

TAIYO YUDEN continues to meet the challenges of transforming itself, aiming to become an excellent company that enjoys the trust and highest regard from our customers.



Eiji Watanuki
President and Representative Director

Overview of the Year Ended March 2013

In the year ended March 2013, the business climate for the TAIYO YUDEN Group remained difficult, primarily due to weak worldwide demand for electronic components. This was offset somewhat by such positive factors as the world economic improvements from the recent slowdown and movements in the exchange rate resulting in a weaker yen. All in all, we consider it to be a significant accomplishment for the Group succeeded in achieving a positive net income for the first time in five years.

With that said, we clearly recognize that it is an extremely regrettable fact that we did not achieve our targets that were set at the beginning of the fiscal year. These targets were: net sales of ¥210.0 billion, operating income of ¥10.0 billion and net income of ¥5.5 billion. In the process of examining the reasons why we did not meet our targets, we identified a number of issues that apply throughout the Group, which offer up opportunities to improve further. If successful in addressing these issues, we will see significant improvements in the Group's profitability.

In short, my candid assessment of the year ended March 2013 is that despite significant progress in structural reforms, our growth strategy and profit achievements, we must still work harder to accomplish further successes as we move forward.

Progress on the Medium-term Management Plan

Although we did not achieve complete success in meeting the targets for the first year of the medium-term management plan, I consider that we have steadily made progress with structural improvements and we were able to achieve many of our targets by our structural improvement measures. These measures are broadly divided as:

1) structural reform, 2) restriction of capital investment, 3) reduction of selling, general and administrative expenses (SG&A) and other expenses, and 4) decreasing the currency exchange rate influence.

A key structural reform initiative, "Withdrawal from unprofitable products," has proven to be very challenging. When I was appointed President in June 2011, the Group was offering some products that were generating a profit, but there were many products that were unprofitable. It was imperative that we quickly transition to become a company that has all of its products generating strong profit contributions. To do this, we categorized our unprofitable products from a variety of perspectives: product breadth, cost effectiveness, the trend and potential of the product's market, and competitiveness. We then set in place initiatives that increased the possibilities for improving profitability by

product. We determined whether the product is profitable or will start making a profit, otherwise the product must be discontinued. As a result, we have eliminated the majority of our unprofitable products as of the end of March 2013.

We have shifted our business resources to growth areas by moving human resources and assets away from unprofitable businesses to make use of these resources in markets and products on which we are focusing. Moreover, we have established an attitude throughout the Group that loss-generating products must not be tolerated. We will rigorously implement constant reviews to assure product profitability and to assure prompt action to exit non-profitable products when needed. At the same time, we strongly recognize that an important management issue is developing our marketing capabilities to adapt quickly to changes in demand trends. In the year ended March 2013, we concluded the Group's marketing capabilities to be somewhat inadequate and in some cases we did not move quickly in properly reacting to market circumstances. The Group develops its businesses in the context of various elements, i.e. markets, equipment, technology, customers and business models. We have challenged ourselves to think of ways to better address these elements. We must obtain all relevant information as soon as possible and decide how to build a supply system that closely matches demand. Furthermore, it is necessary that this information is obtained by the Group working as a whole, from the people on the front line of production, those in marketing and the rest of our Group members. To further strengthen this concept, the Group will continue to increase the number of Field Application Engineers (FAEs)—sales personnel with engineering skills—to strengthen our making framework. This will yield us better and closer communication with our customers and business partners.

We are committed to move forward with these initiatives and achieve our targets by the year ending March 2015, the final year of our medium-term management plan.

Future of TAIYO YUDEN

The business environment surrounding the TAIYO YUDEN Group is changing in a feverish manner and our markets continue to show growth. It is imperative that we quickly understand our customers' needs and put in place the relevant production and development frameworks that meet these needs. The Group's core strength is technology and we know we must stop any thinking that "Good products will sell themselves." Instead we must quickly analyze how to achieve the integrated marketing, production and development of products that satisfy our customers' requirements, including the preparation of a system that predicts customer demand.

When we think about the Group in this manner, we realize that there are many challenges we must face directly. We must remember that when our stakeholders evaluate our Group they are assessing a “life-size” corporate entity that we sometimes cannot see completely from our standpoint inside the Group. I have continued to meet with our outside stakeholders and I assure you that we are listening to their evaluations of the Group. Since I became President, I have come to know the concerns of our stakeholders and I can categorize them as they relate to the four “bases” of TAIYO YUDEN: 1) our market base with its high ratio of business focused on consumer markets which are susceptible to changes in business conditions, 2) our product base which is commodity-focused and easily impacted by price and market-share competition, 3) our customer base which sometimes views us as a third string supplier in the industry, and 4) our financial base which sometimes seems unstable, persistently in the red. However, we have begun to see good results from moving ahead with our structural improvement measures, including structural reforms, and pursuing growth strategies in line with our medium-term management plan. As a result, we sense that little by little we are receiving a positive assessment from our customers for our efforts.

We have focused our initiatives directed toward growth strategy to improve three critical bases: 1) market base, 2) product base and 3) customer base. We have partially addressed these initiatives and have these bases as pillars of our medium-term management plan. This means that the Group will not only be active in its existing markets but will start to enter new business fields, including those related to automobiles, industrial equipment, health care, and the environmental and energy industries. In particular, automobiles are increasingly using a variety of electronic components as they become more “electrified.” The TAIYO YUDEN Group has already been prioritizing the expansion of its product lineup and sales routes, and we fully appreciate the urgency of acting to enter these new fields and penetrate these markets on an immediate basis. Furthermore, in the case of markets that we conceive it would be difficult for the Group to enter unaided, we are transforming our business model to accommodate the formation of alliances with other companies. Looking ahead, we intend to proactively enter these markets characterized as being comparatively less susceptible to price competition.

We have also determined that another effective method to achieve our goal is to move further with our shift to super high-end products, and so develop “Products that can only be produced by TAIYO YUDEN.” We are aiming to create the “Next high-end product” as an evolutionary step necessary

for the long-term growth of the TAIYO YUDEN Group.

By strengthening our market base and product base in this manner, we aim to cultivate our customer base such that our customers will choose the Group on the basis of its advanced and original technology.

At TAIYO YUDEN, we have been focusing on our structural improvement measures for an eighteen month period leading up to March 2013. Nevertheless, implementing structural improvement is an activity that must be carried on as long as a company itself continues its existence. As we successively launch competitive new products, the company intends to pursue its initiatives on a relentless basis with the goals to make unprofitable products profitable or to speedily withdraw them from the market, to ensure that the frontline activities of marketing, production and development are subject to corporate management that is rigorously focused on profitability, and to improve productivity and reduce costs. By so doing, we can achieve a robust financial base.

In order to be even more proactive meeting these goals and carrying out these initiatives, the TAIYO YUDEN Group launched many projects in April 2013 that addressed the various issues involved. We consider that the achievement of the goals of our medium-term management plan can be guaranteed by the whole Group applying these initiatives in a flexible and cross-organizational manner.

To realize this transformation, I consider that it is the responsibility of our managers to bring about a company in which our employees throughout the world can make full use of their abilities to achieve our goals. Looking ahead, I expect the Group to provide all its human resources with the means of rising to the most adventurous challenges and taking the most active business roles.

In Conclusion

The TAIYO YUDEN Group is working to be an excellent entity that enjoys the trust and highest regard from our customers. We will be changing significantly as we continue to take on various challenges. We have successfully achieved our first stage of transformation by moving to a profitable income position. Next, we will tackle and resolve the various issues with which we are faced by focusing on the activities of many projects, thereby moving on to achieve a further transformation. I myself am convinced that the Group will make a major breakthrough in the current year ending March 2014. I ask that our shareholders and all other stakeholders join us in our endeavors to achieve these transformations of the TAIYO YUDEN Group.