

TAIYO YUDEN CO., LTD.
and SUBSIDIARIES

Consolidated Financial Statements for the
Years Ended March 31, 2006 and 2005
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, 2006 and 2005, 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, 2006 and 2005, 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, 2006

Consolidated Balance Sheets
March 31, 2006 and 2005

<u>ASSETS</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2006</u>	<u>2005</u>	<u>U.S. Dollars</u>
			<u>(Note 1)</u>
			<u>2006</u>
Current assets:			
Cash and cash equivalents	¥35,672	¥31,245	\$304,890
Time deposits	3,220	2,512	27,522
Receivables:			
Trade notes and accounts receivable	49,101	46,416	419,665
Allowance for doubtful receivables	(257)	(267)	(2,200)
Inventories (Note 4)	27,291	25,534	233,259
Deferred tax assets (Note 8)	2,694	1,778	23,029
Prepaid expenses and other current assets	5,218	5,680	44,599
Total current assets	<u>122,939</u>	<u>112,898</u>	<u>1,050,764</u>
Property, plant and equipment:			
Land	5,857	5,866	50,058
Buildings and structures	53,420	50,554	456,580
Machinery and equipment	142,671	131,635	1,219,411
Tools, furniture and fixtures	14,324	13,212	122,428
Construction in progress	5,989	5,145	51,186
Total	<u>222,261</u>	<u>206,412</u>	<u>1,899,663</u>
Accumulated depreciation	(135,713)	(122,266)	(1,159,939)
Net property, plant and equipment	<u>86,548</u>	<u>84,146</u>	<u>739,724</u>
Investments and other assets:			
Investment securities (Note 3)	5,718	5,005	48,875
Investments in affiliates	1,840	1,730	15,724
Deferred tax assets (Note 8)	3,993	5,393	34,127
Other	3,344	3,060	28,580
Total investments and other assets	<u>14,895</u>	<u>15,188</u>	<u>127,306</u>
	<u>¥224,382</u>	<u>¥212,232</u>	<u>\$1,917,794</u>

See accompanying Notes to Consolidated Financial Statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2006 and 2005

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2006</u>	<u>2005</u>	<u>U.S. Dollars</u> <u>(Note 1)</u>
			<u>2006</u>
Current liabilities:			
Short-term loans (Note 5)	¥4,775	¥6,021	\$40,812
Current portion of long-term debt (Note 5)	1,557	-	13,311
Payables:			
Trade notes and accounts payable	18,213	21,794	155,665
Notes and accounts payable for construction	3,956	3,086	33,812
Other	2,408	1,795	20,580
Income tax payable	1,841	956	15,731
Accrued expenses	7,704	6,475	65,845
Deferred tax liabilities (Note 8)	8	9	66
Allowance for business reorganization (Note 14)	-	230	-
Other current liabilities	1,435	914	12,261
Total current liabilities	<u>41,897</u>	<u>41,280</u>	<u>358,083</u>
Long-term liabilities:			
Long-term debt (Note 5)	16,920	18,448	144,618
Liabilities for employees' retirement benefits (Note 6)	845	1,639	7,218
Deferred tax liabilities (Note 8)	8,079	6,885	69,047
Other	2,598	2,152	22,210
Total long-term liabilities	<u>28,442</u>	<u>29,124</u>	<u>243,093</u>
Total liabilities	<u>70,339</u>	<u>70,404</u>	<u>601,176</u>
Minority interests	169	161	1,445
Contingent liabilities (Note 10)	-	-	-
Shareholders' equity (Note 7):			
Common stock			
Authorized - 200,000 thousand shares			
Issued - 120,414 and 120,413 thousand shares in 2006 and 2005, respectively.	23,516	23,515	200,993
Additional paid-in capital	41,410	41,409	353,929
Retained earnings (Note 16)	92,353	90,457	789,345
Net unrealized holding gains on securities (Note 3)	1,059	368	9,049
Foreign currency translation adjustments - net	(3,093)	(12,758)	(26,433)
Treasury stock, at cost - 1,173,628 shares in 2006 and 1,142,637 shares in 2005.	(1,371)	(1,324)	(11,710)
Total shareholders' equity	<u>153,874</u>	<u>141,667</u>	<u>1,315,173</u>
	<u>¥224,382</u>	<u>¥212,232</u>	<u>\$1,917,794</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Operations
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES (Note 12)	¥186,539	¥172,256	\$1,594,354
COST OF SALES	<u>149,032</u>	<u>139,703</u>	<u>1,273,777</u>
Gross profit	37,507	32,553	320,577
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>30,816</u>	<u>30,498</u>	<u>263,384</u>
Operating income	6,691	2,055	57,193
OTHER INCOME (EXPENSES):			
Interest and dividend income	680	443	5,812
Interest expense	(365)	(296)	(3,123)
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	20	42	174
Equity in earnings of affiliates – net	153	106	1,304
Tax refund on reinvestment of profit	–	192	–
Compensation expense	(435)	(307)	(3,716)
Reversal of prior year bad debt expense	–	73	–
Gain on sales of property, plant and equipment	367	–	3,137
Loss on disposal of property, plant and equipment	(840)	(1,067)	(7,181)
Loss on foreign exchange	(78)	(421)	(671)
Gain on sales of investment securities	544	–	4,653
Gain on sales of electric power source business (Note 14)	169	–	1,445
Loss on disposal of inventories	(280)	(146)	(2,394)
Gain on change of employee retirement benefit plan (Note 6)	–	24	–
Loss on business reorganization (Note 14)	–	(902)	–
Impairment of fixed assets (Note 15)	(24)	–	(205)
Others – net	<u>140</u>	<u>65</u>	<u>1,193</u>
Other income (expenses) – net	<u>51</u>	<u>(2,194)</u>	<u>428</u>
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	6,742	(139)	57,621
INCOME TAXES (Note 8)			
Current	2,296	1,429	19,622
Deferred	<u>1,293</u>	<u>(794)</u>	<u>11,049</u>
	<u>3,589</u>	<u>635</u>	<u>30,671</u>
INCOME (LOSS) BEFORE MINORITY INTERESTS	3,153	(774)	26,950
MINORITY INTERESTS	(2)	0	(20)
NET INCOME (LOSS)	<u><u>3,155</u></u>	<u><u>(774)</u></u>	<u><u>26,970</u></u>
	<u>Yen</u>		<u>U.S.Dollars</u>
PER SHARE OF COMMON STOCK (Note 13):			
Net Income (Loss):			
Common share	¥26.00	(¥6.58)	\$0.22
Assuming full dilution	¥25.21	(¥6.58)	\$0.22
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, 2006 and 2005

	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 16)	Net Unrealized Holding Gains on Securities	Foreign Currency Translation Adjustments	
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)
Net income				3,155			
Cash dividends, ¥10.00 per share				(1,193)			
Bonuses to directors				(10)			
Contribution to overseas subsidiary employee welfare fund				(45)			
Net unrealized holding gains on securities					691		
Foreign currency translation adjustments						9,665	
Exercise of stock warrants (Including Conversion of convertible bonds)	1	1	1				
Treasury stock acquired - net (30,991 shares)				(11)			(47)
BALANCE, MARCH 31, 2006	120,414	¥23,516	¥41,410	¥92,353	¥1,059	(¥3,093)	(¥1,371)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock (Note 7)	Additional Paid in Capital (Note 7)	Retained Earnings (Note 16)	Net Unrealized Holding Gains on Securities	Foreign Currency Translation Adjustments	Treasury Stock, at Cost
BALANCE, MARCH 31, 2005	\$200,984	\$353,921	\$773,137	\$3,146	(\$109,047)	(\$11,312)
Net income			26,970			
Cash dividends, \$0.09 per share			(10,193)			
Bonuses to directors			(89)			
Contribution to overseas subsidiary employee welfare fund			(381)			
Net unrealized holding gains on securities				5,903		
Foreign currency translation adjustments					82,614	
Exercise of stock warrants (Including Conversion of convertible bonds)	9	8				
Treasury stock acquired - net (30,991 shares)			(99)			(398)
BALANCE, MARCH 31, 2006	\$200,993	\$353,929	\$789,345	\$9,049	(\$26,433)	(\$11,710)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Operating activities:			
Net income (loss) before income taxes and minority interests	¥6,742	(¥139)	\$57,621
Adjustments to reconcile net loss before income tax and minority interests to net cash provided by operating activities:			
Depreciation and amortization	17,052	17,984	145,745
Impairment loss	24	-	205
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	(20)	(41)	(174)
Allowance for doubtful receivables	(37)	(73)	(315)
Liabilities for retirement benefits	-	(911)	-
Interest and dividend income	(680)	(443)	(5,812)
Interest expense	365	295	3,123
Equity in earnings of affiliates	(153)	(105)	(1,304)
Loss on disposal of property, plant and equipment	840	1,075	7,181
Gain on sales of investment securities	(544)	-	(4,653)
Obligations of change in retirement benefit plan	(743)	(11,251)	(6,347)
Changes in operating assets and liabilities:			
Trade receivables	1,278	(467)	10,921
Inventories	(133)	(1,358)	(1,139)
Trade payables	(6,095)	2,666	(52,096)
Others - net	2,876	640	24,576
Subtotal	20,772	7,872	177,532
Interest and dividends received	677	501	5,787
Interest paid	(282)	(325)	(2,414)
Taxes paid	(1,111)	(2,194)	(9,495)
Net cash provided by operating activities	¥20,056	¥5,854	\$171,410
Investing activities:			
Purchases of property, plant and equipment	(15,779)	(22,465)	(134,859)
Proceeds from sales of property, plant and equipment	443	25	3,786
Purchases of investment securities	(1,531)	(50)	(13,089)
Proceeds from sales of investment securities	2,356	-	20,133
Loans made	(43)	(43)	(371)
Collections on loans	68	251	581
Proceeds from sale of subsidiary stocks	477	-	4,077
Other-net	(1,281)	2,681	(10,946)
Net cash used in investing activities	(¥15,290)	(¥19,601)	(\$130,688)

Consolidated Statements of Cash Flows
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Financing activities:			
Net increase (decrease) in short-term loans	(¥1,404)	¥3,972	(\$11,997)
Proceeds from long-term debt	31	11,098	266
Repayment of long-term debt	(182)	(10,426)	(1,559)
Payment of cash dividends	(1,193)	(1,193)	(10,193)
Purchase of treasury stock	(58)	(64)	(498)
Net cash provided from (used in) financing activities	<u>(¥2,806)</u>	<u>¥3,387</u>	<u>(\$23,981)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>2,465</u>	<u>853</u>	<u>21,079</u>
Net increase (decrease) in cash and cash equivalents	<u>4,425</u>	<u>(9,507)</u>	<u>37,820</u>
Cash and cash equivalents, beginning of year	<u>31,245</u>	<u>40,753</u>	<u>267,053</u>
Increase of cash and cash equivalents due to newly consolidated entities	<u>2</u>	<u>-</u>	<u>17</u>
Cash and cash equivalents, end of year	<u>¥35,672</u>	<u>¥31,245</u>	<u>\$ 304,890</u>

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 ¥117 to \$1, the approximate rate of exchange at March 31, 2006.

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 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, 2006 and 2005 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 2006.

3. DEBT AND EQUITY SECURITIES

For the year ended March 31, 2006

(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	¥3,820	¥1,752	¥42	¥5,530
Held-to-maturity:				
Other	42	18	-	60
Total	¥3,862	¥1,770	¥42	¥5,590

Securities classified as:	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	\$32,652	\$14,973	(\$360)	\$47,265
Held-to-maturity:				
Other	361	159	-	520
Total	\$33,013	\$15,132	(\$360)	\$47,785

(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	¥86	\$736
Investment in investment limited liability partnerships	41	351
Held-to-maturity:		
Other	2	16
Total	¥129	\$1,103

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

	Carrying Values	
	Millions of Yen	Thousands of U.S. Dollars
Due in 1 year or less	¥2	\$13
Due after 1 year through 5 years	0	3
Total	¥2	\$16

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:				
Other	42	-	0	42
Total	¥4,205	¥761	¥142	¥4,824

(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	¥107
Investment in investment limited liability partnerships	72
Held-to-maturity:	
Other	1
Total	¥180

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

	Carrying Values
	Millions of Yen
Due in 1 year or less	¥0
Due after 1 year through 5 years	1
Total	¥1

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Finished products	¥10,923	¥10,311	\$93,362
Work in process	8,247	7,792	70,483
Raw materials and supplies	8,121	7,431	69,414
Total	<u>¥27,291</u>	<u>¥25,534</u>	<u>\$233,259</u>

5. SHORT-TERM LOANS AND LONG-TERM DEBT

Annual interest rates applicable to short-term loans outstanding ranged from 0.47% to 5.00% and from 0.44% to 4.70% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
3.68% Government agencies, maturing serially through 2039	¥703	¥729	\$6,009
1.15% convertible bonds due 2008	6,785	6,787	57,991
Long-term bank loans without collateral due serially to 2006 with interest rates ranging from 0.59% to 4.00% for 2006 and from 0.59% to 4.00% for 2005	10,989	10,932	93,929
Total	18,477	18,448	157,929
Less current portion	1,557	–	13,311
Long-term debt, less current portion	<u>¥16,920</u>	<u>¥18,448</u>	<u>\$144,618</u>

The conversion price per share of the convertible bonds for the year ended March 31, 2006 was ¥1,221 (\$10.43) – 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 735 million yen (\$6.3 million) and 738 million yen (\$6.9 million) are included in payable other in current liabilities in the years ended March 31, 2006 and 2005, respectively. 735 million yen (\$6.3 million) and 1,476 million yen (\$13.8 million) are included in payable other in long-term liabilities in the years ended March 31, 2006 and 2005, 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, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
Gain on change of employee retirement benefit plan	-	(¥24)	-
Contribution to defined contribution pension plan	¥905	819	\$7,735
	<u>¥905</u>	<u>¥795</u>	<u>\$7,735</u>

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 ¥32,240 million (\$275,557 thousand) as of March 31, 2006, 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, 2006 and 2005 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, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
Deferred tax assets			2006
Inventories	¥46	¥52	\$393
Accruals	4,253	4,253	36,350
Enterprise tax	83	87	709
Unrealized holding losses on securities	65	139	556
Operating loss carryforwards	2,071	2,765	17,701
Foreign tax credits carryforwards	833	544	7,120
Other	959	629	8,199
Offset	(1,623)	(1,298)	(13,872)
	<u>¥6,687</u>	<u>¥7,171</u>	<u>\$57,156</u>
Deferred tax liabilities			
Allowance for doubtful receivables	¥7	¥5	\$60
Undistributed earnings of foreign subsidiaries	7,972	6,785	68,137
Reserves	1,044	1,054	8,923
Other	687	348	5,865
Offset	(1,623)	(1,298)	(13,872)
	<u>¥8,087</u>	<u>¥6,894</u>	<u>\$69,113</u>

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

Statutory tax rate	40.4 %
International tax rate differences	(27.5)
Undistributed earnings of foreign subsidiaries	17.6
Impact of consolidation elimination of dividends from foreign subsidiaries	20.5
Others, net	2.2
Effective income tax rate	<u>53.2 %</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, 2006 and 2005, were summarized as follows:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
			2006
The amount corresponding to acquisition cost	¥2,392	¥2,779	\$20,448
The amount corresponding to accumulated depreciation	1,012	1,418	8,650
The amount corresponding to net book value	<u>¥1,380</u>	<u>¥1,361</u>	<u>\$11,798</u>

The amounts of outstanding future lease payments due at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
			2006
Future lease payments			
Within one year	¥439	¥468	\$3,758
Over one year	941	893	8,040
Total	<u>¥1,380</u>	<u>¥1,361</u>	<u>\$11,798</u>

Lease rental expense and the amounts corresponding to depreciation for the years ended March 31, 2006 and 2005 were summarized as follows:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
			2006
Lease rental expense	¥518	¥541	\$4,431
The amount corresponding to depreciation expense	518	541	4,431

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, 2006 and 2005 the companies had the following contingent liabilities:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
			2006
As guarantor of bank loans and indebtedness	¥34	¥45	\$292

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 forecasted foreign-currency-denominated transactions, and interest on loan payables. 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, 2006

(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	¥59,847	¥102,467	¥24,225	¥186,539	-	¥186,539
Intersegment	115,415	71,837	1,229	188,481	(¥188,481)	-
Total	175,262	174,304	25,454	375,020	(188,481)	186,539
Operating expenses	175,863	167,660	25,150	368,673	(188,825)	179,848
Operating income	(¥601)	¥6,644	¥304	¥6,347	¥344	¥6,691
Assets	¥162,935	¥120,821	¥9,062	¥292,818	(¥68,436)	¥224,382

	Thousands of U.S. Dollars					
	Japan	Asia	Other	Total	Elimination	Consolidated
Sales:						
Customers	\$511,511	\$875,787	\$207,056	\$1,594,354	-	\$1,594,354
Intersegment	986,454	613,991	10,501	1,610,946	(1,610,946)	-
Total	1,497,965	1,489,778	217,557	3,205,300	(1,610,946)	1,594,354
Operating expenses	1,503,106	1,432,989	214,959	3,151,054	(1,613,893)	1,537,161
Operating income	(\$5,141)	\$56,789	\$2,598	\$54,246	\$2,947	\$57,193
Assets	\$1,392,609	\$1,032,659	\$77,457	\$2,502,725	(\$584,931)	\$1,917,794

(a) Common assets were ¥16,512 million (\$141,282 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	¥107,505	¥13,134	¥8,473	¥747	¥129,859
Consolidated sales					¥186,539
Percentage of foreign sales in proportion to consolidated sales	57.6%	7.0%	4.6%	0.4%	69.6%

	Thousands of U.S. Dollars				
	Asia	North America	Europe	Other	Total
Foreign sales	\$918,853	\$112,257	\$72,419	\$6,385	\$1,109,914
Consolidated sales					\$1,594,354

(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, 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.

13. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 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, 2006				
Basic EPS				
Net income allocated to common shareholders	¥3,100	119,253	¥26.00	\$0.22
Effect of dilutive securities				
Convertible debt	46	5,559	(0.78)	-
Stock warrant	-	18	(0.01)	-
Diluted EPS				
Net income for computation	<u>¥3,146</u>	<u>124,830</u>	<u>¥25.21</u>	<u>\$0.22</u>

For the year ended March 31, 2005

Basic EPS				
Net loss allocated to common shareholders	(¥785)	119,296	(¥6.60)	
Effect of dilutive securities				
Convertible debt	-	0	-	
Diluted EPS				
Net loss for computation	<u>(¥785)</u>	<u>119,296</u>	<u>(¥6.60)</u>	

14. Business Reorganization

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 during the year ended March 31, 2005. The entire amount of the reorganization loss was finalized during the year ended March 31, 2006 and there was no balance remaining in the allowance for business reorganization account. The Company disposed manufacturing operation of power supply equipments in the United States during the year ended March 31, 2006 and recognized 169 million yen (\$1.4 million) gain.

15. Fixed Assets Impairment Loss

The Company adopted "Accounting standard regarding impairment of fixed assets" during the year ended March 31, 2006. Income before income tax decreased by 24 million yen (\$0.2 million) due to the new accounting treatment. Cumulative impairment loss is deducted directly from respective fixed asset accounts based on the revised regulations concerning financial statements.

16. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders' meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividend, ¥5.00 (\$0.05) per share	¥596	\$5,096

★ ★ ★ ★ ★

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%
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 ENTERPRISES CO., LTD.	100.0%
DONGGUAN TAIYO YUDEN CO., LTD.	100.0%
TAIYO YUDEN (SARAWAK) SDN. BHD.	100.0%
TAIYO YUDEN (MALAYSIA) SDN. BHD.	53.3%
TAIYO YUDEN (GUANGDONG) 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 (TIANJIN) ELECTRONICS CO., LTD.	100.0%
TAIYO YUDEN (SHENZHEN) ELECTRONICS TRADING CO., LTD.	100.0%
SAN MARCOS ADVANCED DEVELOPMENT, INC.	100.0%

AFFILIATES

Chuki Seiki Co., Ltd.	50.0%
START Lab Inc.	49.9%