

Consolidated Financial Statements

Consolidated Balance Sheets

TAIYO YUDEN CO., LTD. and Subsidiaries

March 31, 2013 and 2012

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
Current assets:			
Cash and cash equivalents (Note 3)	¥33,281	¥26,672	\$354,048
Time deposits (Note 3)	2,076	1,241	22,085
Receivables:			
Trade notes and accounts receivable (Note 3)	41,656	41,865	443,144
Allowance for doubtful receivables	(271)	(290)	(2,886)
Inventories:			
Merchandise and finished products	15,023	13,100	159,821
Work in process	11,087	8,530	117,943
Raw materials and supplies	9,833	8,920	104,604
Deferred tax assets (Note 8)	536	405	5,708
Prepaid expenses and other current assets	4,111	3,956	43,750
Total current assets	<u>117,332</u>	<u>104,399</u>	<u>1,248,217</u>
Property, plant and equipment (Note 10):			
Land	7,689	7,687	81,804
Buildings and structures	68,215	64,204	725,686
Machinery and equipment	212,367	192,930	2,259,226
Tools, furniture and fixtures	19,262	18,212	204,920
Construction in progress	9,358	10,397	99,548
Total	<u>316,891</u>	<u>293,430</u>	<u>3,371,184</u>
Accumulated depreciation	(218,116)	(199,409)	(2,320,388)
Net property, plant and equipment	<u>98,775</u>	<u>94,021</u>	<u>1,050,796</u>
Investments and other assets:			
Investment securities (Notes 3 and 4)	3,814	3,955	40,577
Investments in affiliate (Note 3)	546	595	5,812
Goodwill	1,201	1,802	12,778
Deferred tax assets (Note 8)	839	580	8,925
Other	3,702	3,355	39,375
Allowance for doubtful receivables	(282)	(246)	(3,000)
Total investments and other assets	<u>9,820</u>	<u>10,041</u>	<u>104,467</u>
Total assets	<u>¥225,927</u>	<u>¥208,461</u>	<u>\$2,403,480</u>

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥20,242	¥9,032	\$215,345
Current portion of long-term borrowings (Notes 3 and 5)	4,899	4,148	52,120
Current portion of convertible bonds with stock acquisition rights	–	19,635	–
Notes and accounts payable:			
Trade notes and accounts payable (Note 3)	17,950	15,346	190,958
Other (Note 3)	8,713	7,593	92,693
Income taxes payable (Note 3)	1,049	586	11,162
Accrued bonuses for employees	2,981	1,741	31,715
Accrued bonuses for directors	75	–	803
Deferred tax liabilities (Note 8)	698	616	7,422
Provision for business structure improvement	–	475	–
Other	7,837	10,585	83,354
Total current liabilities	64,444	69,757	685,572
Long-term liabilities:			
Bonds payable (Notes 3 and 5)	8,000	8,000	85,106
Long-term borrowings (Notes 3 and 5)	29,365	17,298	312,389
Convertible bonds with stock acquisition rights (Notes 3 and 5)	365	365	3,883
Lease liabilities (Note 5)	1,011	1,662	10,754
Accrued retirement benefits for employees (Note 6)	1,263	1,660	13,441
Accrued retirement benefits for directors and corporate auditors	126	108	1,338
Deferred tax liabilities (Note 8)	4,378	3,650	46,572
Negative goodwill	10	31	110
Other	1,004	1,530	10,687
Total long-term liabilities	45,522	34,304	484,280
Total liabilities	109,966	104,061	1,169,852
Commitment and contingent liabilities (Notes 9 and 11):			
Net assets (Note 7)			
Shareholders' equity:			
Common stock			
Authorized – 300,000,000 shares			
Issued – 120,481,395 shares in 2013 and 2012	23,557	23,557	250,609
Capital surplus	41,484	41,471	441,320
Retained earnings (Note 18)	67,938	66,820	722,748
Treasury stock, at cost – 2,855,179 shares in 2013 and 2,899,010 shares in 2012	(3,564)	(3,625)	(37,919)
Total shareholders' equity	129,415	128,223	1,376,758
Accumulated other comprehensive income:			
Net unrealized holding gains (losses) on securities	562	434	5,981
Deferred gains (losses) on hedges	15	6	153
Foreign currency translation adjustments	(14,347)	(24,638)	(152,618)
Total accumulated other comprehensive income	(13,770)	(24,198)	(146,484)
Stock acquisition rights (Note 13)	275	329	2,921
Minority interests	41	46	433
Total net assets	115,961	104,400	1,233,628
Total liabilities and net assets	¥225,927	¥208,461	\$2,403,480

Consolidated Statements of Operations

TAIYO YUDEN CO., LTD. and Subsidiaries

March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET SALES (Note 16)	¥192,904	¥183,795	\$2,052,169
COST OF SALES	155,101	157,064	1,650,009
Gross profit	37,803	26,731	402,160
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	32,810	34,742	349,041
Operating income (loss) (Note 16)	4,993	(8,011)	53,119
OTHER INCOME (EXPENSES):			
Interest and dividends income	238	277	2,531
Interest expense	(556)	(410)	(5,918)
Equity in earnings of affiliate	7	69	80
Gain (Loss) on foreign exchange	2,895	(526)	30,799
Depreciation of inactive noncurrent assets	(419)	(349)	(4,456)
Gain on sales of property, plant and equipment	905	29	9,632
Loss on disposal and sales of property, plant and equipment	(217)	(496)	(2,310)
Loss on disposal of inventories	(135)	(142)	(1,437)
Loss on valuation of investment securities	(427)	(443)	(4,548)
Impairment loss on property, plant and equipment (Note 10)	(346)	(268)	(3,679)
Business structure improvement expenses (Note 15)	(254)	(4,277)	(2,707)
Settlement package	(2,823)	-	(30,029)
Subsidy income	122	72	1,293
Life insurance dividends income	69	41	738
Interest on bonds	(74)	(12)	(783)
Bond issuance cost	-	(41)	-
Gain on change of employee retirement benefit plan	-	56	-
Gain on negative goodwill	-	12	-
Other	44	(206)	462
Other income (expense) - net	(971)	(6,614)	(10,332)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	4,022	(14,625)	42,787
INCOME TAXES (Note 8)			
Current	1,737	1,139	18,483
Deferred	278	5,832	2,953
Total income taxes	2,015	6,971	21,436
INCOME (LOSS) BEFORE MINORITY INTERESTS	2,007	(21,596)	21,351
MINORITY INTERESTS	7	4	71
NET INCOME (LOSS)	¥2,000	¥(21,600)	\$21,280
		Yen	U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 17):			
Basic earnings	¥17.01	¥(183.70)	\$0.18
Diluted earnings	16.98	-	0.18
Cash dividends applicable to the year	10.00	5.00	0.11

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

TAIYO YUDEN CO., LTD. and Subsidiaries

March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
INCOME (LOSS) BEFORE MINORITY INTERESTS	¥2,007	¥(21,596)	\$21,351
OTHER COMPREHENSIVE INCOME (Note 14):			
Net unrealized holding gains (losses) on securities	128	52	1,367
Deferred gains (losses) on hedges	9	55	95
Foreign currency translation adjustments	10,291	(662)	109,475
Total other comprehensive income	10,428	(555)	110,937
COMPREHENSIVE INCOME	¥12,435	¥(22,151)	\$132,288
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥12,429	¥(22,155)	\$132,224
Minority interests	6	4	64

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

TAIYO YUDEN CO., LTD. and Subsidiaries

March 31, 2013 and 2012

	Number of Shares of Common Stock Issued	Shareholders' Equity				Total Shareholders' Equity
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	
BALANCE, APRIL 1, 2012	120,481	¥23,557	¥41,471	¥66,820	¥(3,625)	¥128,223
Changes during the year						
Cash dividends, ¥7.50 per share				(882)		(882)
Net income				2,000		2,000
Treasury stock acquired (12,169 shares)					(9)	(9)
Treasury stock disposed (56,000 shares)			13		70	83
Changes other than shareholders' equity						
Total changes			13	1,118	61	1,192
BALANCE, MARCH 31, 2013	120,481	¥23,557	¥41,484	¥67,938	¥(3,564)	¥129,415

Millions of Yen

	Accumulated Other Comprehensive Income						Total Net Assets
	Net Unrealized Holding Gains (Losses) on Securities	Deferred Gains (Losses) on Hedges	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income	Stock Acquisition Rights	Minority Interests	
BALANCE, APRIL 1, 2012	¥434	¥6	¥(24,638)	¥(24,198)	¥329	¥46	¥104,400
Changes during the year							
Cash dividends, ¥7.50 per share							(882)
Net income							2,000
Treasury stock acquired (12,169 shares)							(9)
Treasury stock disposed (56,000 shares)							83
Changes other than shareholders' equity	128	9	10,291	10,428	(54)	(5)	10,369
Total changes	128	9	10,291	10,428	(54)	(5)	11,561
BALANCE, MARCH 31, 2013	¥562	¥15	¥(14,347)	¥(13,770)	¥275	¥41	¥115,961

Thousands of U.S. Dollars (Note 1)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
BALANCE, APRIL 1, 2012	\$250,609	\$441,183	\$710,852	\$(38,570)	\$1,364,074
Changes during the year					
Cash dividends, \$0.08 per share			(9,384)		(9,384)
Net income			21,280		21,280
Treasury stock acquired (12,169 shares)				(94)	(94)
Treasury stock disposed (56,000 shares)		137		745	882
Changes other than shareholders' equity					
Total changes		137	11,896	651	12,684
BALANCE, MARCH 31, 2013	\$250,609	\$441,320	\$722,748	\$(37,919)	\$1,376,758

Thousands of U.S. Dollars (Note 1)

	Accumulated Other Comprehensive Income					
	Net Unrealized Holding Gains (Losses) on Securities	Deferred Gains (Losses) on Hedges	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income	Stock Acquisition Rights	Minority Interests
BALANCE, APRIL 1, 2012	\$4,614	\$58	\$(262,100)	\$(257,428)	\$3,504	\$491
Changes during the year						
Cash dividends, \$0.08 per share						(9,384)
Net income						21,280
Treasury stock acquired (12,169 shares)						(94)
Treasury stock disposed (56,000 shares)						882
Changes other than shareholders' equity	1,367	95	109,482	110,944	(583)	(58)
Total changes	1,367	95	109,482	110,944	(583)	(58)
BALANCE, MARCH 31, 2013	\$5,981	\$153	\$(152,618)	\$(146,484)	\$2,921	\$433

See accompanying Notes to Consolidated Financial Statements.

	Thousands	Millions of Yen				
	Number of Shares of Common Stock Issued	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity	
BALANCE, APRIL 1, 2011	120,481	¥23,557	¥41,471	¥89,302	¥(3,621)	¥150,709
Changes during the year						
Cash dividends, ¥7.50 per share				(882)		(882)
Net loss				(21,600)		(21,600)
Treasury stock acquired (4,560 shares)					(4)	(4)
Changes other than shareholders' equity						
Total changes				(22,482)	(4)	(22,486)
BALANCE, MARCH 31, 2012	<u>120,481</u>	<u>¥23,557</u>	<u>¥41,471</u>	<u>¥66,820</u>	<u>¥(3,625)</u>	<u>¥128,223</u>

	Millions of Yen						
	Accumulated Other Comprehensive Income						
	Net Unrealized Holding Gains (Losses) on Securities	Deferred Gains (Losses) on Hedges	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income	Stock Acquisition Rights	Minority Interests	Total Net Assets
BALANCE, APRIL 1, 2011	¥382	¥(50)	¥(23,975)	¥(23,643)	¥288	¥272	¥127,626
Changes during the year							
Cash dividends, ¥7.50 per share							(882)
Net loss							(21,600)
Treasury stock acquired (4,560 shares)							(4)
Changes other than shareholders' equity	52	56	(663)	(555)	41	(226)	(740)
Total changes	<u>52</u>	<u>56</u>	<u>(663)</u>	<u>(555)</u>	<u>41</u>	<u>(226)</u>	<u>(23,226)</u>
BALANCE, MARCH 31, 2012	<u>¥434</u>	<u>¥6</u>	<u>¥(24,638)</u>	<u>¥(24,198)</u>	<u>¥329</u>	<u>¥46</u>	<u>¥104,400</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TAIYO YUDEN CO., LTD. and Subsidiaries

March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
Operating activities:			
Income (loss) before income taxes and minority interests	¥4,022	¥(14,625)	\$42,787
Adjustments to reconcile income (loss) before income tax and minority interests to net cash provided by operating activities:			
Depreciation and amortization	19,833	19,250	210,989
Impairment loss on property, plant and equipment	346	268	3,679
Business structure improvement expense	254	4,277	2,707
Amortization of goodwill	601	844	6,389
Amortization of negative goodwill	(21)	(21)	(220)
Gain on negative goodwill	-	(12)	-
Increase (decrease) in allowance for doubtful receivables	(13)	70	(139)
Increase (decrease) in accrued bonuses for employees	1,211	(1,207)	12,882
Increase (decrease) in accrued bonuses for directors	75	(47)	803
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	16	(26)	169
Interest and dividend income	(238)	(277)	(2,531)
Interest expense	556	410	5,918
Interest on bonds	74	12	783
Equity in earnings of affiliates	(7)	(69)	(80)
(Gain) loss on disposal and sales of property, plant and equipment	(688)	467	(7,322)
Loss on valuation of investment securities	427	443	4,548
Settlement package	2,823	-	30,029
Changes in operating assets and liabilities:			
Trade receivables	5,309	(1,116)	56,476
Inventories	(2,769)	1,550	(29,456)
Trade payables	(1,216)	(1,154)	(12,939)
Other	(3,031)	(687)	(32,242)
Subtotal	27,564	8,350	293,230
Interest and dividends received	299	281	3,178
Interest paid	(568)	(403)	(6,040)
Settlement package paid	(2,823)	-	(30,029)
Payments for business structure improvement expenses	(3,419)	(1,113)	(36,368)
Income taxes paid	(1,556)	(1,581)	(16,558)
Net cash provided by operating activities	19,497	5,534	207,413
Investing activities:			
Purchases of property, plant and equipment	(19,534)	(29,101)	(207,808)
Proceeds from sales of property, plant and equipment	1,195	73	12,708
Purchases of investment securities	(38)	(200)	(399)
Increase in time deposits	(566)	(123)	(6,018)
Proceeds from sales of investment securities	170	5	1,805
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation (Note 19)	(44)	-	(471)
Other	659	401	7,018
Net cash used in investing activities	(18,158)	(28,945)	(193,165)
Financing activities:			
Net increase in short-term borrowings	10,765	6,054	114,524
Proceeds from long-term borrowings	17,000	12,000	180,851
Repayments of long-term borrowings	(4,182)	(12,564)	(44,488)
Proceeds from issuance of bonds	-	7,959	-
Redemption of convertible bonds with acquisition rights	(19,635)	-	(208,883)
Proceeds from stock issuance to minority shareholders	-	6	-
Purchase of stock from minority shareholder	(11)	(224)	(122)
Payments of cash dividends	(880)	(880)	(9,361)
Purchases of treasury stock	(9)	(4)	(94)
Repayments of lease obligations	(713)	(958)	(7,591)
Other	0	-	0
Net cash provided by financing activities	2,335	11,389	24,836
Effect of exchange rate changes on cash and cash equivalents	2,935	(118)	31,223
Net increase (decrease) in cash and cash equivalents	6,609	(12,140)	70,307
Cash and cash equivalents, beginning of year	26,672	38,812	283,741
Cash and cash equivalents, end of year	¥33,281	¥26,672	\$354,048

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

TAIYO YUDEN CO., LTD. and Subsidiaries

March 31, 2013 and 2012

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TAIYO YUDEN CO., LTD. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, and partially reflect the adjustments which are necessary to conform with Japanese GAAP. The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94 to U.S. \$1. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation Policies

The consolidated financial statements include the accounts of the Company and all of its subsidiaries (together the "Companies"). The Japanese accounting standards for consolidation require the control or influence concept for the consolidation scope of subsidiaries and affiliates.

As of March 31, 2013, the numbers of consolidated subsidiaries and affiliate were 34 and 1, respectively.

The Company sold investment securities in Tsukiyono Denshi Co., Ltd., which was a subsidiary of the Company, in the fiscal year ended March 31, 2013.

TAIYO YUDEN Mobile Technology Products Co., Ltd., which was a sub-subsidiary of the Company, was merged into TAIYO YUDEN Mobile Technology Co., Ltd., which is a subsidiary of the Company, in the fiscal year ended March 31, 2013.

Significant intercompany accounts, transactions and unrealized profits have been eliminated in consolidation.

The difference between cost of the Company's investment securities in subsidiaries and its equity in their net assets at the dates of acquisition ("goodwill" or "negative goodwill acquired before March 2010") is being amortized over the subsequent five-year periods. Investment in affiliate is accounted for by the equity method. Net income (loss) includes the equity in the current net earnings (losses) of such company after the elimination of unrealized intercompany profit.

(2) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposit, and short-term investments with original maturities of three months or less, that are readily convertible into known amount of cash and are so near maturity that they present negligible risk of changes in value.

(3) Foreign Currency Transactions

Short-term and long-term foreign currency monetary items are translated into Japanese yen at appropriate fiscal year-end current rates. The resulting net gains (losses) are shown as "Gain (Loss) on foreign exchange" in the accompanying consolidated statements of operations.

(4) Foreign Currency Financial Statements

In translating the financial statements of foreign subsidiaries for the purpose of consolidation, all assets and liabilities are translated into Japanese yen at appropriate fiscal year-end current rates while net assets accounts are translated at historical rates.

Revenue and expense items are translated at the average rates during the fiscal year. The resulting translation differences are shown as "Foreign currency translation adjustments" in net assets at March 31, 2013 and 2012 in the accompanying consolidated balance sheets.

(5) Debt and Equity Securities

The Companies classify debt and equity securities, depending on management's intent, as follows:

(i) Held-to-maturity debt securities, for which management has the positive intent and ability to hold to maturity, are reported at amortized cost.

(ii) Available-for-sale securities represent securities not classified as either trading securities or held-to-maturity debt securities. Available-for-sale securities, which have fair value, are reported at fair value with unrealized gains, net of applicable taxes.

Available-for-sale securities, which do not have fair value, are stated at cost using the moving-average method. Equities of limited liability partnerships for investment business and of other similar partnerships (defined as "securities" by Article 2, Section 2 of the Financial Instruments and Exchange Act) are valued at the net equity equivalents based on the recently available financial statements of the partnership corresponding to the reporting dates of the financial statements defined by the partnership agreements.

(6) Inventories

Inventories are stated primarily at cost, determined by the average method for merchandise, finished products and work in process and by the first-in, first-out (FIFO) method for raw materials and supplies, modified by the writing down below cost to net realizable value.

(7) Property, Plant and Equipment (Except for the leased assets)

Property, plant and equipment are stated at cost. For the Company and domestic consolidated subsidiaries, depreciation is principally computed by the declining-balance method at rates based on the estimated useful lives of the assets, except that the straight-line method is applied to building acquired after April 1, 1998.

Useful lives of the assets and residual value of the assets are mainly estimated in consistent with the method accepted under the corporate tax law in Japan. For foreign subsidiaries, depreciation is principally computed by straight-line method.

(8) Leased Assets

(i) Leased assets, ownership of which is considered to be transferred to the lessee, are depreciated in the same manner as property, plant and equipment.

(ii) Leased assets, ownership of which is not considered to be transferred to the lessee, are depreciated over the leased term by the straight-line method with no residual value, except for finance leases commencing prior to March 31, 2008, which are accounted for in the same manner as operating leases.

(9) Allowance for Doubtful Receivables

The Company and its domestic consolidated subsidiaries provide the allowance for doubtful accounts based on the percentage of actual bad debt losses against the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis. Overseas consolidated subsidiaries record the allowance based primarily on the amount of uncollectible receivables estimated on an individual basis.

(10) Accrued Retirement Benefits for Employees

Accrued retirement benefits for employees at certain consolidated subsidiaries are provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of plan assets at the end of the fiscal year. Also, certain consolidated subsidiaries provide allowance for accrued pension and severance costs.

(11) Accrued Retirement Benefits for Directors and Corporate Auditors

Certain subsidiaries of the Company provide lump-sum severance benefits for directors and corporate auditors. The accrued retirement benefits for directors and corporate auditors are provided at the amount which would be required based on their internal regulations if all directors and corporate auditors retired at the balance sheet date.

- (12) **Accrued Bonuses for Employees**
Allowance for bonuses to employees are provided by the estimated amounts, which are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.
- (13) **Accrued Bonuses for Directors**
Allowance for bonuses to directors are provided by the estimated amounts, which are obligated to pay to directors after the fiscal year-end, based on services provided during the current period.
- (14) **Provision for business structure improvement**
Provision for business structure improvement for certain subsidiary is provided by the estimated amounts to be incurred on business structure improvement.
- (15) **Income Taxes**
The provision for income taxes is computed based on the pretax income for the financial reporting purposes. Deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets if it is not probable that deferred tax assets will be realized in the future.
The Company and certain domestic subsidiaries have adopted a consolidated tax return system from the year ended March 31, 2013.
- (16) **Research and Development Costs**
Expenditures by the Company and certain subsidiaries for development of specified new products are charged to income as incurred and were ¥6,840 million (\$7,767 thousand) and ¥8,069 million for the years ended March 31, 2013 and 2012, respectively.
- (17) **Derivative and Hedging Activities**
Companies are required to state derivative instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative instruments are used for hedging purposes.
The Company defers recognition of gains or losses resulting from changes in fair value of derivative instruments until the related losses or gains on the hedged items are recognized.
If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.
The derivative transactions are executed and managed by the finance and accounting division in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.
- (18) **Per Share Information**
Basic earnings per share is computed by dividing net earnings available to common shareholders by the weighted-average number of common shares outstanding in each period, retroactively adjusted for stock splits. Basic earnings per share for the years ended March 31, 2013 and 2012 are computed in accordance with Japanese accounting standards.
Diluted earnings per share reflects the potential dilution that could occur if stock acquisition rights were exercised or convertible bonds are converted into common stock. Diluted earnings per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding stock acquisition rights. Diluted earnings per share for the year ended March 31, 2013 are computed in accordance with Japanese accounting standards.
Although diluted shares exist for the year ended March 31, 2012, diluted earnings per share are not disclosed since there is net loss per share for the period.
Cash dividends per share consist of interim and year-end dividends and are accounted for in the year they are declared rather than in the year in which they are actually paid.
- (19) **Certain Reclassifications**
Certain reclassifications of prior year's amounts have been made to conform to the presentation for 2013.
- Change in the Method of Presentation for a Component of Cash Flows**
Previously, "payments for business structure improvement expenses" were included in "Other" in operating activities of consolidated statements of cash flows for the year ended March 31, 2012. However, the Company has changed its method of presentation to state separately "payments for business structure improvement expenses" as it is material from this fiscal year. The consolidated financial statements for the year ended March 31, 2012 were rearranged in order to reflect this change to presentation.
As a result of the change, in the consolidated statement of cash flows for the year ended March 31, 2012, ¥(1,800) million of "Other" is reclassified into ¥(1,113) million of payments for business structure improvement expenses and ¥(687) million of "Other".
- (20) **Changes in Accounting Policies**
Changes in Depreciation Method
The Company and its consolidated domestic subsidiaries have changed the depreciation method used for property, plant and equipment acquired on or after April 1, 2012 based on revisions made to Japan's Corporation Tax Act. This change has taken effect beginning with this fiscal year.
This change resulted in an increase in operating income of ¥328 million (\$3,494 thousand) and profit before income taxes and minority interests of ¥343 million (\$3,648 thousand) for the year ended March 31, 2013

3. Financial instruments

(1) Qualitative information on financial instruments

a. Group policy for financial instruments

The Companies, which mainly produce and market electronic components, procure short-term operating funds with bank loans, and long-term funds for capital investment, etc. with bank loans and issuance of bonds in accordance with a capital investment plan.

Temporary surplus funds are managed as safe and secure financial funds such as short-term deposits. The Company uses derivatives to hedge risks stated below, and do not intend to use them for speculative purpose.

b. Risk management for financial instruments

Trade notes and accounts receivable which are operating receivables are exposed to consumer credit risk. Therefore, the Companies manage due dates and balance for each customer, and make efforts to early recognize concerns about collectability and reduce its risks due to deterioration in financial conditions, etc.

Investment securities consisting mainly of shares of companies with which the Companies have business relationship are managed by grasping fair values and financial conditions of issuers on a regular basis.

Payment due dates of most trade notes and accounts payable which are operating payables are within one year.

The Company uses borrowings, bonds and convertible bond with stock acquisition rights mainly for the purpose of procuring funds necessary for capital investment. As long-term loans with floating interest rate are exposed to the risk of interest-rate fluctuations, the Company uses derivative transactions (interest-rate swaps) to hedge the risk.

Operating receivables in foreign currency which arise from the Company's global business development are exposed to the risk of exchange-rate fluctuations. The Company uses forward exchange contracts as hedging instruments for operating receivables in foreign currency to reduce the risk of exchange-rate fluctuations, in principle. The Company also makes forward exchange contracts to hedge risks from operating receivables in foreign currency which are surely brought about by forecasted transactions related to exports.

The Company makes derivatives transactions only with high-rated financial institutions.

In accordance with the internal risk management regulations providing for trading authority, the ceiling and other matters, the finance and accounting department executes derivative transactions, and manage them by recording details of transactions and checking balances with counterparties.

A manager of finance and accounting department reports monthly results of transactions to Managing Officers of Management & Administration Headquarters, and they report the results to the Board of Directors. Consolidated subsidiaries and affiliate do not use derivatives.

The Company unifies the management of funds of the entire Group based on funding plans prepared by each group company in order to allow them to secure adequate liquidity.

c. Supplemental information on market value of financial instruments

Financial instruments without market quotations are stated at reasonably calculated value. Such a value is calculated based on variable factors. Therefore, the value may be changed depending on prerequisites to be adopted.

(2) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheets at March 31, 2013 and 2012 are as follows. When it is extremely difficult to measure a fair value of financial instrument, such a financial instrument is not included in the table shown below.

	Millions of yen		
	2013		
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	¥35,357	¥35,357	-
(2) Trade notes and accounts receivable	41,656	41,656	-
(3) Investment securities:			
1) Held-to-maturity debt securities	0	0	-
2) Available-for-sale securities	3,303	3,303	-
Total assets	¥80,316	¥80,316	-
(4) Trade notes and accounts payable	17,950	17,950	-
(5) Short-term borrowings	20,242	20,242	-
(6) Other accounts payable	8,713	8,713	-
(7) Income taxes payable	1,049	1,049	-
(8) Bonds payable	8,000	8,030	¥30
(9) Convertible bonds with stock acquisition rights	365	362	(3)
(10) Long-term borrowings (*2)	34,264	34,129	(135)
Total liabilities	¥90,583	¥90,475	¥(108)
(11) Derivative transactions (*3)	¥(559)	¥(559)	-

	Millions of yen		
	2012		
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	¥27,913	¥27,913	-
(2) Trade notes and accounts receivable	41,865	41,865	-
(3) Investment securities:			
1) Held-to-maturity debt securities	1	1	-
2) Available-for-sale securities	3,438	3,438	-
Total assets	¥73,217	¥73,217	-
(4) Trade notes and accounts payable	15,346	15,346	-
(5) Short-term borrowings	9,032	9,032	-
(6) Other accounts payable	7,593	7,593	-
(7) Income taxes payable	586	586	-
(8) Bonds payable	8,000	8,014	¥14
(9) Convertible bonds with stock acquisition rights (*1)	20,000	19,964	(36)
(10) Long-term borrowings (*2)	21,446	21,406	(40)
Total liabilities	¥82,003	¥81,941	¥(62)
(10) Derivative transactions (*3)	¥(686)	¥(686)	-

	Thousands of U.S. dollars		
	2013		
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	\$376,133	\$376,133	-
(2) Trade notes and accounts receivable	443,144	443,144	-
(3) Investment securities:			
1) Held-to-maturity debt securities	5	5	-
2) Available-for-sale securities	35,138	35,138	-
Total assets	\$854,420	\$854,420	-
(4) Trade notes and accounts payable	190,958	190,958	-
(5) Short-term borrowings	215,345	215,345	-
(6) Other accounts payable	92,693	92,693	-
(7) Income taxes payable	11,162	11,162	-
(8) Bonds payable	85,106	85,430	\$324
(9) Convertible bonds with stock acquisition rights	3,883	3,854	(29)
(10) Long-term borrowings (*2)	364,509	363,070	(1,439)
Total liabilities	\$963,656	\$962,512	\$(1,144)
(11) Derivative transactions (*3)	\$(5,946)	\$(5,946)	-

(*1) Convertible bonds with stock acquisition rights at March 31, 2012 includes current portion.

(*2) Long-term borrowings includes current portion.

(*3) Derivatives transactions are stated in net of assets and liabilities. The figures in parenthesis indicate net liabilities.

Note 1: Measurement methods for fair value of financial instruments and matters concerning securities and derivative transactions

Assets:

(1) Cash, cash equivalents and time deposits and (2) Trade notes and accounts receivable

Since these are settled in short term, their fair values are close to book values. Accordingly, they are stated at book value.

(3) Investment securities

Equity securities are stated at price on exchange market, and bonds are stated at price offered by correspondent financial institutions.

Liabilities:

(4) Trade notes and accounts payable, (5) Short-term borrowings, (6) Other accounts payable and

(7) Income taxes payable

Since these are settled in short term, their fair values are close to book values. Accordingly, they are stated at book value.

(8) Bonds payable and (9) Convertible bonds with stock acquisition rights

The prices offered by correspondent financial institutions are regarded as fair values.

(10) Long-term borrowings

The fair values of long-term borrowings are measured as present values obtained by discounting total amount of principal and interest at the estimated interest rate if similar borrowings were newly made. Long-term borrowings with floating interest rates are subject to the preferential accounting method for interest-rate swaps. Their fair values are calculated by discounting the total amount of principal and interest treated together with relevant interest-rate swaps at the estimated interest rate if similar borrowings were newly made.

(11) Derivative transactions

The fair values of forward exchange contracts are stated at prices offered by financial institutions.

As derivative transactions subject to the preferential accounting method for interest-rate swaps are treated together with hedged long-term borrowings, their fair values are included in the fair values of relevant long-term borrowings.

Note 2: Financial instruments of which fair value is extremely difficult to be identified

Classification	Millions of yen		Thousands of
	2013	2012	U.S. dollars
	Book value	Book value	2013
			Book value
Available-for-sale securities:			
Unlisted equity securities	¥135	¥177	\$1,440
Investments in affiliate	546	595	5,812
Equities of limited liability partnerships for investment business and of other similar partnerships	375	340	3,994

As for financial instruments shown above, there is no market price and future cash flow cannot be estimated. Accordingly, since it is considered very difficult to identify their fair value, they are not included in "Assets (3) 2) Available-for-sale securities".

Note 3: Planned redemption amounts after March 31, 2013 and 2012 for monetary assets and investment securities

	Millions of yen	
	2013	
	Within 1 year	Over 1 year and within 5
Cash, cash equivalents and time deposits	¥35,317	-
Trade notes and accounts receivable	41,656	-
Investment securities		
Held-to-maturity debt securities	0	¥0

	Millions of yen	
	2012	
	Within 1 year	Over 1 year and within 5
Cash, cash equivalents and time deposits	¥27,877	-
Trade notes and accounts receivable	41,865	-
Investment securities		
Held-to-maturity debt securities	0	¥1

	Thousands of U.S. dollars	
	2013	
	Within 1 year	Over 1 year and within 5
Cash, cash equivalents and time deposits	\$375,709	-
Trade notes and accounts receivable	443,144	-
Investment securities		
Held-to-maturity debt securities	2	\$3

4. DEBT AND EQUITY SECURITIES

(1) Held-to-maturity debt securities

Millions of Yen			
2013			
	Book value	Fair value	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Subtotal	-	-	-
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	¥0	¥0	-
Subtotal	¥0	¥0	-
Total	¥0	¥0	-

Millions of Yen			
2012			
	Book value	Fair value	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Subtotal	-	-	-
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	¥1	¥1	-
Subtotal	¥1	¥1	-
Total	¥1	¥1	-

Thousands of U.S. Dollars			
2013			
	Book value	Fair value	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Subtotal	-	-	-
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	\$5	\$5	-
Subtotal	\$5	\$5	-
Total	\$5	\$5	-

(2) Available-for-sale securities

Millions of Yen			
2013			
	Book value	Acquisition cost	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	¥3,103	¥2,413	¥690
Corporate bonds	-	-	-
Other	45	42	3
Subtotal	¥3,148	¥2,455	¥693
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	¥155	¥165	¥(10)
Corporate bonds	-	-	-
Other	-	-	-
Subtotal	¥155	¥165	¥(10)
Total	¥3,303	¥2,620	¥683

Millions of Yen			
2012			
	Book value	Acquisition cost	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	¥2,983	¥2,232	¥751
Corporate bonds	-	-	-
Other	-	-	-
Subtotal	¥2,983	¥2,232	¥751
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	¥419	¥603	¥(184)
Corporate bonds	-	-	-
Other	36	42	(6)
Subtotal	¥455	¥645	¥(190)
Total	¥3,438	¥2,877	¥561

Thousands of U.S. Dollars			
2013			
	Book value	Acquisition cost	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	\$33,006	\$25,675	\$7,331
Corporate bonds	-	-	-
Other	483	450	33
Subtotal	\$33,489	\$26,125	\$7,364
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	\$1,649	\$1,755	\$(106)
Corporate bonds	-	-	-
Other	-	-	-
Subtotal	\$1,649	\$1,755	\$(106)
Total	\$35,138	\$27,880	\$7,258

(3) Impaired securities

For the years ended March 31, 2013 and 2012, the Company recorded an impairment loss of ¥427 million (\$4,548 thousand) and ¥443 million on "Available-for-sale securities" (¥427 million (\$4,548 thousand) and ¥443 million on other marketable securities), respectively.

The Company posts the entire amount of impairment loss on all securities whose fair value at the end of the fiscal year is less than 50% of the acquisition cost.

For securities whose fair value at the end of the fiscal year decreases by 30 to 50% from their acquisition cost, the Company posts an impairment loss when it is judged necessary, by examining the impact and recoverability of the amount.

5. INDEBTEDNESS

Short-term borrowing at March 31, 2013 and 2012 principally consist of borrowings from banks at average annual rates of approximately 0.83% and 0.92%, respectively.

Long-term debts at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Long-term borrowings from banks and other financial institutions			
Due within one year, weighted average interest rate 1.25% at March 31, 2013, and 1.38% at March 31, 2012.	¥4,899	¥4,148	\$52,120
Due after one year, weighted average interest rate 0.98% at March 31, 2013, and 1.19% at March 31, 2012.	29,365	17,298	312,389
Euro Yen zero coupon convertible bonds due 2014			
Due within one year	–	19,635	–
Due after one year	365	365	3,883
Bonds payable			
Due within one year	–	–	–
Due after one year	8,000	8,000	85,106
Lease liabilities			
Due within one year			
Lease that deem to transfer ownership to lessee, weighted average interest rate 3.22%	351	340	3,733
Lease that do not transfer ownership to lessee	311	373	3,314
Due after one year			
Lease that deem to transfer ownership to lessee, weighted average interest rate 3.22%	–	351	–
Lease that do not transfer ownership to lessee	1,011	1,311	10,754
Total	44,302	51,821	386,193
Less current portion	(5,561)	(24,496)	(59,167)
Long-term debts, less current portion	¥38,741	¥27,325	\$327,026

The average interest rate per annum for lease that do not transfer ownership to lessee is not presented since lease liabilities are stated at the amounts before deducting interest portion which is included in total lease liabilities.

The conversion price per share of Euro Yen zero coupon convertible bonds for the years ended March 31, 2013 and 2012 was ¥3,746 (\$39.85) – fixed price.

The aggregate annual maturities of long-term debts other than lease liabilities as of March 31, 2013 are as follows:

For the year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥4,899	\$52,120
2015	20,839	221,693
2016	5,274	56,103
2017	773	8,226
2018	10,648	113,279
2019 and thereafter	196	2,077
Total	¥42,629	\$453,498

The annual maturities of lease liabilities as of March 31, 2013 are as follows:

For the year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥662	\$7,047
2015	302	3,217
2016	299	3,182
2017	257	2,729
2018	133	1,413
2019 and thereafter	20	213
Total	¥1,673	\$17,801

6. RETIREMENT BENEFITS

(1) Outline of retirement benefit plans

The Company and certain domestic subsidiaries have defined contribution pension plans, prepaid retirement plans. Certain foreign subsidiaries mainly adopted lump-sum retirement benefit plans.

(2) The liability (asset) for retirement benefit plans for the years ended March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefits obligation	¥2,323	¥2,661	\$24,716
Fair value of pension assets	978	924	10,404
Unrecognized past service liabilities	142	-	1,514
Unrecognized actuarial differences	66	141	703
Net liability for severance and retirement benefits	1,137	1,596	12,095
Prepaid pension costs	126	64	1,346
Accrued retirement benefits for employees	¥1,263	¥1,660	\$13,441

(3) Retirement benefit costs for the years ended March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥434	¥484	\$4,621
Interest cost	101	132	1,079
Expected return on plan assets	(39)	(62)	(419)
Amortization of prior service costs	9	2	93
Amortization of actuarial differences	(7)	-	(79)
Other	1,184	1,099	12,598
Net periodic benefit costs	¥1,682	¥1,655	\$17,893

Retirement benefit costs incurred by the domestic consolidated subsidiaries that adopted the simplification method or benefit formula were recorded as service cost.

"Other" for the years ended March 31, 2013 and 2012 mainly includes contribution to defined contribution pension plans.

The discount rates of foreign companies were from 3.67% to 4.00% for the year ended March 31, 2013.

The rates of expected return on plan assets of foreign companies are 4.50% for the year ended March 31, 2013.

The estimated amounts of all retirement benefits to be paid at the future retirement dates are allocated to each service year using the benefit formula or equally using the estimated number of total service years.

Consolidated overseas subsidiaries have adopted the corridor approach for the amortization of actuarial differences.

7. NET ASSETS

Under the Companies Act of Japan ("the Act"), in cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Additional paid-in capital and legal earnings reserve are included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets. Under the Act, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. Appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' approval has been obtained.

8. INCOME TAXES

Income taxes in Japan applicable to the Company and domestic subsidiaries for the years ended March 31, 2013 and 2012 were comprised of (1) a corporation tax at the rates of 28% and 30% on taxable income, (2) enterprise tax of approximately 7% and 7% on taxable income and (3) prefectural and residence taxes of approximately 19% and 21% of the amount of the corporation tax, respectively. Enterprise tax is deductible for income tax purposes when paid.

Income taxes of foreign subsidiaries are generally based on tax rates applicable in the country of incorporation.

Significant components of the deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of
	2013	2012	U.S. Dollars
Deferred tax assets			2013
Inventories	¥346	¥162	\$3,683
Retirement benefits	2,682	3,893	28,536
Enterprise tax payables	57	14	606
Accrued bonuses	1,052	587	11,195
Excess depreciation	1,743	2,049	18,538
Allowance for doubtful receivables	150	87	1,598
Unused tax losses	19,171	16,732	203,942
Other	2,840	2,894	30,211
Offset	(268)	(213)	(2,851)
Subtotal	27,773	26,205	295,458
Valuation allowance	(26,397)	(25,220)	(280,825)
Total deferred tax assets	¥1,376	¥985	\$14,633
Deferred tax liabilities			
Allowance for doubtful receivables	-	¥22	-
Undistributed earnings of foreign subsidiaries	¥2,426	1,878	\$25,811
Inventories	632	585	6,724
Reserves	890	932	9,469
Unrealized holding gains on investment securities	143	118	1,526
Other	1,253	944	13,316
Offset	(268)	(213)	(2,852)
Total deferred tax liabilities	¥5,076	¥4,266	\$53,994

Main items of the reconciliations of the normal income tax rate to the effective income tax rates are as follows:

	2013
Statutory tax rate	37.8 %
(Reconciliations)	
Differences in statutory tax rates of foreign subsidiaries	(35.5)
Undistributed earnings of foreign subsidiaries	13.6
Valuation allowance	16.7
Foreign tax	3.4
Unrealized profit included in inventories	9.5
Amortization of goodwill	5.4
Others – net	(0.8)
Effective income tax rate	50.1 %

Reconciliations of statutory and effective income tax rate for 2012 are omitted because of loss before income taxes and minority interests.

9. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Summary of net assets (liabilities) and net payment for the sales of investments excluded from consolidation is as follows:

March 31, 2013

<u>Tsukiyono Denshi Co., Ltd.</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Current assets	¥62	\$655
Non-current assets	0	1
Current liabilities	(48)	(512)
Loss on sales of investments	<u>(4)</u>	<u>(38)</u>
Sales price of investments	10	106
Cash and cash equivalents of alienated company	<u>(54)</u>	<u>(577)</u>
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	<u>¥(44)</u>	<u>\$(471)</u>

10. LEASE TRANSACTIONS

(1) Finance Lease

As described in Note 2, finance lease contracts commencing after April 1, 2008 are capitalized. Information of finance lease contracts commencing prior to March 31, 2008, which are accounted for in the same manner as operating leases, was as follows:

The amounts corresponding to acquisition cost, accumulated depreciation, and net book value at March 31, 2012 were as follows:

	<u>Millions of Yen</u> <u>2012</u>	<u>Thousands of</u> <u>U.S. Dollars</u> <u>2012</u>
The amount corresponding to acquisition cost	¥638	\$7,785
The amount corresponding to accumulated depreciation	559	6,816
The amount corresponding to net book value	<u>¥79</u>	<u>\$969</u>

The amounts of outstanding future lease payments due at March 31, 2012 were as follows:

	<u>Millions of Yen</u> <u>2012</u>	<u>Thousands of</u> <u>U.S. Dollars</u> <u>2012</u>
Future lease payments		
Within one year	¥65	\$796
Over one year	14	173
Total	<u>¥79</u>	<u>\$969</u>

Lease payments and the amounts corresponding to depreciation for the year ended March 31, 2012 were summarized as follows:

	<u>Millions of Yen</u> <u>2012</u>	<u>Thousands of</u> <u>U.S. Dollars</u> <u>2012</u>
Lease payments	¥228	\$2,775
The amount corresponding to depreciation expense	228	2,775

The imputed interest expense portion is included in the above future lease payments under finance leases.

The amount corresponding to depreciation expense was calculated by the straight-line method over the lease term with no residual value.

The amounts corresponding to acquisition cost, accumulated depreciation, and net book value at March 31, 2013 are not shown as they are immaterial.

(2) Operating Lease

The amounts of noncancellable future lease payments as of March 31, 2013 and 2012 are as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Future lease payments			
Within one year	¥284	¥281	\$3,026
Over one year	251	525	2,668
Total	<u>¥535</u>	<u>¥806</u>	<u>\$5,694</u>

11. IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT

The Companies categorize their business assets by segmentation for management accounting, and idle assets by individual asset. Property, plant and equipment such as head office and laboratories are categorized as common assets.

For the idle assets with no specific utilization plan or low profitability, their book values have been written down to the memorandum value and such reduction was recorded as impairment loss on property, plant and equipment.

For the years ended March 31, 2013 and 2012, the Companies recognized impairment loss on property, plant and equipment as follows:

For the year ended March 31, 2013

<u>Classification</u>	<u>Description</u>	<u>Location</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Machinery and Equipment, Others	Idle assets	Tamamura, Gunma Haruna, Gunma Nakanojo, Gunma Date, Fukushima Minakami, Gunma Others	¥346	\$3,679

For the year ended March 31, 2012

<u>Classification</u>	<u>Description</u>	<u>Location</u>	<u>Millions of Yen</u>
Machinery and Equipment, Others	Idle assets	Haruna, Gunma Nakanojo, Gunma Tamamura, Gunma Yawatabara, Gunma Tianjin, China Others	¥268

12. CONTINGENT LIABILITIES

At March 31, 2013 and 2012, the Companies had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
As guarantor of bank loans and indebtedness	¥3	¥4	\$29

13. DERIVATIVE TRANSACTIONS

The fair values of derivatives held by the Companies as of March 31, 2013 and 2012 are summarized as follows. Fair value is computed based on quotes and others by financial institutions and others.

(1) Derivative transactions for which hedge accounting is not applied

	Millions of Yen			
	2013			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts: Selling: U.S. Dollar	¥12,091	–	¥(597)	¥(597)
Foreign exchange forward contracts: Buying: U.S. Dollar	¥1,865	–	¥15	¥15

	Millions of Yen			
	2012			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts: Selling: U.S. Dollar	¥11,624	–	¥(695)	¥(695)

	Thousands of U.S. Dollars			
	2013			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts: Selling: U.S. Dollar	\$128,631	–	\$(6,354)	\$(6,354)
Foreign exchange forward contracts: Buying: U.S. Dollar	\$19,838	–	\$160	\$160

(2) Derivative transactions for which hedge accounting is applied

		Millions of Yen		
		2013		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts: Selling: U.S. Dollar	Future transaction	¥5,207	–	¥40
Foreign exchange forward contracts: Buying: U.S. Dollar	Future transaction	¥1,896	–	¥(16)
Interest-rate swaps Fixed interest payment and floating interest receipt	Long-term borrowings	¥18,550	¥17,050	–

		Millions of Yen		
		2012		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts: Selling: U.S. Dollar	Future transaction	¥4,528	–	13
Foreign exchange forward contracts: Buying: U.S. Dollar	Future transaction	¥825	–	¥(4)
Interest-rate swaps Fixed interest payment and floating interest receipt	Long-term borrowings	¥9,000	¥750	–

		Thousands of U.S. Dollars		
		2013		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts: Selling: U.S. Dollar	Future transaction	\$55,396	–	\$422
Foreign exchange forward contracts: Buying: U.S. Dollar	Future transaction	\$20,169	–	\$(175)
Interest-rate swaps Fixed interest payment and floating interest receipt	Long-term borrowings	\$197,340	\$181,383	–

For the specific treatment of interest-rate swaps, because they are account for in combination with the hedged long-term borrowings, their fair value is included in the fair value of the long-term borrowings.

14. STOCK OPTION PLAN

The Company grants stock options to its directors in line with resolutions of the board of directors meetings.

Expenses for stock options amounting to ¥28 million (\$299 thousand) and ¥41 million were recognized in selling, general and administrative expenses in 2013 and 2012, respectively.

For the years ended March 31, 2013 and 2012, a standard option pricing model (i.e., Black-Scholes) was used to measure the fair value of stock options granted to its directors.

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with risk-free interest rates of 0.15% in 2013 and 0.34% in 2012, dividends per share of ¥5 (\$0.05) in 2013 and ¥10 in 2012, and volatility factor of the expected market value of the Company's common stock of 54.5% in 2013 and 50.7% in 2012, determined by weekly historical price for the past four years and three months and expected life of the option of 3.6 years in 2013 and 4.3 years in 2012.

A summary of the Company's stock options outstanding at March 31, 2013 is as follows:

Date of resolution	June 29, 2005	June 29, 2006	June 28, 2007	June 28, 2007
Date of grant	June 29, 2005	August 23, 2006	July 13, 2007	July 13, 2007
Number of options	26,000 shares of Common stock	29,000 shares of Common stock	32,000 shares of Common stock	46,000 shares of Common stock
Exercise price	¥1	¥1	¥1	¥1
Exercise period	From June 30, 2005 to July 31, 2025	From August 24, 2006 to August 23, 2026	From July 14, 2007 to July 13, 2027	From July 14, 2007 to July 13, 2027
Fair value (per share)	¥ -	¥1,511	¥2,761	¥2,761
Options outstanding at March 31, 2012	8,000 shares	17,000 shares	23,000 shares	34,000 shares
Granted	-	-	-	-
Exercised	-	4,000 shares	6,000 shares	9,000 shares
Forfeited/Expired	-	-	-	-
Options outstanding at March 31, 2013	8,000 shares	13,000 shares	17,000 shares	25,000 shares
Date of resolution	June 27, 2008	May 25, 2009	June 29, 2010	June 29, 2011
Date of grant	July 14, 2008	June 9, 2009	July 21, 2010	July 14, 2011
Number of options	46,000 shares of Common stock	37,000 shares of Common stock	39,000 shares of Common stock	44,000 shares of Common stock
Exercise price	¥1	¥1	¥1	¥1
Exercise period	From July 15, 2008 to July 14, 2028	From June 10, 2009 to June 9, 2029	From July 22, 2010 to July 21, 2030	From July 14, 2011 to July 13, 2031
Fair value (per share)	¥966	¥947	¥1,013	¥948
Options outstanding at March 31, 2012	34,000 shares	34,000 shares	39,000 shares	44,000 shares
Granted	-	-	-	-
Exercised	9,000 shares	9,000 shares	9,000 shares	8,000 shares
Forfeited/Expired	-	-	-	-
Options outstanding at March 31, 2013	25,000 shares	25,000 shares	30,000 shares	36,000 shares
Date of resolution	April 25, 2012			
Date of grant	May 11, 2012			
Number of options	38,000 shares of Common stock			
Exercise price	¥1			
Exercise period	From May 11, 2012 to May 10, 2032			
Fair value (per share)	¥739			
Options outstanding at March 31, 2012	-			
Granted	38,000 shares			
Exercised	2,000 shares			
Forfeited/Expired	-			
Options outstanding at March 31, 2013	36,000 shares			

15. COMPREHENSIVE INCOME

Reclassification and income tax effects attributable to other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized holding gains (losses) on securities:			
Gains (losses) arising during the year	¥(41)	¥520	\$(437)
Reclassifications and adjustments	195	(443)	2,071
Before income tax effects	154	77	1,634
Income tax effects	(26)	(25)	(267)
Net unrealized holding gains (losses) on securities	128	52	1,367
Deferred gains (losses) on hedges:			
Gains (losses) arising during the year	(176)	(8)	(1,871)
Reclassifications and adjustments	190	100	2,023
Before income tax effects	14	92	152
Income tax effects	(5)	(37)	(57)
Deferred gains (losses) on hedges	9	55	95
Foreign currency translation adjustments:			
Adjustments arising during the year	10,291	(662)	109,475
Total other comprehensive income	¥10,428	¥(555)	\$110,937

16. SEGMENT INFORMATION

(a) General information about reportable segments

The Companies' reportable segments are those for which separately financial information is available and regular evaluation by the Company's Board of Directors is being performed in order to decide how resources are allocated among the Companies.

The Companies consist of two segments identified by the nature of the business, including "Electronic Components" and "Optical media and others". "Electronic Components" consists of "Capacitors", "Ferrite and Application Products", "Integrated Modules and Devices", and "Other Electronic Components".

"Optical media and others" mainly provides recording-media products and implementation business of subsidiaries.

(b) Basis of measurement about reportable segment income or loss, segment assets and other material items

The accounting policies of each reportable segment are consistent to those disclosed in Note "2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES". Income by reportable segments is based on operating income. Liabilities are not disclosed because they are not provided to the highest decision-making body periodically.

(c) Information about reportable segment income or loss, segment assets, segment liabilities and other material items

Millions of Yen				
2013				
	Electronic Components	Optical media and others	Adjustments	Total
Sales:				
Sales to external customers	¥170,926	¥21,978	-	¥192,904
Intersegment sales or transfers	-	-	-	-
Total sales	170,926	21,978	-	192,904
Segment income (loss)	¥5,218	¥(225)	-	¥4,993
Segment assets	¥169,337	¥12,914	¥43,676	¥225,927
Other items:				
Depreciation and amortization	¥18,734	¥1,099	-	¥19,833
Increase in property, plant and equipment and intangible assets	20,475	396	-	20,871

Millions of Yen				
2012				
	Electronic Components	Optical media and others	Adjustments	Total
Sales:				
Sales to external customers	¥160,852	¥22,943	-	¥183,795
Intersegment sales or transfers	-	-	-	-
Total sales	160,852	22,943	-	183,795
Segment income (loss)	¥(6,689)	¥(1,322)	-	¥(8,011)
Segment assets	¥159,074	¥13,617	¥35,770	¥208,461
Other items:				
Depreciation and amortization	¥17,984	¥1,266	-	¥19,250
Increase in property, plant and equipment and intangible assets	26,152	612	-	26,764

Thousands of U.S. Dollars				
2013				
	Electronic Components	Optical media and others	Adjustments	Total
Sales:				
Sales to external customers	\$1,818,358	\$233,811	-	\$2,052,169
Intersegment sales or transfers	-	-	-	-
Total sales	1,818,358	233,811	-	2,052,169
Segment income (loss)	\$55,510	\$(2,391)	-	\$53,119
Segment assets	\$1,801,460	\$137,380	\$464,640	\$2,403,480
Other items:				
Depreciation and amortization	\$199,295	\$11,694	-	\$210,989
Increase in property, plant and equipment and intangible assets	217,824	4,213	-	222,037

(d) Reconciliation of published figures and aggregates of reportable operating segments

Total amounts of Sales, Segment income (loss), Segment assets, and Other items in the reportable segment above match with those in the consolidated financial statements.

(e) Due to the revised useful lives for property, plant and equipment stated at accompanying Note 2, the operating profit in Electronic Components increased by ¥321million (\$3,413 thousand) and the operating loss in Optical media and others decreased by ¥8 million (\$80 thousand) for the year ended March 31, 2013.

(f) Related information

1. Information about geographical areas

(i) Sales

Millions of Yen				
2013				
Japan	China	South Korea	Other areas	Total
¥41,646	¥58,872	¥19,732	¥72,654	¥192,904

Millions of Yen				
2012				
Japan	China	South Korea	Other areas	Total
¥44,825	¥54,876	¥21,002	¥63,092	¥183,795

Thousands of U.S. dollars				
2013				
Japan	China	South Korea	Other areas	Total
\$443,046	\$626,293	\$209,913	\$772,917	\$2,052,169

(ii) Property, plant and equipment

Millions of Yen				
2013				
Japan	China	Malaysia	Other areas	Total
¥56,928	¥14,962	¥12,824	¥14,061	¥98,775

Millions of Yen				
2012				
Japan	China	Malaysia	Other areas	Total
¥58,605	¥11,712	¥11,043	¥12,661	¥94,021

Thousands of U.S. dollars				
2013				
Japan	China	Malaysia	Other areas	Total
\$605,620	\$159,175	\$136,422	\$149,578	\$1,050,795

(g) Information about impairment loss on property, plant and equipment by reportable segments

Millions of Yen				
2013				
	Electronic Components	Optical media and others	Adjustments	Total
Impairment loss	¥210	¥136	–	¥346

Millions of Yen				
2012				
	Electronic Components	Optical media and others	Adjustments	Total
Impairment loss	¥268	–	–	¥268

Thousands of U.S. dollars				
2013				
	Electronic Components	Optical media and others	Adjustments	Total
Impairment loss	\$2,228	\$1,451	–	\$3,679

(h) Information about amortization and the balance of (negative) goodwill by reportable segments

Millions of Yen				
2013				
	Electronic Components	Optical media and others	Adjustments	Total
(Goodwill)				
Amortization	¥601	–	–	¥601
Balance	¥1,201	–	–	¥1,201
(Negative goodwill)				
Amortization	–	¥21	–	¥21
Balance	–	¥10	–	¥10

Millions of Yen				
2012				
	Electronic Components	Optical media and others	Adjustments	Total
(Goodwill)				
Amortization	¥844	–	–	¥844
Balance	¥1,802	–	–	¥1,802
(Negative goodwill)				
Amortization	–	¥21	–	¥21
Balance	–	¥31	–	¥31

Thousands of U.S. dollars				
2013				
	Electronic Components	Optical media and others	Adjustments	Total
(Goodwill)				
Amortization	\$6,389	–	–	\$6,389
Balance	\$12,778	–	–	\$12,778
(Negative goodwill)				
Amortization	–	\$220	–	\$220
Balance	–	\$110	–	\$110

17. EARNINGS PER SHARE

Reconciliation of the basic and diluted earnings per share ("EPS") for the years ended March 31, 2013 and 2012 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u>
	Net	Weighted	EPS	
	<u>Earnings</u>	<u>Average Shares</u>		
For the year ended March 31, 2013				
Basic EPS				
Earnings allocated to common shareholders	¥2,000	117,615	¥17.01	\$0.18
Effect of dilutive securities				
Convertible bonds	-	-	-	-
Convertible bonds with stock acquisition rights	-	-	-	-
Stock acquisition rights	-	212	-	-
Diluted EPS				
Earnings for computation	<u>¥2,000</u>	<u>117,827</u>	<u>¥16.98</u>	<u>\$0.18</u>

For the year ended March 31, 2012

Basic EPS			
Earnings allocated to common shareholders	¥(21,600)	117,584	¥(183.70)

Although diluted shares exist for the year ended March 31, 2012, diluted earnings per share is not disclosed since there is net loss per share for the period.

18. SUBSEQUENT EVENT

- 1) The following appropriations of retained earnings at March 31, 2013 were approved at the Company's shareholders' meeting held on June 27, 2013:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Cash dividend, ¥5.00 (\$0.05) per share	¥588	\$6,257

- (2) Implement of structural reform at a subsidiary company

In addition to implementing employee transfers within the group companies, the subsidiary will reduce its workforce by 150 by the end of September 2013.

This reduction in the force will be done through utilization of special redeployment support network.

The forecasted cost associated with aforementioned structural reform is ¥700 million (\$7,447 thousand).

This amount will be stated as extraordinary loss in the consolidated accounts for the year ending March 31, 2014.



Independent Auditor's Report

To the Board of Directors of TAIYO YUDEN Co., Ltd.:

We have audited the accompanying consolidated financial statements of TAIYO YUDEN Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TAIYO YUDEN Co., Ltd. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 11, 2013
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.