358 million, an increase of 134.2% from the previous fiscal year.

Other Income (Expenses)

The net amount of other income was expenses of ¥1,206 million, an increase of ¥235 million compared with the previous fiscal year. This amount reflects the posting of ¥1,574 million as a decrease in gain on foreign exchange, ¥881 million down in gain on sales of property, plant and equipment, and an increase in business structure improvement expenses by ¥608 million. At the same time, the rise in income reflects the posting of decrease in a settlement package of ¥2,823 million.

As a result of above factors, we restored profitability and booked net income of ¥6,989 million, a surge of 274.3% from the previous fiscal year.

Financial Position

Assets

Total assets at the March 31, 2014, fiscal year-end were valued at ¥247,596 million, an increase of ¥21,604 million from the previous fiscal year-end. Current assets increased ¥26,426 million due mainly to rises of ¥23,894 million in cash and deposits and ¥2,370 million in work in process inventories. Property, plant and equipment decreased ¥4,822 million largely due to declines of ¥4,377 million in tangible fixed assets and ¥613 million in intangible fixed assets.

Liabilities

Total liabilities at the March 31, 2014, fiscal year-end amounted to ¥119,040 million, up ¥8,863 million from the previous fiscal year-end. The primary factors were decreases of ¥9,618 million in short-term borrowings and ¥2,282 million in accrued amounts payable. This was offset by an increase of ¥20,096 million in current portion of convertible bonds with subscription rights.

Net Assets
Net assets at the March 31, 2014, fiscal year-end were ¥128,556 million, up ¥12,741 million from the previous fiscal year-end. The main factors were a ¥6,989 million increase in net income, a ¥1,176 million decrease in dividends from surplus, and a ¥6,571 million increase from foreign currency translation adjustments.

Cash Flows
Net cash provided by operating activities in the fiscal year ended March 31, 2014, amounted to ¥29,724 million, an increase of 52.5% from the previous fiscal year. The primary factors were income before income taxes and minority interests of ¥10,152 million, depreciation and amortization of ¥20,750 million, business structure improvement expenses of ¥862 million, and a ¥1,970 million decrease in trade payables. Net cash used in investing activities for the fiscal year ended March 31, 2014, amounted to ¥18,947 million, an increase of 4.4% as compared to the previous fiscal year. The increase was largely due to ¥16,875 million utilized for purchases of property, plant and equipment and a ¥2,223 million net increase in time deposits. Net cash provided by financing activities for the fiscal year ended March 31, 2014, amounted to ¥8,404 million, a 260.0% jump from the previous fiscal year. The main factors were a ¥9,903 million net decrease in short-term borrowings and ¥20,071 million proceeds from the issuance of convertible bonds with acquisition rights. As a result of the above, cash and cash equivalents at the March 31, 2014, fiscal year-end amounted to ¥54,611 million, an increase of ¥21,331 million from the end of the previous fiscal year.

Financial
The TAIYO YUDEN Group conducts centralized management of Group funds to enhance the efficiency of funding operations. The Group collects surplus funds from affiliated companies and allocates funds to affiliated companies as necessary. External sources are utilized when additional funds are needed. The Cash Management System (CMS) is utilized to minimize interest-bearing debt from external sources. Financing from external sources at the March 31, 2014, fiscal year-end consisted of ¥8,000 million in the current portion of bonds payable, ¥365 million in the current portion of convertible bonds with stock acquisition rights, ¥10,623 million in short-term borrowings, ¥12,472 million in the current portion of long-term borrowings, ¥20,096 million in convertible bonds with stock acquisition rights, and ¥21,861 million in long-term borrowings. In principle, borrowings are secured within Japan at fixed interest rates. To ensure financial stability, the Company has also established a commitment line of ¥10,000 million effective for three years. The commitment line was renewed in December 2011 for security in an emergency situation. The Company has not utilized the commitment line as of the March 31, 2014, fiscal year-end. The Group is capable of generating cash flow through sound financial position and operating activities. Management believes it is capable of procuring the operating capital and funds for capital investment for future activities that may be required in the future to maintain the Group’s growth.

Overview of Capital Investment
Capital investment amounted to ¥16,875 million in the fiscal year ended March 31, 2014. Investments primarily comprised the following.

Electronic Components
Capital investment of ¥16,683 million was used mainly for investments to improve productivity and for R&D facilities.