Financial Review

Outline of Business Performance

In the fiscal year ended March 31, 2018, the business environment surrounding the TAIYO YUDEN Group maintained a tone of moderate recovery for the global economy as a whole. Although the recovery trend is expected to continue going forward, the situation continues to be unpredictable; such as the outlook for China and emerging economies in Asia, the impact of monetary policy in individual countries, and exchange rate trends.

The Group aims to achieve its medium-term targets and management vision by focusing on growth markets such as communication equipment and automotive and industrial equipment centered on the solution business that leverages the Group's core technologies, in addition to cutting-edge products and high reliability products that draw on the Group's strengths of research and development and production technology. Moreover, the Group is strengthening its manufacturing capabilities in order to build a structure that can enhance profitability and meet the future increase in demand for components. In addition to enhancing production capacity, the Group is accelerating improvements in production efficiency by promoting advances in underlying technologies and transforming production methods.

In the communication device market, advances in smartphone functionality and performance have continued, and demand for capacitors increased. Demand for large, high voltage resistant, high reliability components also increased in the automotive and industrial equipment markets along with the increased use of automotive electrical equipment and the further advance of electronic components in industrial equipment. As a result, sales of capacitors expanded significantly, leading to growth in sales and profit.

Accounting for each of these factors, in the fiscal year ended March 31, 2018, consolidated net sales increased 5.8% compared with the previous fiscal year, to ¥244,117 million.

Meanwhile, the average foreign currency exchange rate for the fiscal year ended March 31, 2018 was US$1: ¥111.44. This is a depreciation of ¥3.01 compared with the average value of the yen in the previous fiscal year of US$1: ¥108.43.

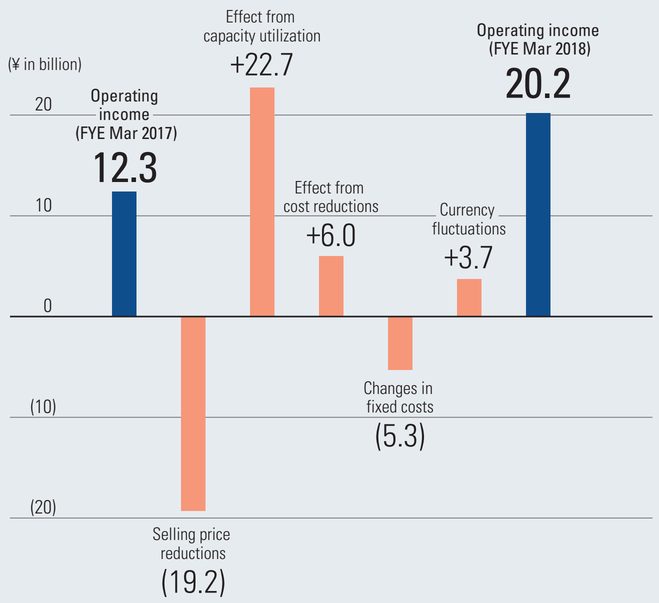
Selling, General and Administrative Expenses

In the fiscal year ended March 31, 2018, selling, general and administrative (SG&A) expenses increased ¥2,762 million compared with the previous fiscal year, to ¥41,730 million. In addition to the upswing in R&D expenses, the main factors for the increase were higher tariffs and commission fees in line with the growth in sales. Despite this increase in SG&A expenses, operating income jumped 63.3% year on year, to ¥20,221 million.

Other Income (Expenses)

In the fiscal year ended March 31, 2018, other expenses - net came to ¥497 million compared with ¥4,878 million in the previous fiscal year. Although TAIYO YUDEN reported an increase in subsidy income as well as other factors including decreases in loss on disposal and sales of property, plant and equipment and business structure improvement expenses, other income was more than offset by other expenses including a loss on foreign exchange. Despite this outcome, net income attributable to owners of the parent surged 201.3% year on year, to ¥16,355 million.

■ Factors behind Operating Income in FYE March 2018



Financial Position

Assets

Total assets as of the end of the fiscal year ended March 31, 2018 stood at ¥289,135 million, up ¥17,986 million compared with the end of the previous fiscal year. Current assets increased ¥17,901 million. This was largely due to upswings in cash and cash equivalents as well as time deposits of ¥9,630 million and trade note and accounts receivable of ¥3,142 million. Fixed assets edged up ¥84 million. Major movements included an increase in investments and other assets of ¥657 million and a decrease in property, plant and equipment of ¥650 million.

Liabilities

Total liabilities stood at ¥119, 017 million as of the end of the fiscal year ended March 31, 2018. This was ¥2,017 million higher than the end of the previous fiscal year. While long-term borrowings and short-term borrowings climbed ¥4,826 million and ¥4,274 million, respectively, current portion of long-term borrowings declined ¥5,913 million.

Net Assets

Net assets stood at ¥170,118 million as of March 31, 2018, up ¥15,968 million compared with the end of the previous fiscal year. Principal movements in net assets included an increase of ¥16,355 million on net income attributable to owners of the parent and a decrease of ¥2,356 million on cash dividends.

Status of Cash Flows

Net cash provided by operating activities in the fiscal year ended March 31, 2018 came to ¥33,944 million, up 14.3% compared with the previous fiscal year. The principal cash inflows were income before income taxes of ¥19,724 million as well as depreciation and amortization of ¥25,589 million. The major cash outflows included an increase in trade notes and accounts receivable of ¥3,775 million, an increase in inventories of ¥3,162 million, and income taxes paid of ¥4,515 million.

Net cash used in investing activities amounted to ¥26,918 million, down 6.6% compared with the previous fiscal year. The major cash outflow was purchases of property, plant and equipment of ¥26,549 million.

Net cash provided by financing activities was ¥953 million compared with net cash used in financing activities of ¥4,342 million in the previous fiscal year. The principal cash inflows were proceeds from long-term borrowings of ¥10,000 million and net increase in short-term borrowings of ¥4,456 million. The major cash outflows included repayments of long-term borrowings of ¥11,087 million and payments of cash dividends of ¥2,352 million.

Accounting for each of these activities, cash and cash equivalents stood at ¥43,837 million as of the end of the fiscal year ended March 31, 2018, an increase of ¥7,743 million compared with the end of the previous fiscal year.

Financing from external sources as of March 31, 2018 consisted of ¥20,737 million in short-term borrowings, ¥5,160 million in current portion of long-term borrowings, ¥20,039 million in convertible bonds with stock acquisition rights, and ¥8,882 million in long-term borrowings. In principle, borrowings are procured within Japan at fixed interest rates. Moreover, and to ensure financial stability, TAIYO YUDEN has also established a commitment line of ¥10,000 million effective for three years. The Company has not utilized the commitment line as of the March 31, 2018 fiscal year-end.

The Group is capable of generating cash flow through its sound financial position and operating activities. Management believes it is capable of procuring the operating capital and funds for capital investment for activities that may be required in the future to maintain the Group's growth.

Overview of Capital Investment

In the fiscal year ended March 31, 2018, the TAIYO YUDEN Group undertook a total of ¥26,549 million in capital investment mainly to increase production capacity for capacitors, ferrite and applied products, and FBAR/SAW devices for mobile communications as well as for improving productivity.