

# Interview with the President

Q1

What are the Company's basic strategies and medium-term targets as they relate to the previous growth strategies and initiatives implemented to improve the corporate structure?

A1

We are strengthening our five bases and implementing three initiatives with the goal of reaching net sales above ¥300 billion, generating record-high operating income, and raising ROE above 10%.

The TAIYO YUDEN Group will continue to advance actions to strengthen our position across our market, product, customer, and finance bases. To fortify the market base, we will diversify our market base and rebalance our product offerings to help avoid the highly volatile changes in demand we continue to see in the markets for consumer, information, and communications products. We are developing business not only in growth devices like smartphones but also in new fields such as automobiles and industrial equipment. To strengthen the product base, we will build our supply system for high-reliability automotive electronic components. Our actions will make us first-to-market with super high-end products in the rapidly evolving device segment. To bolster the customer base, we will work to ensure the Company is the preferred strategic partner of our customers. To reinforce the finance base, we will continue to improve our positive net

cash\*1 while stepping up ambitious investments to support our growth.

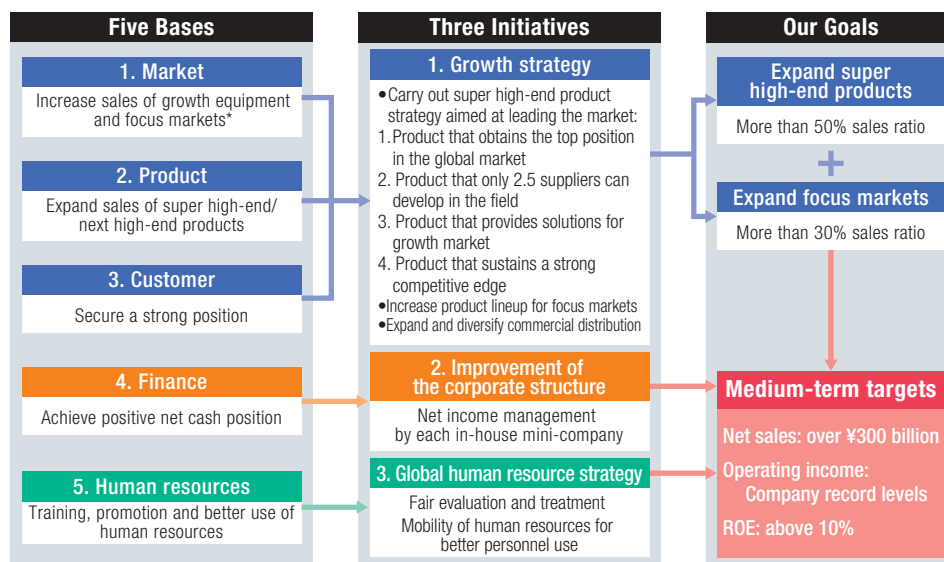
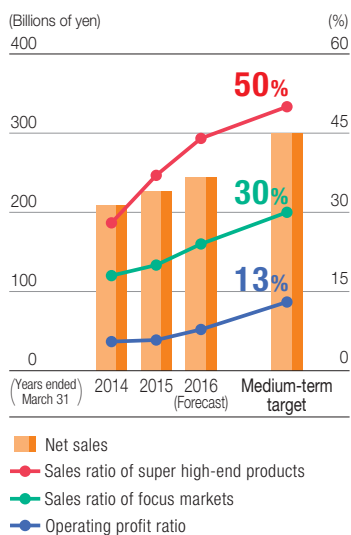
This year we have added human resources as the fifth base to be strengthened. We have initiated a global human resources initiative, increasing our force of field application engineers (FAEs) from 120 to 180. This will augment our market-oriented product development efforts and grow sales.

These efforts are key in assuring we achieve our goals for sales of super high-end products to comprise over 50% of total sales and focus market sales over 30%. This will provide the necessary foundation for attaining our medium-term targets of over ¥300 billion in net sales, record-high operating income\*2, and ROE above 10%.

\*1. Net cash is cash and deposits minus interest-bearing debts.

\*2. The current record is ¥35.3 billion in operating income in the fiscal year ended March 2001.

## Basic Strategies for Achieving Medium-term Target



\*Focus markets: Automobiles, Industrial equipment, Healthcare, Environmental and Energy

## Q2

What are the targets for the ¥100 billion in capital investment planned for the next three years?

## A2

We see substantial business opportunity in the high-end smartphone and automotive electronics markets.

Growth in smartphone sales worldwide is expected to expand by double digits in 2015. Although this pace will not continue indefinitely, we expect unit production of high-performance handsets for the long-term evolution (LTE) protocol to be 2.5 times the 2014 level in 2017. In addition, higher frequencies and narrow adjacent bandwidths are becoming increasingly important as devices become more sophisticated and communication volume increases. This will drive demand for our FBAR and SAW filters\* higher. In addition, development of increasingly high-performance, thinner, and more energy-efficient CPUs will also mean growing demand for ultra-compact, thin, and high-capacity multilayer ceramic capacitors (MLCCs) and compact, large-current inductors.

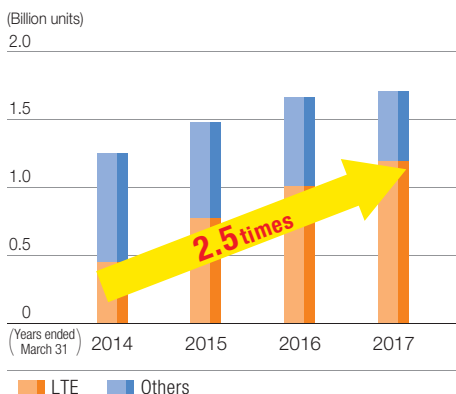
For our automotive electronic components, we have built on our foundation of high quality products and filled out our lineup of highly reliable products meeting requirements for high temperature resistance and long operating life. We

are currently stepping up efforts to expand this business, leveraging our position as an approved supplier for Tier 1 automotive electronics makers. While automobile shipment volume is expected to grow 4–5% annually, the increasing use of electronic circuitry and the shift to electric and fuel cell vehicles are projected to expand the automotive electronics market by 70% from 2012 to ¥30 trillion in 2020. Going forward, we will work to capture a healthy portion of the opportunities created by these major trends in smartphones and automotive electronic components based on standards we have set for investment returns, with the aim of increasing our supply capabilities for super high-end products to maximize earnings.

\* Film bulk acoustic resonator (FBAR) and surface acoustic wave (SAW) filters are used in mobile communications devices to filter the electrical signals of band frequencies and allow the reception and transmission of specific frequencies. FBAR filters provide better performance characteristics for higher frequencies than SAW filters.

### Two Major Trends Surrounding Our Business

#### Smartphones driving electronics industry —Growing adoption of LTE protocol—



- Multi-banding
- Higher CPU performance

#### Expansion in automotive electronics market —Projected 70% growth via greater electronics adoption on 5% unit vehicle growth—

¥18 trillion (CY2012) → ¥30 trillion (CY2020)

Infotainment: 1.7 times

Body: 1.6 times



Safety: 1.9 times

Power-train: 1.7 times

Source: JEITA (December 2013)

Q<sub>3</sub>

What are the specific strategies for each product?

A<sub>3</sub>

The general approach will be to apply our leading technologies to meet market needs with the aim of boosting sales of our super high-end MLCCs, inductors, and products for communications devices.



Our product strategies are based on tracking the direction of technology trends and providing products that meet the needs of our customers. We have formulated detailed product strategies for our MLCCs, MCOIL™ metal power inductors, and FBAR/SAW filters for communications devices.

The trend in MLCCs is for smaller, thinner, and larger capacity components. We have already started mass production of the world's smallest capacitors, the 008004 size (0.25 mm × 0.125 mm), and are now focused on launching the world's thinnest 90 μm capacitors. In high-capacitance MLCCs, we are mass producing EIA 1812 size (4.5 mm × 3.2 mm) capacitors with the world's highest capacitance at 470 μF, with the goal of bringing this the next step forward in 2016 with the start of mass production of capacitors with 1,000 μF capacitance and promoting the replacement of electrolytic capacitors with high-capacitance MLCCs.

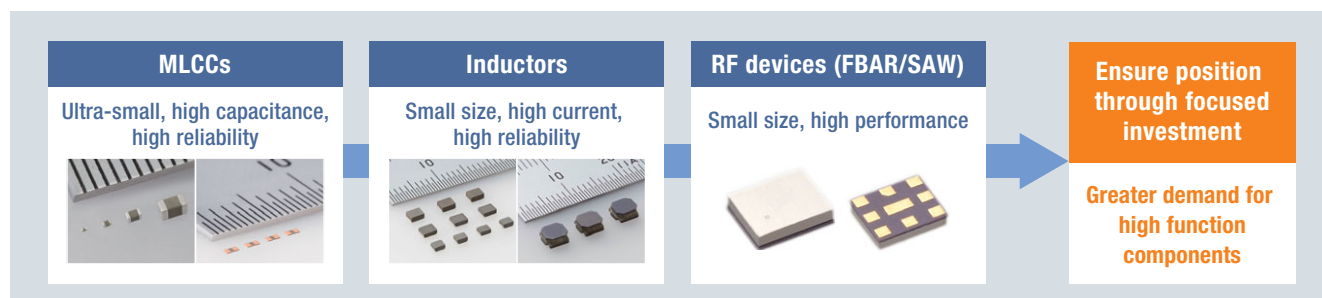
We are rounding out our lineup of MCOIL™ metal power inductors based on our world-leading materials

and wire-wound, multilayer process technologies, ranging from standard units to those designed to emphasize high current, compactness and thinness, high specs, and high cost performance features. A supply structure is also in place for several other products such as large power inductors meeting the high temperature resistance requirements of the automotive electronics market.

In communications devices, we plan to leverage our strengths as a developer and producer of both FBAR and SAW filters as we strive to differentiate our products for their compactness and their performance in meeting the growing need in the market for responding to higher frequencies and narrow adjacent bandwidths.

We are also developing products for what we have identified as focus markets. For example, we are commercializing energy regeneration systems, such as for use in power-assisted bicycles, and wireless surveillance systems for industrial photovoltaic power stations.

### Acceleration of Super High-end Usage



## Q4

Please describe the Company's growth investment strategies.

## A4

**We will aggressively invest in super high-end products and high-reliability products for automotive and industrial equipment markets while also increasing R&D investment.**

We held capital investment below the level of depreciation and amortization during the three fiscal years up to March 2015. In the year ending in March 2016, we plan to invest ¥40 billion as part of ¥100 billion in funds earmarked for investment in the next three years. The first year's investment is more than double the amount invested in the previous year. Our focus will be on super high-end products and high-reliability products for the automotive and industrial equipment markets.

Our strategy to meet growing demand for ultra-small, high capacitance MLCCs is to expand our production lines and replace older equipment with state-of-the-art facilities to increase production capacity and enhance productivity. We plan to increase MLCC production capacity by 10% or so in the year ending in March 2016. We also plan to complete construction of the new plant at NIIGATA TAIYO YUDEN CO., LTD. with the aim of commencing operations there in March 2016.

In our inductors business, we are preparing to increase production capacity for MCOIL™ and high-frequency multilayer chip inductors at plants in Japan and overseas and reinforce our supply structure. For MCOIL™ inductors in

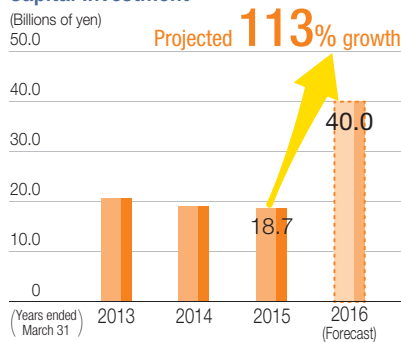
particular, we plan to improve our ability to meet demand by raising monthly production capacity by 50% from 400 million units to 600 million units.

The strategy for FBAR and SAW filters for communication devices includes continuing to reorganize and optimize subsidiary TAIYO YUDEN Mobile Technology Co., Ltd. in Ome, Tokyo, which serves as the development and production center for communication devices. Efforts are underway to improve the operating efficiency of the Ome center and at the subsidiary's plant in Tokorozawa, Saitama, Japan, where we will focus on constructing a platform for increasing production. In particular, we plan to double production capacity from the previous fiscal year for FBAR filters to meet growing demand in the market.

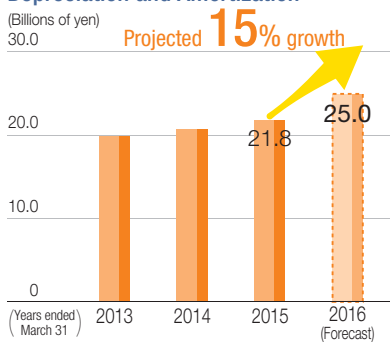
As we proceed toward executing these investments, we will seek clarity on future demand trends and carefully assess whether we can swiftly recoup our investments before moving forward. At the same time, we are deeply aware that our lifelines are new technologies and new products and plan to increase R&D spending by 9% from the previous fiscal year to ¥9 billion to accelerate key development initiatives.

### Strategies for Capital Investment and R&D to Support Growth

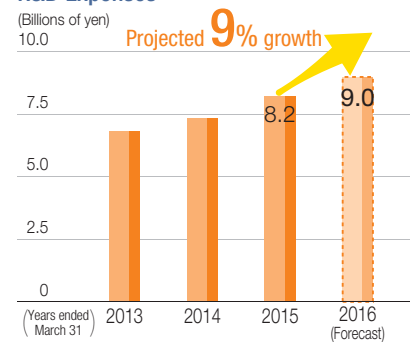
#### Capital Investment



#### Depreciation and Amortization



#### R&D Expenses





Q5

Based on the medium-term targets and action plan, what are the Company's earnings forecasts and plan for returning profits to shareholders in the fiscal year ending in March 2016?

A5

We will further augment the profitability of super high-end products by improving the product mix. We plan to increase the annual dividend payment to enhance shareholder return.

The initial performance targets for the fiscal year ending in March 2016, based on an assumed average exchange rate of ¥118 to the U.S. dollar during the term, are for year-on-year increases of 7.4% in net sales to ¥244 billion, 44.5% in operating income to ¥19 billion, and 9.9% in net income attributable to the owners of parent company to ¥12 billion. Although the increased capital investment will raise depreciation and amortization, we project higher operating income from increased adoption of super high-end products along with the anticipated increase in sales volume, improved product mix, and further cost reductions.

Returning profits to shareholders is a management priority, and we plan to raise our dividend payment to reflect our earnings forecast. The previous fiscal year, prioritizing the establishment of a stable and sustainable earnings structure

and improvement of our financial position, the Company kept total dividends at ¥10 per share, despite the earnings growth achieved during the year. For the fiscal year ending in March 2016, we will continue to fortify our financial foundation to maintain a positive net cash position while making the necessary investments for growth. Management has decided the time is right for raising the dividend payment to maintain our target for a 30% total return ratio. Thus we plan to raise our annual dividend per share to ¥15, comprising an interim dividend payment of ¥5 and year-end dividend payment of ¥10.

### Cash Dividends per Share

