

**TAIYO YUDEN CO., LTD.**  
and **SUBSIDIARIES**

Consolidated Financial Statements for the  
Years Ended March 31, 2002 and 2001  
with Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Taiyo Yuden Co., Ltd.:

We have examined the consolidated balance sheets of Taiyo Yuden Co., Ltd. (Taiyo Yuden Kabushiki Kaisha) and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Taiyo Yuden Co., Ltd. and subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Izumi Audit Corporation*

IZUMI AUDIT CORPORATION  
Tokyo, Japan  
June 27, 2002

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Balance Sheets  
March 31, 2002 and 2001

<u>ASSETS</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2002</u>	<u>2001</u>	<u>U.S. Dollars</u>
			<u>(Note 1)</u>
			<u>2002</u>
Current assets:			
Cash and cash equivalents	¥33,782	¥22,815	\$254,000
Time deposits	4,397	6,091	33,060
Short-term investments (Note 3)	62	161	466
Receivables :			
Trade notes and accounts receivable	41,555	49,921	312,444
Allowance for doubtful receivables	(419)	(630)	(3,150)
Inventories (Note 4)	28,251	36,855	212,414
Deferred tax asset (Note 8)	1,131	1,899	8,504
Prepaid expenses and other current assets	3,852	7,631	28,962
Total current assets	<u>112,611</u>	<u>124,743</u>	<u>846,700</u>
Property, plant and equipment:			
Land	5,901	5,876	44,368
Buildings and structures	47,640	44,775	358,195
Machinery and equipment	137,743	126,921	1,035,662
Tools, furniture and fixtures	13,444	12,425	101,083
Construction in progress	4,633	4,815	34,835
Total	<u>209,361</u>	<u>194,812</u>	<u>1,574,143</u>
Accumulated depreciation	<u>(101,950)</u>	<u>(86,432)</u>	<u>(766,541)</u>
Net property, plant and equipment	<u>107,411</u>	<u>108,380</u>	<u>807,602</u>
Investments and other assets:			
Investment securities (Note 3)	923	1,169	6,940
Investments in affiliates	1,324	1,349	9,955
Deferred tax asset (Note 8)	2,978	1,836	22,391
Other	6,307	5,662	47,421
Total investments and other assets	<u>11,532</u>	<u>10,016</u>	<u>86,707</u>
	<u>¥231,554</u>	<u>¥243,139</u>	<u>\$1,741,009</u>

See notes to consolidated financial statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Balance Sheets  
March 31, 2002 and 2001

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
Current liabilities:			
Short-term loans (Note 5)	¥14,218	¥30,570	\$106,902
Current portion of long-term debt (Note 5)	587	2,529	4,414
Payables :			
Trade notes and accounts payable	13,576	17,959	102,075
Notes and accounts payable for construction	2,009	7,602	15,106
Other	954	1,722	7,173
Income tax payable (Note 8)	2,249	5,692	16,910
Accrued expenses	6,370	7,533	47,895
Deferred tax liability (Note 8)	34	279	256
Other current liabilities	680	455	5,113
Total current liabilities	<u>40,677</u>	<u>74,341</u>	<u>305,844</u>
Long-term liabilities:			
Long-term debt (Note 5)	18,726	9,147	140,797
Liabilities for employees' retirement benefits (Note 6)	4,810	3,236	36,165
Liabilities for director and statutory auditor retirement benefits	441	608	3,316
Deferred tax liability (Note 8)	7,492	5,882	56,331
Other	155	82	1,165
Total long-term liabilities	<u>31,624</u>	<u>18,955</u>	<u>237,774</u>
Total liabilities	<u>72,301</u>	<u>93,296</u>	<u>543,618</u>
Minority interests	156	872	1,173
Contingent liabilities (Note 10)			
Shareholders' equity (Note 7):			
Common stock			
Authorized - 200,000 thousand shares			
Issued - 120,412 thousand shares in 2002 and 120,406 thousand shares in 2001	23,515	23,512	176,805
Additional paid-in capital	41,409	41,405	311,346
Retained earnings (Note 13)	93,862	88,822	705,729
Net unrealized holding gains on securities (Note 3)	29	-	218
Foreign currency translation adjustments - net	310	(4,764)	2,331
Treasury stock, at cost - 14,307 shares in 2002 and 1,146 shares in 2001	(28)	(4)	(211)
Total shareholders' equity	<u>159,097</u>	<u>148,971</u>	<u>1,196,218</u>
	<u>¥231,554</u>	<u>¥243,139</u>	<u>\$1,741,009</u>

See notes to consolidated financial statements

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statements of Income  
Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
NET SALES (Note 12)	¥152,057	¥189,960	\$1,143,286
COST OF SALES	<u>113,982</u>	<u>123,068</u>	<u>857,008</u>
Gross profit	38,075	66,892	286,278
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>31,885</u>	<u>31,526</u>	<u>239,737</u>
Operating income	6,190	35,366	46,541
OTHER INCOME (EXPENSES):			
Interest and dividend income	730	740	5,489
Interest expense	(389)	(546)	(2,925)
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	31	21	233
Equity in earnings of affiliates – net	(1)	212	(8)
Loss on disposal of property, plant and equipment	(491)	(153)	(3,692)
Gain on foreign exchange	3,164	3,845	23,789
Payment compensation	(157)	(201)	(1,180)
Gain on securities contribution to retirement benefit trust	–	5,631	–
Cumulative effect of a change in accounting for retirement benefits	–	(10,247)	–
Loss on devaluation of investment securities	(291)	–	(2,188)
Loss on settlement of designated money in trust	–	(1,670)	–
Sundry – net	<u>21</u>	<u>(751)</u>	<u>158</u>
Other income (expenses) – net	<u>2,617</u>	<u>(3,119)</u>	<u>19,676</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	8,807	32,247	66,217
INCOME TAXES (Note 8)			
Current	1,354	8,429	10,180
Deferred	<u>1,081</u>	<u>3,060</u>	<u>8,128</u>
	<u>2,435</u>	<u>11,489</u>	<u>18,308</u>
INCOME BEFORE MINORITY INTERESTS	6,372	20,758	47,909
MINORITY INTERESTS	51	261	383
NET INCOME	<u>¥6,321</u>	<u>¥20,497</u>	<u>\$47,526</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 13):			
Net income:			
Common share	¥52.49	¥170.71	\$0.39
Assuming full dilution	50.54	163.09	0.38
Cash dividends applicable to the year	10.00	10.00	0.08

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity  
Years Ended March 31, 2002 and 2001

	Thousands	Millions of Yen					Treasury Stock, at Cost
	Number of Shares of Common Stock Issued	Common Stock (Note 7)	Additional Paid-in Capital (Note 7)	Retained Earnings (Note 12)	Net unrealized holding gains on securities	Foreign currency translation adjustments	
BALANCE, MARCH 31, 2000	119,561	¥22,995	¥40,890	¥70,181	-	-	(¥41)
Net income				20,497			
Cash dividends, ¥15.00 per share				(1,795)			
Bonuses to directors				(61)			
Shares issued on conversion of convertible bonds	845	517	515				
Foreign currency translation adjustments					-	(4,764)	
Treasury stock acquired - net (5,789 shares)							37
BALANCE, MARCH 31, 2001	120,406	23,512	41,405	88,822	-	(4,764)	(4)
Net income				6,321			
Cash dividends, ¥10.00 per share				(1,204)			
Bonuses to directors				(77)			
Shares issued on conversion of convertible bonds	6	3	4				
Net unrealized holding gains on securities					29		
Foreign currency translation adjustments						5,074	
Treasury stock acquired - net (13,161 shares)							(24)
BALANCE, MARCH 31, 2002	<u>120,412</u>	<u>¥23,515</u>	<u>¥41,409</u>	<u>¥93,862</u>	<u>¥29</u>	<u>¥310</u>	<u>(¥28)</u>

	Thousands of U.S. Dollars (Note 1)					
	Common Stock (Note 7)	Additional Paid-in Capital (Note 7)	Retained Earnings (Note 12)	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury Stock, at Cost
BALANCE, MARCH 31, 2001	\$176,782	\$311,316	\$667,835	-	(\$35,820)	(\$30)
Net income			47,526			
Cash dividends, \$0.08 per share			(9,053)			
Bonuses to directors			(579)			
Shares issued on conversion of convertible bonds	23	30				
Net unrealized holding gains on securities				218		
Foreign currency translation adjustments					38,151	
Treasury stock acquired - net (13,161 shares)						(181)
BALANCE, MARCH 31, 2002	<u>\$176,805</u>	<u>\$311,346</u>	<u>\$705,729</u>	<u>\$218</u>	<u>\$2,331</u>	<u>(\$211)</u>

See notes to consolidated financial statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows  
Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>Operating activities:</b>			
Net income before income taxes and minority interests	¥8,807	¥32,247	\$66,217
<b>Adjustments:</b>			
Depreciation and amortization	20,745	17,119	155,977
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	(31)	(21)	(233)
Allowance for doubtful receivables	(242)	87	(1,820)
Liabilities for retirement benefits	1,354	1,735	10,180
Interest and dividend income	(730)	(740)	(5,489)
Interest expense	389	546	2,925
Equity in earnings of affiliates	1	(212)	8
Loss on disposal of property, plant and equipment	491	153	3,692
Gain on securities contribution retirement benefit trust	-	(5,631)	-
Securities contribution retirement benefit trust	-	8,410	-
Loss on settlement of designated money in trust	-	1,670	-
<b>Changes in operating assets and liabilities:</b>			
Trade receivables	10,587	(430)	79,602
Inventories	9,527	(7,008)	71,632
Trade payables	(12,890)	(2,358)	(96,917)
Other - net	2,815	(1,052)	21,165
Subtotal	40,823	44,515	306,939
Interest and dividends received	803	791	6,038
Interest paid	(569)	(444)	(4,278)
Refunded Taxes	308	-	2,316
Taxes paid	(5,208)	(8,957)	(39,158)
Net cash provided by operating activities	<u>36,157</u>	<u>35,905</u>	<u>271,857</u>
<b>Investing activities:</b>			
Purchases of short-term securities	(1,285)	(2,100)	(9,662)
Proceeds from sales of short-term securities	1,446	2,131	10,872
Purchases of property, plant and equipment	(16,828)	(53,957)	(126,526)
Proceeds from sales of property, plant and equipment	378	648	2,842
Purchases of investment securities	(82)	(163)	(617)
Proceeds from sales of investment securities	30	35	226
Loans made	(7)	(71)	(53)
Collections on loans	40	3	301
Other-net	1,261	(2,622)	9,481
Net cash used in investing activities	<u>(15,047)</u>	<u>(56,096)</u>	<u>(113,136)</u>

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows  
Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
Financing activities:			
Net increase(decrease) in short-term loans	(19,729)	20,966	(148,338)
Proceeds from long-term debt	10,312	2,584	77,534
Repayment of long-term debt	(713)	(1,678)	(5,361)
Payment of cash dividends	(1,204)	(1,795)	(9,053)
Other-net	(118)	(24)	(886)
Net cash provided by financing activities	<u>(11,452)</u>	<u>20,053</u>	<u>(86,104)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>1,309</u>	<u>1,278</u>	<u>9,842</u>
Net increase in cash and cash equivalents	<u>10,967</u>	<u>1,140</u>	<u>82,459</u>
Cash and cash equivalents, beginning of year	<u>22,815</u>	<u>21,675</u>	<u>171,541</u>
Cash and cash equivalents, end of year	<u><u>¥33,782</u></u>	<u><u>¥22,815</u></u>	<u><u>\$254,000</u></u>
Noncash financing activities:			
Conversion of bonds into common stock and additional paid-in capital	¥7	¥1,032	\$53

See notes to consolidated financial statements.

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the consolidated financial statements which have been filed with the appropriate Local Finance Bureau of the Ministry of Finance of Japan as required by the Securities Exchange Law and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, result of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133 to \$1, the approximate rate of exchange at March 31, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. *Consolidation Policies* – The consolidated financial statements include the accounts of Taiyo Yuden Co., Ltd. (the “Company”) and all of its subsidiaries (together the “Companies”). The Japanese accounting standards for consolidation requires the control or influence concept for the consolidation scope of subsidiaries and affiliates.

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

The excess of cost of the Company's investments in subsidiaries over its equity in their net assets at the dates of acquisition is being amortized over the subsequent five-year periods.

Investments in affiliates are accounted for by the equity method.

Net income or loss includes the equity in the current net earnings (losses) of such companies, after the elimination of unrealized intercompany profit.

- b. *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.

- c. *Translation of Foreign Currency Items in the Company's Balance Sheets* – Short-term and Long-term foreign currency monetary items are translated into Japanese yen at the applicable year-end rates. The resulting net gains (losses) are shown as “Gain on foreign exchange” in the accompanying consolidated statements of income.  
Effective April 1, 2000, the Company adopted the “Opinion on Revising Foreign Currency Denominated Transaction Accounting Standards” issued by the Business Accounting Deliberative Council on October 22, 1999. This change had no material effect in the Company's financial statements.
- d. *Translation of Financial Statements of Foreign Consolidated Subsidiaries* – In translating the financial statements of foreign subsidiaries for the purpose of consolidation, all assets and liabilities are translated into Japanese yen at current exchange rates while shareholders' equity accounts are translated at historical rates.  
Revenue and expense items are translated at the average rates during the year. The resulting translation differences are shown as “Foreign currency translation adjustments – net” in shareholders' equity in the accompanying consolidated balance sheets.  
Effective April 1, 2000, the Company adopted the “Opinion on Revising Foreign Currency Denominated Transaction Accounting Standards” issued by the Business Accounting Deliberative Council on October 22, 1999.
- e. *Debt and equity Securities* – Effective April 1, 2000, the Companies adopted the new Japanese accounting standard “Accounting Standards for Financial Instruments” issued by the Business Accounting Deliberative Council on January 22, 1999. Under this standard, the Companies classifies for debt and equity securities, depending on management's intent, as follows:  
( i ) held-to-maturity debt securities, for which management has the positive intent and ability to hold to maturity, are reported at amortized or accumulated cost.  
( ii ) available-for-sale securities, which represent securities not classified as either trading securities or held-to-maturity debt securities, are reported fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholder's equity. The cost of available-for-sale securities sold is determined based on the moving average method.  
Effective April 1, 2001, the Companies adopted “Opinion on Establishing Financial Instrument Accounting Standards” issued by Business Accounting Deliberative Council on January 22, 1999.  
Unrealized holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. As a result of this change, net unrealized holding gains on securities of ¥29 million (\$218 thousand) was recorded.
- f. *Inventories* – Inventories are stated at cost, determined by the average method for finished products and work in process and by the first-in, first-out (FIFO) method for raw materials and supplies.
- g. *Property, Plant and Equipment* – Property, plant and equipment are stated at cost.  
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 used for certain foreign subsidiaries.  
  
In line with an amendment to the Japanese Corporation Tax Law , depreciation of buildings acquired on or after April 1, 1998, was calculated using the straight-line method.  
  
Major renewals and improvements are capitalized. Normal repair and maintenance expenses are charged to income as incurred.
- h. *Leases* – All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as rental transactions if certain “as if capitalized” information is disclosed in the notes to the lessee's consolidated financial statements.
- i. *Retirement Benefits* – To cover projected employee benefits, the Companies records the estimated obligations at the end of the current fiscal year based on projected year – end benefit obligations and assets. Unrecognized actuarial loss are amortized as incurred by the straight-line method over the period of 15 years which is within the average remaining years of service, commencing with the following period.  
  
The Company and certain subsidiaries provide for lump-sum severance benefits with respect to directors and statutory auditors. While the Company and certain subsidiaries have no legal obligation, it makes lump-sum payments to directors and statutory auditors upon retirement. Annual provisions are made in the accounts for the estimated costs of this termination plan, which is not funded.

- j. *Income Taxes* – The Companies adopt deferred tax accounting. Tax effect on temporary differences between financial and tax reporting purposes is reflected in the accompanying consolidated financial statements.
- k. *Research and Development Costs* – Expenditures by the Company and certain subsidiaries for development of specified new products are charged to income as incurred.
- l. *Derivatives and hedge accounting* – The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative instruments are used for hedging purposes. If derivative financial instruments are used as hedge and meet certain hedging criteria, the Company defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedge items are recognized. Also, if interest rate swap contracts are used as hedge 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. Interest rate swap contracts are subject to risks of interest rate changes. The derivative transactions are executed and managed by the corporate management division in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.
- m. *Per Share Information* – Net income and cash dividends per share are computed based on the weighted average number of shares of common stock outstanding during each period. Cash dividends per share consist of interim and year-end dividends and are accounted for in the year they are declared rather than in the year in which they are actually paid.
- n. *Certain Reclassifications* – Certain reclassifications of prior year's amounts have been made to conform to the presentation for 2002.

### 3. DEBT AND EQUITY SECURITIES

Information classified as available-for-sale and held-to-maturity at March 31, 2002 was as follows:

Securities classified as:	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥736	¥90	¥37	¥789
Held-to-maturity:				
Government and corporate bonds	61	-	1	60
Total	¥797	¥90	¥38	¥849

Securities classified as:	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	\$5,534	\$676	\$278	\$5,932
Held-to-maturity:				
Government and corporate bonds	459	-	8	451
Total	\$5,993	\$676	\$286	\$6,383

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2002 were as follows:

Securities classified as:	Carrying Values	
	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale:		
Equity securities	¥133	\$1,000
Held-to-maturity:		
Government and corporate bonds	3	23
Total	¥136	\$1,023

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2002 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in 1 year or less	¥62	\$466
Due after 1 year through 5 years	2	15
Total	¥64	\$481

### 4. INVENTORIES

Inventories at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Finished products	¥11,438	¥15,623	\$86,000
Work in process	11,045	11,914	83,045
Raw materials and supplies	5,768	9,318	43,369
Total	¥28,251	¥36,855	\$212,414

## 5. SHORT-TERM LOANS AND LONG-TERM DEBT

Annual interest rates applicable to the short-term loans outstanding ranged from 0.36% to 0.47% and from 0.83% to 8.00% at March 31, 2002 and 2001, respectively.

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Government agencies, maturing serially through 2036	¥11,037	¥1,015	\$82,985
1.15% convertible bonds due 2008	6,787	6,794	51,030
Long-term bank loans without collateral due serially to 2003 with interest rates ranging from 0.85% to 4.33% for 2002 and from 1.06% to 5.97% for 2001	1,347	3,760	10,128
Accounts payable, etc.	142	107	1,068
Total	19,313	11,676	145,211
Less current portion	587	2,529	4,414
Long-term debt, less current portion	<u>¥18,726</u>	<u>¥9,147</u>	<u>\$140,797</u>

The conversion price per share of the convertible bonds for the year ended March 31, 2002 was ¥1,221 (\$9.18) – fixed price.

The number of shares issued on conversion of convertible bonds for the year ended March 31, 2002 was 6 thousand shares.

## 6. RETIREMENT BENEFITS

Effective April 1, 2000, the Companies adopted “Opinion on Establishing Retirement Benefit Accounting Standards” issued by the Business Accounting Deliberative Council on June 16, 1998.

### (1) Outline of retirement benefit plans

The Company has a contributory funded pension and a non-contributory defined funded pension plan. Domestic subsidiaries' employees principally are entitled to lump-sum payments at the time of termination. Certain foreign subsidiaries' employees principally are also entitled to lump-sum payments at the time of termination.

### (2) Retirement benefit obligation as of March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Benefit obligation	¥49,091	¥41,072	\$369,105
Fair value of plan assets	(28,839)	(30,214)	(216,835)
Unrecognized actuarial loss	(15,442)	(7,622)	(116,105)
Net liability for retirement benefits	<u>¥4,810</u>	<u>¥3,236</u>	<u>\$36,165</u>

### (3) Retirement benefit costs for the year ended March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Service cost	¥2,401	¥1,965	\$18,053
Interest cost	1,421	1,286	10,684
Expected return on plan assets	(848)	(907)	(6,376)
Recognized actuarial loss	508	–	3,819
Amortization of transitional obligation	–	10,247	–
Net periodic benefit costs	<u>¥3,482</u>	<u>¥12,591</u>	<u>\$26,180</u>

### (4) Assumptions used for the year ended March 31, 2002 and 2001 were as follows:

	2002	2001
Allocation method of the retirement benefits expected to be paid at the retirement date	Straight-line method	Straight-line method
Discount rate	3.0 %	3.5 %
Expected return on plan assets	2.0~3.5 %	2.0~3.5 %
Recognition period of actuarial gain/loss	15 years	15 years
Amortization period of transitional obligation	–	1 year

## 7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective October 1, 2001. The Code eliminates the stated par value of the Company's outstanding shares which results in all outstanding shares having no par value as of October 1, 2001. The Company's share had a par value of ¥50 per share.

Under the Code, the entire amount of the issue price of shares is required to be accounted for in the common stock account although a company in Japan may, by a resolution of its board of directors, account for an amount not exceeding 50% of the issue price of the shares as additional paid-in capital.

The Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceed 25% of stated capital can be transferred to retained earnings by resolution of shareholders, which may be available for dividends.

Effective October 1, 2001, the Code allows companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings, less treasury stock as recorded on the Company's books. At March 31, 2002, retained earnings, less treasury stock recorded on the Company's books were ¥37,374 million (\$281,008 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

Cash dividends charged to retained earnings were dividends paid during the fiscal year, which represent year-end cash dividends for the preceding fiscal year end and interim cash dividends for the current fiscal year.

## 8. INCOME TAXES

Income taxes in Japan applicable to the Company for the years ended March 31, 2002 and 2001 were comprised of (1) a corporation tax at the rates of 30.0% on taxable income, (2) enterprise tax of approximately 10% on taxable income and (3) prefectural and residence taxes of approximately 21% of the amount of the corporation tax. Enterprise tax is deductible for income tax purposes when paid.

Income taxes of foreign subsidiaries are generally based on tax rates applicable in the country of incorporation. No consolidated tax returns are filed in Japan.

Reconciliation of the normal income tax rates to the effective income tax rates were as follows :

Statutory tax rate	41.7 %
Income of foreign subsidiaries taxed at lower than statutory tax rates	(13.5)
Refunded taxes	(4.8)
Others, net	4.3
Effective income tax rate	<u>27.7 %</u>

Significant components of the deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

Deferred tax assets	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Inventories	¥319	¥889	\$2,398
Accruals	3,406	3,054	25,609
Enterprise tax	69	331	519
Unrealized holding losses on securities	174	-	1,308
Operating loss carryforwards	565	-	4,248
Other	536	391	4,031
Offset	(960)	(930)	(7,218)
	<u>¥4,109</u>	<u>¥3,735</u>	<u>\$30,895</u>
Deferred tax liabilities			
Allowance for doubtful receivables	¥35	¥59	\$263
Undistributed earnings of foreign subsidiaries	7,202	5,756	54,150
Reserves	1,025	1,000	7,707
Other	224	276	1,685
Offset	(960)	(930)	(7,218)
	<u>¥7,526</u>	<u>¥6,161</u>	<u>\$56,587</u>

## 9. LEASE TRANSACTIONS

The followings were "as if capitalized" information on finance lease contracts without ownership-transfer.

The amounts corresponding to acquisition cost, accumulated depreciation, and net book value at March 31, 2002 and 2001, were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
The amount corresponding to acquisition cost	¥5,370	¥4,539	\$40,376
The amount corresponding to accumulated depreciation	3,092	1,998	23,248
The amount corresponding to net book value	<u>¥2,278</u>	<u>¥2,541</u>	<u>\$17,128</u>

The amounts of outstanding future lease payments due at March 31, 2002 and 2001, less amount representing interest, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Future lease payments			
Within one year	¥1,050	¥940	\$7,895
Over one year	1,317	1,650	9,902
Total	<u>¥2,367</u>	<u>¥2,590</u>	<u>\$17,797</u>

Lease rental expense and the amounts corresponding to depreciation and interest expense for the years ended March 31, 2002 and 2001 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Lease rental expense	¥1,126	¥1,041	\$8,466
The amount corresponding to depreciation expense	1066	972	8,015
The amount corresponding to interest expense	61	88	459

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

## 10. CONTINGENT LIABILITIES

At March 31, 2002 and 2001 the companies had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
As endorser of trade notes receivable discounted with banks	-	¥938	-
As guarantor of bank loans and indebtedness	79	95	594
Total	<u>¥79</u>	<u>¥1,033</u>	<u>\$594</u>

## 11. Derivative financial instrument

The Company enters into interest rate swap contracts for the purpose of utilizing effectively convert its floating-rate debt to a fixed rate basis. The Company does not hold or issue derivatives for trading purpose. The Company exposed to market risk in these relatives, however, the Company does not anticipate any losses arising from credit risk, because the counterparties to these derivatives are limited to major domestic financial institutions with high bond ratings.

The Company has risk management policy of derivative financial instruments. In accordance with the Company's policy the corporate management division controls derivative transaction. The general manager of the corporate management division reports the performance and the related risks connected with derivatives to the board of directors of the Company.

## 12. SEGMENT INFORMATION

### For the year ended March 31, 2002

#### (1) Industry Segment Information

The Company and its subsidiaries conduct manufacturing operations predominantly in the electronic parts industry. The sales and operating income from such operations and assets exceeded 90% of the consolidated sales, operating income, and assets, therefore the disclosure of industry segment information was omitted.

#### (2) Geographic Segment Information

	Millions of Yen				Elimination or common	Consolidated
	Japan	Asia	Other	Total		
Sales:						
Customers	¥53,097	¥69,229	¥29,731	¥152,057	-	¥152,057
Intersegment	56,388	28,010	1,072	85,470	(¥85,470)	-
Total	109,485	97,239	30,803	237,527	(85,470)	152,057
Operating expenses	118,125	82,254	33,048	233,427	(87,560)	145,867
Operating income	(¥8,640)	¥14,985	(¥2,245)	¥4,100	¥2,090	¥6,190
Assets	¥132,384	¥109,835	¥10,117	¥252,336	(¥20,782)	¥231,554

	Thousands of U.S. Dollars				Elimination or common	Consolidated
	Japan	Asia	Other	Total		
Sales:						
Customers	\$399,226	\$520,519	\$223,541	\$1,143,286		\$1,143,286
Intersegment	423,970	210,602	8,060	642,632	(\$642,632)	
Total	823,196	731,121	231,601	1,785,918	(642,632)	1,143,286
Operating expenses	888,158	618,451	248,481	1,755,090	(658,345)	1,096,745
Operating income	(\$64,962)	\$112,670	(\$16,880)	\$30,828	\$15,713	\$46,541
Assets	\$995,368	\$825,827	\$76,068	\$1,897,263	(\$156,254)	\$1,741,009

(a) Common assets were ¥11,141 million (\$83,767 thousand).

They are principally comprised of cash and cash equivalents and investments of the Company.

(b) The above segments are classified geographically.

(c) Main countries or areas other than Japan:

Asia ..... Taiwan, Hong Kong, Korea, China, Malaysia, Singapore

Other ..... U.S.A., Germany

## (3) Foreign Sales Information

	Millions of Yen				
	Asia	North America	Europe	Other	Total
Foreign sales	¥68,833	¥16,999	¥12,023	¥737	¥98,592
Consolidated sales					¥152,057
Percentage of foreign sales in proportion to consolidated sales	45.3%	11.2%	7.9%	0.4%	64.8%

  

	Thousands of U.S. Dollars				
	Asia	North America	Europe	Other	Total
Foreign sales	\$517,541	\$127,812	\$90,398	\$5,542	\$741,293
Consolidated sales					\$1,143,286

(a) The above segments are classified geographically.

(b) Main countries or areas other than Japan:

Asia ····· Taiwan, Hong Kong, Korea, China, Malaysia, Singapore

North America·····U.S.A. , Canada

Europe·····Germany , U.K. , Finland , Sweden , France , Italy

Other ····· South America , the Middle East

(c) Foreign sales are the total of export sales of the Company and its subsidiaries to countries and regions outside Japan.

**For the year ended March 31, 2001**

## (1) Industry Segment Information

The Company and its subsidiaries conduct manufacturing operations predominantly in the electronic parts industry.

The sales and operating income from such operations and assets exceeded 90% of the consolidated sales, operating income, and assets, therefore the disclosure of industry segment information was omitted.

## (2) Geographic Segment Information

	Millions of Yen					Elimination or common	Consolidated
	Japan	Asia	Other	Total			
Sales:							
Customers	¥72,286	¥75,957	¥41,717	¥189,960	-	¥189,960	
Intersegment	98,871	31,958	1,110	131,939	(¥131,939)	-	
Total	171,157	107,915	42,827	321,899	(131,939)	189,960	
Operating expenses	156,817	84,653	40,764	282,234	(127,640)	154,594	
Operating income	¥14,340	¥23,262	¥2,063	¥39,665	(¥4,299)	¥35,366	
Assets	¥157,306	¥102,013	¥13,316	¥272,635	(¥29,496)	¥243,139	

(a) Common assets were ¥13,961 million (\$112,589 thousand).

They are principally comprised of cash and cash equivalents and investments of the Company.

(b) The above segments are classified geographically.

(c) Main countries or areas other than Japan:

Asia ····· Taiwan, Hong Kong, Korea, China, Malaysia, Singapore

Other ····· U.S.A., Germany

(3) Foreign Sales Information

	Millions of Yen				Total
	Asia	North America	Europe	Other	
Foreign sales	¥75,499	¥19,692	¥21,507	¥1,090	¥117,788
Consolidated sales					¥189,960
Percentage of foreign sales in proportion to consolidated sales	39.7%	10.4%	11.3%	0.6%	62.0%

(a) The above segments are classified geographically.

(b) Main countries or areas other than Japan:

Asia ..... Taiwan, Hong Kong, Korea, China, Malaysia, Singapore

North America.....U.S.A., Canada

Europe.....Germany , U.K. , Finland , Sweden , France , Italy

Other ..... South America , the Middle East

(c) Foreign sales are the total of export sales of the Company and its subsidiaries to countries and regions outside Japan.

13. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2002 were approved at the Company's shareholders' meeting held on June 27, 2002:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividend, ¥5.00 (\$0.04) per share	¥602	\$4,526
Bonuses to directors	50	376

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## SUBSIDIARIES and AFFILIATES

### SUBSIDIARIES

<u>Domestic (Japan)</u>	<u>Ownership</u>
TAIYO CHEMICAL INDUSTRY CO., LTD.	100.0%
TSUKIYONO DENS	100.0%
AKAGI ELECTRONICS CO., LTD.	100.0%
SUN ELECTRONICS CO., LTD.	100.0%
TAIYO FUKUSHI CO., LTD.	100.0%
Sun Vertex Co., Ltd.	100.0%
That's Fukushima Co., Ltd.	100.0%
Environmental Assist Co., Ltd.	100.0%
SET Co., Ltd.	50.0%
 <u>Overseas</u>	
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%
KOREA TONG YANG YUJUN CO., LTD.	100.0%
TAIYO YUDEN (PHILIPPINES) INC.	100.0%
TAIYO YUDEN de MEXICO S.A. de C.V.	100.0%
TAIYO YUDEN ENTERPRISES CO., LTD.	100.0%
DONG GUAN TAIYO YUDEN CO., LTD.	100.0%
TAIYO YUDEN (SARAWAK) SDN, BHD.	100.0%
TAIYO YUDEN (GUAN DONG) CO., LTD.	100.0%
KOREA KYONG NAM TAIYO YUDEN CO., LTD.	100.0%
TRDA Inc.	100.0%
TAIYO YUDEN (SHANGHAI) TRADING CO., LTD.	100.0%

### AFFILIATES

TAIYO YUDEN (MALAYSIA) SDN, BHD.	30.0%
CHUKI SEIKI CO., LTD.	50.0%
START Lab Inc.	49.9%