

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

Consolidated Financial Statements for the
Years Ended March 31, 2005 and 2004
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, 2005 and 2004, and the related consolidated statements of operations, 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, 2005 and 2004, 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 29, 2005

Consolidated Balance Sheets
March 31, 2005 and 2004

<u>ASSETS</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2005</u>	<u>2004</u>	<u>U.S. Dollars</u>
			<u>(Note 1)</u>
			<u>2005</u>
Current assets:			
Cash and cash equivalents	¥31,245	¥40,753	\$ 292,011
Time deposits	2,512	4,056	23,474
Receivables :			
Trade notes and accounts receivable	46,416	44,443	433,797
Allowance for doubtful receivables	(267)	(324)	(2,501)
Inventories (Note 4)	25,534	23,528	238,634
Deferred tax assets (Note 8)	1,778	6,172	16,617
Prepaid expenses and other current assets	5,680	5,003	53,088
Total current assets	<u>112,898</u>	<u>123,631</u>	<u>1,055,120</u>
Property, plant and equipment:			
Land	5,866	5,861	54,823
Buildings and structures	50,554	48,154	472,468
Machinery and equipment	131,635	122,628	1,230,235
Tools, furniture and fixtures	13,212	12,713	123,481
Construction in progress	5,145	4,530	48,082
Total	<u>206,412</u>	<u>193,886</u>	<u>1,929,089</u>
Accumulated depreciation	(122,266)	(114,169)	(1,142,676)
Net property, plant and equipment	<u>84,146</u>	<u>79,717</u>	<u>786,413</u>
Investments and other assets:			
Investment securities (Note 3)	5,005	5,029	46,773
Investments in affiliates	1,730	1,668	16,168
Deferred tax assets (Note 8)	5,393	150	50,406
Other	3,060	3,794	28,596
Total investments and other assets	<u>15,188</u>	<u>10,641</u>	<u>141,943</u>
	<u>¥212,232</u>	<u>¥213,989</u>	<u>\$1,983,476</u>

See accompanying notes to consolidated financial statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2005 and 2004

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2005</u>	<u>2004</u>	<u>U.S. Dollars</u> <u>(Note 1)</u>
			<u>2005</u>
Current liabilities:			
Short-term loans (Note 5)	¥6,021	¥2,002	\$56,267
Current portion of long-term debt (Note 5)	-	10,000	-
Payables :			
Trade notes and accounts payable	21,794	18,131	203,678
Notes and accounts payable for construction	3,086	3,388	28,843
Other	1,795	11,589	16,777
Income tax payable	956	1,677	8,931
Accrued expenses	6,475	6,202	60,516
Deferred tax liabilities (Note 8)	9	17	84
Allowance for business reorganization (Note 14)	230	-	2,154
Other current liabilities	914	1,048	8,544
Total current liabilities	<u>41,280</u>	<u>54,054</u>	<u>385,794</u>
Long-term liabilities:			
Long-term debt (Note 5)	18,448	7,719	172,411
Liabilities for employees' retirement benefits (Note 6)	1,639	3,504	15,318
Liabilities for directors and statutory auditors retirement benefits	-	493	-
Deferred tax liabilities (Note 8)	6,885	7,031	64,342
Other	2,152	630	20,111
Total long-term liabilities	<u>29,124</u>	<u>19,377</u>	<u>272,182</u>
Total liabilities	<u>70,404</u>	<u>73,431</u>	<u>657,976</u>
Minority interests	161	162	1,509
Contingent liabilities (Note 10)	-	-	-
Shareholders' equity (Note 7):			
Common stock			
Authorized - 200,000 thousand shares			
Issued - 120,413 thousand shares in 2005 and 2004	23,515	23,515	219,768
Additional paid-in capital	41,409	41,409	386,997
Retained earnings (Note 15)	90,457	92,483	845,393
Net unrealized holding gains on securities (Note 3)	368	449	3,440
Foreign currency translation adjustments - net	(12,758)	(16,201)	(119,238)
Treasury stock, at cost - 1,142,637 shares in 2005 and 1,091,654 shares in 2004	(1,324)	(1,259)	(12,369)
Total shareholders' equity	<u>141,667</u>	<u>140,396</u>	<u>1,323,991</u>
	<u>¥212,232</u>	<u>¥213,989</u>	<u>\$1,983,476</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. \$ (Note 1)
	2005	2004	2005
NET SALES (Note 12)	¥172,256	¥163,328	\$1,609,872
COST OF SALES	<u>139,703</u>	<u>121,102</u>	<u>1,305,639</u>
Gross profit	32,553	42,226	304,233
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>30,498</u>	<u>31,238</u>	<u>285,027</u>
Operating income	2,055	10,988	19,206
OTHER INCOME (EXPENSES):			
Interest and dividend income	443	506	4,138
Interest expense	(296)	(221)	(2,766)
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	42	42	389
Equity in earnings of affiliates – net	106	209	989
Tax refund on reinvestment of profit	192	–	1,793
Insurance proceeds	–	274	–
Compensation expense	(307)	–	(2,865)
Reversal of prior year bad debt expense	73	–	678
Loss on disposal of property, plant and equipment	(1,067)	(1,205)	(9,970)
Loss on foreign exchange	(421)	(2,118)	(3,934)
Gain on sales of investment securities	–	34	–
Loss on disposal of inventories	(146)	(147)	(1,361)
Gain (loss) on change of employee retirement benefit plan (Note 6)	24	(8,221)	226
Loss on business reorganization (Note 14)	(902)	–	(8,437)
Impairment of fixed assets	(86)	–	(800)
Others – net	<u>151</u>	<u>(697)</u>	<u>1,413</u>
Other expenses – net	<u>(2,194)</u>	<u>(11,544)</u>	<u>(20,507)</u>
LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS	(139)	(556)	(1,301)
INCOME TAXES (Note 8)			
Current	1,429	4,239	13,352
Deferred	<u>(794)</u>	<u>(2,955)</u>	<u>(7,416)</u>
	<u>635</u>	<u>1,284</u>	<u>5,936</u>
LOSS BEFORE MINORITY INTERESTS	(774)	(1,840)	(7,237)
MINORITY INTERESTS	0	(5)	0
NET LOSS	<u>(¥774)</u>	<u>(¥1,845)</u>	<u>(\$7,237)</u>
	<u>Yen</u>		<u>U.S.Dollars</u>
PER SHARE OF COMMON STOCK (Note 13):			
Net Loss:			
Common share	(¥6.58)	(¥15.90)	\$ (0.06)
Assuming full dilution	(¥6.58)	(¥15.90)	\$ (0.06)
Cash dividends applicable to the year	¥10.00	¥10.00	\$ 0.09

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
March 31, 2005 and 2004

	Thousands	Millions of Yen					
	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	Treasury Stock, at Cost
BALANCE, MARCH 31, 2003	120,413	¥23,515	¥41,409	¥95,582	¥8	(¥7,704)	(¥258)
Net loss				(1,845)			
Cash dividends, ¥10.00 per share				(1,198)			
Bonuses to directors				(56)			
Net unrealized holding gains on securities					441		
Foreign currency translation adjustments						(8,497)	
Treasury stock acquired - net (920,454 shares)							(1,001)
BALANCE, MARCH 31, 2004	120,413	23,515	41,409	92,483	449	(16,201)	(1,259)
Net loss				(774)			
Cash dividends, ¥10.00 per share				(1,193)			
Bonuses to directors				(59)			
Net unrealized holding gains on securities					(81)		
Foreign currency translation adjustments						3,443	
Treasury stock acquired - net (50,983 shares)							(65)
BALANCE, MARCH 31, 2005	120,413	¥23,515	¥41,409	¥90,457	¥368	(¥12,758)	(¥1,324)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock (Note 7)	Additional Paid in Capital (Note 7)	Retained Earnings (Note 14)	Net Unrealized Holding Gains on Securities	Foreign Currency Translation Adjustments	Treasury Stock, at Cost
BALANCE, MARCH 31, 2004	\$219,768	\$386,997	\$864,327	\$4,197	(\$151,411)	(\$11,763)
Net loss			(7,237)			
Cash dividends, \$0.09 per share			(11,150)			
Bonuses to directors			(556)			
Net unrealized holding gains on securities				(757)		
Foreign currency translation adjustments					32,173	
Treasury stock acquired - net (50,983 shares)						(606)
BALANCE, MARCH 31, 2005	\$219,768	\$386,997	\$845,384	\$3,440	(\$119,238)	(\$12,369)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Operating activities:			
Net loss before income taxes and minority interests	(¥139)	(¥556)	(\$1,301)
Adjustments to reconcile net loss before income tax and minority interests to net cash provided by operating activities:			
Depreciation and amortization	17,984	18,334	168,079
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	(41)	(42)	(389)
Allowance for doubtful receivables	(73)	14	(685)
Liabilities for retirement benefits	(911)	(5,861)	(8,515)
Interest and dividend income	(443)	(506)	(4,138)
Interest expense	295	221	2,766
Equity in earnings of affiliates	(105)	(209)	(989)
Loss on disposal of property, plant and equipment	1,075	1,205	10,055
Gain on sales of investment securities	-	(34)	-
Obligations of change in retirement benefit plan	(11,251)	13,367	(105,155)
Changes in operating assets and liabilities:			
Trade receivables	(467)	(8,939)	(4,364)
Inventories	(1,358)	321	(12,696)
Trade payables	2,666	6,265	24,921
Others - net	640	(376)	5,981
Subtotal	7,872	23,204	73,570
Interest and dividends received	501	551	4,684
Interest paid	(325)	(218)	(3,036)
Taxes paid	(2,194)	(5,042)	(20,504)
Net cash provided by operating activities	5,854	18,495	54,714
Investing activities:			
Proceeds from sales of short-term securities	-	1	-
Purchases of property, plant and equipment	(22,465)	(14,409)	(209,949)
Proceeds from sales of property, plant and equipment	25	45	235
Purchases of investment securities	(50)	(3)	(469)
Proceeds from sales of investment securities	-	110	-
Loans made	(43)	-	(406)
Collections on loans	251	18	2,344
Other-net	2,681	(445)	25,055
Net cash used in investing activities	(¥19,601)	(¥14,683)	(\$183,190)

Consolidated Statements of Cash Flows
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Financing activities:			
Net increase (decrease) in short-term loans	¥3,972	¥201	\$ 37,120
Proceeds from long-term debt	11,098	43	103,724
Repayment of long-term debt	(10,426)	(509)	(97,438)
Payment of cash dividends	(1,193)	(1,198)	(11,150)
Purchase of treasury stock	(64)	(1,001)	(606)
Net cash provided from (used in) financing activities	<u>3,387</u>	<u>(2,464)</u>	<u>31,650</u>
Effect of exchange rate changes on cash and cash equivalents	<u>853</u>	<u>(2,479)</u>	<u>7,976</u>
Net decrease in cash and cash equivalents	<u>(9,507)</u>	<u>(1,131)</u>	<u>(88,850)</u>
Cash and cash equivalents, beginning of year	<u>40,753</u>	<u>41,884</u>	<u>380,861</u>
Cash and cash equivalents, end of year	<u>¥31,245</u>	<u>¥40,753</u>	<u>\$ 292,011</u>
Non-cash financing activities:			
Increase in investment securities due to dissolution on employee retirement fund.	-	¥3,744	-

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, results 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 ¥107 to \$1, the approximate rate of exchange at March 31, 2005

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 appropriate year-end current rates. The resulting net gains (losses) are shown as “Gain (loss) on foreign exchange” in the accompanying consolidated statements of operations.
- 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 appropriate year-end current 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 classify debt and equity securities, depending on management's intent, as follows:
- (i) held-to-maturity debt securities, for which management has the positive intent and ability to hold to maturity, are reported at amortized cost.
 - (ii) available-for-sale securities, 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.
 - (iii) investments in investment limited liability partnership are reported based on equity method using most recent financial statement financial statement available for those limited liability partnerships.
- 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* – Up to October 1, 2003, to cover projected employee benefits, the Company and a certain domestic subsidiary recorded the estimated obligations at the end of the current fiscal year based on projected year – end benefit obligations and assets. Unrecognized actuarial loss were 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. Effective October 1, 2003, the Company and certain domestic subsidiaries obtained approval from the Ministry of Health, Labor and Welfare and dissolved contributory funded pension plan and non-contributory defined funded pension plan, and established a defined contribution plan and prepaid retirement plan. The effect of the change in retirement plan is described in Note 6. Effective June, 2004, the Company terminated the lump-sum severance benefits for directors and statutory auditors. Due to this change, the Company reversed the reserve for directors and statutory auditors retirement benefit. In 2005, the Company introduced a stock option program for the directors. Certain subsidiaries of the Company provides for lump-sum severance benefits with respect to directors and statutory auditors. While the subsidiary 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 adopted deferred tax accounting. Tax effect on temporary differences between financial and tax reporting 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. *Derivative and hedging activities* – 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. Deferred gains and losses are recorded as prepaid expenses on the balance sheet. However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner, (i) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivables, (1) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable translated using the spot rate at the inception date of the contract and the book value of the receivable is recognized in the income statement in the period which includes the inception date, and (2) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract. (ii) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. The derivative transactions are executed and managed by the finance and accounting division in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.
- m. *Per Share Information* –Basic net income per share is computed by dividing net income available to common shareholders 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, 2005 and 2004 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 confirm to the presentation for 2005.

3. DEBT AND EQUITY SECURITIES

For the year ended March 31, 2005

(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	¥4,163	¥761	¥142	¥4,782
Held-to-maturity:				
Government and corporate bonds	42	-	0	42
Total	¥4,205	¥761	¥142	¥4,824

Securities classified as:	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	\$38,906	\$7,112	\$1,328	\$44,690
Held-to-maturity:				
Government and corporate bonds	392	-	0	392
Total	\$39,298	\$7,112	\$1,328	\$45,082

(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	¥107	\$1,000
Investment in investment limited liability partnerships	72	672
Held-to-maturity:		
Government and corporate bonds	1	9
Total	¥180	\$1,681

(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	¥0	\$0
Due after 1 year through 5 years	1	9
Total	¥1	\$9

For the year ended March 31, 2004

(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	¥4,175	¥929	¥177	¥4,927
Held-to-maturity:				
Government and corporate bonds	43	1	-	44
Total	¥4,218	¥930	¥177	¥4,971

(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	¥57
Held-to-maturity:	
Government and corporate bonds	1
Total	¥58

(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	-
Due after 1 year through 5 years	¥1
Total	¥1

4. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Finished products	¥10,311	¥8,639	\$96,365
Work in process	7,792	7,635	72,822
Raw materials and supplies	7,431	7,254	69,447
Total	<u>¥25,534</u>	<u>¥23,528</u>	<u>\$238,634</u>

5. SHORT-TERM LOANS AND LONG-TERM DEBT

Annual interest rates applicable to short-term loans outstanding ranged from 0.44% to 4.70% and from 0.47% to 0.48% at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Government agencies, maturing serially through 2039	¥729	¥932	\$6,815
1.15% convertible bonds due 2008	6,787	6,787	63,430
Long-term bank loans without collateral due serially to 2005 with interest rates ranging from 0.59% to 4.00% for 2005 and from 0.80% to 0.82% for 2004	10,932	10,000	102,166
Total	18,448	17,719	172,411
Less current portion	—	10,000	—
Long-term debt, less current portion	<u>¥18,448</u>	<u>¥7,719</u>	<u>\$172,411</u>

The conversion price per share of the convertible bonds for the year ended March 31, 2005 was ¥1,221 (\$11.41) – fixed price.

6. RETIREMENT BENEFITS

(1) Outline of retirement benefit plans

Effective October 1st, 2003, the Company and a certain domestic subsidiary obtained an approval from the Ministry of Health, Labor and Welfare and dissolved contributory funded pension plan and non-contributory defined funded pension plan, and established a defined contribution plan and prepaid retirement plan. Liabilities for employees' retirement benefits for those companies reserved in the year ended March 31, 2004 were fully reversed during the year ended March 31, 2005 due to the cancellation of non-contributory defined funded pension plan contract.

Obligation arising from change in retirement benefit plan of 738 million yen (\$6.9 million) and 10,729 million yen (\$100 million) are included in payable other in current liabilities in the year ended March 31, 2005 and 2004, respectively. 1,476 million yen (\$13.8 million) and 2,683 million yen (\$26.8 million) are included in payable other in long-term liabilities in the year ended March 31, 2005 and 2004, respectively.

Certain domestic subsidiaries' employees are entitled to lump-sum payments at the time of termination.

Certain foreign subsidiaries' employees are also entitled to lump-sum payments at the time of termination.

(2) Retirement benefit costs for the year ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	-	¥1,366	-
Interest cost	-	765	-
Expected return on plan assets	-	(334)	-
Recognized actuarial loss	-	699	-
Net periodic benefit costs	-	2,496	-
(Gain) loss on change of employee retirement benefit plan	(¥24)	8,221	(\$224)
Contribution to defined contribution pension plan	819	363	7,654
	<u>¥795</u>	<u>¥11,080</u>	<u>\$7,430</u>

(3) Retirement benefit obligation as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Benefit obligation	-	¥1,160	-
Fair value of plan assets	-	(248)	-
Unrecognized actuarial loss	-	(47)	-
Net liability for retirement benefits	-	<u>¥865</u>	-

(4) Assumptions used for the year ended March 31, 2004 were as follows:

Allocation method of the retirement benefits expected to be paid at the retirement date	Straight-line method
Discount rate	2.5 %
Expected return on plan assets	2.0 %
Recognition period of actuarial gain/loss	15 years

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Commercial Code of Japan ("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 disposal 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 ¥32,964 million (\$308,077 thousand) as of March 31, 2005, 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

- (1) Income taxes in Japan applicable to the Company for the years ended March 31, 2005 and 2004 were comprised of (1) a corporation tax at the rates of 30.0% on taxable income, (2) enterprise tax of approximately 8% 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.

Significant components of the deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

Deferred tax assets	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
			2005
Inventories	¥52	¥515	\$486
Accruals	4,253	6,272	39,749
Enterprise tax	87	69	813
Unrealized holding losses on securities	139	139	1,299
Operating loss carryforwards	2,765	–	25,842
Foreign tax credits carryforwards	544	187	5,084
Other	629	520	5,880
Offset	(1,298)	(1,380)	(12,130)
	<u>¥7,171</u>	<u>¥6,322</u>	<u>\$67,023</u>
 Deferred tax liabilities			
Allowance for doubtful receivables	¥5	¥7	\$47
Undistributed earnings of foreign subsidiaries	6,785	6,787	63,411
Reserves	1,054	1,021	9,850
Other	348	613	3,253
Offset	(1,298)	(1,380)	(12,135)
	<u>¥6,894</u>	<u>¥7,048</u>	<u>\$64,426</u>

Reconciliation of standard and effective income tax rates is omitted because of loss before income taxes.

- (2) Current portion of income tax expense in the year ended March 31, 2004 includes 1,709 million yen of additional income tax assessed by Japanese tax authorities relating to income transferred to the foreign subsidiaries in prior years.

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, 2005 and 2004, were summarized as follows:

	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
			2005
The amount corresponding to acquisition cost	¥2,779	¥3,302	\$25,972
The amount corresponding to accumulated depreciation	1,418	1,519	13,252
The amount corresponding to net book value	<u>¥1,361</u>	<u>¥1,783</u>	<u>\$12,720</u>

The amounts of outstanding future lease payments due at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
			2005
Future lease payments			
Within one year	¥468	¥531	\$4,375
Over one year	893	1,252	8,346
Total	<u>¥1,361</u>	<u>¥1,783</u>	<u>\$12,720</u>

Lease rental expense and the amounts corresponding to depreciation for the years ended March 31, 2005 and 2004 were summarized as follows:

	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
			2005
Lease rental expense	¥541	¥813	\$5,056
The amount corresponding to depreciation expense	541	813	5,056

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, 2005 and 2004 the companies had the following contingent liabilities:

	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
			2005
As guarantor of bank loans and indebtedness	¥45	¥40	\$421

11. DERIVATIVE FINANCIAL INSTRUMENT

The Company enters into interest rate swaps as interest rate-related derivatives and forward foreign exchange contracts as currency related derivatives. The Company utilizes derivatives solely for the purpose of hedging its exposure of financial liabilities to interest rate risk and exposure of underlying assets generated in the actual trades to foreign currency exchange risk, and does not intend to execute speculative dealings as a matter of policy. Hedged items are receivables denominated in foreign currencies and hedging instruments are forward foreign exchange contracts and interest rate swaps which qualify as hedging activities.

The management of the Company recognizes that foreign exchange risk exposed to forward exchange contracts and interest rate risk exposed to interest rate swaps are minimized, since all of these derivatives are intended to avoid market risk. In addition, the management considers that counterparty risk is extremely minimized since the Company enters into such derivative contracts with financial institutions with high credit ratings.

The Financing and Accounting Division is responsible for the management of derivatives in accordance with the internal rules defined for trading authorities, trading limits, reporting and others. The division manager reports CFO about the performance and the related risks connected with derivatives, and CFO reports these information to the board of directors of the Company.

12. SEGMENT INFORMATION

For the year ended March 31, 2005

(1) Industry Segment Information

The Companies conduct manufacturing operations predominantly in the electronic parts industry. The sales and operating income from such operations and related assets exceeded 90% of the consolidated sales, operating income, and total assets. Therefore, the disclosure of industry segment information was omitted.

(2) Geographic Segment Information

Millions of Yen						
	Japan	Asia	Other	Total	Elimination	Consolidated
Sales:						
Customers	¥71,904	¥77,368	¥22,984	¥172,256	-	¥172,256
Intersegment	108,282	63,883	1,148	173,313	(¥173,313)	-
Total	180,186	141,251	24,132	345,569	(173,313)	172,256
Operating expenses	181,598	138,650	23,891	344,139	(173,938)	170,201
Operating income	(¥1,412)	¥2,601	¥241	¥1,430	¥625	¥2,055
Assets	¥125,378	¥99,920	¥7,357	¥232,655	(¥20,423)	¥212,232

Thousands of U.S. Dollars						
	Japan	Asia	Other	Total	Elimination	Consolidated
Sales:						
Customers	\$671,996	\$723,067	\$214,809	\$1,609,872	-	\$1,609,872
Intersegment	1,011,986	597,042	10,727	1,619,755	(\$1,619,755)	-
Total	1,683,982	1,320,109	225,536	3,229,627	(1,619,755)	1,609,872
Operating expenses	1,697,187	1,295,794	223,275	3,216,256	(1,625,590)	1,590,666
Operating income	(\$13,205)	\$24,315	\$2,261	\$13,371	\$5,835	\$19,206
Assets	\$1,171,758	\$933,840	\$68,763	\$2,174,361	(\$190,885)	\$1,983,476

(a) Common assets were ¥15,483 million (\$144,701 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	¥78,143	¥12,691	¥8,848	¥643	¥100,325
Consolidated sales					¥172,256
Percentage of foreign sales in proportion to consolidated sales	45.3%	7.4%	5.1%	0.4%	58.2%

Thousands of U.S. Dollars					
	Asia	North America	Europe	Other	Total
Foreign sales	\$730,308	\$118,607	\$82,692	\$6,009	\$937,616
Consolidated sales					\$1,609,872

(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 of Japan.

For the year ended March 31, 2004

(1) Industry Segment Information

The Companies conduct manufacturing operations predominantly in the electronic parts industry. The sales and operating income from such operations and related assets exceeded 90% of the consolidated sales, operating income, and total assets. Therefore, the disclosure of industry segment information was omitted.

(2) Geographic Segment Information

Millions of Yen						
	Japan	Asia	Other	Total	Elimination	Consolidated
Sales:						
Customers	¥59,482	¥76,196	¥27,650	¥163,328	–	¥163,328
Intersegment	106,118	58,810	1,246	166,174	(¥166,174)	–
Total	165,600	135,006	28,896	329,502	(166,174)	163,328
Operating expenses	161,372	129,349	27,577	318,298	(165,958)	152,340
Operating income	¥4,228	¥5,657	¥1,319	¥11,204	(¥216)	¥10,988
Assets	¥120,316	¥94,734	¥7,945	¥222,995	(¥9,006)	¥213,989
Thousands of U.S. Dollars						
	Japan	Asia	Other	Total	Elimination	Consolidated
Sales:						
Customers	\$561,151	\$718,830	\$260,849	\$1,540,830	–	\$1,540,830
Intersegment	1,001,113	554,811	11,755	1,567,679	(\$1,567,679)	–
Total	1,562,264	1,273,641	272,604	3,108,509	(1,567,679)	1,540,830
Operating expenses	1,522,377	1,220,274	260,160	3,002,811	(1,565,641)	1,437,170
Operating income	\$39,887	\$53,367	\$12,444	\$105,698	(\$2,038)	\$103,660
Assets	\$1,135,056	\$893,717	\$74,953	\$2,103,726	(\$84,962)	\$2,018,764

(a) Common assets were ¥27,736 million (\$261,660 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	¥75,454	¥14,270	¥12,505	¥1,263	¥103,492
Consolidated sales					¥163,328
Percentage of foreign sales in proportion to consolidated sales	46.2%	8.7%	7.7%	0.8%	63.4%
Thousands of U.S. Dollars					
	Asia	North America	Europe	Other	Total
Foreign sales	\$711,830	\$134,623	\$117,972	\$11,915	\$976,340
Consolidated sales					\$1,540,830

(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 of 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, 2005 and 2004 were as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net	Weighted	EPS	
	Income (Loss)	Average Shares		
For the year ended March 31, 2005				
Basic EPS				
Net loss allocated to common shareholders	(¥785)	119,296	(¥6.60)	(\$0.06)
Effect of dilutive securities				
Convertible debt	—	—	—	—
Diluted EPS				
Net loss for computation	<u>(¥785)</u>	<u>119,296</u>	<u>(¥6.60)</u>	<u>(\$0.06)</u>
For the year ended March 31, 2004				
Basic EPS				
Net loss allocated to common shareholders	(¥1,903)	119,680	(¥15.90)	
Effect of dilutive securities				
Convertible debt	—	—	—	
Diluted EPS				
Net income for computation	<u>(¥1,903)</u>	<u>119,680</u>	<u>(¥15.90)</u>	

14. Business Reorganization Expenses

The Company recognized a loss on business reorganization of 902 million yen (\$8.4 million) in relation to the transfer of manufacturing operations located in Singapore to China and Japan, of which 672 million yen was finalized, and the other 230 million yen (\$2.2 million) was estimated and accrued as allowance for business reorganization.

15. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2005 were approved at the Company's shareholders' meeting held on June 29, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividend, ¥5.00 (\$0.05) per share	¥596	\$5,570

★ ★ ★ ★ ★

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 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%
Kankyo 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%
TAIYO YUDEN (TIAN JIN) ELECTRONICS, LTD.	100.0%
TAIYO YUDEN (SHENZHEN) ELECTRONICS TRADING CO., LTD.	100.0%
SAN MARCOS ADVANCED DEVELOPMENT, INC	100.0%

AFFILIATES

TAIYO YUDEN (MALAYSIA) SDN. BHD.	30.0%
Chuki Seiki Co., Ltd.	50.0%
Start Lab Co., Ltd.	49.9%