

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

Consolidated Financial Statements for the
Years Ended March 31, 2003 and 2002
with Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Taiyo Yuden Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. 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, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiyo Yuden Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits 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. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

IZUMI AUDIT CORPORATION
Tokyo, Japan
June 27, 2003

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2003 and 2002

<u>ASSETS</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2003</u>	<u>2002</u>	<u>U.S. Dollars</u>
			<u>(Note 1)</u>
			<u>2003</u>
Current assets:			
Cash and cash equivalents	¥41,884	¥33,782	\$349,033
Time deposits	3,583	4,397	29,858
Short-term investments (Note 3)	1	62	8
Receivables :			
Trade notes and accounts receivable	39,175	41,555	326,459
Allowance for doubtful receivables	(347)	(419)	(2,891)
Inventories (Note 4)	25,071	28,251	208,925
Deferred tax assets (Note 8)	1,495	1,131	12,458
Prepaid expenses and other current assets	3,971	3,852	33,092
Total current assets	<u>114,833</u>	<u>112,611</u>	<u>956,942</u>
Property, plant and equipment:			
Land	5,870	5,901	48,917
Buildings and structures	48,257	47,640	402,142
Machinery and equipment	129,954	137,743	1,082,950
Tools, furniture and fixtures	13,492	13,444	112,433
Construction in progress	3,279	4,633	27,325
Total	<u>200,852</u>	<u>209,361</u>	<u>1,673,767</u>
Accumulated depreciation	<u>(111,558)</u>	<u>(101,950)</u>	<u>(929,650)</u>
Net property, plant and equipment	<u>89,294</u>	<u>107,411</u>	<u>744,117</u>
Investments and other assets:			
Investment securities (Note 3)	612	923	5,100
Investments in affiliates	1,492	1,324	12,433
Deferred tax assets (Note 8)	3,173	2,978	26,442
Other	4,694	6,307	39,116
Total investments and other assets	<u>9,971</u>	<u>11,532</u>	<u>83,091</u>
	<u>¥214,098</u>	<u>¥231,554</u>	<u>\$1,784,150</u>

See accompanying notes to consolidated financial statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2003 and 2002

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2003</u>	<u>2002</u>	<u>U.S. Dollars</u>
			<u>(Note 1)</u>
			<u>2003</u>
Current liabilities:			
Short-term loans (Note 5)	¥2,093	¥14,218	\$17,442
Current portion of long-term debt (Note 5)	227	587	1,892
Payables :			
Trade notes and accounts payable	14,697	13,576	122,475
Notes and accounts payable for construction	1,629	2,009	13,575
Other	781	954	6,508
Income tax payable	2,029	2,249	16,908
Accrued expenses	5,699	6,370	47,492
Deferred tax liabilities (Note 8)	19	34	158
Other current liabilities	471	680	3,925
Total current liabilities	<u>27,645</u>	<u>40,677</u>	<u>230,375</u>
Long-term liabilities:			
Long-term debt (Note 5)	18,132	18,582	151,100
Liabilities for employees' retirement benefits (Note 6)	6,779	4,810	56,491
Liabilities for directors and statutory auditors retirement benefits	494	441	4,117
Deferred tax liabilities (Note 8)	8,039	7,492	66,992
Other	300	299	2,500
Total long-term liabilities	<u>33,744</u>	<u>31,624</u>	<u>281,200</u>
Total liabilities	<u>61,389</u>	<u>72,301</u>	<u>511,575</u>
Minority interests	157	156	1,308
Contingent liabilities (Note 10)			
Shareholders' equity (Note 7):			
Common stock			
Authorized - 200,000 thousand shares			
Issued - 120,413 thousand shares in 2003 and 2002 respectively	23,515	23,515	195,958
Additional paid-in capital	41,409	41,409	345,075
Retained earnings (Note 14)	95,582	93,862	796,517
Net unrealized holding gains on securities (Note 3)	8	29	67
Foreign currency translation adjustments - net	(7,704)	310	(64,200)
Treasury stock, at cost - 171,200 shares in 2003 and 14,307 shares in 2002	(258)	(28)	(2,150)
Total shareholders' equity	<u>152,552</u>	<u>159,097</u>	<u>1,271,267</u>
	<u>¥214,098</u>	<u>¥231,554</u>	<u>\$1,784,150</u>

See accompanying notes to consolidated financial statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
NET SALES (Note 12)	¥153,722	¥152,057	\$1,281,017
COST OF SALES	<u>114,173</u>	<u>113,982</u>	<u>951,442</u>
Gross profit	39,549	38,075	329,575
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>31,380</u>	<u>31,885</u>	<u>261,500</u>
Operating income	8,169	6,190	68,075
OTHER INCOME (EXPENSES):			
Interest and dividend income	668	730	5,567
Interest expense	(280)	(389)	(2,333)
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	42	31	350
Equity in earnings of affiliates – net	187	(1)	1,558
Loss on disposal of property, plant and equipment	(569)	(491)	(4,742)
Gain (Loss) on foreign exchange	(1,886)	3,164	(15,717)
Payment compensation	–	(157)	–
Loss on devaluation of investment securities	(34)	(291)	(283)
Loss on disposal of inventory	(275)	–	(2,292)
Sundry – net	<u>(157)</u>	<u>21</u>	<u>(1,308)</u>
Other income (expenses) – net	<u>(2,304)</u>	<u>2,617</u>	<u>(19,200)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	5,865	8,807	48,875
INCOME TAXES (Note 8)			
Current	2,965	1,354	24,708
Deferred	(94)	1,081	(783)
	<u>2,871</u>	<u>2,435</u>	<u>23,925</u>
INCOME BEFORE MINORITY INTERESTS	2,994	6,372	24,950
MINORITY INTERESTS	(2)	51	(17)
NET INCOME	<u>¥2,992</u>	<u>¥6,321</u>	<u>\$24,933</u>
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 13):			
Net income:			
Common share	¥24.38	¥51.93	\$0.20
Assuming full dilution	23.66	50.00	0.20
Cash dividends applicable to the year	10.00	10.00	0.08

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
Years Ended March 31, 2003 and 2002

	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 14)	Net unrealized holding gains on securities	Foreign currency translation adjustments	
BALANCE, MARCH 31, 2001	120,407	¥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		¥29		
Net unrealized holding gains on securities						5,074	
Foreign currency translation adjustments							(24)
Treasury stock acquired - net (13,161 shares)							
BALANCE, MARCH 31, 2002	120,413	¥23,515	¥41,409	¥93,862	¥29	¥310	(¥28)
Net income				2,992			
Cash dividends, ¥10.00 per share				(1,204)			
Bonuses to directors				(68)			
Net unrealized holding gains on securities					(21)		
Foreign currency translation adjustments						(8,014)	
Treasury stock acquired - net (156,893 shares)							(230)
BALANCE, MARCH 31, 2003	<u>120,413</u>	<u>¥23,515</u>	<u>¥41,409</u>	<u>¥95,582</u>	<u>¥8</u>	<u>(¥7,704)</u>	<u>(¥258)</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, 2002	\$195,958	\$345,075	\$782,183	\$242	\$2,583	(\$233)
Net income			24,933			
Cash dividends, \$0.08 per share			(10,033)			
Bonuses to directors			(566)			
Net unrealized holding gains on securities				(175)		
Foreign currency translation adjustments					(66,783)	
Treasury stock acquired - net (156,893 shares)						(1,917)
BALANCE, MARCH 31, 2003	<u>\$195,958</u>	<u>\$345,075</u>	<u>\$796,517</u>	<u>\$67</u>	<u>(\$64,200)</u>	<u>(\$2,150)</u>

See accompanying notes to consolidated financial statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Operating activities:			
Net income before income taxes and minority interests	¥5,865	¥8,807	\$48,875
Adjustments:			
Depreciation and amortization	20,284	20,745	169,033
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	(42)	(31)	(350)
Allowance for doubtful receivables	(52)	(242)	(433)
Liabilities for retirement benefits	2,094	1,354	17,450
Interest and dividend income	(668)	(730)	(5,567)
Interest expense	280	389	2,333
Equity in earnings of affiliates	(187)	1	(1,558)
Loss on disposal of property, plant and equipment	569	491	4,742
Changes in operating assets and liabilities:			
Trade receivables	(354)	10,587	(2,950)
Inventories	2,245	9,527	18,708
Trade payables	2,817	(12,890)	23,475
Other – net	(1,207)	2,815	(10,058)
Subtotal	<u>31,644</u>	<u>40,823</u>	<u>263,700</u>
Interest and dividends received	765	803	6,375
Interest paid	(290)	(569)	(2,417)
Refunded Taxes	–	308	–
Taxes paid	<u>(3,151)</u>	<u>(5,208)</u>	<u>(26,258)</u>
Net cash provided by operating activities	<u>28,968</u>	<u>36,157</u>	<u>241,400</u>
Investing activities:			
Purchases of short-term securities	–	(1,285)	–
Proceeds from sales of short-term securities	62	1,446	517
Purchases of property, plant and equipment	(7,418)	(16,828)	(61,817)
Proceeds from sales of property, plant and equipment	44	378	367
Purchases of investment securities	(2)	(82)	(17)
Proceeds from sales of investment securities	123	30	1,025
Loans made	(5)	(7)	(42)
Collections on loans	14	40	117
Other-net	<u>1,540</u>	<u>1,261</u>	<u>12,833</u>
Net cash used in investing activities	<u>(5,642)</u>	<u>(15,047)</u>	<u>(47,017)</u>

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Financing activities:			
Net increase (decrease) in short-term loans	(11,699)	(19,729)	(97,492)
Proceeds from long-term debt	52	10,312	433
Repayment of long-term debt	(344)	(713)	(2,867)
Payment of cash dividends	(1,204)	(1,204)	(10,033)
Purchase of treasury stock	(230)	(58)	(1,916)
Other-net	-	(60)	-
Net cash provided by financing activities	<u>(13,425)</u>	<u>(11,452)</u>	<u>(111,875)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1,799)</u>	<u>1,309</u>	<u>(14,992)</u>
Net increase in cash and cash equivalents	<u>8,102</u>	<u>10,967</u>	<u>67,516</u>
Cash and cash equivalents, beginning of year	<u>33,782</u>	<u>22,815</u>	<u>281,517</u>
Cash and cash equivalents, end of year	<u>¥41,884</u>	<u>¥33,782</u>	<u>\$349,033</u>
Noncash financing activities:			
Conversion of bonds into common stock and additional paid-in capital	-	¥7	-

See accompanying 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 consolidated 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 ¥120 to \$1, the approximate rate of exchange at March 31, 2003.

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.
- 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.

- e. *Debt and equity Securities* – 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 shareholders’ equity. The cost of available-for-sale securities sold is determined based on the moving average method.
- 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. 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 companies states derivative financial instruments at fair value and recognizes 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 finance and accounting division in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

- m. *Per Share Information* – Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding in each period, retroactively adjusted for stock splits. Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible debt 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 warrants. Basic net income and diluted net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard. 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 2003.

3. DEBT AND EQUITY SECURITIES

For the year ended March 31, 2003

(1) Information classified as available-for-sale and held-to-maturity

Securities classified as:	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥427	¥76	¥51	¥452
Held-to-maturity:				
Government and corporate bonds	42	-	11	31
Total	¥469	¥76	¥62	¥483

Securities classified as:	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	\$3,558	\$633	\$424	\$3,767
Held-to-maturity:				
Government and corporate bonds	350	-	92	258
Total	\$3,908	\$633	\$516	\$4,025

(2) Available-for-sale and held-to-maturity securities whose fair value is not readily determinable

Securities classified as:	Carrying Values	
	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale:		
Equity securities	¥127	\$1,058
Held-to-maturity:		
Government and corporate bonds	3	25
Total	¥130	\$1,083

(3) The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity

	Millions of Yen	Thousands of U.S. Dollars
Due in 1 year or less	¥1	\$8
Due after 1 year through 5 years	2	17
Total	¥3	\$25

For the year ended March 31, 2002

(1) Information classified as available-for-sale and held-to-maturity

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

(2) Available-for-sale and held-to-maturity securities whose fair value is not readily determinable

Securities classified as:	Carrying Values
	Millions of Yen
Available-for-sale:	
Equity securities	¥133
Held-to-maturity:	
Government and corporate bonds	3
Total	¥136

(3) The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity

	Millions of Yen
Due in 1 year or less	¥62
Due after 1 year through 5 years	2
Total	¥64

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Finished products	¥10,023	¥11,438	\$83,525
Work in process	8,988	11,045	74,900
Raw materials and supplies	6,060	5,768	50,500
Total	¥25,071	¥28,251	\$208,925

5. SHORT-TERM LOANS AND LONG-TERM DEBT

Annual interest rates applicable to the short-term loans outstanding ranged from 0.47% to 3.07% and from 0.36% to 0.47% at March 31, 2003 and 2002, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Government agencies, maturing serially through 2037	¥1,004	¥1,037	\$8,367
1.15% convertible bonds due 2008	6,787	6,787	56,558
Long-term bank loans without collateral due serially to 2003 with interest rates ranging from 0.84% to 1.06% for 2003 and from 0.85% to 4.33% for 2002	10,568	11,345	88,067
Total	18,359	19,169	152,992
Less current portion	227	587	1,892
Long-term debt, less current portion	¥18,132	¥18,582	\$151,100

The conversion price per share of the convertible bonds for the year ended March 31, 2003 was ¥1,221 (\$10.18) – fixed price.

6. RETIREMENT BENEFITS

(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, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Benefit obligation	¥51,551	¥49,091	\$429,591
Fair value of plan assets	(25,371)	(28,839)	(211,425)
Unrecognized actuarial loss	(19,401)	(15,442)	(161,675)
Net liability for retirement benefits	<u>¥6,779</u>	<u>¥4,810</u>	<u>\$56,491</u>

(3) Retirement benefit costs for the year ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service cost	¥2,548	¥2,401	\$21,233
Interest cost	1,449	1,421	12,075
Expected return on plan assets	(718)	(848)	(5,983)
Recognized actuarial loss	1,063	508	8,858
Net periodic benefit costs	<u>¥4,342</u>	<u>¥3,482</u>	<u>\$36,183</u>

(4) Assumptions used for the year ended March 31, 2003 and 2002 were as follows:

	2003	2002
Allocation method of the retirement benefits expected to be paid at the retirement date	Straight-line method	Straight-line method
Discount rate	3.0 %	3.0 %
Expected return on plan assets	2.0~3.0 %	2.0~3.5 %
Recognition period of actuarial gain/loss	15 years	15 years

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code to which certain amendments became effective October 1, 2001. The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The amount of retained earnings available for dividends under the Code was ¥39,120 million (\$326,000 thousand) as of March 31, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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.

8. INCOME TAXES

Income taxes in Japan applicable to the Company for the years ended March 31, 2003 and 2002 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.

On March 31, 2003, enterprise tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 41.7% to 40.4%, effective for years beginning April 1, 2004. The effect of this change on deferred taxes in the consolidated statements of income for the year ended March 31, 2003 is immaterial.

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 %
International tax rate differences	(22.7)
Undistributed earnings of foreign subsidiaries	40.6
Enacted tax rate change	(11.7)
Others, net	1.1
Effective income tax rate	<u>49.0 %</u>

Significant components of the deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars
Deferred tax assets			2003
Inventories	¥502	¥319	\$4,183
Accruals	4,342	3,406	36,183
Enterprise tax	239	69	1,992
Unrealized holding losses on securities	167	174	1,392
Operating loss carryforwards	32	565	267
Other	299	536	2,491
Offset	(913)	(960)	(7,608)
	<u>¥4,668</u>	<u>¥4,109</u>	<u>\$38,900</u>
Deferred tax liabilities			
Allowance for doubtful receivables	¥13	¥35	\$108
Undistributed earnings of foreign subsidiaries	7,833	7,202	65,275
Reserves	982	1,025	8,183
Other	143	224	1,192
Offset	(913)	(960)	(7,608)
	<u>¥8,058</u>	<u>¥7,526</u>	<u>\$67,150</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, 2003 and 2002, were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
The amount corresponding to acquisition cost	¥4,934	¥5,687	\$41,117
The amount corresponding to accumulated depreciation	3,273	3,268	27,275
The amount corresponding to net book value	<u>¥1,661</u>	<u>¥2,419</u>	<u>\$13,842</u>

The amounts of outstanding future lease payments due at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Future lease payments			
Within one year	¥740	¥1,069	\$6,167
Over one year	921	1,350	7,675
Total	<u>¥1,661</u>	<u>¥2,419</u>	<u>\$13,842</u>

Lease rental expense and the amounts corresponding to depreciation for the years ended March 31, 2003 and 2002 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Lease rental expense	¥1,120	¥1,126	\$9,333
The amount corresponding to depreciation expense	1,120	1,126	9,333

The imputed interest expense portion is included in the above obligations under finance leases.

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, 2003 and 2002 the companies had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
As guarantor of bank loans and indebtedness	¥58	¥79	\$483

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 finance and accounting division controls derivative transaction. The senior operating officer of the corporate management group 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, 2003

(1) Industry Segment Information

The Companies 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					Consolidated
	Japan	Asia	Other	Total	Elimination or common	
Sales:						
Customers	¥50,910	¥74,049	¥28,763	¥153,722	–	¥153,722
Intersegment	69,563	41,862	1,247	112,672	(¥112,672)	0
Total	120,473	115,911	30,010	266,394	(112,672)	153,722
Operating expenses	123,999	105,053	28,967	258,019	(112,466)	145,553
Operating income	(¥3,526)	¥10,858	¥1,043	¥8,375	(¥206)	¥8,169
Assets	¥120,431	¥112,935	¥8,367	¥241,733	(¥27,635)	¥214,098

	Thousands of U.S. Dollars					Consolidated
	Japan	Asia	Other	Total	Elimination or common	
Sales:						
Customers	\$424,250	\$617,075	\$239,692	\$1,281,017	–	\$1,281,017
Intersegment	579,692	348,850	10,391	938,933	(\$938,933)	–
Total	1,003,942	965,925	250,083	2,219,950	(938,933)	1,281,017
Operating expenses	1,033,325	875,442	241,391	2,150,158	(937,216)	1,212,942
Operating income	(\$29,383)	\$90,483	\$8,692	\$69,792	(\$1,717)	\$68,075
Assets	\$1,003,592	\$941,125	\$69,725	\$2,014,442	(\$230,292)	\$1,784,150

(a) Common assets were ¥17,811 million (\$148,425 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	¥73,634	¥16,172	¥11,916	¥669	¥102,391
Consolidated sales					¥153,722
Percentage of foreign sales in proportion to consolidated sales	47.9%	10.5%	7.8%	0.4%	66.6%

	Thousands of U.S. Dollars				
	Asia	North America	Europe	Other	Total
Foreign sales	\$613,617	\$134,767	\$99,300	\$5,574	\$853,258
Consolidated sales					\$1,281,017

(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, 2002

(1) Industry Segment Information

The Companies 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

(a) Common assets were ¥11,141 million.

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%

(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. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen	Thousands of shares	Yen	U.S. Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2003				
Basic EPS				
Net income available to common shareholders	¥2,934	120,336	¥24.38	\$0.20
Effect of Dilutive securities				
Convertible debt	46	5,559		
Diluted EPS				
Net income for computation	<u>¥2,980</u>	<u>125,895</u>	<u>¥23.66</u>	<u>\$0.20</u>
For the year ended March 31, 2002				
Basic EPS				
Net income available to common shareholders	¥6,252	120,407	¥51.93	
Effect of Dilutive securities				
Convertible debt	46	5,560		
Diluted EPS				
Net income for computation	<u>¥6,298</u>	<u>125,967</u>	<u>¥50.00</u>	

14. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2003 were approved at the Company's shareholders' meeting held on June 27, 2003:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividend, ¥5.00 (\$0.04) per share	¥601	\$5,008
Bonuses to directors	40	333

★ ★ ★ ★ ★ ★

SUBSIDIARIES and AFFILIATES

SUBSIDIARIES

<u>Domestic (Japan)</u>	<u>Ownership</u>
Taiyo Chemical Industry Co., Ltd.	100.0%
Tsukiyono Denshi Co., Ltd.	100.0%
Akagi Denshi 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%
S.E.T. 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 (GUANG 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 Co., Ltd.	49.9%