

ANNUAL REPORT 2017

Innovation by smart technologies

TAIYO YUDEN

Profile

Since its founding in 1950, TAIYO YUDEN has worked to develop and mass produce electronic components that meet the most current needs of our customers and the markets we serve, based on our corporate philosophy of conducting “from the research and development of materials to product commercialization.” We are continuing to grow with the expansion of our businesses worldwide.

TAIYO YUDEN aims not only to enhance economical value but also to heighten social value by fulfilling our social responsibilities in response to the demands and expectations from our stakeholders. We are also committed to enhancing activities and approaches toward labor and human rights, health and safety, environment, ethics, as well as product safety and quality with responsibilities.

Management Philosophy

Employee Well-being
Betterment of Local Communities
Responsibility to Provide Returns to Shareholders

TAIYO YUDEN Vision

To be an excellent company that enjoys the trust and highest regard from our customers

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Our President and Chief Executive Officer provides the Company's earnings forecasts and investment strategies for the fiscal year ending March 31, 2018, as well as the management policies and growth strategies toward the achievement of our medium-term targets which include sales target of ¥300 billion and ROE of at least 10%.



16 Special feature: Production Innovation smart.E Project Aimed at the Arrival of the IoT Era

Utilizing big data to strengthen manufacturing capabilities

We would like to explain our approaches toward establishing production structure prepared for the coming unprecedented mass production, before the full-scale arrival of IoT era.



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Notes

- Period covered by this report: From April 1, 2016 to March 31, 2017. The figures in this report omit amounts less than hundred million yen and 1 million yen and displays it.
- The following convention has been applied as regards the labeling of fiscal years in graphs: “The fiscal year ended March 2017,” for example, has been shortened to “2017.”
- The English-language version of this report is based on the Japanese-language version. With the exception of the financial statements, all figures presented have been rounded down to the nearest appropriate unit. As a result, there are cases when a presented figure differs slightly from the equivalent figure in the financial statements.
- The Bluetooth® word mark and logos are registered trademarks owned by Bluetooth SIG, Inc. TAIYO YUDEN has been granted approval to use these trademarks.
- The contents of this Annual Report are correct as of June 29, 2017.

Disclaimer

This Annual Report is intended to provide information about the business performance and strategies of the TAIYO YUDEN Group. It is not intended as an inducement to purchase or sell stock in TAIYO YUDEN or any TAIYO YUDEN Group company. Statements in this report that are not historical fact are forward-looking statements based on the current beliefs, estimates and expectations of TAIYO YUDEN Group management. As these beliefs, estimates and expectations are subject to a number of risks, uncertainties and assumptions, actual results may differ materially. TAIYO YUDEN undertakes no obligation to update any forward-looking statements, and shall in no event be liable for any damages arising out of the use or interpretation of this material. Please refrain from copying or disseminating this material without the prior consent of TAIYO YUDEN.

TAIYO YUDEN's Business Model

The TAIYO YUDEN Group's business activities center on the development, manufacture, and sales of electronic components.

Capacitors

Capacitors are used in a wide variety of electronic equipment to temporarily store electricity and remove electronic noise. TAIYO YUDEN excels in producing leading-edge, highly-reliable multilayer ceramic capacitors which are best suited to cutting-edge electronic devices including smartphones and automobiles, and large numbers of multilayer ceramic capacitors are loaded into such devices.

Main products

Multilayer ceramic capacitors



Ferrite and Applied Products

The main products of the Ferrite and Applied Products classification are inductors used in electronic equipment power and high-frequency circuits for blocking alternating current while allowing direct current to pass through.

Main products

Wire-wound chip inductors, multilayer chip inductors, ferrite bead inductors, common-mode choke coils

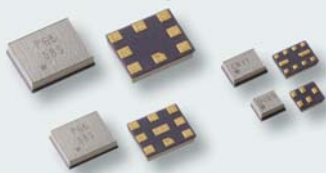


Integrated Modules & Devices

The Integrated Modules & Devices classification's main products are FBAR/SAW devices for mobile communications and power supply modules. The FBAR/SAW devices are used primarily in smartphones to enable high-speed data communications and high-quality voice communications.

Main products

FBAR/SAW devices for mobile communications, power supply modules, high-frequency modules, embedded-parts multilayer wiring substrates



Other Electronic Components

The Other Electronic Components classification develops and brings to market a variety of energy devices used as backup power equipment for smart meters and other similar products, and peak current assistance for LED flashes.

Main products

Lithium ion capacitors, polyacene capacitors



TAIYO YUDEN's Market Environment and Business Development

Within the electronics field, we are targeting markets where we anticipate growth.

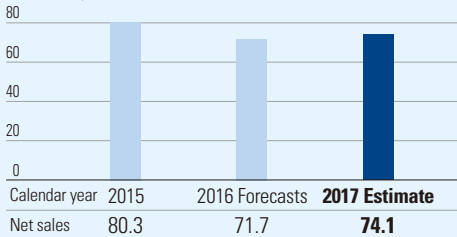
Market Conditions for Electronic Components and Devices

Electronic Components and Devices

◆ Electronic Components and Devices Market

¥74.1 trillion

(Trillions of yen)



Note: Figures from 2016 Production Forecasts for the Global Electronics and Information Technology Industries, Japan Electronics and Information Technology Industries Association (JEITA); the electronic components and devices category is as defined in JEITA's statistical breakdown of global electronic component shipments

General electronic components

Components that work with and supplement electronic devices

¥22.8 trillion



Electronic devices

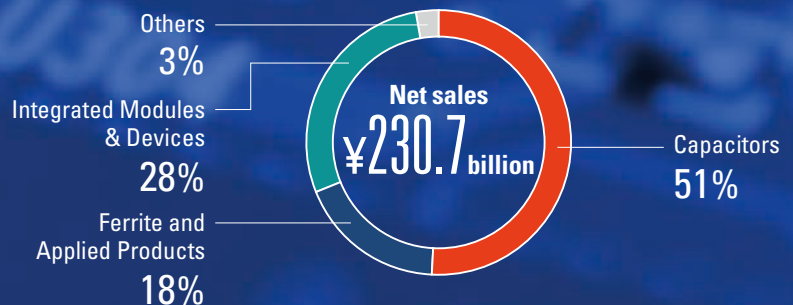
Devices that apply functions of electrons to perform active tasks such as amplification

¥51.3 trillion



Business Development Year ended March 31, 2017

Sales by product classifications



Demand continues to grow for our capacitors, inductors, and devices for mobile communications in line with the proliferation of smartphones and increasing use of automotive electronics.

● **Passive components**

These devices store, control, separate, and perform other tasks on the flow of electrons supplied.

Capacitors, inductors, resistors, transformers, and others

● **Connecting components**

These devices connect, switch, and perform other tasks on electronic circuits and systems

Switches, connectors, and others

● **Transducers**

These devices create sounds, torques, magnetic flux, and others

Electro-acoustic transducers, compact motors, and others

● **Other electronic components**

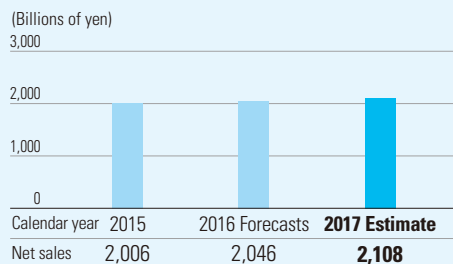
High-frequency components, mobile communication devices (FBAR/SAW), and power-supply components

● **TAIYO YUDEN's business domains**

● **Semiconductor devices, integrated circuits, electron tubes, etc.**

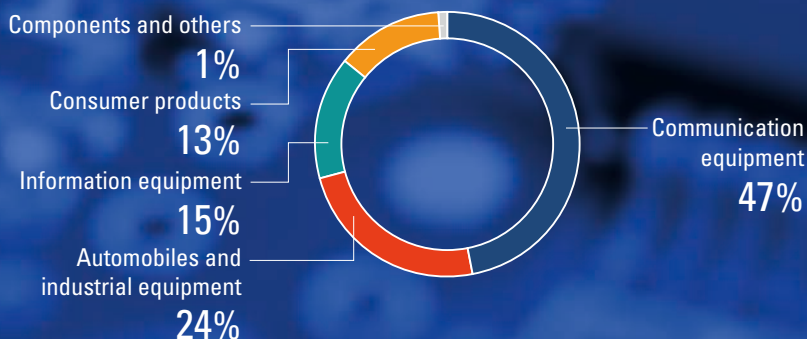
◆ **Capacitor market size**

¥ **2,108** billion

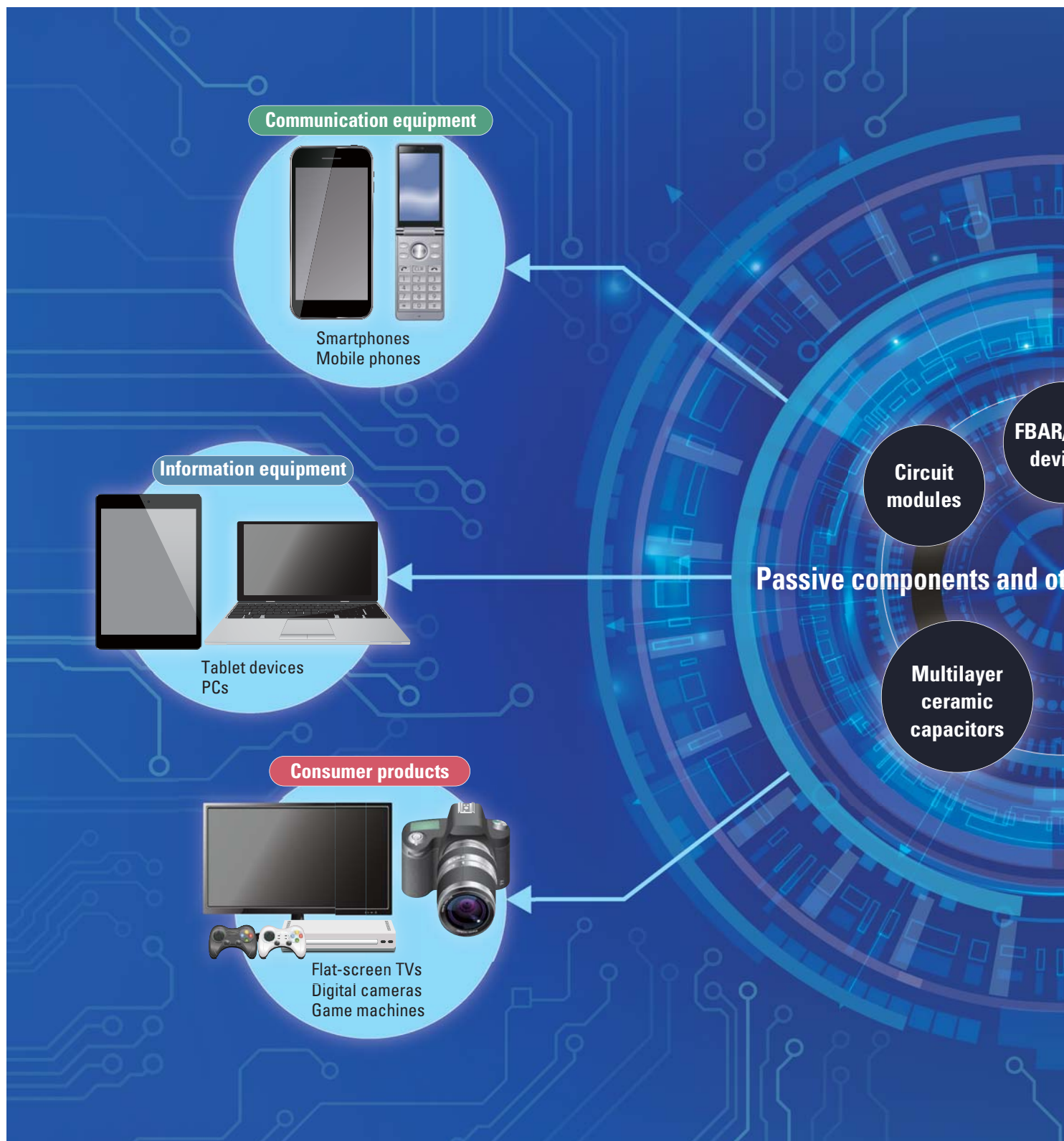


Source: Annual of Electronic Devices & Components 2017, Chunichisha Co., Ltd.

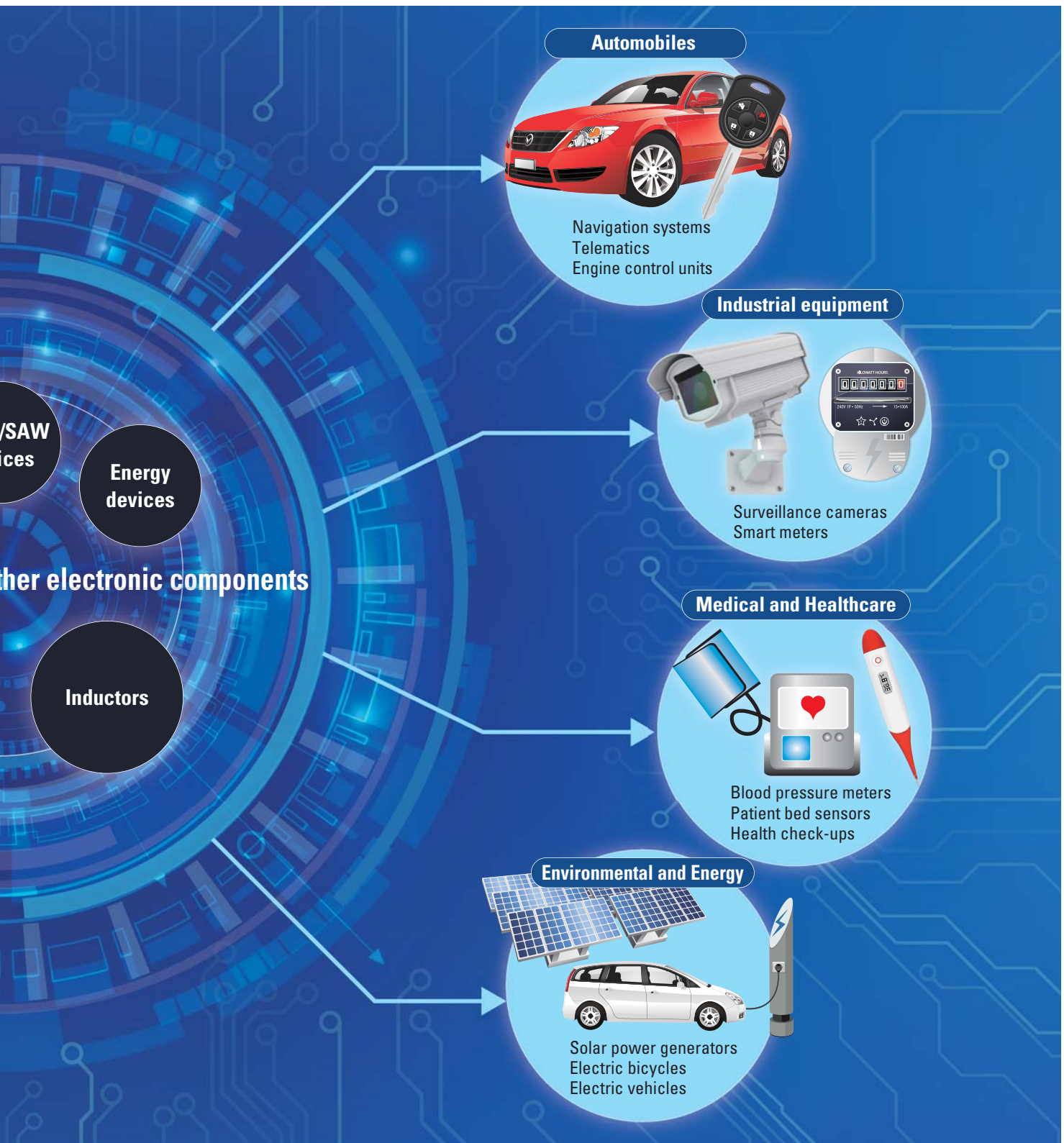
Sales of electronic components by market sector



TAIYO YUDEN presents various solutions with passive components.



TAIYO YUDEN provides solutions for a wide array of fields such as communication equipment and automobiles with passive components like capacitors, inductors, and communication devices.







TAIYO YUDEN's Focus Markets

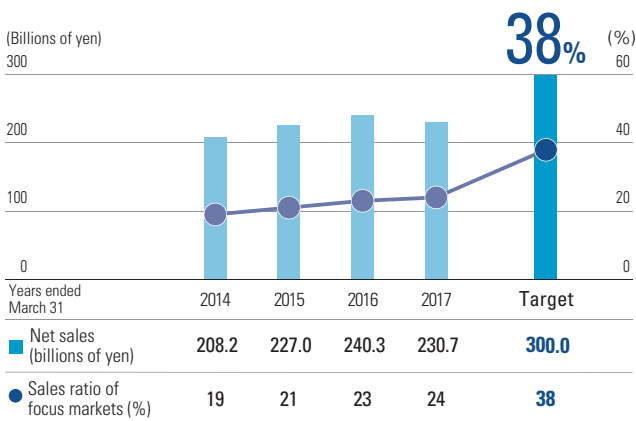
We will continue using the superior innovation and high reliability of our products to expand our businesses.

Product for Focus Markets

Computerization and the use of electronic components are rapidly advancing in markets showing relatively steady demand. Markets such as automobiles, industrial equipment, medical and healthcare products, as well as environmental and energy applications demand a continuous stream of TAIYO YUDEN's products. We are expanding TAIYO YUDEN's high reliable electronic components' lineup and bringing to markets high temperature resistance, long life, and high quality products as well as promoting use of our products as core design components in our customer's products. Our strategy continuously opens new sales routes and opportunities that address market needs.

	Automobiles Navigation systems Telematics, Engine control units
	Industrial Equipment Surveillance cameras Smart meters
	Medical and Healthcare Blood pressure meters Patient bed sensors, Health check-ups
	Environmental and Energy Solar power generators Electric bicycles, Electric vehicles

Sales ratio of focus markets



FOCUS

Development in the Automotive Electronics Market

Computerization and electricalization are the key to the automotive electronics market

Infotainment: 1.6 times

Body: 1.6 times



Safety: 1.8 times

Power-train: 1.7 times

Automotive electronics market

¥19 trillion → ¥32 trillion
 (CY2015) (CY2025)

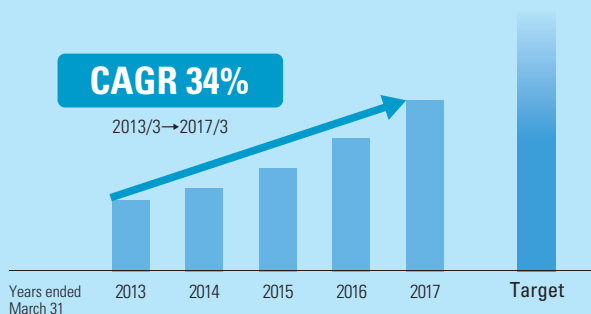
*Estimated by the Company

Increasing demand for large-size, high-voltage-resistant, and highly-reliable components

Trends in the Company's automotive sales

CAGR 34%

2013/3 → 2017/3



Sales ratio for automotive electronics market

Year ended March 31, 2017: 6%

Medium-term target: 15%

TAIYO YUDEN's Strength and Uniqueness

Our key strengths are our early-mover global expansion and technological capabilities to keep creating world-first products.

Strength and Uniqueness

1

Technological Knowhow to Develop and Bring to Market World-leading Innovative Products

Since its founding, TAIYO YUDEN has followed a credo of starting from material development to complete end products. Our research and development activities have been producing numerous world-first innovations and products for many years.

1984

Commercialized the world's first nickel-electrode high-capacity multilayer ceramic capacitor



2004

Achieved the world's best inductance value for high-frequency, 0603 size multilayer chip inductors



2006

World's first mass production of the groundbreaking EOMIN™ embedded parts multilayer wiring substrate with a copper core



2013

Commercialized the world's first multilayer metal power inductor



2014

Achieved the world's thinnest (0.11mm) multilayer ceramic capacitor



2015

Achieved the world's first 470μF multilayer ceramic capacitor



Strength and Uniqueness

2

Global Production and Extensive Sales Network

TAIYO YUDEN began its global expansion in 1967 with a subsidiary in Taiwan and has continued developing operations focused on North America, Europe, and East Asia. This led to its current development, production, and sales network spanning 15 countries and regions worldwide, including Japan. Today, the Company continually works to improve its reach throughout world markets. In particular, regarding its production activities, the Company is stepping up the development of high-end products abroad to make maximize use of its overseas bases as it has put into place the optimal global production network of bases in Japan and around the world.



Financial and Non-financial Highlights

TAIYO YUDEN CO., LTD. and Subsidiaries
Years Ended March 31 and as of March 31

Millions of yen

Fiscal year	2013	2014	2015	2016	2017
Net sales	¥192,903	¥208,222	¥227,095	¥240,385	¥230,716
Operating income	4,850	11,358	13,153	23,370	12,385
Ordinary income	7,118	12,192	15,653	22,263	11,200
Net income attributable to owners of parent company	1,867	6,989	10,919	14,751	5,428
Total assets	225,991	247,596	265,454	268,380	271,149
Net assets	115,814	128,556	150,856	153,381	154,150
Cash flows from operating activities	19,496	29,724	24,896	38,278	29,692
Cash flows from investing activities	(18,157)	(18,947)	(20,964)	(35,374)	(28,806)
Free cash flows	1,339	10,777	3,932	2,904	886
Cash flows from financing activities	2,334	8,404	(21,249)	(2,050)	(4,342)
Cash and cash equivalents at end of year	33,280	54,611	41,476	39,944	36,094
R&D expenses	6,840	7,353	8,237	9,024	10,008
Capital investment	20,702	19,126	18,773	41,261	33,161
Depreciation and amortization	19,832	20,750	21,813	23,767	24,908

Per share data (yen)

Net assets per share	¥ 981.92	¥1,090.26	¥1,278.07	¥1,299.75	¥1,305.96
Basic net income per share	15.88	59.38	92.74	125.27	46.08
Diluted net income per share	15.85	58.09	85.51	115.54	42.43
Cash dividends per share	10.00	10.00	10.00	15.00	20.0

Financial ratios (%)

Equity ratio	51.1	51.8	56.7	57.1	56.8
Return on Equity [ROE]	1.7	5.7	7.8	9.7	3.5
Return on Assets [ROA]	3.3	5.1	6.1	8.3	4.2

Other information

Number of employees [consolidated]	15,915	16,435	18,262	18,810	18,753
Number of employees [non-consolidated]	2,632	2,572	2,577	2,618	2,586
Greenhouse gas emissions (1,000t-CO ₂ e) [Per unit of sales]	477 [2.47]	458 [2.20]	485 [2.13]	488 [2.03]	493 [2.14]
Incidence rate of injuries and illness (%)	N.A.	0.02	0.03	0.03	0.035
Incidence rate for mental health problem (%)	0.80	0.74	0.85	0.45	0.60

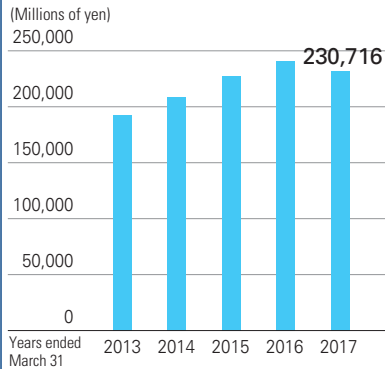
Note: ROE = Net income attributable to owners of parent company/Shareholders' equity (yearly average) x 100
ROA = Ordinary income/Total assets (yearly average) x 100

Net Sales
¥230,716 million
-4.0%
(YoY)

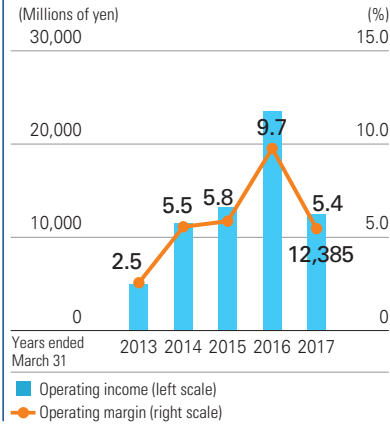
Net Income Attributable to Owners of Parent Company
¥5,428 million
-63.2%
(YoY)

ROE
3.5%
-6.2 point
(YoY)

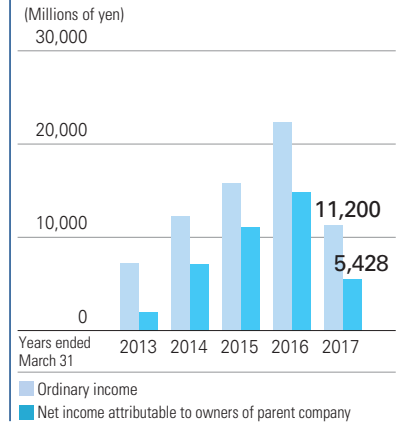
Net sales



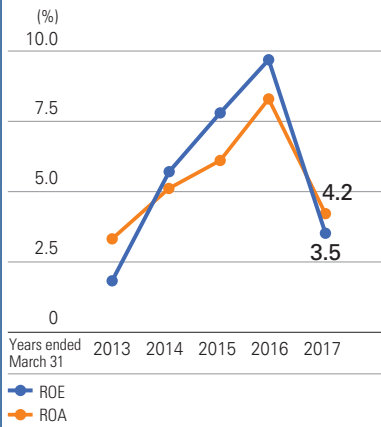
Operating income/Operating margin



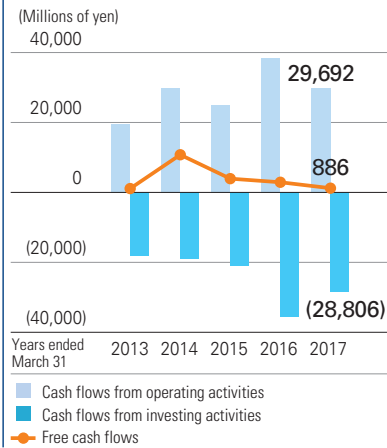
Ordinary income/Net income attributable to owners of parent company



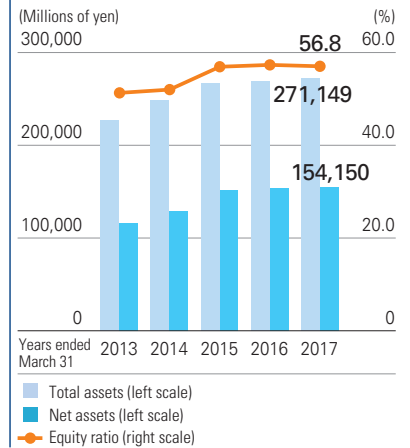
ROE/ROA



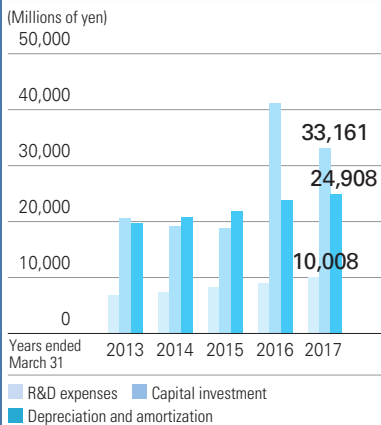
Cash flows



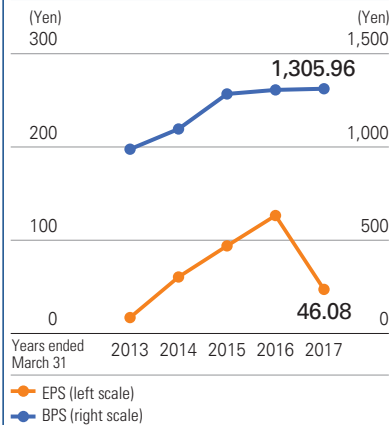
Total assets/Net assets/Equity ratio



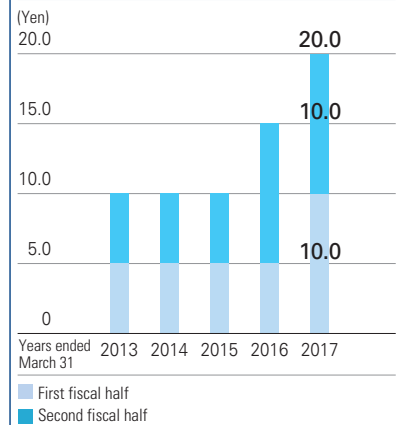
R&D expenses/Capital investment/Depreciation and amortization



EPS/BPS



Cash dividends per share



Message from the President



We will continue to prepare for the next big leap by expanding sales channels and evolving our manufacturing capabilities

I would like to extend my most sincere thanks to all our stakeholders, including our shareholders and investors, partner companies, and local communities.

In the fiscal year ended in March 2017, consolidated sales declined 4.0% compared to the previous year to ¥230.7 billion, while operating income declined 47.0% to ¥12.3 billion. As a result of the booking of business structure improvement expenses in line with structural reform efforts at the overseas subsidiaries, net income attributable to owners of parent company was down 63.2% to ¥5.4 billion.

We are focusing our efforts on developing sales channels for automotive and industrial equipment applications, where the market appears likely to show stable growth moving forward. Sales of our highly reliable products that are used in these markets are showing steady growth. Thanks to improved functionality, including multi-banding and changes in communication methods, we were able to expand sales of FBAR/SAW mobile communication devices for smartphones. Although sales and profit did not increase for a fifth consecutive year due to yen appreciation, there appears no change in the growth trend for

electronic components. Demand for cutting-edge products with strong competitive advantages remains firm as expectations for next-generation smartphones increase and IoT (Internet of Things) technology is making progress. We also expect an ongoing expansion in demand for automotive and industrial equipment products.

Against this backdrop, we continue to prepare for the next big leap, not only increasing production capacity, but also working to further improve efficiency by evolving our manufacturing capabilities.

I wish to express my sincere thanks to all our stakeholders for your continued support and encouragement.

A handwritten signature in black ink, reading "S. Tosaka".

Shoichi Tosaka
President and Chief Executive Officer

Interview with the President

1



Please tell us about your outlook for the operating environment moving forward and the company's initiatives for ensuring sustainable growth.

We expect to see an explosive increase in demand for electronic components and are placing an emphasis on “an expansion in focus markets” and “evolving our manufacturing capabilities,” while also promoting the “creation of new businesses.”

Smartphones continue to show increased sophistication and functionality, and the number of devices included in each unit also continues to show a sharp rise. Moreover, IoT, which involves the connection of almost everything to the Internet, is beginning to spread to a wide variety of fields. The automobile industry is not only developing electric vehicles, but also advancing the realization of autonomous driving systems. This trend has contributed to an increase in the number of electronic components required for each vehicle. Given these developments, we expect a sharp increase in demand for electronic components from 2020 and on.

TAIYO YUDEN offers three core tangible products: capacitors, inductors, and communication devices. This group of products can be seen on the left side of the smile curve (shown below), which illustrates added value in manufacturing.

This is our core business in which growth can be expected, and is centered on smartphones, so we remain focused on developing

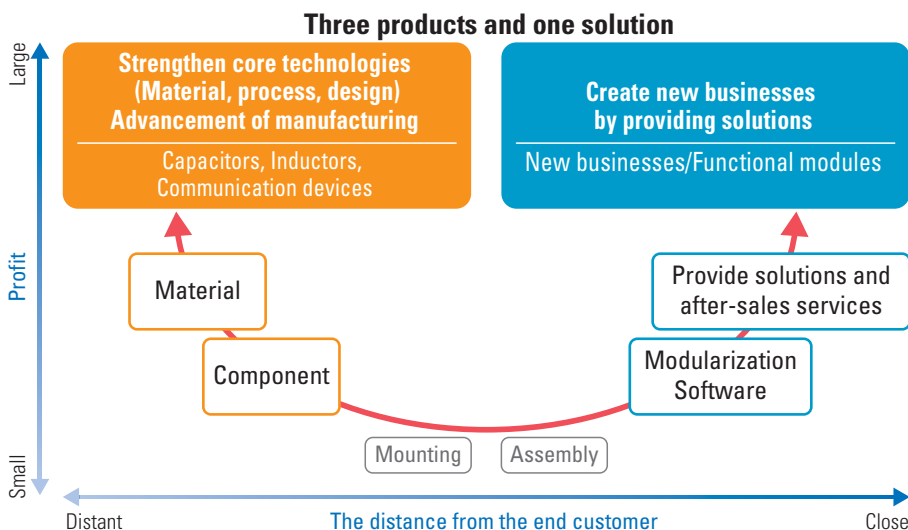
the most cutting-edge products in this area. At the same time, we are targeting “an expansion in focus markets” including automotive and industrial equipment sectors, which constitute a stable earnings base for TAIYO YUDEN.

We are also moving forward with the “smart.E” project to further evolve our manufacturing capabilities so that we can successfully respond to greatly increased demand for electronic components and further reduce costs.

The right-hand side of the smile curve shows that we are focused not only on the supply of modules, but also the “creation of new businesses,” with a clear emphasis on providing solutions (a service as opposed to the three core tangible products mentioned previously).

On the back of these efforts, we are aiming at sales of ¥300 billion, an operating income margin of at least 10%, and ROE of at least 10% as our medium-term target.

Change business model to establish profitable business structure





What is the state of progress on key initiatives?

Sales in focus markets are steadily improving. In the “evolution of manufacturing capabilities,” we are promoting projects that greatly enhance productivity through facility and employee visualization.

As for the first initiative of “an expansion in focus markets,” we are aiming at increasing the sales composition ratio of automotive and industrial equipment sectors, whose demands are expected to be high and stable in future, from 24% at present to 38%. We note that average annual growth over the past five years for automotive-related sales has been 34%, thanks to a stable supply system and an enhanced product lineup. We estimate the automotive electronic component market will expand sharply from about ¥19 trillion in 2015 to about ¥32 trillion in 2025. We expect to increase automotive sales at a pace exceeding that for the market as a whole, and aim to boost our sales ratio for automotive electronic components from 6% at present to 15% over the medium term.

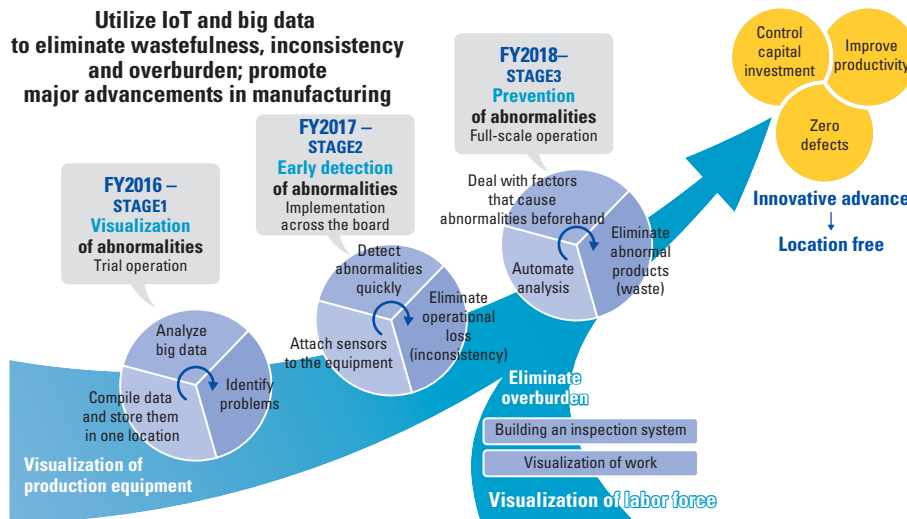
The second initiative is the “evolution of manufacturing capabilities.” In this sector we are working on the smart.E project. This involves “visualizing production facilities” through the introduction of common-use systems 16 years ago and the real-time

computerization of operating conditions at various production facilities. Alongside an expansion in scope, the smart.E project targets visualization of the labor force, and further synchronization between employees and production equipment to innovatively bolster productivity. Our goal is to improve productivity to a new level through the elimination of wastefulness, inconsistency and overburdening.

In the past, systems were optimized on an individual basis at varying production sites, with integration only coming afterward. However, this method of linking the skills of various individuals is not suitable in a business where sales exceed ¥300 billion. It is therefore our goal to greatly evolve TAIYO YUDEN’s manufacturing capabilities before the surge in demand brought on by advancements in electrification truly arrives.

* For detailed information on the smart.E project, please see the special feature article on pages 16-19.

Smart.E project: Advancements in manufacturing





Please let us know about the progress in “creating new businesses” as well as promising projects.

We are seeing progress in a number of projects, including in sensing devices, energy systems, and wireless optical communication system, with some beginning to bear fruit.



We are working to create and provide new services for the core businesses that supply mainstay products such as capacitors, inductors and communication devices, and through these new services we are focusing on providing high-value added solutions to our customers. In sensing devices, our goal is the creation of a business offering total solutions, including after-sale services that include verification of how the information was processed based on what means of communication was used and what was sensed and how.

The results of our efforts are already beginning to materialize. We could establish a business model, expanded sales, and commercialized the energy regeneration system for electric bicycles that we had been targeting as a new business for some time. An example of a project currently under development is the next-generation wireless optical communication system.

As the management of security becomes increasingly sophisticated,

demand for security cameras is expanding. TAIYO YUDEN can provide solutions in a number of related areas, including underwater communication and the building of wireless networks that are safer and can be placed in previously unreachable locations. We are also working on making “odor sensors” that differentiate various gasses smaller and more sensitive in order to accelerate commercialization. In addition, we see a number of promising applications in haptic technology, which allows the feeling of contact through a touch panel.

Our tangible products have allowed us to expand our business with customers in existing fields and refine our technology and know-how. By promoting new businesses, we aim to strengthen our approach to new customers, mainly in different industries, and create a completely new type of business. We will actively consider collaboration and alliances with other companies as we seek to accelerate the creation of new businesses.

Creating new businesses

Providing a solution From sensing to communications and the cloud

Sensing devices (five senses sensor) + Programmable logic device “MRLD™”			Functional surface treatment film	
Actuator (piezoelectric elements)	Piezoelectric pressure wave sensor	Gas smell sensor	Advanced coating treatment technologies	
 Haptic technology	 High-resolution earphone		 Printing mask	 nm needle-like coat
Energy system			Wireless optical communication system	
LITHOSION™ (Lithium-ion capacitor)	All solid-state lithium- ion secondary battery	PV monitoring	Energy regeneration	Transceiver unit

Collaborate with other companies, utilize alliances and accelerate the pace of commercialization and expansion



What kinds of product strategy initiatives are being taken?

We are bolstering our lineup of products to meet the diverse needs of our customers and expanding our sales outlets.

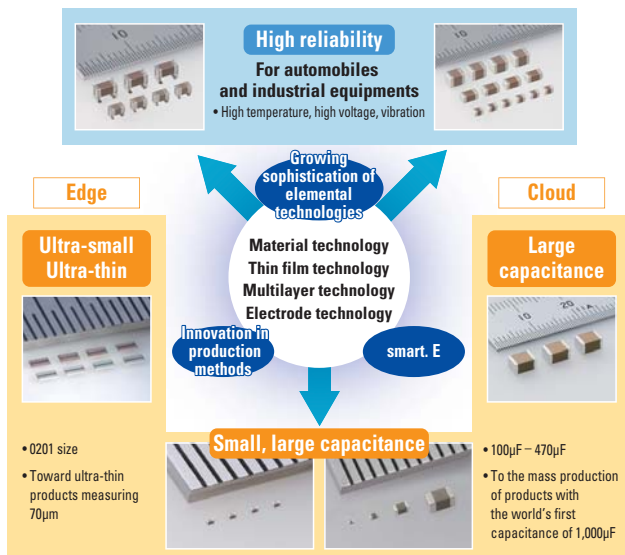
Our product strategies are based on the quality and functional requirements of our customers. We are focusing our efforts in the smartphone market, which demands ultra-small, ultra-thin, and large capacity capacitors, and the automotive and industrial equipment markets, which require high capacity and highly reliable (able to withstand high temperatures, high voltage and strong vibrations) capacitors. TAIYO YUDEN continues to lead the industry in increasing capacity, and we expect to launch mass production of the world's first multilayer ceramic capacitor (MLCC) with capacitance of 1,000 μ F in the fiscal year ending in March 2018. Capacity of 1,000 μ F would allow greater reliability in frequency response from electrolytic capacitors and could further advance the shift to MLCCs.

Inductors are required for greater currents and we are expanding our lineup of highly reliable products in this area while also working to expand our sales channels to the automotive sector. In the fiscal year ended in March 2017, we were able to successfully

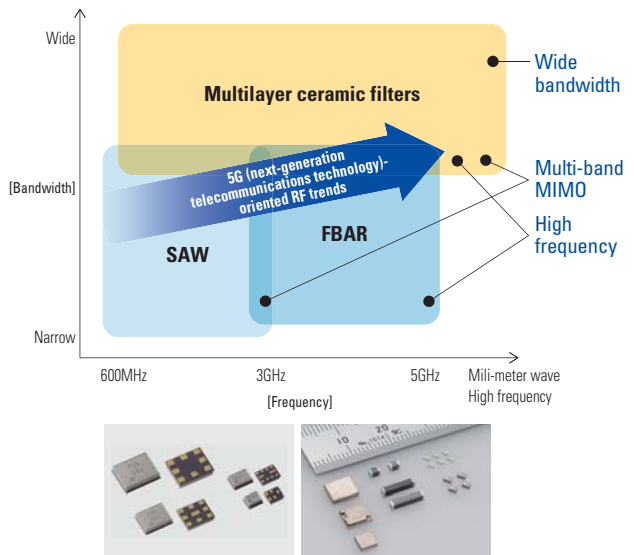
commercialize inductors able to withstand temperatures of 150°C and a vibration resistance of 30G. This product can be used in electronics housed in an engine room with high temperatures and strong vibrations. It also conforms to the AEC-Q200 global reliability standard for electronic components used in automotive applications. We are steadily expanding our lineup of inductors for automotive applications while at the same time targeting an expansion in supply.

Backed by our development and production technologies in SAW, FBAR and multilayer ceramic filters, our strength in communication devices lies in our ability to offer one-stop solutions in a wide range of increasingly sophisticated communications-related functions, including in regards to the increased use of multi-band and higher frequencies. We are preparing for the future launch of 5G (fifth generation mobile communications) services over the next few years by focusing our energies on the development of one-of-a-kind products based on a combination of these three technologies.

Future direction of capacitor business



Future direction of communication device business





Please tell us about the Company's earnings forecasts, investment strategy, and plans for returning profits to shareholders for the fiscal year ending March 31, 2018.

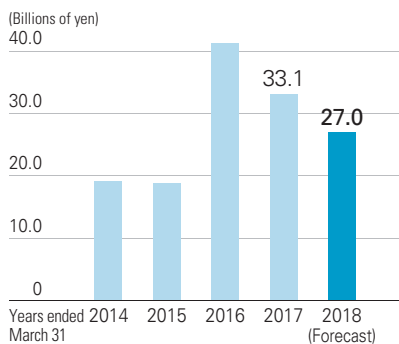
We will continue to invest in growth and target record sales and profit gains. Our medium-term business plan targets a total returns ratio of 30%.

For the fiscal year ending in March 2018, we are forecasting an expansion in cutting-edge products for communication devices such as smartphones, where increased sophistication and functionality continues to advance quickly. And, highly reliable products for the automotive and industrial equipment sectors will grow strongly amid an ongoing shift to electrification. We forecast consolidated sales reaching a record ¥242 billion (up 4.9% from the previous year). Thanks to an expansion in high value added products and a reduction in costs, we expect operating income to reach ¥15 billion (up 21.1%) and net income attributable to owners of parent company to reach ¥9.0 billion (up 65.8%).

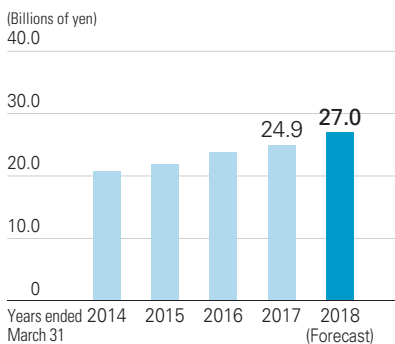
We target capital investment of ¥27 billion. Combined with the two previous years, we are investing about ¥100 billion, and we expect to keep up this pace in the years ahead. We have earmarked ¥11.0 billion for R&D expenses to accelerate development of new technologies and products, up ¥1.0 billion from last year.

With regard to returning profits to shareholders, our medium-term business plan targets a total return ratio, including repurchased shares of 30%, while maintaining a stable and sustainable earnings structure and an improved financial structure, including positive net cash. For the fiscal year ending in March 2018, we target a stable dividend of ¥20 per share, with a dividend payout ratio of 26.2%.

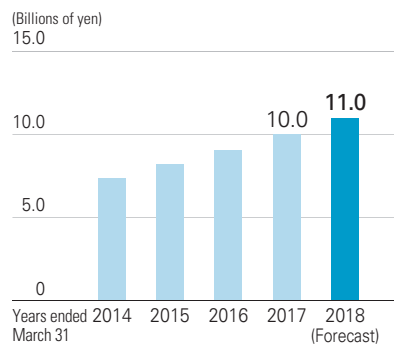
Capital investment



Depreciation and amortization



R&D expenses





Special feature

Production Innovation smart.E Project Aimed at the Arrival of the IoT Era



Utilizing big data to strengthen manufacturing capabilities

With the full-blown arrival of the IoT era, we can expect an explosive growth in demand for the electronic components produced by TAIYO YUDEN. In order to respond to this unprecedented growth in needs, TAIYO YUDEN augments capacity through ongoing capital investments, and at the same time, moves ahead with the production innovation activity called smart.E project to greatly increase production volumes while reducing losses.



Katsuya Sase

Supervisor of smart.E project
Executive Operating Officer
Chief of Electronic Components
Headquarters



Drastically Expanding Demand for Electronic Components in the Era of IoT

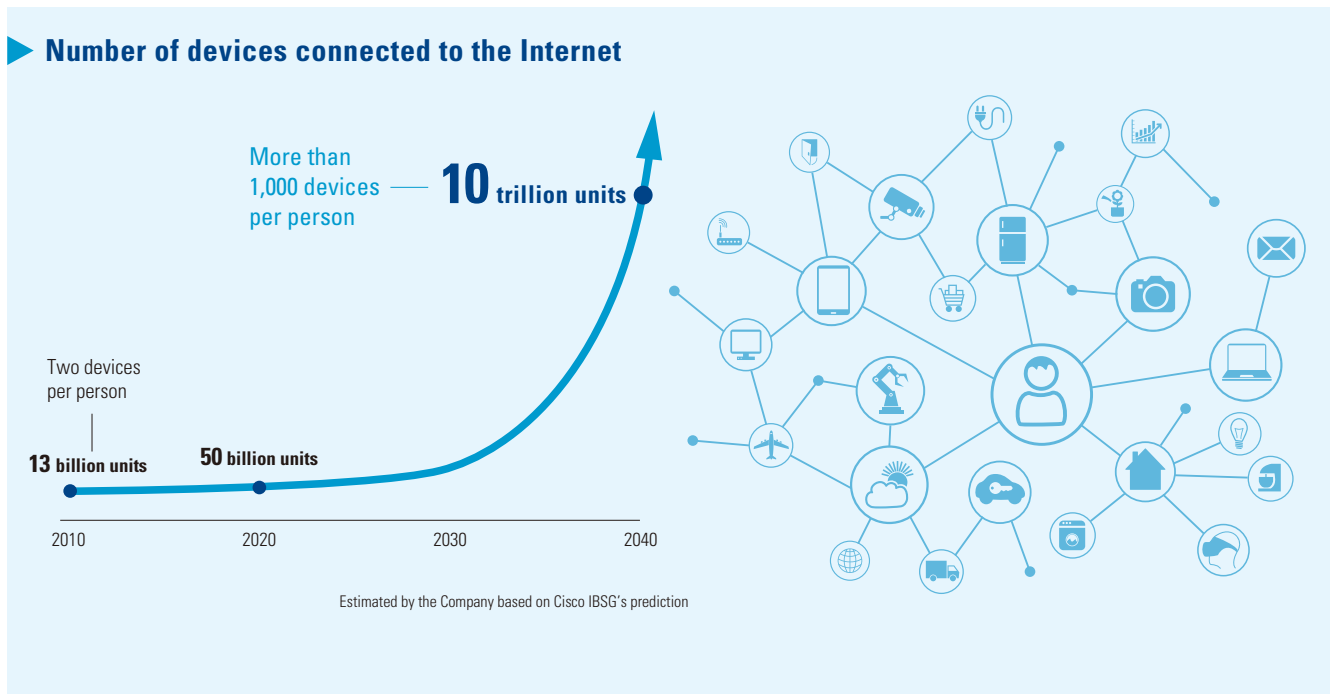
IoT, which connects all things around us with the Internet, is evolving. As telecommunication functions are added to objects that have never been connected to the Internet before, the number and type of electronic components that are used will inevitably increase. It has been said that the number of Internet devices will increase from about 13 billion as of 2010 to 10 trillion in 2040, and accompanying this the demand for electronic components is expected to rise explosively.

These changes in the environment are a business chance for the Company as it supplies electronic components that are used in various devices, and at the same time they can be a risk as the Company could be left behind by the competition if it is not capable of building an efficient production system in line with this increase in volume. For this reason, we are implementing the new production innovation activity, smart.E project.

Efforts Before the smart.E Project

Up until now, the Company has introduced a production management system called the G System to manage the operation status of the production process.

The G System monitors individual production facilities to enable a real-time understanding of matters including the operation or suspension status, the presence of abnormalities, and production volume. Since operations were commenced at some plants in 1996, it has been introduced to nearly the entire multilayer ceramic capacitor production process including at overseas bases to enable the visualization of processes.



Evolution from the G System to smart.E

While the G System attempted to improve operational efficiency per facility unit, the smart.E project works to improve productivity as a whole by newly joining the entire production system. The smart.E project aims to significantly reduce the rate of defects and improve profitability by enhancing productivity.

In order to achieve this goal, we will improve productivity through the two approaches of the visualization of production equipment and the visualization of labor force, and also aim to maximize the results through the fusion of these approaches.

In terms of equipment, we plan to build a framework for the efficient operation of equipment through the three steps of visualization, early detection, and prevention for abnormalities that would cause a decline in the rate of quality products or the suspension of operations. In the fiscal year ended March 31, 2017, the first fiscal year of the project, we focused mainly on the visualization of abnormalities. Specifically, we implemented a cycle of gathering the information for each production system in one location and joining together the information for all processes, identifying inconsistency by analyzing

the data that is collected for each process, and clarifying the problems in order to control variation.

At the same time, we have commenced the visualization of labor force. Through this effort, we consider what kind of cases lead to the occurrence of defects or deterioration in work efficiency, and what can be done to improve efficiency, focusing on inconsistency among people who operate facilities. Then we conduct an analysis of the causes of the above problems and begin to reflect results in work improvements and a reduction in the work load. While inconsistency in equipment is due to factors that are relatively predictable, such as the life, wear or deformations in the parts being used, variation in people cannot be completely eliminated due to factors such as the skills and experience of individuals, as well as uncertain factors such as physical condition and the surrounding atmosphere. In order to minimize areas that are affected by variation among people, we will introduce frameworks to reduce the actual load on people and work to improve productivity.

► Evolution of production innovation project

G System

- > G System stands for the Global Equipment Network Engineering System ("GENESYS"), which helps grasp the operational status of production equipment.
- > The G System is based on the production management system developed and introduced in 1996. It began to be adopted for the multilayer ceramic capacitor (MLCC) production processes in 1997, and has been introduced to most of the processes across the Group, including bases outside Japan.
- > The G System allows employees to check for the operation/suspension of individual processes and production equipment, abnormalities, and also production quantities on their PCs through the intranet.

Evolution

smart.E

- >> The smart.E system was "evolved" from the G System. It is a system that links information about production processes and equipment with information about design, materials and quality to allow users to take a bird's view of the data as a whole.
- >> The introduction of this system was started on a full scale in fiscal 2016 targeting all the processes for MLCCs and inductors.
- >> The goal is to visualize the production history and the outputs, including the product (lot) manufacturing conditions, features, and quality inspection results.

Future Efforts

—Development of Scientists to Analyze Data—

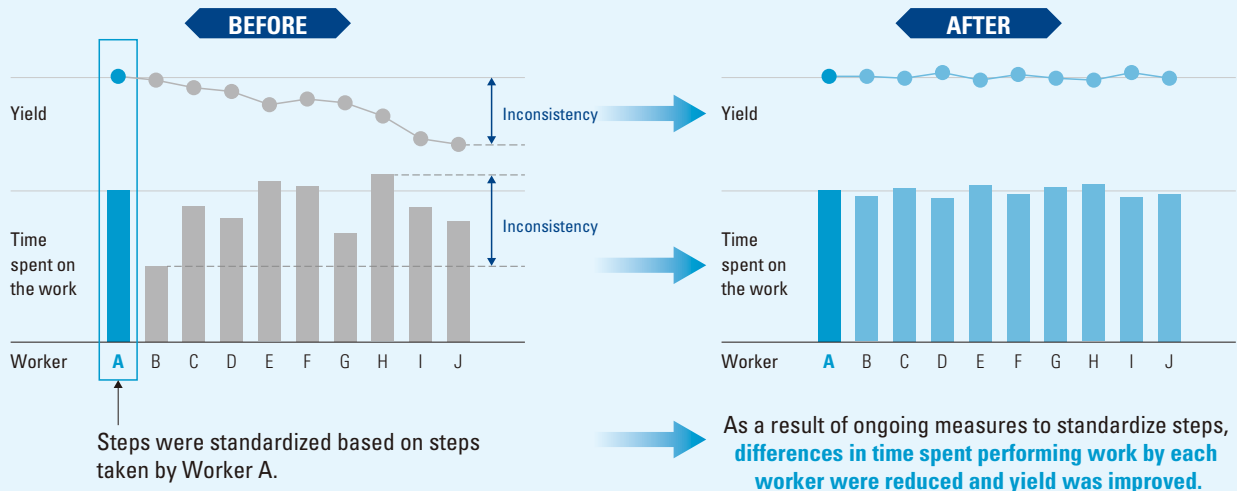
During the fiscal year ending March 31, 2018, the second year of the project, we have begun to conduct analysis that leads to improvements in production efficiency while analyzing data. Particularly, in efforts regarding equipment, we are building a framework for the early detection of abnormalities and provision of feedback to the production process by defining what is abnormal and normal in production processes and products. What is needed in situations like these are human resources who are capable of analyzing the large volume of big data collected to clarify issues and make meaningful proposals, and furthermore, who can conduct all this work quickly. As human resource development is a critical theme that will have a decisive effect on the achievements of the smart.E project, we promote the learning of statistical knowledge and improvements in analysis technology skills in order to develop data scientists. We will establish data analysis methodologies and accumulate best practices for full-scale deployment to production bases in Japan and overseas.

Achievements Generated by smart.E

The explosive increase in demand for electronic components with the arrival of the IoT era will be a business opportunity for the Company. On the other hand, achieving a balance between expanding production volumes and stable quality is becoming an important management issue as the level of quality demanded is becoming more and more advanced in high reliability markets such as automobiles, which the TAIYO YUDEN Group aims to fully enter. However, there will be no limit to the increase in costs if we blindly increase or enhance personnel and equipment in response to the rising demand for electronic components.

As an electronic components manufacturer that will support the rapidly evolving IoT society, we recognize the role that we should play as an extremely important one, and accordingly we will eliminate muda (wastefulness), mura (inconsistency), and muri (excessive burden) in production processes through the smart.E project along with capacity expansion to reduce losses, for the purpose of building a production system capable of supporting an unprecedented increase in production volumes.

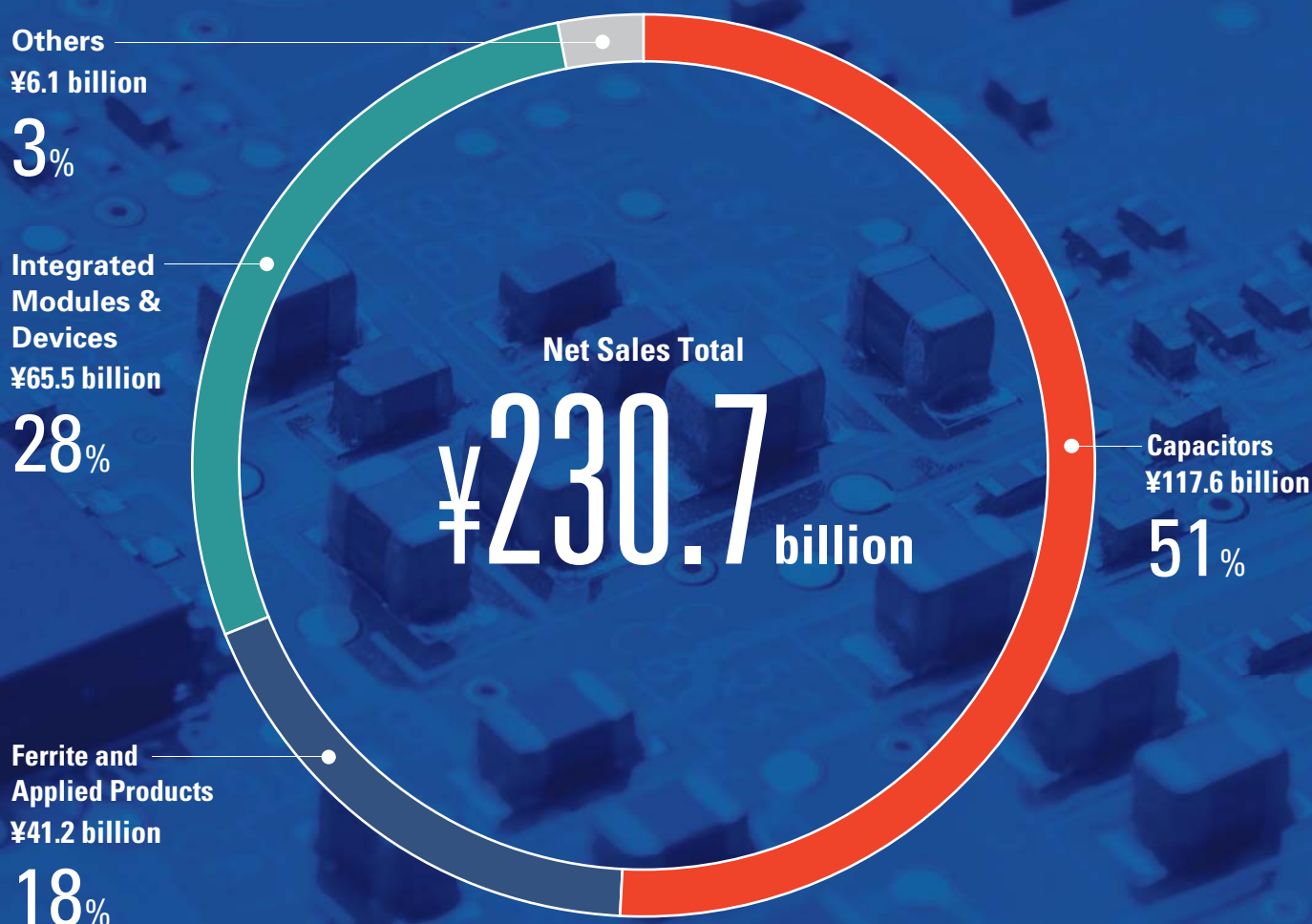
► Visualization of inconsistencies attributed to people



At a Glance

Net sales breakdown by product classifications

Year ended March 31, 2017



The TAIYO YUDEN Group is manufacturing and selling electronic components including capacitors, ferrite and its applied products, and integrated modules & devices. Communication equipment such as smartphones needs compact, thin and front line electronic components with excellent features to be compatible with the equipment becoming thinner with high performance ability, enhanced functionality, evolved communication system, and high-density implementation of electronic components. With the growing use of electronic components in automotive, industrial equipment, healthcare, and environment/energy markets, demand for electronic parts is rising, resulting in high quality and high reliability being called for more than ever before.

In these kinds of markets, the TAIYO YUDEN Group will quickly develop highly competitive, cutting-edge products that can

contribute to a technological evolution in equipment.

Having positioned automotive electronics and industrial equipment, healthcare, and environment and energy as focus markets, the Group is working on promoting sales of high-reliability products, on strengthening proposals on systems solutions, and on expanding and diversifying its distribution channels.

In response to robust demand, the Group will also bolster production capacity at home and abroad to realize the stability of supply, leading to sales expansion. In addition, while working to improve its manufacturing capabilities and to achieve high production efficiency, the Group will set up a structure that is resilient to pressure to cut costs and to fluctuations in foreign exchange rates by putting its overseas production bases to full use.

Review of Operations/ Capacitors

We are focusing on the development of multilayer ceramic capacitors that are small and thin with high capacitance and high reliability. We are also continuing the development of cutting-edge multilayer ceramic capacitors by advancing our dielectric materials technologies, thin-film and high-capacitance technologies, and ultra-small capacitor production technologies.

In the fiscal year ended March 31, 2017, although sales for automotive and industrial equipment increased compared with the previous fiscal year, sales for consumer products as well as for information and communication equipment decreased. As a result, net sales decreased 4.9% year on year to ¥117,666 million.

Main Products

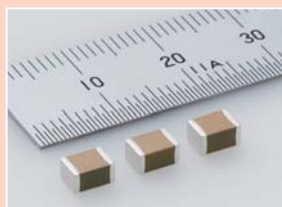
Multilayer ceramic capacitors



0201 size (0.25 mm × 0.125 mm) ultra-small multilayer ceramic capacitors



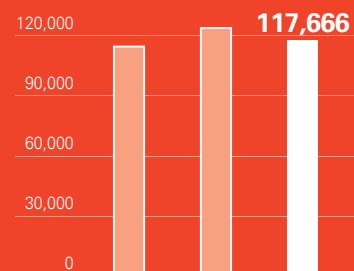
1005 size (1.0 mm × 0.5 mm) low-profile multilayer ceramic capacitors with 0.11 mm thickness



4532 size (4.5 mm × 3.2 mm) small high-capacitance multilayer ceramic capacitors with 470 μF capacitance

Net sales

(Millions of yen)
150,000



Years ended March 31

Net sales 114,363 123,675 117,666

Review of Operations/ Ferrite and Applied Products

In addition to small, thin inductors with higher current, we are working on the development of large, high-reliability inductors and targeting automotive and industrial equipment applications. We are also developing competitive products by bringing about even greater sophistication in our materials development as well as our wire-winding and multilayer process technologies.

In the fiscal year ended March 31, 2017, despite increased year-on-year sales for automotive and industrial equipment, sales for consumer products as well as for information and communication equipment decreased. As a result, net sales decreased 11.2% year on year to ¥41,273 million.

Main Products

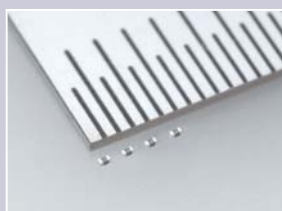
MCOIL™ metal power inductors, wire-wound inductors, multilayer chip inductors, and many other types of inductors



MCOIL™ metal power inductors



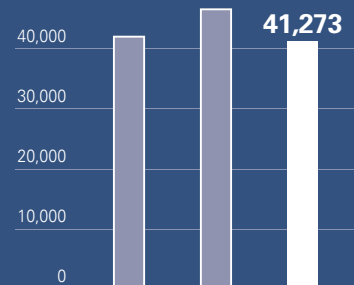
High-Q multilayer chip inductors for high frequency applications



Ultra-small multilayer chip inductors

Net sales

(Millions of yen)
50,000



Years ended March 31

Net sales 41,948 46,463 41,273

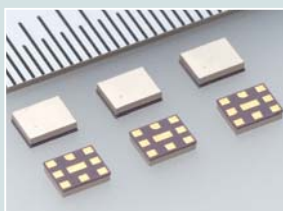
Review of Operations/ Integrated Modules & Devices

We are focusing on the technologies for film bulk acoustic resonator/surface acoustic wave (FBAR/SAW) filter devices for mobile communications and the development of products with cores drawing on our multilayer ceramic filter technologies, as well as on the development of next-generation, solutions-based products intended for the focus markets that combine the Company's core technologies.

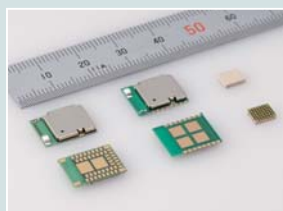
In the fiscal year ended March 31, 2017, sales of FBAR/SAW devices for mobile communications and EOMIN™ embedded-parts multilayer wiring substrates increased compared with the previous fiscal year. As a result, net sales rose 13.7% year on year to ¥65,580 million.

Main Products

FBAR/SAW devices for mobile communications, power supply modules, high frequency modules and embedded-parts multilayer wiring substrate EOMIN™



FBAR/SAW devices for mobile communications



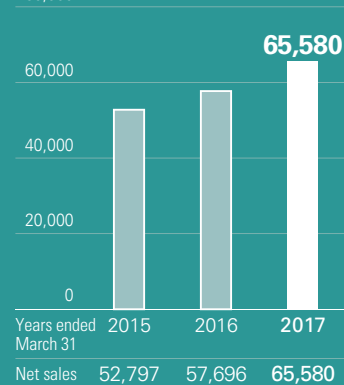
High frequency modules



Multilayer ceramic filters

Net sales

(Millions of yen)



Review of Operations/ Others

We are focusing on developing energy devices with an eye to entering the automotive electronics and high-reliability product markets.

In the fiscal year ended March 31, 2017, net sales fell 50.6% year on year to ¥6,196 million due to the significant decrease in performance brought about by our withdrawal from the optical media products business.

Main Products

Energy devices



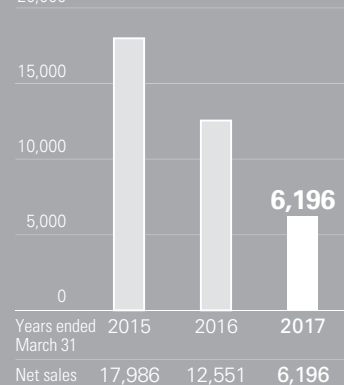
Cylinder type lithium ion capacitors



Cylinder type polyacene capacitors

Net sales

(Millions of yen)



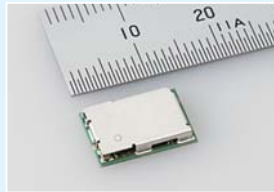
Topics

2016

April 5

Commercialization of Wireless Module Compatible with High-Speed Wireless Communication Standard

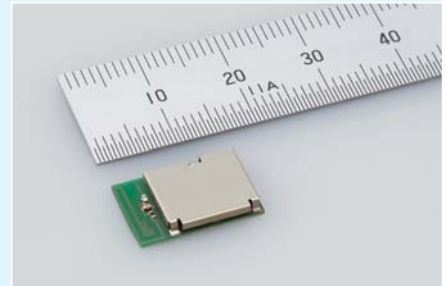
We successfully commercialized a wireless module that conforms to the IEEE802.11ac Wi-Fi standard and can utilize the 2.4 GHz and 5 GHz bandwidths. Realizing ease of connection and high-speed wireless communication in locations where heavy use is made of wireless, such as inside factories, in addition to machine-to-machine (M2M) robot controls and handy terminals, this is the optimal product for surveillance cameras.



September 28

Dual-Mode Modules Compatible Even with Low Power Consumption Bluetooth® Realized

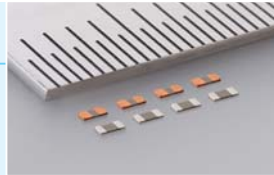
We commercialized dual-mode modules that are compatible with both Bluetooth® and Bluetooth® Low Energy communication standards and are approximately one-third of the mounting area compared with conventional models. These products are ideal for various small, thin devices intended for wearable devices and healthcare equipment, including IoT-related devices that require short-range communications.



September 27

Industry-Leading Capacitance Realized with Low-Profile Ceramic Capacitor

Intended for smartphones and wearable devices, we achieved a capacitance of 0.47 μ F at a height of 0.11 mm—the world's thinnest profile for a multilayer ceramic capacitor—by increasing the sophistication of our capacitance enhancement technologies and making the external electrodes thinner.

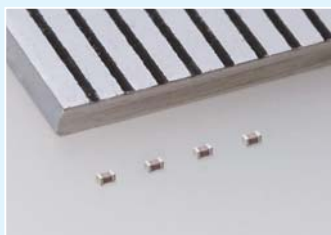


2017

February 27

World's Smallest High-Frequency Multilayer Ceramic Capacitor Realized

We succeeded in commercializing the world's smallest 0201 size (0.25 x 0.125 x 0.125 mm) high-frequency multilayer ceramic capacitor. Despite being roughly 75% smaller than our existing 0402 size capacitors, our 100-item lineup is compatible with the high-frequency circuits of devices that utilize the diverse range of telecom standards and frequency ranges that have been adopted around the world.



March 27

Automotive SMD Power Inductor with Operating Temperature of up to 150°C Commercialized

We commercialized an SMD power inductor, which is capable of withstanding operating temperatures of up to 150°C and features a vibration resistance of 30G, for the power supply circuits used in powertrains, such as automobile engines and transmissions. Furthermore, to strengthen quality control a unique Data Matrix Barcode is printed on each unit, which allows traceability throughout all processes, including production and distribution.



TAIYO YUDEN Group's Research and Development Activities

The Foundation of Our Research and Development Activities

Hikohachi Sato, the founder of TAIYO YUDEN, was a researcher in ceramic materials. Since its establishment, TAIYO YUDEN has believed that product commercialization should start from the development of materials. This has been one of the strengths of TAIYO YUDEN, and has resulted in us creating many products that have been “world firsts.”

The TAIYO YUDEN Group's research and development activities are aimed at further honing the many elemental technologies it has so far developed to create products that are highly rated by its customers. In particular, the Group is focusing on the development of super high-end products and high reliability products, as well as on creating new businesses by proposing solutions.

Research and Development Principles

“Innovative advance”

Technology precedence

Promote leading edge technological development as the precursory to innovative product development and become a global leader in technology

Reproducibility

Logically verify the reproducibility of the technology we develop

Technological applicability

Develop technologies that are feasible and applicable economically to our manufacturing process and that meet critical environmental standards

Environmental consideration

Devise technologies which can be applied not only to specific products but also to other areas useful to the markets we serve

Achievement of Our Vision through Development of Smart Products

The TAIYO YUDEN Group aims to manufacture “smart products” and is actively working to develop and supply steadily such products.

We develop smart products to eliminate the three M's—muda (wastefulness), mura (inconsistency) and muri (overburden)—over their entire life cycle from design through production, sales, and incorporation into the final product right up to final disposal, to add value for customers and local communities we serve as well as our employees.

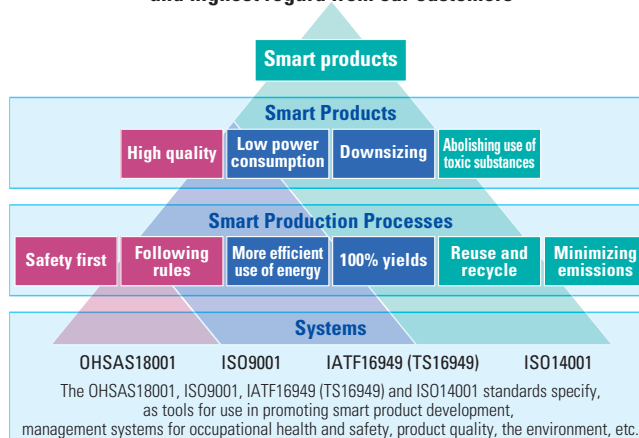
Combining our “smart processes,” which utilized as development and promotional tools management systems for occupational health and safety, quality and the environment and other aspects, with our initiatives towards “smart products” that take usage and

final disposal into consideration to reduce environmental impact, we strive to develop smart products.

We believe that our research and development activities aimed at creating a higher standard of smart products will enable us to realize our vision of “becoming an excellent company that enjoys the trust and highest regard from our customers.”

— TAIYO YUDEN Vision —

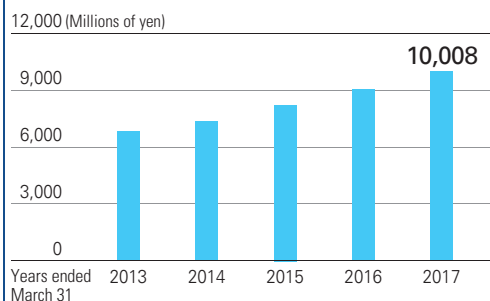
To be an excellent company that enjoys the trust and highest regard from our customers



R&D Expenses

We recognize that continuing innovations and advancement in our technologies through R&D is the foundation for the Group to create the future. With this belief, we will continue to invest in R&D activities and future development of our products.

R&D expenses



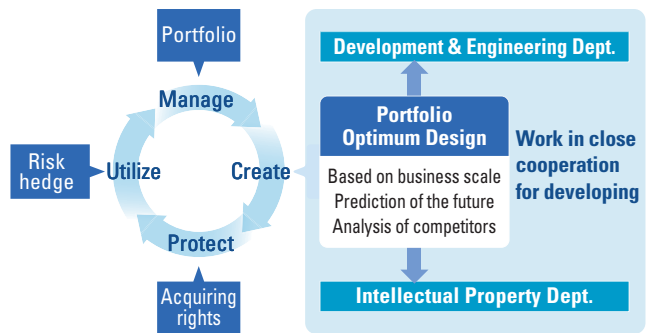
R&D Center, TAIYO YUDEN's Research Facility (Takasaki City, Gunma Prefecture)

As we were committed to continuing to create the world's best products and uphold our claim to be "the TAIYO YUDEN of technology and the TAIYO YUDEN of development," we opened the R&D Center in 1998. In 2003, we established an Anechoic Chamber Test Facility in the same complex, and accelerated our proactive R&D activities in the field of radio communication. Currently, the R&D Center of the TAIYO YUDEN Group drives development and technological progress and takes a role of a foundation of creativity focusing on the future.



Protection of Intellectual Property Rights

At TAIYO YUDEN, the Intellectual Property Department and the Development and Engineering Department work in close cooperation with each other from the early stages of developing new technologies and obtaining intellectual property rights. We have our own management system to create, protect and utilize the intellectual property rights that are suitable for each of our businesses.



Activities on Intellectual Property Rights

Basic Policy

We, the TAIYO YUDEN Group, endeavor to obtain, maintain and protect intellectual property rights for proper use, and also to respect the intellectual property rights of third parties, in accordance with our CSR Code of Conduct.

R&D Interview

We Will Undertake New Value Creation through Solution Proposals

TAIYO YUDEN is in the process of transforming its business model to establish a more profitable earnings structure. We are working on two major themes, one being high value added by pursuing the development of materials to their utmost limits, the other being new value creation by proposing solutions that combine the Company's core technologies. The New Business Promotion Department is responsible for the latter.

Leveraging the Company's strengths, we are working on creating new business value that proposes solutions in three packages—sensors, wireless networks, and software—one example being a monitoring system for solar power generation, which senses information from the solar panels and conducts fault diagnoses. At present, the focus is on the detection of faults, but gathering information and accumulating the empirical values from the analyses will lead us on to fault prediction and avoidance. With regard to sensors and analytical technologies, in addition to our own resources, we are considering flexible reinforcement measures, including tie-ups with other companies, and are aiming to propose optimal solutions for our customers.

Up to now, our new business promotion activities have been steadily bearing fruit, activities that include the commercialization of an electric power assistance system for bicycles that utilizes our distinctive energy regeneration system. Looking ahead, I would like to promote the IoT-centered commercialization of the system in high-need areas, such as mobility, security, and healthcare, and establish them as a business.



Gosuke Oshima
Deputy Division Manager
New Business Planning
and Development Division

Corporate Governance

Basic Policy for Corporate Governance

The corporate philosophy of the TAIYO YUDEN Group involves the implementation of the three principles of “employee well-being,” “betterment of local communities” and “responsibility to provide returns to shareholders.” The Board of Directors and operating officers believe that the Company’s social responsibility and the mission of management is to support continued development of its business while serving society and public interests and ensuring the public nature of our business with a global perspective.

Our management vision is “to be an excellent company that enjoys the trust and highest regard from our customers.” To realize this management philosophy and vision, we will perform the following: engage in measures to improve profitability based on the dual facets of growth strategy and structural reform; emphasize management transparency, fairness as well as information disclosure; and build systems and mechanisms to ensure agile decision-making and operational execution to enhance competitiveness.

Structure of Corporate Governance

Overview of Corporate Governance Structure, Reasons for Adoption

Having adopted an Audit & Supervisory Board system, the Company has a Board of Directors, an Audit & Supervisory Board, and an accounting auditor. Furthermore, all our Outside Directors and Outside Audit & Supervisory Board Members are appointed as independent officers as they meet our standards for independence and are deemed unlikely to have any conflicts of interest with general shareholders. Through a governance system that promotes close collaboration with the Audit & Supervisory Board and internal audit department, the Company works to enable Audit & Supervisory Board Members to perform their roles effectively and strengthen their supervisory function vis-à-vis management.

Roles and Responsibilities of the Board of Directors

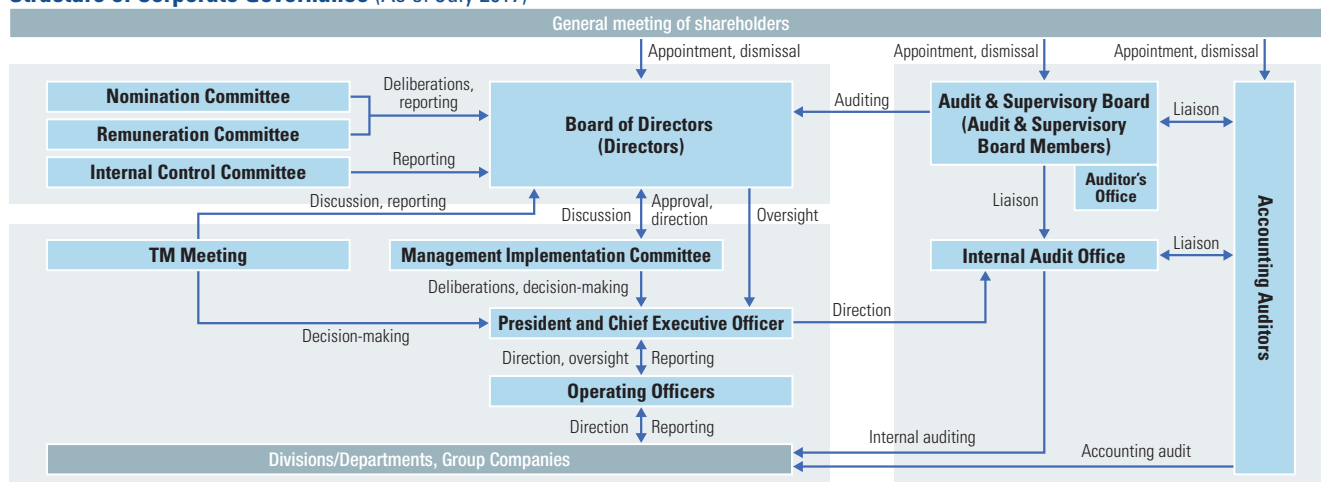
1. The Board of Directors shall aim for corporate management to be an excellent company that enjoys the trust and highest regard from stakeholders, including shareholders, customers, employees and local communities, to accomplish the fiduciary responsibility entrusted by shareholders and increase the Company’s interests and the common interests among shareholders.

2. The Board of Directors shall deliberate and determine important matters for the entire Group with ample time, including management policies, management strategies, business plans, capital policy and the matters on internal control, for the purpose of continuously increasing corporate value from a long-term perspective.
3. The Board of Directors shall strengthen the management system for risk factors surrounding corporate management of the Company and always monitor the execution of business operations.

Delegation of Matters by the Board of Directors to Management

1. To ensure the effective decision-making by the Board of Directors, the Management Implementation Committee shall deliberate in advance policy matters regarding execution of business duties for Group management, whereas the TM (Top Management) Meeting shall deliberate in advance matters concerning personnel, organization and remuneration systems for the entire Group. Both organs shall determine matters delegated by the Board of Directors.
2. Operating Officers are in place in order to further clarify roles and responsibilities of Directors who monitor and supervise the

Structure of Corporate Governance (As of July 2017)



Note: The TM Meeting is an advisory panel for deliberations and decisions on matters concerning personnel and organizations.

Transition of Corporate Governance Structure for Recent Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Enhancement of Supervision Functions	Introduction of Operating Officers System since April 2001										
	One Outside Director since July 2006	Two Outside Directors									
		Board of Directors Term of Office Changed to 1 Year									
		Establishment of Nomination Committee (Voluntary)									
		Establishment of Remuneration Committee (Voluntary)									
		Establishment of Independence Standard for Outside Officers									Implementation of Evaluation of Board of Directors' Effectiveness
Policy										Establishment of Corporate Governance Basic Policy	
Compensation System	Stock Compensation Plan since June 2005										

management of business and persons who execute business operations. The Operating Officers shall conduct business flexibly and quickly as an executor responsible for the section he or she is in charge, under the direction of the Chief Executive Officer, in accordance with management policies and strategies determined at meetings of the Board of Directors.

Effectiveness of the Board of Directors

1. To ensure the fairness of meetings and strengthen the authority of management oversight, the Board of Directors shall be chaired by an Outside Director.
2. At the Board of Directors meeting, the Directors and the Audit & Supervisory Board Members shall evaluate by themselves the effectiveness of the Board of Directors every year. The Board of Directors shall disclose issues to be addressed and others based on analysis results and address how to resolve such issues.

Directors

1. The Company has seven Directors, at present. Two of them are appointed as independent Outside Directors.
2. To clarify management responsibilities during a given fiscal year and increase shareholders' confidence, Directors' term of office is one year.
3. The reason for the selection of Directors is disclosed by taking into account their knowledge, experience, history of achievement and other factors.

4. Except for Outside Directors, the Directors concurrently serve as operating officers who are in charge of both oversight and the execution of business operations. Directors shall report to the Board of Directors with an emphasis on the business performance and oversight operations of the divisions/departments for which they are in charge of to the Board of Directors.

Audit & Supervisory Board, Audit & Supervisory Board Members

1. The Company has adopted an Audit & Supervisory Board Members system. The Audit & Supervisory Board meeting is held monthly, in principle.
2. The Company has four Audit & Supervisory Board Members including Outside Audit & Supervisory Board Members. Two of them are appointed as independent Outside Audit & Supervisory Board Members.
3. To raise the effectiveness of audits, each Audit & Supervisory Board Member attends Board of Directors meetings and attends meetings related to the execution of business operations and other important meetings by sharing the tasks with each other. Moreover, Audit & Supervisory Board Members strive to strengthen the auditing system through frequent communications with the accounting auditor and the internal audit department by meeting regularly, witnessing accounting audits as observers and conducting joint audits with the internal audit department.
4. The Audit & Supervisory Board has its own dedicated staff to smoothly conduct auditing operations, such as information communications and data management.

Voluntary Advisory Panels

1. For the purpose of conducting “highly transparent and fair management,” the Company has established a Nomination Committee and a Remuneration Committee.
2. Both Committees are composed of the President and Chief Executive Officer, Outside Directors and one Audit & Supervisory Board Member. They are chaired by independent Outside Directors to ensure objectivity of each deliberated matter.

3. The Nomination Committee deliberates matters such as the designation of candidates for corporate officers to be elected/ dismissed and disciplinary actions. The Remuneration Committee deliberates systems of remuneration to corporate officers, as well as details of remuneration to each corporate officer. The matters deliberated at the respective committees are discussed at the Board of Directors for determination.

	Total members (persons)	Internal Directors (persons)	Outside Directors (persons)	Audit & Supervisory Board Members (persons)	Chairperson (Head of committee)
Board of Directors	11	5	2	4	Independent Outside Director
Nomination Committee	4	1	2	1	Independent Outside Director
Remuneration Committee	4	1	2	1	Independent Outside Director

Policy on Election of Outside Directors and Outside Audit & Supervisory Board Members and Their Roles

1. In electing Outside Directors, to ensure transparency in the authority of management oversight, the Company has established rigorous “Standards for the Independence of Outside Directors/Outside Audit & Supervisory Board Members” as requirements for their appointment referencing, and making it more rigorous than, other standards for independence established by financial instrument exchanges and organizations advising the exercise of voting rights, including the “Securities Listing Regulations” set forth by the Tokyo Stock Exchange.
2. The two Outside Directors meet the Company’s independency requirements. They make efforts to strengthen the supervisory capability of the Company and strive to strengthen objective management. Specifically, they fulfill a role that is important to the

decision-making process and provide opinions from the perspective of either technical experts or shareholders independent of executive management, based on a broad view that leverages knowledge of corporate legal affairs and the experience of corporate managers.

3. The two Outside Audit & Supervisory Board Members meet the Company’s independency requirements. They cooperate with each other to monitor the status of internal control of operations on a daily basis. Specifically, they are responsible for investigating and verifying whether the Directors’ duties are legally conducted in compliance with the relevant laws. In addition to possessing technical and practical knowledge of their own in the fields of law and accounting, they objectively monitor the execution of duties by Directors.

Reasons for Appointment of Independent Outside Directors

Hisaji Agata, Independent Outside Director

Mr. Hisaji Agata is an expert in corporate incubation aiming to formulate a highly transparent and sound business structure, and has a long history of achievement and proven insight as a business manager.

Mr. Agata serves as Chairman of the Company’s Board of Directors, Nomination Committee and Remuneration Committee, providing advice and proceeding with the meetings from a constructive, independent and fair standpoint. In this way, he fulfills his role to help improve the effectiveness of the Company’s Board of Directors and strengthen the corporate governance functions. For these reasons, it was judged that Mr. Agata would be able to execute his duties as an Independent Outside Director who supervises business execution. Therefore, the Board of Directors has selected him as Independent Outside Director.

Masashi Hiraiwa, Independent Outside Director

Mr. Masashi Hiraiwa has served as an officer or in a similar position at investment corporations, and possesses abundant experience and high-level expertise as an attorney specializing in corporate legal affairs. He has demonstrated a high sense of ethics by offering constructive opinions and organizing points of discussion or debate from an objective perspective, and fulfilling the monitoring function over the Company’s overall management such as governance and legal compliance including internal control, at meetings of the Company’s Board of Directors. For these reasons, it was judged that he would be able to fulfill his duties as Independent Outside Director who supervises business execution. Therefore, he was appointed as an Outside Director.

Reasons for Appointment Outside Audit & Supervisory Board Members

Hajime Yoshitake, Independent Outside Audit & Supervisory Board Member

Having amassed many years' experience of auditing operations at financial institutions and internal control consulting operations at business corporations, Mr. Hajime Yoshitake possesses exceptional insight, abundant experience and a good track record regarding auditing operations. It is expected that he can help establish a highly transparent and fair management oversight system, supervise the appropriateness of deliberation and decision-making on important matters, and offer insight from his objective "auditor's perspective" based on his knowledge and experience. For these reasons, the Board of Directors appointed him as an independent Outside Audit & Supervisory Board Member. Mr. Yoshitake has significant knowledge of finance and accounting nurtured through his experience with related operations.

Kazuhiro Yamakawa, Independent Outside Audit & Supervisory Board Member

Well versed in general legal affairs, including corporate legal practices based on his abundant experience as a public prosecutor, attorney and university professor, Mr. Kazuhiro Yamakawa has ample insight into auditing management. After becoming an independent Outside Audit & Supervisory Board Member, he has examined whether there are any blind spots unique to the Company in its internal controls and risk management system and has audited business judgments made by the Board of Directors and the discharge of responsibilities by Directors. For these reasons, he was appointed as an independent Outside Audit & Supervisory Board Member.

Policies for Determining Remuneration Paid to Corporate Officers and its Details Thereof

The following are policies we have established to determine the remuneration paid to corporate officers.

1. Remuneration shall be transparent and fair based on quantitative rules.
2. The appropriateness of remuneration levels shall be assessed following the full investigation of other companies in the industry as well as the economic and social situation.
3. The remuneration of Directors, excluding Outside Directors and Audit & Supervisory Board Members, employs the remuneration system based on performance-linked incentives, aiming at performance improvement.

Based on such policies, the company has established the Remuneration Committee as an advisory organ to the Board of Directors to ensure

transparency and fairness in the process of setting remuneration paid to corporate officers. The Remuneration Committee, chaired by an independent Outside Director, deliberates on policies, systems, the formulas, and individual remuneration for the remuneration of corporate officers, and prepares and submits reports thereon. Regarding specific remuneration, an amount is calculated in accordance with the regulations laid down by the Company, within a remuneration framework approved at the general meeting of shareholders.

Following deliberations by the Remuneration Committee, the Board of Directors determines the remuneration of Directors, while Audit & Supervisory Board determines the remuneration of its members.

Total Remuneration Paid to Directors and Audit & Supervisory Board Members for the Fiscal Year Ended March, 2017

	Total remuneration paid and number of persons		Total remuneration paid by type of compensation					
			Monthly remuneration		Director bonus		Stock options	
	Number of persons	Total (Millions of yen)	Number of persons	Total (Millions of yen)	Number of persons	Total (Millions of yen)	Number of persons	Total (Millions of yen)
Directors	9	213	9	160	6	28	5	25
Audit & Supervisory Board Members	6	76	6	76	–	–	–	–
Total	15	289	15	236	6	28	5	25
Of which, Outside Directors and Outside Audit & Supervisory Board Members	(6)	(46)	(6)	(46)	(–)	(–)	(–)	(–)

Notes: 1. The "Number of persons" refers to the number of persons subject to remuneration for the fiscal year ended March 2017, not the number of persons in office.

2. The upper limit of remunerations paid to Directors was resolved to be ¥450 million or less per year at the 66th Ordinary General Meeting of Shareholders held on June 28, 2007.

The upper limit of remunerations paid to Audit & Supervisory Board Members was resolved to be ¥8 million or less per month at the 75th Ordinary General Meeting of Shareholders held on June 29, 2016.

CSR Activities

Basic Stance Regarding CSR Activities

TAIYO YUDEN's management philosophy is to put into action its three principles: supporting "employee well-being" and "betterment of local communities," and taking "responsibility to provide returns to shareholders." The Company believes that the mission of management and social responsibility of the Company is to support continued development of its business while serving society and public interests and ensuring public nature of our business with a global perspective.

Our vision is to "become an excellent company that enjoys the trust and highest regard from our customers." To this end, we will create smart products that meet market needs so that our products are used in every market of a broad range of fields and aim to expand our business while also raising economic value of the Company. Furthermore, we will fulfill our social responsibility by meeting and even surpassing growing and more sophisticated requirements as well as expectations of stakeholders, and strive to increase social value of the Company.

To accomplish these aims, we will develop, manufacture and sell smart products that are safe and high quality and take responsibility for initiatives we conduct in areas of labor, human rights, safety and health, the environment as well as ethics as we continue our CSR activities.

CSR Charter

To present the management philosophy of the TAIYO YUDEN Group more clearly to stakeholders, in 2005 the CSR Charter (TAIYO YUDEN Group's Charter on Social Responsibility) was established. To win the trust and goodwill of society, the TAIYO YUDEN Group will respect human rights, keep abreast of and comply with laws and international rules and regulations, and take a socially conscious course of action based on high ethical standards.

CSR Activities Promotion Framework

In the Group's CSR activities, overall management is provided by the Internal Control Committee. The promotion organization is comprised of officers in charge and HQ divisions appointed for each provision of the Code of Conduct and each applicable risk, and management is car-



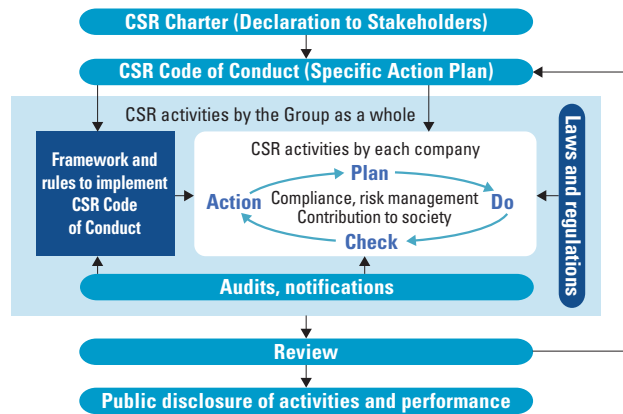
ried out according to a system (the Compliance and Risk Management System) implemented by each group company in accordance with the activity policy and rules in common established by the promotion organization.

CSR Management System

The TAIYO YUDEN Group has built a CSR management system to achieve the goals set forth in our CSR Charter and assure compliance with the CSR Code of Conduct.

In carrying out CSR activities, we follow the provisions of our Code of Conduct and comply with laws and regulations as a matter of course. We also have a framework and rules in place for promoting proper conduct and all of our group sites employ a management system based on the plan-do-check-act (PDCA) cycle.

These activities are checked through internal audits and a notification system. An annual review of CSR performance is conducted and activities are continually being improved.



Compliance and Risk Management

At TAIYO YUDEN compliance and risk management is a key activity of our CSR management system.

The laws and regulations that require compliance are listed by organization along with the risks that might adversely affect business, and regulatory compliance procedures and risk mitigation measures are drafted and implemented as part of the system.

New laws/regulations and risks are regularly added to the list and the compliance procedures and mitigation measures pertaining to existing laws/regulations and risks are reassessed for aptness each fiscal term. We are making thorough efforts to achieve regulatory compliance and prevent and minimize risks.

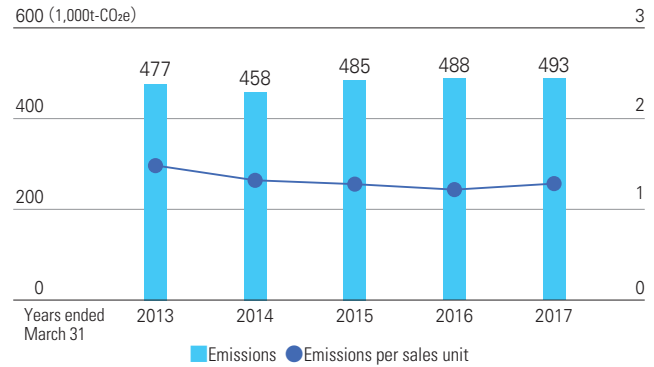
<http://www.yuden.co.jp/ut/company/csr/management/>

Environmental Activities

Basic Stance—Fundamental Principle of Environment

The TAIYO YUDEN Group works to reduce its environmental burden in every business activity in research, development and design of products, procurement of parts and materials, manufacture, sales and associated services in order to hand over this precious Earth to the future generation.

Greenhouse gas emissions



Labor and Human Rights Activities

The TAIYO YUDEN Group has defined a Code of Conduct regarding labor and human rights within the CSR Code of Conduct which stipulates that child labor or forced labor are not to be conducted. A survey on child labor and forced labor was conducted in all countries where Group companies are located, and the results confirmed that these stipulations were being complied with 100%. In addition, the Code of Conduct stipulates that we will respect the diversity, personality, and individuality of employees, ensure a work environment without any discrimination, and not conduct acts of harassment by authority in the organization, and we are also promoting compliance with these provisions.

Circumstances surrounding Labor and the Human Rights

Goal: Compliance rate are 100% in all countries.

Country or Area	Employee Number	Year ended March 31, 2017 Compliance Rate	
		Child Labor	Forced Labor
Japan	5.2k	100%	100%
USA, Europe	0.1k	100%	100%
China, Taiwan	4.1k	100%	100%
Korea	0.9k	100%	100%
Singapore, Malaysia	4.1k	100%	100%
Philippines	5.0k	100%	100%

Health and Safety Activities

The TAIYO YUDEN Group works to eliminate work-related accidents and reduce major risks based on the principles of safety and health that provide workplaces which always maintain safety and where employees can work in confidence in order to ensure their well-being, as they are an important resource for the company.

Currently, to achieve the new medium-term occupational health and safety targets for the fiscal year ending March 31, 2019, we are promoting initiatives to improve the level of the 5M (Man, Machine, Method, Material, and Measurement) items in order to eliminate unstable conditions and unsafe behavior that cause work-related accidents.

New Medium-term Occupational Health and Safety Targets (Medium-term Targets for FY ending March 31, 2019)

Year ending March 31, 2019 Targets	5Ms for Medium-term Targets	
Incidence rate of injuries and illness less than 0.04	Man	Creation of "safe workplace" culture
	Machine	Bringing safety equipment activities to the world level (ISO, IEC)
	Method	Standardization of procedures for safe work
	Material	Minimization of toxicity and danger of chemical substances
	Measurement	Strengthening of checking system

Materials Procurement Activities

Recently, there have been strong international demands for companies to conduct business activities with a social consciousness based on high ethical and moral standards. The TAIYO YUDEN Group has established a basic policy on materials procurement, and is promoting CSR procurement activities for not only suppliers of parts, materials, machinery as well as technologies and services procured by the Group, but also the entire supply chain including all clients.

TAIYO YUDEN Group Policy

Global Procurement

TAIYO YUDEN Group shall procure the parts, material, technology, information and services most suitable for our products needs from the suppliers in the world.

Fair Trade

Opportunity to have business with TAIYO YUDEN Group is open to suppliers in the world based on equal and fair standard. Compliance with the laws and the ethics shall be applied to the procurement activities of TAIYO YUDEN Group.

Mutual Trust/CSR

TAIYO YUDEN Group shall actively practice the CSR management in procurement activities and further establish sound partnership to build mutual trust and development.

Material Procurement Policy

1. Provide Fair and Equal Opportunity/Fair Procurement
2. Specification of the Procurement Information
3. Master Purchase Agreement/Control of Confidential Information
4. Compliance with the Law
5. Environmental Conservation/Preservation

Dealing with Conflict Minerals

According to Article 1502 of the U.S. financial regulatory reform bill (Dodd-Frank Wall Street Reform and Consumer Protection Act) enacted in 2010, listed U.S. companies that require conflict minerals from the Democratic Republic of the Congo (DRC) and adjoining countries for their product functions or production are now obliged to specify and report to the U.S. Securities and Exchange Commission (SEC) whether such conflict minerals come from the DRC and adjoining countries.

The TAIYO YUDEN Group, under this purpose, aims for procurement that does not involve such conflict. Accordingly, we request our suppliers to understand the Group's procurement policies and to cooperate with investigations, and furthermore to procure from smelters certified as not complicit in conflicts, such as smelters that are in compliance with the Conflict-Free Smelter program established by the CFSI*. Furthermore, the contents of investigations by the TAIYO YUDEN Group will be disclosed to customers.

* CFSI (Conflict-Free Sourcing Initiative): An organization that establishes international guidelines regarding conflict minerals

Usage Examples of Subject Minerals in Electronic Components

	MLCC, Inductors	SAW devices	Modules
Tantalum		●	●
Tin	●	●	●
Tungsten		●	●
Gold		●	●

Social Contribution Activities

The Group regards coexistence with the local community and global society as a basic stance, and it is actively involved in social contribution activities including factory tours and interaction with the local community and other companies.

TAIYO YUDEN SOLFILLE Women's Softball Team

The women's softball team was established in 1984 for the purpose of improving employee motivation and the name recognition of the company. The team has been in the first division of the Japan Softball League for 29 years since 1987. During this time, it has had a spectacular track record that includes gaining championship titles in the league and the All Japan National Championship, and it has also produced some Olympic national team players.

In addition, the team plays a major role in inspiring not only employees, but also people in the local community and children through means such as holding softball classes for future players nationwide.



For further details on our CSR activities, please visit at <http://www.yuden.co.jp/ut/company/csr/>

Human Resource Strategy

The TAIYO YUDEN Group policy on developing human resources

In line with our founding philosophy, the TAIYO YUDEN Group aims to bolster the quality of life of each of our employees by respecting the dignity and individuality of each person based on recognition of people's diverse backgrounds and characteristics. To this end we are providing an educational environment and opportunity for employees to expand their horizons and improve their abilities, as well as study on their own. Through the development of human resources, we will continue to develop employees that at create

value that contributes to society, enhance creativity and specialization, and create a global workforce built on different cultures that can effectively implements the company's operating strategy. By offering an environment in which employees are free to strive without fear of failure, and bolster their abilities in a variety of fields, we aim to advance not only the TAIYO YUDEN Group, but also the individual lives of each of our employees.

Human Resources Education (TAIYO YUDEN)	Classification		Management position		Supervisory position		General position	
	Leadership ability		Management participation	Showing expertise + expanding vision + enacting organizational reform	Showing expertise	Acquiring expertise	Practical training	
Worldwide human resources education support	Eligibility requirements	Common	Common education needed for each classification					
		Work-related	Unique education required for each division					
	OFF-JT	Purpose-based education	<ul style="list-style-type: none"> • Management skills education • Education for location leaders • Executive training • Officer training 		<ul style="list-style-type: none"> • New employee training • Basic training • Education for manufacturing supervisors • Manufacturing site training 			
		Basic education	<ul style="list-style-type: none"> • Promotion training • Career design education • Common training (safety and health, legal, CSR, mental health, languages) • Training for those assigned overseas 					
	Self-improvement	<ul style="list-style-type: none"> • Self-development education (correspondence courses, languages) 						
	OJT	<ul style="list-style-type: none"> • OJT (skill check, target management) 						
	Languages	<ul style="list-style-type: none"> • Languages (English, Chinese, Korean) 						
	Rotation-based training	<ul style="list-style-type: none"> • Rotation within and between departments, dispatching to domestic or overseas locations 						
	Worldwide human resources education support			Global Leadership Program (GLP) a candidate training course				

The Global Leadership Program (GLP), a candidate training course

Fostering human resources with an eye toward true globalization

The TAIYO YUDEN Group in 2012 launched efforts to promote cooperation among the various companies in the fostering of human resources to achieve a single goal. Previously, the companies had pursued the development of human resources on an independent basis. As part of this effort, the Global Leadership Program was formed with the goal of continuously fostering the most talented employees so that they could exercise leadership and their abilities throughout the world.

In addition to learning about TAIYO YUDEN's technology and products, the electronic components sector and target markets, and company policies and operating targets, participants in the program are instructed in the basics of leadership theory and organizational management. Participants are given a chance

to refine their leadership qualities at the end of the program, presenting the results of their activities to the board of directors and the heads of various operating divisions.

The training program is aligned with the company's operating policies and devised so that the most up-to-date information can be presented, including through lectures by developers. One example is system solutions, where various technologies and products are combined, something that has recently become quite common in the electronic components industry.



Directors, Audit & Supervisory Board Members, and Operating Officers



From left of back row: Hajime Yoshitake, Takashi Tomaru, Hisaji Agata, Masashi Hiraiwa, Kazuhiro Yamakawa, Katsushige Nakano
From left of front row: Katsuya Sase, Shinji Masuyama, Shoichi Tosaka, Seiichi Tsutsumi, Osamu Takahashi

Directors

Representative Director Shoichi Tosaka

Joined TAIYO YUDEN in 1979, and was mainly engaged in materials development and technological development. Subsequently, in charge of the Electronic Components business, R&D/engineering, and quality assurance. Appointed Director in 2006, and President and Representative Director in November 2015.

Director Seiichi Tsutsumi

Joined TAIYO YUDEN in 1977 and was engaged in sales and marketing for many years. Appointed President of a subsidiary in Singapore in 2000. Appointed Managing Officer in 2007 and in charge of Products/Sales Planning Control at Sales Headquarters and the Greater China Area. Appointed Director in 2010. In charge of New Business Planning and Development and Global SCM Development in 2016.

Director Shinji Masuyama

Joined TAIYO YUDEN in 1980 and was engaged in production technology and system development of electronic components and optical media products for many years. Appointed Managing Officer in 2004, and in charge of the Electronic Components business centered on the Capacitor Product business and Ferrite Application Product business. Appointed Director in 2013. In charge of Management Planning in 2016.

Director Osamu Takahashi

Joined TAIYO YUDEN in 1980. Assigned to quality assurance and materials technology divisions, was engaged in sales promotion and marketing. Subsequently, has been involved in product planning, corporate planning and financial divisions. Appointed Operating Officer in 2003, and Director in 2011. In charge of Integrated Module & Device Business in 2016.

Director Katsuya Sase

Joined TAIYO YUDEN in 1986. Engaged in the development of magnetic tape and multilayer inductor production technologies, was subsequently assigned to Capacitor Product Division in 1996. Appointed Operating Officer in 2013, and in charge of Capacitor Product Division. Appointed Director in June 2016, and in charge of Electronic Components Business.

Outside, Independent Director Hisaji Agata

After working for Nomura Securities Co., Ltd., from 1974 to 1981, Mr. Agata joined the Japan Associated Finance Co., Ltd. (currently JAFCO Co., Ltd.) where he served as Managing Director and Commissioner. He has served as an Outside, Independent Director for the Company since 2008. He has also served as a Special Adviser of HIBIKI Partners Co., Ltd. since 2008, as a member of Audit Committee of RaQualia Pharma Inc., and as Outside Director of 77 Capital Co., Ltd. since 2016.

Outside, Independent Director Masashi Hiraiwa

Admitted to Japan Federation of Bar Association and joined OHHARA LAW OFFICE in 1981. After serving as a Supervisory Officer at LCP Investment Corporation (currently Invincible Investment Corporation) and serving as a Supervisory Officer at Japan Logistics Fund, Inc., he was appointed as an Independent Outside Director of our Company in June 2016.

Audit & Supervisory Board Members

Audit & Supervisory Board Member Takashi Tomaru

Joined TAIYO YUDEN in 1977. Appointed Director in 2005. Assigned to Management Planning Headquarters, Material & Logistics Control Division, CSR & Internal Control Office, Greater China Area, Legal Division, Audit & Supervisory Board Member of the Company in 2015.

Audit & Supervisory Board Member Katsushige Nakano

Joined Fujitsu Ltd. in 1974, was appointed President and Representative Director of Fujitsu Media Devices Ltd. in 2009. Became President and Representative Director of TAIYO YUDEN Mobile Technology Co., Ltd. following the transfer of Fujitsu Media Devices' Communications Device business to TAIYO YUDEN in 2010. Joined TAIYO YUDEN and was appointed Director in 2013. Audit & Supervisory Board Member of the Company in June 2016.

Outside, Independent Audit & Supervisory Board Member Hajime Yoshitake

Joined The Kyowa Bank Ltd. (currently Resona Bank, Limited) in 1979. Concurrently appointed Lecturer at Professional Graduate School of Meiji University in 2007. Appointed as a member of the Board of Directors of the Institute of Internal Auditors-Japan in 2008. Subsequently, appointed as an Outside, Independent Audit & Supervisory Board Member of the Company in June 2016 after serving at Resona Holdings, Inc. as an Executive Officer and General Manager of the Internal Audit Division.

Outside, Independent Audit & Supervisory Board Member Kazuhiro Yamakawa

Joined the Public Prosecutor of Tokyo District Public Prosecutor's Office in 1971. Admitted to Japan Federation of Bar Association in 1983 after serving as a Public Prosecutor with the Civil Affairs Bureau of the Ministry of Justice Tokyo District Public Prosecutors Office. Subsequently, appointed as an Outside, Independent Audit & Supervisory Board Member of the Company in 2011 after serving a Professor at Nihon University Law School. Appointed as a Professor Emeritus at Nihon University in 2015.

Operating Officers

President and Chief Executive Officer Shoichi Tosaka

Executive Operating Officer Seiichi Tsutsumi

Executive Operating Officer Shinji Masuyama

Executive Operating Officer Osamu Takahashi

Executive Operating Officer Akihiko Mochizuki

Executive Operating Officer Kazuya Umezawa

Executive Operating Officer Katsuya Sase

Senior Operating Officer Toshio Mishuku

Senior Operating Officer Kazuyuki Oshima

Senior Operating Officer Tomomitsu Fukuda

Operating Officer Hirokazu Chazono

Operating Officer Mitsuo Takagi

Operating Officer Susumu Higuchi

Operating Officer Osamu Ikata

Operating Officer Shinya Miyazawa

Operating Officer Toshimitsu Honda

Operating Officer Toshiyuki Watanabe

Financial Section

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The English language version of this report is based on the Japanese language version. With the exception of the financial statements, all figures presented have been rounded down to the nearest appropriate unit. As a result, there are cases when a figure in the following text differs slightly from the equivalent figure in the financial statements.

11-year Summary

TAIYO YUDEN CO., LTD. and Subsidiaries
Years Ended March 31 and as of March 31

Fiscal year	2007	2008	2009	2010
Net sales	¥ 221,229	¥ 238,274	¥ 185,452	¥ 195,690
Operating income (loss)	22,018	21,304	(12,755)	4,203
Ordinary income (loss)	21,641	19,141	(12,601)	1,966
Net income (loss) attributable to owners of parent company	12,944	10,634	(14,332)	(680)
Total assets	258,552	271,605	225,451	236,361
Net assets	169,497	167,766	139,435	139,263
Cash flows from operating activities	28,979	29,791	15,696	25,662
Cash flows from investing activities	(33,780)	(43,768)	(25,665)	(8,918)
Free cash flows	(4,801)	(13,977)	(9,969)	16,744
Cash flows from financing activities	7,586	12,855	9,780	(8,775)
Cash and cash equivalents at end of year	39,435	35,401	33,110	40,451
R&D expenses	8,207	8,888	8,463	7,698
Capital investment	30,244	44,584	27,018	9,352
Depreciation and amortization	18,376	23,294	27,850	23,922

Per share data (yen)

Net assets per share	¥ 1,421.45	¥ 1,403.24	¥ 1,181.28	¥ 1,179.82
Basic net income (loss) per share	108.58	89.22	(121.51)	(5.78)
Diluted net income per share	104.09	82.06	—	—
Cash dividends per share	10.00	10.00	10.00	10.00

Financial ratios (%)

Equity ratio	65.5	61.6	61.6	58.7
Return on Equity [ROE]	8.0	6.3	(9.4)	(0.5)
Return on Assets [ROA]	9.0	7.2	(5.1)	0.9

Other information

Number of employees [consolidated]	20,387	20,117	17,478	17,836
Number of employees [non-consolidated]	2,686	2,905	2,918	2,957

Note: ROE = Net income (loss) attributable to owners of parent company / Shareholders' equity (yearly average) x 100
ROA = Ordinary income / Total assets (yearly average) x 100

Millions of yen

	2011	2012	2013	2014	2015	2016	2017
¥	210,401	¥ 183,795	¥ 192,903	¥ 208,222	¥ 227,095	¥ 240,385	¥ 230,716
	8,792	(8,010)	4,850	11,358	13,153	23,370	12,385
	6,740	(9,070)	7,118	12,192	15,653	22,263	11,200
	(5,506)	(21,599)	1,867	6,989	10,919	14,751	5,428
	221,272	208,461	225,991	247,596	265,454	268,380	271,149
	127,626	104,400	115,814	128,556	150,856	153,381	154,150
	25,219	5,534	19,496	29,724	24,896	38,278	29,692
	(16,594)	(28,945)	(18,157)	(18,947)	(20,964)	(35,374)	(28,806)
	8,625	(23,411)	1,339	10,777	3,932	2,904	886
	(8,948)	11,388	2,334	8,404	(21,249)	(2,050)	(4,342)
	38,811	26,671	33,280	54,611	41,476	39,944	36,094
	8,475	8,068	6,840	7,353	8,237	9,024	10,008
	17,519	26,764	20,702	19,126	18,773	41,261	33,161
	19,309	19,250	19,832	20,750	21,813	23,767	24,908
¥	1,080.61	¥ 884.70	¥ 981.92	¥ 1,090.26	¥ 1,278.07	¥ 1,299.75	¥ 1,305.96
	(46.82)	(183.70)	15.88	59.38	92.74	125.27	46.08
	—	—	15.85	58.09	85.51	115.54	42.43
	10.00	5.00	10.00	10.00	10.00	15.00	20.00
	57.4	49.9	51.1	51.8	56.7	57.1	56.8
	(4.1)	(18.7)	1.7	5.7	7.8	9.7	3.5
	2.9	(4.2)	3.3	5.1	6.1	8.3	4.2
	17,267	16,194	15,915	16,435	18,262	18,810	18,753
	2,988	2,977	2,632	2,572	2,577	2,618	2,586

Financial Review

Outline of Business Performance

In the fiscal year ended March 31, 2017, the business environment surrounding the TAIYO YUDEN Group maintained a tone of moderate recovery for the global economy as a whole despite some weaknesses. 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 government policies 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 super high-end products and high reliability products that draw on the Group's strengths of research and development and production technology.

In the communication device market, demand for ultra-small and high reliability components is expected to rise significantly because of a sharp increase in equipment connected to the Internet. This increase results from the development of the IoT as well as continued advances in smartphone functionality and performance. In the automotive and industrial equipment markets, demand for large, high voltage resistant, high reliability components is expected to rise along with the proliferation of hybrid and electric vehicles and the further advances of electronic components in industrial equipment.

In these markets, the Group is working to expand sales of highly competitive, super high-end products and high reliability products, such as capacitors, inductors, and integrated modules and devices. In the solution business, another focus of growth, the Group is promoting the development of new businesses that combine the Group's core technologies in the following areas: multilayer, optical, integration, surface processing, wireless, and power supply. The Group is also working to strengthen monozukuri (manufacturing) capabilities in order to build a system that will enhance profitability and meet future increases 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.

As a result of the above, in the fiscal year ended March 31, 2017, consolidated net sales decreased 4.0% from the previous fiscal year to ¥230,716 million. This was partly attributable to the impact of appreciation in the value of the yen in the average foreign currency exchange rate compared to the previous fiscal year.

Selling, General and Administrative Expenses

In the fiscal year ended March 31, 2017, selling, general and administrative (SG&A) expenses declined ¥1,068 million from the previous fiscal year to ¥38,968 million. While R&D expenses increased, the main factors for the decline were decreases in tariffs and commission fees as well as patent fees. Despite this decline in SG&A expenses, operating income also declined 47.0% year on year to ¥12,385 million.

Other Income (Expenses)

In the fiscal year ended March 31, 2017, other expenses – net came to ¥4,878 million compared to ¥5,086 million in the previous fiscal year. Although TAIYO YUDEN reported an increase in subsidy income and a decrease in the loss on valuation of investment securities, other income was more than offset by other expenses including an increase in impairment loss on property, plant and equipment. As a result, net income attributable to owners of the parent company fell 63.2% from the previous fiscal year to ¥5,429 million.

Financial Position

Assets

Total assets as of the end of the fiscal year ended March 31, 2017 stood at ¥271,149 million, up ¥2,769 million from the end of the previous fiscal year. Current assets decreased ¥2,307 million. While trade notes and accounts receivable increased ¥4,031 million, this decrease in current assets was mainly due to the downturn in cash and cash equivalents as well as time deposits of ¥5,893 million. Fixed assets increased ¥5,076 million owing largely to the upswing in property, plant and equipment of ¥4,049 million.

Liabilities

Total liabilities stood at ¥116,999 million as of the end of the fiscal year ended March 31, 2017. This was ¥1,999 million higher than the end of the previous fiscal year. While long-term borrowings decreased ¥11,089 million, major increases in liabilities included trade notes and accounts payable of ¥3,305 million, short-term borrowings of ¥4,483 million and current portion of long-term borrowings of ¥4,873 million.

Net Assets

Net assets stood at ¥154,150 million as of March 31, 2017, up ¥769 million from the end of the previous fiscal year. Principal movements

in net assets were an increase of ¥5,428 million on net income attributable to owners of the parent company, a decrease of ¥2,356 million on cash dividends, an increase of ¥1,171 million in net unrealized holding gain on securities and a decrease of ¥3,639 million in foreign currency translation adjustments.

Status of Cash Flows

Net cash provided by operating activities in the fiscal year ended March 31, 2017 was ¥29,692 million, down 22.4% from the previous fiscal year. The principal cash inflows were income before income taxes of ¥7,507 million, depreciation and amortization of ¥24,908 million and an increase in trade notes and accounts payable of ¥3,595 million. The major cash outflows were an increase in trade notes and accounts receivable of ¥3,500 million and income taxes paid of ¥4,003 million.

Net cash used in investing activities was ¥28,806 million, down ¥18.6% from the previous fiscal year. The major cash outflow was purchases of property, plant and equipment of ¥31,553 million.

Net cash used in financing activities was ¥4,342 million, up 111.8% from the previous fiscal year. The principal cash inflow was net increase in short-term borrowings of ¥4,608 million. The major cash outflows were repayments of long-term borrowings of ¥6,216 million and payments of cash dividends of ¥2,351 million.

As a result, cash and cash equivalents as of the end of the fiscal year ended March 31, 2017 amounted to ¥36,094 million, a decrease of ¥3,849 million from the end of the previous fiscal year.

Financial Policy

The TAIYO YUDEN Group conducts centralized management of Group funds to enhance the efficiency of funding operations. The Group collects surplus funds from affiliated companies and allocates funds to affiliated companies as necessary. External sources are utilized when additional funds are needed. The Cash Management System (CMS) is utilized to minimize interest-bearing debt from external sources.

Financing from external sources at the March 31, 2017, consisted of ¥16,463 million in short-term borrowings, ¥11,074 million in current portion of long-term borrowings, ¥20,053 million in convertible bonds with stock acquisition rights, and ¥4,056 million in long-term borrowings. In principle, borrowings are secured within Japan at fixed interest rates. 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, 2017, 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, 2017, the TAIYO YUDEN Group implemented a total of ¥31,553 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.

Consolidated Financial Statements

Consolidated Balance Sheets

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2017 and 2016

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Current assets:			
Cash and cash equivalents (Note 3)	¥36,095	¥39,944	\$322,275
Time deposits (Note 3)	3,975	6,019	35,487
Receivables:			
Trade notes and accounts receivable (Note 3)	53,791	49,759	480,280
Allowance for doubtful receivables	(273)	(267)	(2,439)
Inventories:			
Merchandise and finished products	17,281	17,501	154,299
Work in process	19,473	18,638	173,862
Raw materials and supplies	12,025	12,550	107,367
Deferred tax assets (Note 8)	1,084	776	9,681
Prepaid expenses and other current assets	5,805	6,643	51,830
Total current assets	<u>149,256</u>	<u>151,563</u>	<u>1,332,642</u>
Property, plant and equipment (Note 14):			
Land	9,416	8,611	84,074
Buildings and structures	79,287	78,622	707,917
Machinery and equipment	233,806	225,863	2,087,558
Tools, furniture and fixtures	20,936	20,135	186,930
Construction in progress	3,816	5,337	34,073
Total	<u>347,261</u>	<u>338,568</u>	<u>3,100,552</u>
Accumulated depreciation	<u>(236,165)</u>	<u>(231,521)</u>	<u>(2,108,617)</u>
Net property, plant and equipment	<u>111,096</u>	<u>107,047</u>	<u>991,935</u>
Investments and other assets:			
Investment securities (Notes 3 and 4)	5,685	4,389	50,759
Investments in affiliate (Note 3)	1,076	1,899	9,607
Deferred tax assets (Note 8)	983	959	8,778
Net defined benefit asset (Note 6)	59	-	527
Other	3,330	2,861	29,735
Allowance for doubtful receivables	(336)	(338)	(3,005)
Total investments and other assets	<u>10,797</u>	<u>9,770</u>	<u>96,401</u>
Total assets	<u>¥271,149</u>	<u>¥268,380</u>	<u>\$2,420,978</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥16,463	¥11,979	\$146,993
Current portion of long-term borrowings (Notes 3 and 5)	11,074	6,201	98,875
Notes and accounts payable:			
Trade notes and accounts payable (Note 3)	26,735	23,430	238,706
Other (Note 3)	12,259	12,353	109,456
Income taxes payable (Notes 3 and 8)	2,083	2,340	18,597
Accrued bonuses for employees	3,219	3,391	28,737
Accrued bonuses for directors	76	184	683
Deferred tax liabilities (Note 8)	719	677	6,423
Other	7,658	7,975	68,368
Total current liabilities	80,286	68,530	716,838
Long-term liabilities:			
Long-term borrowings (Notes 3 and 5)	4,056	15,146	36,216
Convertible bonds with stock acquisition rights (Notes 3 and 5)	20,054	20,068	179,050
Net defined benefit liability (Note 6)	3,208	3,116	28,644
Accrued retirement benefits for directors and corporate auditors	126	130	1,130
Deferred tax liabilities (Note 8)	4,892	5,907	43,676
Other	4,377	2,102	39,081
Total long-term liabilities	36,713	46,469	327,797
Total liabilities	116,999	114,999	1,044,635
Net assets (Note 7):			
Shareholders' equity:			
Common stock			
Authorized - 300,000,000 shares			
Issued - 120,481,395 shares in 2017 and 2016	23,557	23,557	210,332
Capital surplus	41,519	41,515	370,705
Retained earnings (Note 16)	99,985	96,913	892,727
Treasury stock, at cost -			
2,650,804 shares in 2017 and 2,664,538 shares in 2016	(3,309)	(3,326)	(29,549)
Total shareholders' equity	161,752	158,659	1,444,215
Accumulated other comprehensive income:			
Net unrealized holding gains (losses) on securities	2,239	1,068	19,995
Deferred gains (losses) on hedges	21	6	190
Foreign currency translation adjustments	(9,762)	(6,123)	(87,164)
Adjustment in defined benefit obligation of overseas subsidiaries	(368)	(477)	(3,289)
Total accumulated other comprehensive income	(7,870)	(5,526)	(70,268)
Stock acquisition rights (Note 12)	268	238	2,396
Non-controlling interests	-	10	-
Total net assets	154,150	153,381	1,376,343
Total liabilities and net assets	¥271,149	¥268,380	\$2,420,978

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net sales (Note 14)	¥230,717	¥240,386	\$2,059,970
Cost of sales	<u>179,363</u>	<u>176,979</u>	<u>1,601,453</u>
Gross profit	51,354	63,407	458,517
Selling, general and administrative expenses	<u>38,969</u>	<u>40,037</u>	<u>347,936</u>
Operating income	12,385	23,370	110,581
Other income (expenses)			
Interest and dividend income	317	389	2,832
Interest expense	(243)	(274)	(2,174)
Equity in earnings (losses) of affiliate	(301)	13	(2,687)
Loss on foreign exchange	(1,257)	(1,151)	(11,223)
Depreciation of inactive noncurrent assets	(474)	(373)	(4,227)
Gain on sales of property, plant and equipment	57	206	508
Loss on disposal and sales of property, plant and equipment	(672)	(277)	(6,003)
Loss on valuation of investment securities (Note 4)	(160)	(1,463)	(1,429)
Impairment loss on property, plant and equipment (Note 10)	(749)	(222)	(6,689)
Business structure improvement expenses (Notes 6 and 10)	(2,194)	(1,795)	(19,586)
Subsidy income	848	214	7,567
Gain on liquidation of subsidiaries and affiliates	40	-	354
Other	(90)	(353)	(793)
Other income (expenses) - net	<u>(4,878)</u>	<u>(5,086)</u>	<u>(43,550)</u>
Income before income taxes	7,507	18,284	67,031
Income taxes (Note 8)			
Current	3,688	3,624	32,928
Deferred	(1,611)	1	(14,381)
Total income taxes	<u>2,077</u>	<u>3,625</u>	<u>18,547</u>
Net income	<u>5,430</u>	<u>14,659</u>	<u>48,484</u>
Net income (loss) attributable to non-controlling interests	<u>1</u>	<u>(92)</u>	<u>11</u>
Net income attributable to owners of the parent	<u>¥5,429</u>	<u>¥14,751</u>	<u>\$48,473</u>
	Yen		U.S. Dollars (Note 1)
Per share of common stock (Note 15):	<u>2017</u>	<u>2016</u>	<u>2017</u>
Basic earnings	¥46.08	¥125.27	\$0.41
Diluted earnings	42.43	115.54	0.38
Cash dividends applicable to the year	20.00	15.00	0.18

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net income	¥5,430	¥14,659	\$48,484
Other comprehensive income (Note 13):			
Net unrealized holding gains (losses) on securities	1,171	(1,058)	10,459
Deferred gains (losses) on hedges	15	(1)	135
Foreign currency translation adjustments	(3,633)	(9,948)	(32,443)
Adjustment in defined benefit obligation of overseas subsidiaries	109	(81)	975
Total other comprehensive income	<u>(2,338)</u>	<u>(11,088)</u>	<u>(20,874)</u>
Comprehensive income	<u>¥3,092</u>	<u>¥3,571</u>	<u>\$27,610</u>
Total comprehensive income attributable to:			
Owners of the parent	¥3,085	¥3,713	\$27,549
Non-controlling interests	7	(142)	61

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2017 and 2016

	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, 2016	120,481	¥23,557	¥41,515	¥96,913	¥(3,326)	¥158,659
Changes during the year						
Cash dividends, 20.00 yen per share			(2,357)			(2,357)
Net income attributable to owners of the parent			5,429			5,429
Treasury stock acquired (266shares)				(0)		(0)
Treasury stock disposed (14,000shares)			2	17		19
Change in treasury shares of parent arising from transactions with non-controlling shareholders			2			2
Changes other than shareholders' equity						
Total changes	-	-	4	17		3,093
BALANCE, MARCH 31, 2017	120,481	¥23,557	¥41,519	¥99,985	¥(3,309)	¥161,752

	Millions of Yen							
	Accumulated Other Comprehensive Income							
	Net Unrealized Holding Gains (Losses) on Securities	Deferred Gains (Losses) on Hedges	Foreign Currency Translation Adjustments	Adjustment in Defined Benefit Obligation of Overseas Subsidiaries	Total Accumulated Other Comprehensive Income	Stock Acquisition Rights	Non-controlling Interests	Total Net Assets
BALANCE, APRIL 1, 2016	¥1,068	¥6	¥(6,123)	¥(477)	¥(5,526)	¥238	¥10	¥153,381
Changes during the year								
Cash dividends, 20.00 yen per share								(2,357)
Net income attributable to owners of the parent								5,429
Treasury stock acquired (266shares)								(0)
Treasury stock disposed (14,000shares)								19
Change in treasury shares of parent arising from transactions with non-controlling shareholders								2
Changes other than shareholders' equity	1,171	15	(3,639)	109	(2,344)	30	(10)	(2,324)
Total changes	1,171	15	(3,639)	109	(2,344)	30	(10)	769
BALANCE, MARCH 31, 2017	¥2,239	¥21	¥(9,762)	¥(368)	¥(7,870)	¥268	¥-	¥154,150

	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, 2016	\$210,332	\$370,672	\$865,294	\$(29,703)	\$1,416,595
Changes during the year					
Cash dividends, 0.18 dollar per share			(21,040)		(21,040)
Net income attributable to owners of the parent			48,473		48,473
Treasury stock acquired (266shares)				(3)	(3)
Treasury stock disposed (14,000shares)			12	157	169
Change in treasury shares of parent arising from transactions with non-controlling shareholders			21		21
Changes other than shareholders' equity					
Total changes	-	33	27,433	154	27,620
BALANCE, MARCH 31, 2017	\$210,332	\$370,705	\$892,727	\$(29,549)	\$1,444,215

Thousands of U.S. Dollars (Note 1)

	Accumulated Other Comprehensive Income							Total Net Assets
	Net Unrealized Holding Gains (Losses) on Securities	Deferred Gains (Losses) on Hedges	Foreign Currency Translation Adjustments	Adjustment in Defined Benefit Obligation of Overseas Subsidiaries	Total Accumulated Other Comprehensive Income	Stock Acquisition Rights	Non-controlling Interests	
BALANCE, APRIL 1, 2016	\$9,536	\$55	\$(54,670)	\$(4,264)	\$(49,343)	\$2,128	\$95	\$1,369,475
Changes during the year								
Cash dividends, 0.18 dollar per share								(21,040)
Net income attributable to owners of the parent								48,473
Treasury stock acquired (266shares)								(3)
Treasury stock disposed (14,000shares)								169
Change in shareholders' equity of parent arising from transactions with non-controlling shareholders								21
Changes other than shareholders' equity	10,459	135	(32,494)	975	(20,925)	268	(95)	(20,752)
Total changes	10,459	135	(32,494)	975	(20,925)	268	(95)	6,868
BALANCE, MARCH 31, 2017	\$19,995	\$190	\$(87,164)	\$(3,289)	\$(70,268)	\$2,396	\$-	\$1,376,343

See accompanying notes to consolidated financial statements.

	Thousands	Millions of Yen				Total Shareholders' Equity
	Number of Shares of Common Stock Issued	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	
BALANCE, APRIL 1, 2015	120,481	¥23,557	¥41,495	¥83,339	¥(3,413)	¥144,978
Changes during the year						
Cash dividends, 10.00 yen per share				(1,177)		(1,177)
Net income attributable to owners of the parent				14,751		14,751
Treasury stock acquired (285shares)					(1)	(1)
Treasury stock disposed (70,000shares)			1		88	89
Change in treasury shares of parent arising from transactions with non-controlling shareholders			19			19
Changes other than shareholders' equity						
Total changes	-	-	20	13,574	87	13,681
BALANCE, MARCH 31, 2016	120,481	¥23,557	¥41,515	¥96,913	¥(3,326)	¥158,659

	Millions of Yen							Total Net Assets
	Accumulated Other Comprehensive Income							
	Net Unrealized Holding Gains (Losses) on Securities	Deferred Gains (Losses) on Hedges	Foreign Currency Translation Adjustments	Adjustment in Defined Benefit Obligation of Overseas Subsidiaries	Total Accumulated Other Comprehensive Income	Stock Acquisition Rights	Non-controlling Interests	
BALANCE, APRIL 1, 2015	¥2,126	¥7	¥3,774	¥(396)	¥5,511	¥228	¥139	¥150,856
Changes during the year								
Cash dividends, 10.00 yen per share								(1,177)
Net income attributable to owners of the parent								14,751
Treasury stock acquired (285shares)								(1)
Treasury stock disposed (70,000shares)								89
Change in treasury shares of parent arising from transactions with non-controlling shareholders								19
Changes other than shareholders' equity	(1,058)	(1)	(9,897)	(81)	(11,037)	10	(129)	(11,156)
Total changes	(1,058)	(1)	(9,897)	(81)	(11,037)	10	(129)	2,525
BALANCE, MARCH 31, 2016	¥1,068	¥6	¥(6,123)	¥(477)	¥(5,526)	¥238	¥10	¥153,381

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Operating activities:			
Income before income taxes	¥7,507	¥18,284	\$67,031
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	24,909	23,767	222,399
Impairment loss on property, plant and equipment	749	222	6,689
Business structure improvement expense	2,194	1,795	19,586
Increase (decrease) in allowance for doubtful receivables	(3)	(19)	(24)
Increase (decrease) in accrued bonuses for employees	(164)	161	(1,467)
Increase (decrease) in accrued bonuses for directors	(108)	75	(962)
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	(5)	4	(41)
Interest and dividend income	(317)	(389)	(2,832)
Interest expense	243	274	2,174
Equity in (earnings) losses of affiliates	301	(13)	2,687
(Gain) loss on disposal and sales of property, plant and equipment	615	71	5,495
Subsidy income	(613)	(159)	(5,471)
Loss on valuation of investment securities	160	1,463	1,429
Gain on liquidation of subsidiaries and affiliates	(40)	-	(354)
Changes in operating assets and liabilities:			
Trade notes and accounts receivables	(3,500)	2,587	(31,254)
Inventories	(1,246)	(7,721)	(11,128)
Trade notes and accounts payables	3,595	261	32,100
Other	1,191	1,191	10,625
Subtotal	35,468	41,854	316,682
Interest and dividends received	677	378	6,049
Interest paid	(240)	(271)	(2,141)
Payments for business structure improvement expenses	(2,210)	(390)	(19,734)
Income taxes paid	(4,003)	(3,293)	(35,746)
Net cash provided by operating activities	29,692	38,278	265,110
Investing activities:			
Purchases of property, plant and equipment	(31,553)	(37,378)	(281,725)
Proceeds from sales of property, plant and equipment	90	279	804
Purchases of investment securities	-	(160)	-
Decrease (increase) in time deposits	1,840	(1,413)	16,428
Proceeds from sales of investment securities	92	139	819
Income from business transfer	-	1,043	-
Proceeds from subsidy income	609	159	5,438
Proceeds from sales of other investments	-	1,093	-
Proceeds from liquidation of subsidiaries and affiliates	150	-	1,339
Other	(34)	863	(300)
Net cash used in investing activities	(28,806)	(35,375)	(257,197)
Financing activities:			
Net increase (decrease) in short-term borrowings	4,608	(47)	41,147
Proceeds from long-term borrowings	-	5,000	-
Repayments of long-term borrowings	(6,216)	(5,493)	(55,500)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(10)	-	(87)
Payment of cash dividends to non-controlling interests	-	(1)	-
Purchases of treasury stock	(0)	(1)	(3)
Payments of cash dividends	(2,351)	(1,176)	(20,994)
Repayments of lease obligations	(374)	(333)	(3,338)
Other	0	0	0
Net cash used in financing activities	(4,343)	(2,051)	(38,775)
Effect of exchange rate changes on cash and cash equivalents	(392)	(2,385)	(3,508)
Net increase (decrease) in cash and cash equivalents	(3,849)	(1,533)	(34,370)
Cash and cash equivalents, beginning of year	39,944	41,477	356,645
Cash and cash equivalents, end of year	¥36,095	¥39,944	\$322,275

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2017 and 2016

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 aspects 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, 2017, which was 112 yen to 1 U.S. dollar. 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 equity-method affiliates. As of March 31, 2017 and 2016, the number of consolidated subsidiaries was 26 and 30, respectively. As of March 31, 2017 and 2016, the number of equity-method affiliates was 1 and 2, respectively. Significant intercompany accounts, transactions and unrealized profits have been eliminated in consolidation.

JVC Advanced Media EUROPE GmbH, which was a wholly-owned subsidiary of the Company, had been merged into TAIYO YUDEN EUROPE GmbH in the fiscal year ended March 31, 2017.

JVC ADVANCED MEDIA U.S.A. INC. and JVC Advanced Media (Tianjin) Co., LTD, which were the subsidiaries of Victor Advanced Media Co., Ltd. had been eliminated from the scope of consolidation due to completion of liquidation in the fiscal year ended March 31, 2017.

START Lab Inc. had been excluded from equity-method affiliates in the fiscal year ended March 31, 2017, due to completion of liquidation.

KOREA TONG YANG YUJUN CO., LTD, which was a subsidiary of the Company, had been merged into KOREA KYONG NAM TAIYO YUDEN CO., LTD., in the fiscal year ended March 31, 2017.

ELNA CO., LTD. was included in equity-method affiliates in the fiscal year ended March 31, 2016, due to conversion of preferred stock to common stock.

The difference between cost of the Company's investment securities in subsidiaries and its equity in their net assets at the dates of acquisition ("equivalents amount of goodwill") is being amortized within the subsequent 20 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 income.

(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, 2017 and 2016 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:
 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 (losses), 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 on and after April 1, 1998, and facilities attached to buildings and structures, which were acquired since April 1, 2016. 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**
 Leased assets are depreciated over the leased term by the straight-line method with no residual value.
- (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) **Net Defined Benefit**
 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 defined 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. 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**
 Accrued 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**
 Accrued 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) **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 adopt a consolidated tax return system.
- (15) **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 10,008 million yen (89,358 thousand dollar) and 9,024 million yen for the years ended March 31, 2017 and 2016, respectively.

(16) 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 department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

(17) Per Share Information

Basic earnings per share is computed by dividing net earnings attributable to owners of the parent 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, 2017 and 2016 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 years ended March 31, 2017 and 2016 are computed in accordance with Japanese accounting standards.

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.

(18) Certain Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the presentation of the current year. These reclassifications have no significant impact on previously reported results of operations or retained earnings.

(Consolidated Statements of Income)

Previously, "Compensation expenses" amounting to 108 million yen was stated separately in other income (expenses) of consolidated statement of income for the year ended March 31, 2016. However, the Company has changed its method of presentation to include the account in "Other" as it is immaterial for this fiscal year. The consolidated financial statements for the year ended March 31, 2016 were rearranged in order to reflect the changes to presentation.

(19) Change in Accounting Policies

Due to amendments to the Japanese Corporation Tax Act, the Company and its consolidated domestic subsidiaries have applied "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practice Issue Task Force No.32, June 17, 2016 (hereinafter, "PITF No.32")) from the year ended March 31, 2017 and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired since April 1, 2016, from the declining balance method to the straight line method. Impact of this change to the consolidated financial statements was immaterial.

Effective from the year ended March 31, 2016, the Company and its consolidated domestic subsidiaries have applied the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21, September 13, 2013 (hereinafter the "Business Combinations Accounting Standard")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter the "Consolidation Accounting Standard")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter the "Business Divestitures Accounting Standard")). As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With respect to application of the Accounting Standards for Business Combinations, the Company followed the provisional treatments in article 58-2 (4) of the Business Combinations Accounting Standard, article 44-5 (4) of the Consolidation Accounting Standard and article 57-4 (4) of the Business Divestitures Accounting Standard with application from the beginning of the current fiscal year prospectively.

In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

Impact of these changes to the consolidated financial statements was immaterial. Also, impact of these changes to per share information was immaterial.

(20) Additional information

Effective from the year ended March 31, 2017, the Company and its consolidated domestic subsidiaries have applied "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")).

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 Companies use derivative transactions 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 balances 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 Companies use 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 Companies use 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 Companies use forward exchange contracts as hedging instruments for operating receivables in foreign currency to reduce the risk of exchange-rate fluctuations, in principle. The Companies also make forward exchange contracts to hedge risks from operating receivables in foreign currency which are surely brought about by forecasted transactions related to exports. The Companies make 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 department executes derivative transactions, and manages them by recording details of transactions and checking balances with counterparties.

A manager of finance department reports the results of transactions to a Chief of Headquarters in charge, and he/she reports to the Board of Directors. Consolidated subsidiaries do not use derivative transactions.

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 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, 2017 and 2016 are as follows. When it is extremely difficult to measure a fair value of financial instrument, such financial instrument is not included in the table shown below.

Millions of yen			
2017			
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	¥40,070	¥40,070	-
(2) Trade notes and accounts receivable	53,791	53,791	-
(3) Investment securities:			
1) Available-for-sale securities	5,564	5,564	-
2) Investments in affiliate	1,056	1,320	¥264
Total assets	¥100,481	¥100,745	¥264
(4) Trade notes and accounts payable	26,735	26,735	-
(5) Short-term borrowings	16,463	16,463	-
(6) Other accounts payable	12,259	12,259	-
(7) Income taxes payable	2,083	2,083	-
(8) Convertible bonds with stock acquisition rights	20,054	21,150	¥1,096
(9) Long-term borrowings (*1)	15,130	15,121	(9)
Total liabilities	¥92,724	¥93,811	¥1,087
(10) Derivative transactions (*2)	¥399	¥399	-

Millions of yen			
2016			
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	¥45,963	¥45,963	-
(2) Trade notes and accounts receivable	49,759	49,759	-
(3) Investment securities:			
1) Available-for-sale securities	4,075	4,075	-
2) Investments in affiliate	1,320	1,470	¥150
Total assets	¥101,117	¥101,267	¥150
(4) Trade notes and accounts payable	23,430	23,430	-
(5) Short-term borrowings	11,979	11,979	-
(6) Other accounts payable	12,353	12,353	-
(7) Income taxes payable	2,340	2,340	-
(8) Convertible bonds with stock acquisition rights	20,068	20,224	¥156
(9) Long-term borrowings (*1)	21,347	21,305	(42)
Total liabilities	¥91,517	¥91,631	¥114
(10) Derivative transactions (*2)	¥775	¥775	-

Thousands of U.S. dollars			
2017			
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	\$357,762	\$357,762	-
(2) Trade notes and accounts receivable	480,280	480,280	-
(3) Investment securities:			
1) Available-for-sale securities	49,680	49,680	-
2) Investments in affiliate	9,429	11,786	\$2,357
Total assets	\$897,151	\$899,508	\$2,357
(4) Trade notes and accounts payable	238,706	238,706	-
(5) Short-term borrowings	146,993	146,993	-
(6) Other accounts payable	109,456	109,456	-
(7) Income taxes payable	18,597	18,597	-
(8) Convertible bonds with stock acquisition rights	179,050	188,840	\$9,790
(9) Long-term borrowings (*1)	135,091	135,003	(88)
Total liabilities	\$827,893	\$837,595	\$9,702
(10) Derivative transactions (*2)	\$3,563	\$3,563	-

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

(*2) Derivatives transactions are stated in net of assets and 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 on reasonably calculated value.

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) Convertible bonds with stock acquisition rights
 The prices offered by correspondent financial institutions are regarded as fair values.
- (9) 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 exceptional 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.
- (10) Derivative transactions
 The fair values of forward exchange contracts are stated at prices offered by financial institutions.
 As derivative transactions subject to the exceptional 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

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
	Book value	Book value	2017
			Book value
Unlisted equity securities	¥3	¥156	\$24
Investments in affiliate	20	579	179
Equities of limited liability partnerships for investment business and of other similar partnerships	118	158	1,054

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) Investment securities".

Note 3: Planned redemption amounts after March 31, 2017 and 2016 for monetary assets and investment securities

	Millions of yen	
	2017	
	Within 1 year	Over 1 year and within 5 year
Cash, cash equivalents and time deposits	¥39,997	-
Trade notes and accounts receivable	53,791	-

	Millions of yen	
	2016	
	Within 1 year	Over 1 year and within 5 year
Cash, cash equivalents and time deposits	¥45,928	-
Trade notes and accounts receivable	49,759	-

	Thousands of U.S. dollars	
	2017	
	Within 1 year	Over 1 year and within 5 year
Cash, cash equivalents and time deposits	\$357,116	-
Trade notes and accounts receivable	480,280	-

4. DEBT AND EQUITY SECURITIES

(1) Available-for-sale securities

Millions of Yen			
2017			
Book value	Acquisition cost	Unrealized Gain/loss	
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	¥5,415	¥2,521	¥2,894
Other	68	42	26
Subtotal	¥5,483	¥2,563	¥2,920
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	¥81	¥103	¥(22)
Other	-	-	-
Subtotal	¥81	¥103	¥(22)
Total	¥5,564	¥2,666	¥2,898
Millions of Yen			
2016			
Book value	Acquisition cost	Unrealized Gain/loss	
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	¥3,270	¥1,789	¥1,481
Other	62	42	20
Subtotal	¥3,332	¥1,831	¥1,501
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	¥743	¥798	¥(55)
Other	-	-	-
Subtotal	¥743	¥798	¥(55)
Total	¥4,075	¥2,629	¥1,446
Thousands of U.S. Dollars			
2017			
Book value	Acquisition cost	Unrealized Gain/loss	
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	\$48,349	\$22,509	\$25,840
Other	610	377	233
Subtotal	\$48,959	\$22,886	\$26,073
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	\$721	\$923	\$(202)
Other	-	-	-
Subtotal	\$721	\$923	\$(202)
Total	\$49,680	\$23,809	\$25,871

(2) Impaired securities

For the years ended March 31, 2017 and 2016, the Company recorded an impairment loss on "Available-for-sale securities". The Company recorded impairment loss of 160 million yen (1,429 thousand dollar), 1,463 million yen respectively. The loss in the year ended March 2017 is all for other marketable securities, and that in the year ended March 2016 is divided to 34 million yen and 1,429 million yen on other marketable securities and investments in affiliate respectively.

The Company posts an 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, 2017 and 2016 principally consist of borrowings from banks at average annual rates of approximately 0.67% and 0.64% respectively.

Long-term debts at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Long-term borrowings from banks and other financial institutions			
Due within one year, weighted average interest rate 0.84% at March 31, 2017, and 0.74% at March 31, 2016	¥11,074	¥6,201	\$98,875
Due after one year, weighted average interest rate 0.53% at March 31, 2017, and 0.76% at March 31, 2016	4,056	15,146	36,216
Euro Yen zero coupon convertible bonds due 2021			
Due within one year	-	-	-
Due after one year	20,000	20,000	178,571
Lease liabilities			
Due within one year	63	291	560
Due after one year	228	270	2,032
Total	35,421	41,908	316,254
Less current portion	(11,137)	(6,492)	(99,435)
Long-term debts, less current portion	¥24,284	¥35,416	\$216,819

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 due 2021 for the years ended March 31, 2017 and 2016 were 2,066 yen (18.44 dollar) and 2,069 yen.

The aggregate annual maturities of long-term debts other than lease liabilities as of March 31, 2017 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
For the year ending March 31		
2018	¥11,074	\$98,875
2019	3,936	35,148
2020	16	142
2021	20,015	178,708
2022	15	131
2023 and thereafter	74	658
Total	¥35,130	\$313,662

The annual maturities of lease liabilities as of March 31, 2017 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
For the year ending March 31		
2018	¥63	\$560
2019	59	526
2020	27	241
2021	18	164
2022	19	168
2023 and thereafter	105	933
Total	¥291	\$2,592

6. RETIREMENT BENEFITS

Outline of retirement benefit plans

The Company and certain domestic subsidiaries have defined contribution pension plans, prepaid retirement plans.

Certain overseas subsidiaries mainly adopted lump-sum retirement benefit plans.

Overseas subsidiaries have applied International Financial Reporting Standards ("IFRS"). "Employee Benefits" ("IAS" No. 19 amended on June 16, 2011) became effective from the fiscal year beginning on and after January 1, 2013. Effective from the fiscal year ended March 31, 2014, certain overseas subsidiaries have adopted the standard.

a. Defined benefit pension plans

(1) The reconciliation of defined benefit obligation for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Defined benefit obligation at beginning of year	¥4,735	¥4,472	\$42,280
Service costs	686	803	6,122
Interest cost	118	112	1,053
Actuarial (gain) loss	(146)	(73)	(1,307)
Benefits paid	(719)	(211)	(6,421)
Other	(4)	(368)	(33)
Defined benefit obligation at end of year	¥4,670	¥4,735	\$41,694

(2) The reconciliation of plan assets for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Fair value of plan assets at beginning of year	¥1,620	¥1,622	\$14,462
Interest income	53	53	477
Actuarial gain (loss)	(49)	(51)	(442)
Employer's contribution	403	155	3,601
Benefits paid	(454)	(47)	(4,060)
Other	(52)	(112)	(461)
Fair value of plan assets at end of year	¥1,521	¥1,620	\$13,577

(3) Reconciliation between the balances of defined benefits obligation and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefits obligation	¥1,924	¥2,187	\$17,178
Plan assets	(1,521)	(1,620)	(13,577)
	403	567	3,601
Unfunded defined benefits obligation	2,746	2,549	24,516
Total net liability (asset) for retirement benefit	¥3,149	¥3,116	\$28,117
Net defined benefit liability	¥3,208	¥3,116	\$28,644
Net defined benefit asset	(59)	-	(527)
Total net liability (asset) for retirement benefit	¥3,149	¥3,116	\$28,117

- (4) Components of retirement benefit costs for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service costs	¥686	¥804	\$6,122
Net interest	64	59	576
Amortization of actuarial differences	59	62	523
Total retirement benefit cost for the fiscal year	<u>¥809</u>	<u>¥925</u>	<u>\$7,221</u>

i) The Company applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No.18).

Accordingly, the total amounts of actuarial differences have been amortized by a certain period of fixed years within average expected future service years.

ii) Other than the above retirement benefit costs in defined benefit pension plan, overseas subsidiaries record voluntary retirements cost amounts to 2,210 million yen as "Business structure improvement expenses" in Other expenses in this fiscal year.

- (5) Adjustments in defined benefit obligation of overseas subsidiaries, excluding the income tax effect accounting, for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Actuarial differences	¥155	¥(19)	\$1,388

- (6) Accumulated amounts of adjustments in defined benefit obligation of overseas subsidiaries, excluding the income tax effect, as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized actuarial differences	¥(379)	¥(535)	\$(3,385)

- (7) Plan assets

(i) The proportions of plan assets as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		
	2017	2016	
Debt securities	64	59	%
Equity securities	19	19	
Cash and deposit with bank	11	18	
Other	6	4	
Total	<u>100</u>	<u>100</u>	%

76% and 77% of plan assets are retirement benefit trusts established for lump-sum retirement plans as of March 31, 2017 and 2016, respectively.

(ii) Rates of expected return

The rates of expected return are not set since the overseas subsidiaries applied the IAS No. 19.

- (8) Actuarial assumptions

	2017		2016	
Discount rates (overseas subsidiaries)	1.90 - 5.05	%	2.00 - 5.34	%
Expected rate of salary increase	2.24 - 5.00	%	3.48 - 5.00	%

- b. Defined contribution pension plans

The required contribution amounts to the defined contribution pension plans by the Companies were 1,241 million yen (11,076 thousand dollar) and 1,224 million yen as of March 31, 2017 and 2016, respectively.

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, 2017 and 2016 were comprised of (1) a corporation tax at the rate of 24.4% and 25.0% on taxable income, respectively, (2) enterprise tax of approximately 4% and 6% on taxable income, respectively, and (3) prefectural and residence taxes of approximately 16% of the amount of the corporation tax. Enterprise tax is deductible for income tax purposes when 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, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets			
Inventories	¥956	¥744	\$8,535
Accrued expenses	266	361	2,378
Retirement benefits	1,774	1,846	15,836
Net defined benefit liability	774	777	6,914
Enterprise tax payables	328	268	2,928
Accrued bonuses	969	1,022	8,648
Investment securities	808	761	7,216
Excess depreciation	970	864	8,665
Lump-sum depreciable assets	312	231	2,784
Allowance for doubtful receivables	94	102	835
Unused tax loss carry-forward	14,652	12,655	130,825
Other	1,493	1,223	13,329
Subtotal	23,396	20,854	208,893
Valuation allowance	(21,035)	(18,965)	(187,813)
Offset	(294)	(154)	(2,621)
Total deferred tax assets	¥2,067	¥1,735	\$18,459
Deferred tax liabilities			
Undistributed earnings of foreign subsidiaries	¥2,315	¥3,516	\$20,666
Inventories	650	608	5,802
Reserves	730	723	6,517
Unrealized holding gains on investment securities	702	397	6,266
Other	1,508	1,494	13,469
Offset	(294)	(154)	(2,621)
Total deferred tax liabilities	¥5,611	¥6,584	\$50,099

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

	2017	2016
Statutory tax rate	30.7 %	32.8 %
(Reconciliations)		
Differences in statutory tax rates of foreign subsidiaries	(11.2)	(6.0)
Undistributed earnings of foreign subsidiaries	(16.0)	0.3
Valuation allowance	10.3	(6.7)
Foreign tax	1.0	0.3
Unrealized profit included in inventories	(0.8)	(2.3)
Decrease of deferred tax assets and liabilities due to income tax rates change	(2.0)	(0.5)
Non-deductible expenses	11.6	0.1
Others - net	4.1	1.8
Effective income tax rate	27.7 %	19.8 %

Previously, "Non-deductible expenses" was included in "Others - net" for the year ended March 31, 2016. However, the Company has changed its method of presentation to state separately "Non-deductible expenses" as it is material from the year ended March 31, 2017. Also, prior year information was rearranged in order to reflect the changes in presentation.

Revisions to the amounts of deferred tax assets and liabilities due to changes in the tax rates of the Japanese Corporation Tax.

Since amendments to the Japanese tax regulations were enacted into law on November 18, 2016, a scheduled increase in the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019. Accordingly, scheduled abolishment of special local corporation tax, reimposition of corporate enterprise tax, amendment of local corporation tax rate and amendment of corporation tax rate for inhabitant tax were also postponed from the fiscal year beginning on or after April 1, 2017 to the fiscal year beginning on or after October 1, 2019.

The effective statutory tax rate utilized for the measurement of deferred tax assets and liabilities for the current fiscal year was not changed. However, as a result of the reclassification of national tax rate and local tax rate, deferred tax assets (net of deferred tax liabilities) increased by 152 million yen (1,363 thousand dollar) and income taxes -deferred increased by the same amount.

9. LEASE TRANSACTIONS

Operating Lease

The amounts of noncancellable future lease payments as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Future lease payments			
Within one year	¥164	¥79	\$1,461
Over one year	381	205	3,403
Total	<u>¥545</u>	<u>¥284</u>	<u>\$4,864</u>

10. 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 year ended March 31, 2017, the Companies recognized impairment loss on property, plant and equipment as follows:

Classification	Description	Location	Millions of Yen	Thousands of U.S. Dollars
Machinery and Equipment	Idle assets	Nakanojo, Gunma Yawatabara, Gunma Others	¥613	\$5,477
Buildings and structures	Idle assets	Haruna, Gunma Others	101	897
Others	Idle assets	Takasaki, Gunma Haruna, Gunma Others	35	315
	Total		<u>¥749</u>	<u>\$6,689</u>

For the idle assets with no specific utilization plan and 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 year ended March 31, 2016, the Companies recognized impairment loss on property, plant and equipment as follows:

Classification	Description	Location	Millions of Yen
Machinery and Equipment, Buildings, Construction in Progress, Intangible Assets, Others	Business assets (Optical media business)	Date, Fukushima, Others	¥178
Machinery and Equipment	Idle assets	Tamamura, Gunma Nakanojo, Gunma Others	194
Others	Idle assets	Tamamura, Gunma Others	28
	Total		<u>¥400</u>

For the business assets with no specific utilization plan and low profitability, due to withdrawal from "Optical media" business, their book values have been written down to the memorandum value and such reduction (178 million yen) was included in business structure improvement expenses in other income (expenses). This consists of 85 million yen for machinery and equipment, 29 million yen for buildings, 25 million yen for intangible assets, 22 million yen for construction in progress and 17 million yen for others.

For the idle assets with no specific utilization plan and 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.

11. DERIVATIVE TRANSACTIONS

The fair values of derivatives held by the Companies as of March 31, 2017 and 2016 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			
	2017			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:				
Selling: U.S. Dollar	¥28,483	-	¥383	¥383
Foreign exchange forward contracts:				
Buying: U.S. Dollar	¥2,256	-	¥(14)	¥(14)

	Millions of Yen			
	2016			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:				
Selling: U.S. Dollar	¥17,095	-	¥791	¥791
Foreign exchange forward contracts:				
Buying: U.S. Dollar	¥1,150	-	¥(25)	¥(25)

	Thousands of U.S. Dollars			
	2017			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:				
Selling: U.S. Dollar	\$254,310	-	\$3,418	\$3,418
Foreign exchange forward contracts:				
Buying: U.S. Dollar	\$20,146	-	\$(129)	\$(129)

(2) Derivative transactions for which hedge accounting is applied

		Millions of Yen		
		2017		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts:	Future transaction			
Selling: U.S. Dollar		¥7,300	-	¥42
Foreign exchange forward contracts:	Future transaction			
Buying: U.S. Dollar		¥1,691	-	¥(12)
Interest-rate swaps:	Long-term borrowings			
Fixed interest payment and floating interest receipt		¥10,000	-	-

		Millions of Yen		
		2016		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts:	Future transaction			
Selling: U.S. Dollar		¥6,187	-	¥13
Foreign exchange forward contracts:	Future transaction			
Buying: U.S. Dollar		¥1,128	-	¥(4)
Interest-rate swaps:	Long-term borrowings			
Fixed interest payment and floating interest receipt		¥10,500	¥10,000	-

		Thousands of U.S. Dollars		
		2017		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts:	Future transaction			
Selling: U.S. Dollar		\$65,182	-	\$378
Foreign exchange forward contracts:	Future transaction			
Buying: U.S. Dollar		\$15,100	-	\$(105)
Interest-rate swaps:	Long-term borrowings			
Fixed interest payment and floating interest receipt		\$89,286	-	-

For the exceptional accounting method for 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.

12. STOCK OPTION PLAN

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

Expenses for stock options amounting to 53 million yen (477 thousand dollar) and 99 million yen were recognized in selling, general and administrative expenses in 2017 and 2016, respectively.

For the years ended March 31, 2017 and 2016, a standard option pricing model (i.e., Black-Scholes) was used to measure the fair value of stock options granted to its directors and operating officers.

The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with risk-free interest rates of (0.39%) in 2017, 0.12% and 0.05% in 2016, dividends per share of 15 yen (0.13 dollar) in 2017, 10 yen in 2016, and volatility factor of the expected market value of the Company's common stock of 45.8% in 2017, 45.1% and 44.5% in 2016, determined by weekly historical price for the past 6.0 years in 2017, 6.1 years in 2016, which is the same period as expected life of the option.

A summary of the Company's stock options outstanding at March 31, 2017 is as follows:

Date of resolution	June 28, 2007	June 28, 2007	June 27, 2008	May 25, 2009
Date of grant	July 13, 2007	July 13, 2007	July 14, 2008	June 9, 2009
Number of options	32,000 shares of Common stock	46,000 shares of Common stock	46,000 shares of Common stock	37,000 shares of Common stock
Exercise price	¥1	¥1	¥1	¥1
Exercise period	From July 14, 2007 to July 13, 2027	From July 14, 2007 to July 13, 2027	From July 15, 2008 to July 14, 2028	From June 10, 2009 to June 9, 2029
Fair value (per share)	¥2,761	¥2,761	¥966	¥947
Options outstanding at March 31, 2016 (share)	3,000	6,000	6,000	6,000
Granted (share)	-	-	-	-
Exercised (share)	-	-	-	-
Forfeited/Expired (share)	-	-	-	-
Options outstanding at March 31, 2017 (share)	3,000	6,000	6,000	6,000
Date of resolution	June 29, 2010	June 29, 2011	April 25, 2012	May 24, 2013
Date of grant	July 21, 2010	July 14, 2011	May 11, 2012	June 10, 2013
Number of options	39,000 shares of Common stock	44,000 shares of Common stock	38,000 shares of Common stock	10,000 shares of Common stock
Exercise price	¥1	¥1	¥1	¥1
Exercise period	From July 22, 2010 to July 21, 2030	From July 14, 2011 to July 13, 2031	From May 11, 2012 to May 10, 2032	From June 10, 2013 to June 9, 2033
Fair value (per share)	¥1,013	¥948	¥739	¥1,625
Options outstanding at March 31, 2016 (share)	9,000	13,000	13,000	3,000
Granted (share)	-	-	-	-
Exercised (share)	-	-	-	-
Forfeited/Expired (share)	-	-	-	-
Options outstanding at March 31, 2017 (share)	9,000	13,000	13,000	3,000
Date of resolution	June 27, 2013	June 27, 2014	June 26, 2015	November 5, 2015
Date of grant	July 12, 2013	July 14, 2014	July 13, 2015	November 20, 2015
Number of options	31,000 shares of Common stock	55,000 shares of Common stock	62,000 shares of Common stock	2,000 shares of Common stock
Exercise price	¥1	¥1	¥1	¥1
Exercise period	From July 12, 2013 to July 11, 2033	From July 14, 2014 to July 13, 2034	From July 13, 2015 to July 12, 2035	From November 20, 2015 to November 19, 2035
Fair value (per share)	¥1,476	¥1,032	¥1,543	¥1,914
Options outstanding at March 31, 2016 (share)	21,000	42,000	57,000	2,000
Granted (share)	-	-	-	-
Exercised (share)	4,000	5,000	5,000	-
Forfeited/Expired (share)	-	-	3,000	-
Options outstanding at March 31, 2017 (share)	17,000	37,000	49,000	2,000

Date of resolution	June 29, 2016
Date of grant	July 15, 2016
Number of options	64,000 shares of Common stock
Exercise price	¥1
Exercise period	From July 15, 2016 to July 14, 2036
Fair value (per share)	¥834
Options outstanding at March 31, 2016 (share)	-
Granted (share)	64,000
Exercised (share)	-
Forfeited/Expired (share)	-
Options outstanding at March 31, 2017 (share)	64,000

13. COMPREHENSIVE INCOME

Reclassification and income tax effects attributable to other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized holding gains (losses) on securities:			
Gains (losses) arising during the year	¥1,470	¥(1,540)	\$13,127
Reclassifications and adjustments	6	139	57
Before income tax effects	1,476	(1,401)	13,184
Income tax effects	(305)	343	(2,725)
Net unrealized holding gains (losses) on securities	1,171	(1,058)	10,459
Deferred gains (losses) on hedges:			
Losses arising during the year	(274)	(68)	(2,452)
Reclassifications and adjustments	296	66	2,647
Before income tax effects	22	(2)	195
Income tax effects	(7)	1	(60)
Deferred gains (losses) on hedges	15	(1)	135
Foreign currency translation adjustments:			
Adjustments arising during the year	(3,690)	(9,931)	(32,950)
Reclassifications and adjustments	40	-	354
Before income tax effects	(3,650)	(9,931)	(32,596)
Income tax effects	17	(17)	153
Foreign currency translation adjustments	(3,633)	(9,948)	(32,443)
Adjustment in defined benefit obligation of overseas subsidiaries:			
Gains (losses) arising during the year	97	(81)	865
Reclassifications and adjustments	58	62	523
Before income tax effects	155	(19)	1,388
Income tax effects	(46)	(62)	(413)
Adjustment in defined benefit obligation of overseas subsidiaries	109	(81)	975
Total other comprehensive income	¥(2,338)	¥(11,088)	\$(20,874)

14. SEGMENT INFORMATION

(1) 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 performed in order to decide how resources are allocated among the Companies.

The Companies have omitted the disclosure of segment information since the Companies have single segment.

(2) Basis of measurement about reportable segment income or loss, segment assets and other material items
Information have been omitted since the Companies have the single segment.

(3) Information related to the amounts of net sales, profit and loss, assets, liabilities and other items by reportable segments

As the Companies have a single business segment, there're no items to report.

(4) Information by products classification

The Companies set four product classifications ; "Capacitors", "Ferrite and applied products", "Integrated modules & devices", and "Others".

Net sales by product classifications is as follows

Millions of Yen				
2017				
Capacitors	Ferrite and applied products	Integrated modules & devices	Others	Total
¥117,666	¥41,273	¥65,581	¥6,197	¥230,717

Millions of Yen				
2016				
Capacitors	Ferrite and applied products	Integrated modules & devices	Others	Total
¥123,675	¥46,464	¥57,696	¥12,551	¥240,386

Thousands of U.S. dollars				
2017				
Capacitors	Ferrite and applied products	Integrated modules & devices	Others	Total
\$1,050,592	\$368,511	\$585,544	\$55,323	\$2,059,970

(5) Transactions by geographical areas
(i) Sales

Millions of Yen				
2017				
Japan	China	Hong Kong	Other areas	Total
¥22,115	¥100,326	¥37,460	¥70,816	¥230,717

Millions of Yen				
2016				
Japan	China	Hong Kong	Other areas	Total
¥24,910	¥107,995	¥29,713	¥77,768	¥240,386

Thousands of U.S. dollars				
2017				
Japan	China	Hong Kong	Other areas	Total
\$197,451	\$895,772	\$334,464	\$632,283	\$2,059,970

(ii) Property, plant and equipment

Millions of Yen				
2017				
Japan	China	Malaysia	Other areas	Total
¥76,716	¥10,907	¥11,596	¥11,877	¥111,096

Millions of Yen				
2016				
Japan	China	Malaysia	Other areas	Total
¥66,784	¥14,212	¥14,135	¥11,916	¥107,047

Thousands of U.S. dollars				
2017				
Japan	China	Malaysia	Other areas	Total
\$684,963	\$97,384	\$103,539	\$106,049	\$991,935

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

The disclosure of Information about impairment loss on property, plant and equipment by reportable segments has been omitted since the Companies have single segment.

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

The disclosure of Information about amortization and the balance of (negative) goodwill by reportable segments has been omitted since the Companies have single segment.

(8) Information about major customers

Information for major customers has been omitted since there are no major customers accounts with more than 10% of net sales on consolidated statements of income for the years ended March 31, 2017 and 2016.

15. EARNINGS PER SHARE

Reconciliation of the basic and diluted earnings per share ("EPS") for the years ended March 31, 2017 and 2016 were as follows:

For the year ended March 31, 2017

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Earnings	Weighted Average Shares	EPS	
Basic EPS				
Net income attributable to common shareholders of the parent	¥5,429	117,826	¥46.08	\$0.41
Effect of dilutive securities				
Convertible bonds with stock acquisition rights	(10)	9,680	-	-
Stock acquisition rights	-	212	-	-
Diluted EPS				
Earnings for computation	¥5,419	127,718	¥42.43	\$0.38

For the year ended March 31, 2016

	Millions of Yen	Thousands of Shares	Yen
	Net Earnings	Weighted Average Shares	EPS
Basic EPS			
Net income attributable to common shareholders of the parent	¥14,751	117,754	¥125.27
Effect of dilutive securities			
Convertible bonds with stock acquisition rights	(10)	9,667	-
Stock acquisition rights	-	165	-
Diluted EPS			
Earnings for computation	¥14,741	127,586	¥115.54

16. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2017 were approved at the Company's shareholders' meeting held on June 29, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividend, 10.00 yen (0.09 dollar) per share	¥1,178	\$10,521

CONSOLIDATED SUBSIDIARIES and EQUITY-METHOD AFFILIATES**CONSOLIDATED SUBSIDIARIES**

Domestic (Japan)	Ownership
TAIYO YUDEN CHEMICAL TECHNOLOGY CO., LTD.	100.0%
TAIYO YUDEN TECHNO SOLUTIONS CO., LTD.	100.0%
Sun Vertex Co., Ltd.	100.0%
FUKUSHIMA TAIYO YUDEN CO., LTD.	100.0%
Kankyo Assist Co., Ltd.	100.0%
Niigata Taiyo Yuden Co., Ltd.	100.0%
TAIYO YUDEN ENERGY DEVICE CO., LTD.	100.0%
WAKAYAMA TAIYO YUDEN CO., LTD.	100.0%
Victor Advanced Media Co., Ltd.	100.0%
TAIYO YUDEN Mobile Technology Co., Ltd.	100.0%
Overseas	Ownership
TAIWAN TAIYO YUDEN CO., LTD.	100.0%
KOREA TAIYO YUDEN CO., LTD.	100.0%
TAIYO YUDEN (SINGAPORE) PTE. LTD.	100.0%
HONG KONG TAIYO YUDEN CO., LTD.	100.0%
TAIYO YUDEN (U.S.A.) INC.	100.0%
TAIYO YUDEN EUROPE GmbH	100.0%
TAIYO YUDEN (PHILIPPINES), INC.	100.0%
TAIYO YUDEN (SARAWAK) SDN. BHD.	100.0%
TAIYO YUDEN (MALAYSIA) SDN. BHD.	100.0%
TAIYO YUDEN (GUANGDONG) CO., LTD.	100.0%
KOREA KYONG NAM TAIYO YUDEN CO., LTD.	100.0%
TAIYO YUDEN (SHANGHAI) TRADING CO., LTD.	100.0%
TAIYO YUDEN (TIANJIN) ELECTRONICS CO., LTD.	100.0%
TAIYO YUDEN (SHENZHEN) ELECTRONICS TRADING CO., LTD.	100.0%
TAIYO YUDEN (CHINA) CO., LTD.	100.0%
TAIYO YUDEN TRADING (THAILAND) CO., LTD.	100.0%

EQUITY-METHOD AFFILIATES

Domestic (Japan)	Ownership
ELNA CO., LTD.	26.5%



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, 2017 and 2016, and the Consolidated Statements of Income, 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 misstatement, 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, 2017 and 2016, 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, 2017 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

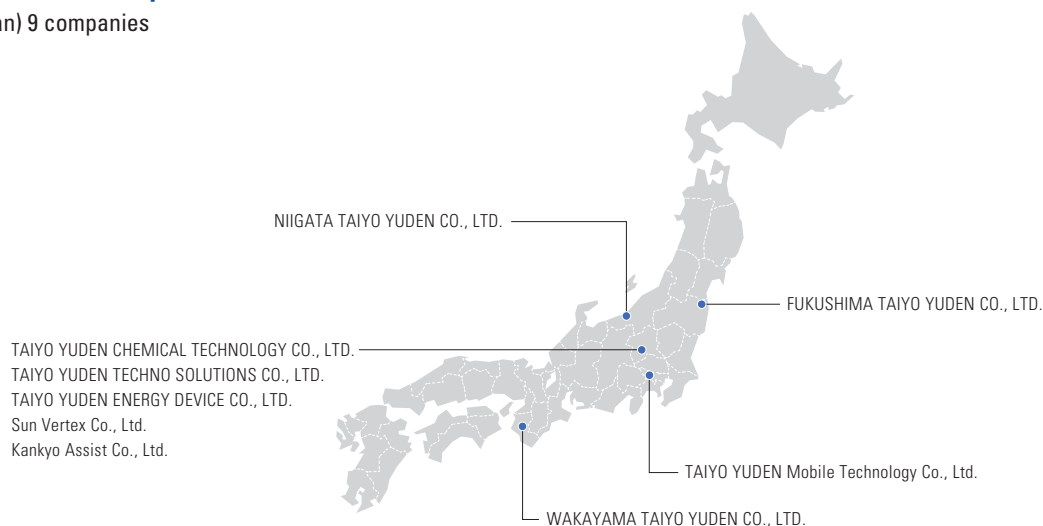
July 12, 2017
Tokyo, Japan

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.

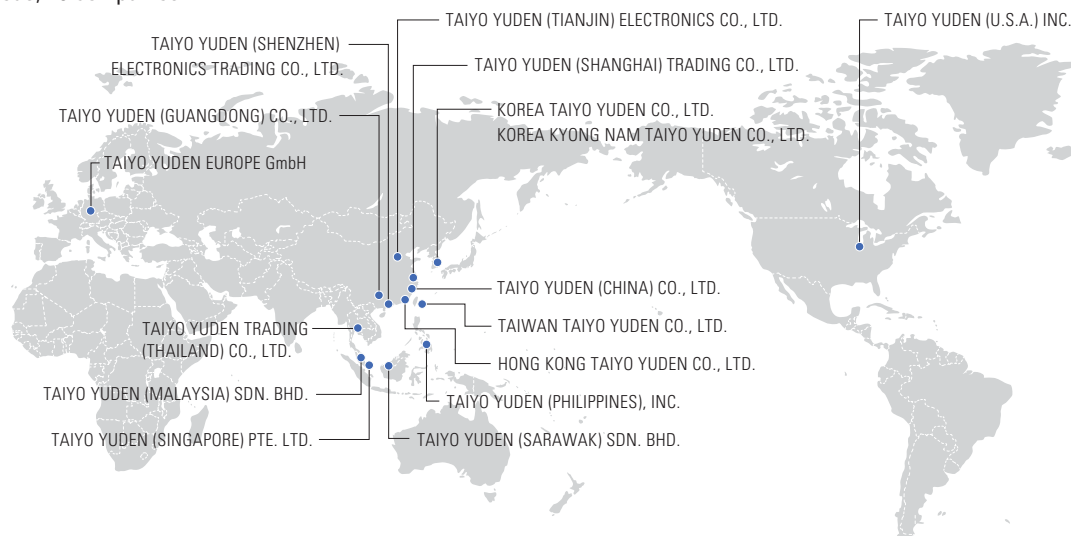
Corporate Data As of July 1, 2017

Company name	TAIYO YUDEN CO., LTD.	Paid-in capital	¥23,557 million (as of March 31, 2017)
Head office	2-7-19, Kyobashi, Chuo-ku, Tokyo 104-0031, Japan Tel: +81-3-6757-8310	Number of employees	18,753 (Consolidated) 2,586 (Non-consolidated) (as of March 31, 2017)
President and Chief Executive Officer	Shoichi Tosaka	Main products	Ceramic capacitors, inductors, FBAR/SAW devices for mobile communications, functional modules, energy devices, etc.
Date of establishment	March 23, 1950		
URL	http://www.ty-top.com/		

TAIYO YUDEN Group (Japan) 9 companies



(Overseas) 16 companies

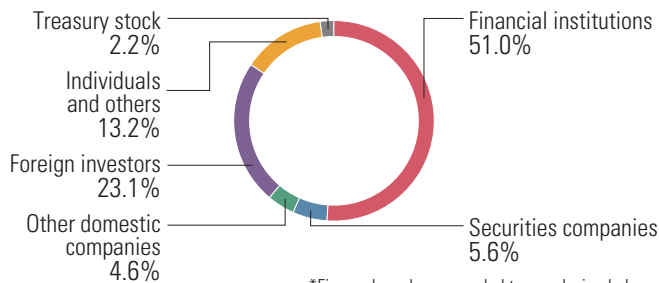


Stock Information As of March 31, 2017

Stock Information

Common stock	Authorized:	300,000,000
	Issued:	120,481,395
	(Including 2,650,804 shares of treasury stock)	
Stock exchange listing:	First section of Tokyo Stock Exchange	
Securities code:	6976	
Unit of trading:	100 shares	
Number of shareholders:	13,387	

Composition of Shareholders



Major Shareholders

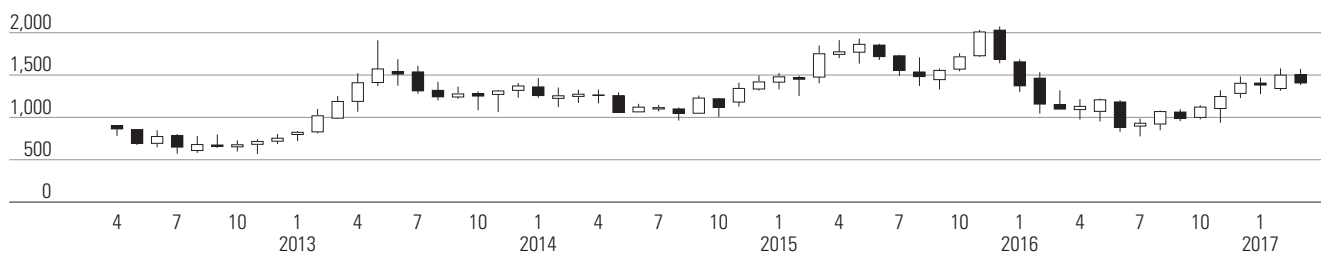
Name	Number of shares (hundreds)	Voting rights (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	232,327	19.7
Japan Trustee Services Bank, Ltd. (Trust Account)	112,236	9.5
Sumitomo Mitsui Banking Corporation	40,000	3.3
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	35,309	2.9
The Iyo Bank, Ltd.	30,001	2.5
Japan Trustee Services Bank, Ltd. (Trust Account 9)	27,516	2.3
BNP Paribas Securities (Japan) Ltd.	20,554	1.7
HSBC ASIA EQUITY FINANCE-JAPAN EQUITIES (TRADING)	20,008	1.6
Goldman Sachs Japan Co., Ltd.	20,000	1.6
Sato Traffic Orphan Welfare Fund	19,166	1.6

Notes 1. The Company holds 2,650,804 shares of treasury stock; however, this is excluded from the above-mentioned major shareholders.
2. The figures in this table are rounded down.

Stock Price/Trading Volume

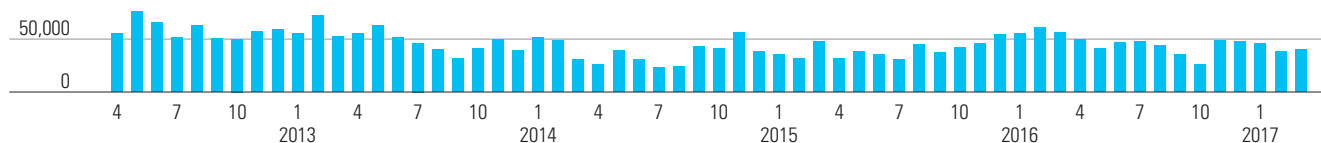
Stock price

2,500 (Yen)



Trading volume

100,000 (Thousand shares)



TAIYO YUDEN's History

1950s

1950.03

TAIYO YUDEN CO., LTD. was established

Founder Hikohachi Sato and the first office in Chiyoda Ward, Tokyo



1950.09

Sales of Rutilcon, barium titanate ceramic capacitors, began



1954.09

Production of Ferrit Cores, small ferrite cores, began

1960s

1964.09

Established the technical research laboratory

1965

Sales of inductors using in-house ferrite cores began



1967.05

Established our first overseas subsidiary TAIWAN TAIYO YUDEN CO., LTD. in Taipei

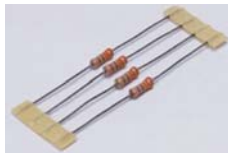
1970s

1970.03

Listed on the Second Section of the Tokyo Stock Exchange. In 1973, moved to the First Section.

1976.07

The world's first sales of axial leaded ceramic capacitors began



1977.04

Sales of axial leaded inductors began

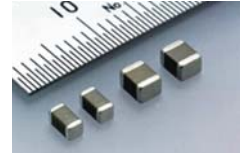
1977.10

Developed world's first tubular chip type ceramic capacitors

1980s

1984.07

The world's first sales of nickel electrode high-capacitance multilayer ceramic capacitors began



1986.06

Established the EMC Center

1988.09

Announced the release of the world's first recordable CD-R compact disks



1990s

1998.06

Sales of the LB Series of wire-wound chip inductors for power circuits began

1998.11

Established the R&D Center



2000s

2000

Established four production bases abroad simultaneously

2001.04

Acquired the world's first Bluetooth® standard version 1.1 qualification for Bluetooth® full modules

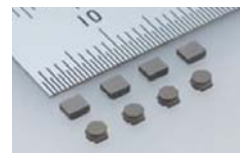
2010s

2010.03

Acquired TAIYO YUDEN Mobile Technology Co., Ltd.

2012.05

Sales of MCOIL™, metal power inductors, began



2014.09

Sales of 0201 size multilayer ceramic capacitors began



TAIYO YUDEN CO., LTD.

2-7-19, Kyobashi, Chuo-ku, Tokyo 104-0031, Japan

Tel +81-3-6757-8310

<http://www.ty-top.com/>