

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

Consolidated Financial Statements for the
Years Ended March 31, 2007 and 2006
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, 2007 and 2006, and the related consolidated statements of operations and cash flows for the years then ended, all expressed in Japanese yen. We have also audited the consolidated statement of changes in net assets for the year ended March 31, 2007 and the consolidated statement of shareholders' equity for the year ended March 31, 2006. 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 whether the financial statements are free of material misstatement that can mislead the users of the financial statements. 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, 2007 and 2006, 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 users outside Japan.

IZUMI AUDIT CORPORATION
Tokyo, Japan
June 28, 2007

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2007 and 2006

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Current assets:			
Cash and cash equivalents	¥39,436	¥35,672	\$334,202
Time deposits	4,199	3,220	35,587
Receivables:			
Trade notes and accounts receivable	57,261	49,101	485,266
Allowance for doubtful receivables	(333)	(257)	(2,825)
Inventories (Note 5)	32,219	27,291	273,041
Deferred tax assets (Note 9)	3,824	2,694	32,410
Prepaid expenses and other current assets	7,426	5,218	62,932
Total current assets	<u>144,032</u>	<u>122,939</u>	<u>1,220,613</u>
Property, plant and equipment:			
Land	5,949	5,857	50,414
Buildings and structures	56,716	53,420	480,644
Machinery and equipment	160,808	142,671	1,362,779
Tools, furniture and fixtures	15,459	14,324	131,005
Construction in progress	10,351	5,989	87,719
Total	<u>249,283</u>	<u>222,261</u>	<u>2,112,561</u>
Accumulated depreciation	<u>(149,597)</u>	<u>(135,713)</u>	<u>(1,267,769)</u>
Net property, plant and equipment	<u>99,686</u>	<u>86,548</u>	<u>844,792</u>
Investments and other assets:			
Investment securities (Note 4)	6,279	5,718	53,211
Investments in affiliates	1,959	1,840	16,597
Deferred tax assets (Note 9)	1,959	3,993	16,604
Other	4,638	3,344	39,308
Total investments and other assets	<u>14,835</u>	<u>14,895</u>	<u>125,720</u>
Total assets	<u>¥258,553</u>	<u>¥224,382</u>	<u>\$2,191,125</u>

See accompanying Notes to Consolidated Financial Statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2007 and 2006

<u>LIABILITIES, SHAREHOLDERS' EQUITY AND NET ASSETS</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2007</u>	<u>2006</u>	<u>U.S. Dollars</u> <u>(Note 1)</u>
			<u>2007</u>
Current liabilities:			
Short-term loans (Note 6)	¥9,353	¥4,775	\$79,265
Current portion of long-term debt (Note 6)	9,476	1,557	80,308
Payables:			
Trade notes and accounts payable	21,953	18,213	186,045
Notes and accounts payable for construction	5,789	3,956	49,055
Other (Note 7)	1,981	2,408	16,790
Income tax payable	4,566	1,841	38,692
Accrued expenses	9,164	7,704	77,661
Deferred tax liabilities (Note 9)	51	8	430
Other	1,315	1,435	11,140
Total current liabilities	63,648	41,897	539,386
Long-term liabilities:			
Long-term debt (Note 6)	13,398	16,920	113,541
Liabilities for employees' retirement benefits (Note 7)	-	845	-
Accrued pension cost (Note 7)	2,248	-	19,051
Deferred tax liabilities (Note 9)	8,730	8,079	73,985
Other	1,031	2,598	8,740
Total long-term liabilities	25,407	28,442	215,317
Total liabilities	89,055	70,339	754,703
Minority interests	-	169	-
Contingent liabilities (Note 11):	-	-	-
Shareholders' equity (Note 8):			
Common stock			
Authorized - 200,000 thousand shares			
Issued - 120,414 thousand shares in 2006	-	23,516	-
Additional paid-in capital	-	41,410	-
Retained earnings	-	92,353	-
Net unrealized holding gains on securities (Note 4)	-	1,059	-
Foreign currency translation adjustments - net	-	(3,093)	-
Treasury stock, at cost - 1,173,628 shares in 2006	-	(1,371)	-
Total shareholders' equity	-	153,874	-
Total liabilities and shareholders' equity	-	¥224,382	-
Net assets			
Shareholders' equity (Note 8):			
Common stock			
Authorized - 200,000 thousand shares			
Issued - 120,424 thousand shares in 2007	23,522	-	199,340
Additional paid-in capital	41,416	-	350,981
Retained earnings (Note 17)	104,047	-	881,753
Treasury stock, at cost - 1,230,877 shares in 2007	(1,480)	-	(12,543)
Total shareholders' equity	167,505	-	1,419,531
Valuation, translation adjustments and others:			
Net unrealized holding gains on securities (Note 4)	1,163	-	9,859
Deferred hedge losses	(12)	-	(102)
Foreign currency translation adjustments - net	771	-	6,537
Total Valuation, translation adjustments and others	1,922	-	16,294
Stock acquisition rights:	44	-	371
Minority interests:	27	-	226
Total net assets	169,498	-	1,436,422
Total liabilities and net assets	¥258,553	-	\$2,191,125

See accompanying Notes to Consolidated Financial Statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statements of Operations
March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET SALES (Note 13)	¥221,230	¥186,539	\$1,874,829
COST OF SALES	165,026	149,032	1,398,527
Gross profit	56,204	37,507	476,302
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	34,186	30,816	289,706
Operating income	22,018	6,691	186,596
OTHER INCOME (EXPENSES):			
Interest and dividends income	1,163	680	9,856
Interest expense	(429)	(365)	(3,632)
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	-	20	-
Equity in earnings of affiliates - net	197	153	1,669
Compensation expense	(716)	(435)	(6,068)
Gain on sales of property, plant and equipment	164	367	1,391
Loss on disposal of property, plant and equipment	(967)	(840)	(8,194)
Loss on foreign exchange	(871)	(78)	(7,380)
Gain on sales of investment securities	-	544	-
Gain on sales of electric power source business (Note 15)	-	169	-
Loss on disposal of inventories	(351)	(280)	(2,978)
Impairment of fixed assets (Note 16)	-	(24)	-
Others - net	269	140	2,272
Other income (expenses) - net	(1,541)	51	(13,064)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	20,477	6,742	173,532
INCOME TAXES (Note 9)			
Current	5,943	2,296	50,364
Deferred	1,580	1,293	13,393
Total income taxes	7,523	3,589	63,757
INCOME BEFORE MINORITY INTERESTS	12,954	3,153	109,775
MINORITY INTERESTS	9	(2)	74
NET INCOME	¥12,945	¥3,155	\$109,701
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 14):			
Net Income:			
Common share	¥108.58	¥26.00	\$0.92
Assuming full dilution	104.09	25.21	0.88
Cash dividends applicable to the year	10.00	10.00	0.08

See accompanying Notes to Consolidated Financial Statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statement of Changes in Net Assets
March 31, 2007

	Thousands	Millions of Yen				
	Number of Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
		(Note 8)	(Note 8)	(Note 17)		
BALANCE, MARCH 31, 2006	120,414	¥23,516	¥41,410	¥92,353	(¥1,371)	¥155,908
Changes during the year						
Exercise of stock acquisition rights (Including conversion of convertible bonds)	10	6	6			12
Cash dividends, ¥10.00 per share				(1,192)		(1,192)
Bonuses to directors				(51)		(51)
Contribution to overseas subsidiary employee welfare fund				(8)		(8)
Net income				12,945		12,945
Treasury stock acquired (57,249 shares)					(109)	(109)
Changes other than shareholders' equity - net						
Total changes	10	6	6	11,694	(109)	11,597
BALANCE, MARCH 31, 2007	120,424	¥23,522	¥41,416	¥104,047	(¥1,480)	¥167,505

	Millions of Yen						Total Net Assets
	Net Unrealized Holding Gains on Securities	Deferred Hedge Losses	Foreign Currency Translation Adjustments - net	Valuation, Translation Adjustments and Others	Stock Acquisition Rights	Minority Interests	
	(Note 4)						
BALANCE, MARCH 31, 2006	¥1,059	-	(¥3,093)	(¥2,034)	-	¥169	¥154,043
Changes during the year							
Exercise of stock acquisition rights (Including conversion of convertible bonds)							12
Cash dividends, ¥10.00 per share							(1,192)
Bonuses to directors							(51)
Contribution to overseas subsidiary employee welfare fund							(8)
Net income							12,945
Treasury stock acquired (57,249 shares)							(109)
Changes other than shareholders' equity - net							
Total changes	104	(¥12)	3,864	3,956	¥44	(142)	3,858
BALANCE, MARCH 31, 2007	¥1,163	(¥12)	¥771	¥1,922	¥44	¥27	¥169,498

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
	(Note 8)	(Note 8)	(Note 17)		
BALANCE, MARCH 31, 2006	\$199,289	\$350,930	\$782,655	(\$11,611)	\$1,321,263
Changes during the year					
Exercise of stock acquisition rights (Including conversion of convertible bonds)	51	51			102
Cash dividends, \$0.08 per share			(10,104)		(10,104)
Bonuses to directors			(431)		(431)
Contribution to overseas subsidiary employee welfare fund			(68)		(68)
Net income			109,701		109,701
Treasury stock acquired (57,249 shares)				(932)	(932)
Changes other than shareholders' equity - net					
Total changes	51	51	99,098	(932)	98,268
BALANCE, MARCH 31, 2007	\$199,340	\$350,981	\$881,753	(\$12,543)	\$1,419,531

	Thousands of U.S. Dollars (Note 1)						Total Net Assets
	Net Unrealized Holding Gains on Securities	Deferred Hedge Losses	Foreign Currency Translation Adjustments - net	Valuation, Translation Adjustments and Others	Stock Acquisition Rights	Minority Interests	
	(Note 4)						
BALANCE, MARCH 31, 2006	\$8,972	-	(\$26,209)	(\$17,237)	-	\$1,433	\$1,305,459
Changes during the year							
Exercise of stock acquisition rights (Including conversion of convertible bonds)							102
Cash dividends, \$0.08 per share							(10,104)
Bonuses to directors							(431)
Contribution to overseas subsidiary employee welfare fund							(68)
Net income							109,701
Treasury stock acquired (57,249 shares)							(932)
Changes other than shareholders' equity - net							
Total changes	887	(\$102)	32,746	33,531	\$371	(1,207)	32,695
BALANCE, MARCH 31, 2007	\$9,859	(\$102)	\$6,537	\$16,294	\$371	\$226	\$1,436,422

See accompanying Notes to Consolidated Financial Statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statement of Shareholders' Equity
March 31, 2006

	Thousands	Millions of Yen					Treasury Stock, at Cost
	Number of Shares of Common Stock Issued	Common Stock (Note 8)	Additional Paid in Capital (Note 8)	Retained Earnings	Net Unrealized Holding Gains on Securities (Note 4)	Foreign Currency Translation Adjustment s - net	
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 acquisition rights (Including conversion of convertible bonds)	1	1	1				
Treasury stock acquired - net (30,911 shares)				(11)			(47)
BALANCE, MARCH 31, 2006	<u>120,414</u>	<u>¥23,516</u>	<u>¥41,410</u>	<u>¥92,353</u>	<u>¥1,059</u>	<u>(¥3,093)</u>	<u>(¥1,371)</u>

See accompanying Notes to Consolidated Financial Statements.

Taiyo Yuden Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Operating activities:			
Income before income taxes and minority interests	¥20,477	¥6,742	\$173,532
Adjustments to reconcile income before income tax and minority interests to net cash provided by operating activities:			
Depreciation and amortization	18,376	17,052	155,730
Impairment loss	-	24	-
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	-	(20)	-
Allowance for doubtful receivables	68	(37)	581
Interest and dividends income	(1,163)	(680)	(9,856)
Interest expense	429	365	3,632
Equity in earnings of affiliates	(197)	(153)	(1,669)
Loss on disposal of property, plant and equipment	967	840	8,194
Gain on sales of investment securities	-	(544)	-
Obligations of change in retirement benefit plan	(750)	(743)	(6,357)
Changes in operating assets and liabilities:			
Trade receivables	(6,178)	1,278	(52,354)
Inventories	(3,578)	(133)	(30,325)
Trade payables	2,389	(6,095)	20,252
Others - net	665	2,876	5,633
Subtotal	31,505	20,772	266,993
Interest and dividends received	1,207	677	10,226
Interest paid	(406)	(282)	(3,443)
Taxes paid	(3,326)	(1,111)	(28,189)
Net cash provided by operating activities	¥28,980	¥20,056	\$245,587
Investing activities:			
Purchases of property, plant and equipment	(¥30,244)	(¥15,779)	(\$256,308)
Proceeds from sales of property, plant and equipment	243	443	2,057
Purchases of investment securities	(501)	(1,531)	(4,242)
Proceeds from sales of investment securities	2	2,356	20
Net increase in time deposits	(837)	-	(7,095)
Purchase of subsidiary stocks	(2,010)	-	(17,034)
Loans made	-	(43)	-
Collections on loans	-	68	-
Proceeds from sales of subsidiary stocks	-	477	-
Others - net	(434)	(1,281)	(3,675)
Net cash used in investing activities	(¥33,781)	(¥15,290)	(\$286,277)
Financing activities:			
Net increase (decrease) in short-term loans	¥4,464	(¥1,404)	\$37,836
Proceeds from long-term debt	6,000	31	50,847
Repayments of long-term debt	(1,577)	(182)	(13,358)
Payments of cash dividends	(1,192)	(1,193)	(10,104)
Purchases of treasury stock	(109)	(58)	(932)
Net cash provided by (used in) financing activities	¥7,586	(¥2,806)	\$64,289
Effect of exchange rate changes on cash and cash equivalents	979	2,465	8,297
Net increase in cash and cash equivalents	3,764	4,425	31,896
Cash and cash equivalents, beginning of year	35,672	31,245	302,306
Increase in cash and cash equivalents from new consolidated entity	-	2	-
Cash and cash equivalents, end of year	¥39,436	¥35,672	\$334,202

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 users 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 users outside Japan and have been made at the rate of ¥118 to \$1, the approximate rate of exchange at March 31, 2007.

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 (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 net assets and 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 net assets and in shareholders’ equity at March 31, 2007 and 2006, respectively, 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 net assets and shareholders’ equity at March 31, 2007 and 2006, respectively. The cost of available-for-sale securities sold is determined based on the moving average method.
 - (iii) investments in investment limited liability partnerships 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. Useful lives of the assets and salvage value of the assets are mainly estimated in consistent with the method accepted under the income tax law in Japan. 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. *Allowance for Employees’ Retirement Benefits* – Certain subsidiaries of the Company provide retirement benefits for employees and lump-sum severance benefits is mainly adopted. Allowance for employees’ retirement benefits of the Company is provided at the amounts to be paid if all eligible employees had retired at the consolidated balance sheet date.
- j. *Allowance for Directors’ and Corporate Auditors’ Retirement Benefits* – Certain subsidiaries of the Company provide lump-sum severance benefits for directors and corporate auditors. While the subsidiaries have no legal obligation, they make lump-sum payments to directors and corporate auditors upon retirement. Annual provisions are made in the accounts for the estimated costs of this termination plan, which is not fully funded.
- k. *Allowance for Bonuses to Directors* – Allowance for bonuses to directors are provided by the estimated amounts, which the Company is obligated to pay to directors after the fiscal year-end, based on services provided during the current period.
- l. *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.
- m. *Research and Development Costs* – Expenditures by the Company and certain subsidiaries for development of specified new products are charged to income as incurred.

- n. *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.
- 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.
- o. *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 bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding stock acquisition rights. Basic net income and diluted net income per share for the years ended March 31, 2007 and 2006 are computed in accordance with Japanese accounting standards.
- Cash dividends per share consist of interim and year-end dividends and are accounted for in the year they are declared rather than in the year in which they are actually paid.
- p. *Certain Reclassifications* – Certain reclassifications of prior year's amounts have been made to confirm to the presentation for 2007.

3. CHANGES IN ACCOUNTING STANDARDS

a. Accounting Standard for Presentation of Net Assets in the Balance Sheet

The consolidated financial statements of the Company for the year ended March 31, 2007 adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan (ASBJ) Statement No. 5, December 9, 2005)" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8, December 9, 2005)" from the period beginning April 1, 2006. Amount of shareholders' equity by the former accounting standard is 169,439 million yen (\$1,435,927 thousand).

b. Accounting Standard for Directors' Bonus

The consolidated financial statements of the Company for the year ended March 31, 2007 adopted "Accounting Standard for Directors' Bonus (ASBJ Statement No. 4, November 29, 2005)." From the period beginning April 1, 2006, directors' bonus is expensed when approved at each consolidated subsidiary's annual shareholders' meeting, instead of reducing retained earnings. Due to this change, operating income and income before income taxes and minority interests decreased by 40 million yen (\$339 thousand). Impacts on segment information are disclosed at respective section.

c. Accounting Standard for Share-based Payment

The consolidated financial statements of the Company for the year ended March 31, 2007 adopted "Accounting Standard for Share-based Payment (ASBJ Statement No. 8, December 27, 2005)" and "Guidance on Accounting Standard for Share-based Payment (ASBJ Guidance No. 11, May 31, 2006)." Due to this change, operating income and income before income taxes and minority interests decreased by 44 million yen (\$371 thousand). Impacts on segment information are disclosed at respective section.

d. Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures

The consolidated financial statements of the Company for the year ended March 31, 2007 adopted "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, December 27, 2005), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, December 22, 2006). According to this new standard, consolidation adjustment accounts are presented as goodwill beginning the year ended March 31, 2007.

4. DEBT AND EQUITY SECURITIES

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

March 31, 2007

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,314	¥2,192	¥343	¥6,163
Held-to-maturity:				
Other	42	15	-	57
Total	¥4,356	¥2,207	¥343	¥6,220

March 31, 2006

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
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

March 31, 2007

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$36,557	\$18,581	\$2,910	\$52,228
Held-to-maturity:				
Other	359	129	-	488
Total	\$36,916	\$18,710	\$2,910	\$52,716

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

	Carrying Values		
	Millions of Yen	Thousands of U.S. Dollars	
	2007	2006	2007
Securities classified as:			
Available-for-sale:			
Equity securities	¥22	¥86	\$185
Investment in investment limited liability partnerships	35	41	289
Held-to-maturity:			
Other	2	2	21
Total	¥59	¥129	\$495

(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	
	2007	2006	2007
Due in 1 year or less	-	¥2	-
Due after 1 year through 5 years	¥2	0	\$21
Total	¥2	¥2	\$21

5. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finished products	¥12,338	¥10,923	\$104,563
Work in process	9,691	8,247	82,123
Raw materials and supplies	10,190	8,121	86,355
Total	<u>¥32,219</u>	<u>¥27,291</u>	<u>\$273,041</u>

6. SHORT-TERM LOANS AND LONG-TERM DEBT

Annual interest rates applicable to short-term loans outstanding ranged from 0.88% to 6.03% and from 0.47% to 5.00% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
3.37% Incorporated Administrative Agency, maturing serially through 2040	¥663	¥703	\$5,622
1.15% convertible bonds due 2008	6,773	6,785	57,398
Long-term bank loans without collateral due serially to 2009 with interest rates ranging from 0.59% to 4.00% for 2007 and from 0.59% to 4.00% for 2006	15,438	10,989	130,829
Total	<u>22,874</u>	<u>18,477</u>	<u>193,849</u>
Less current portion	<u>9,476</u>	<u>1,557</u>	<u>80,308</u>
Long-term debt, less current portion	<u>¥13,398</u>	<u>¥16,920</u>	<u>\$113,541</u>

The conversion price per share of the convertible bonds for the year ended March 31, 2007 was ¥1,221 (\$10.35) – fixed price.

7. 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 721 million yen (\$6,109 thousand) and 735 million yen are included in payables' other in current liabilities in the years ended March 31, 2007 and 2006, respectively. 735 million yen are included in long-term liabilities in the year ended March 31, 2006.

The Company and certain domestic subsidiaries have a defined contribution pension plan, prepaid retirement plan, and lump-sum payments at the time of termination. Certain foreign subsidiaries mainly adopted lump-sum payments at the time of termination.

(2) Retirement benefit obligation for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Retirement benefits obligation	¥89	—	\$754
Accrued pension cost	¥89	—	\$754

Certain domestic consolidated subsidiaries adopted the simplification method to calculate retirement benefit obligation. In addition to the above accrued pension cost, 2,159 million yen (\$18,297 thousand) were incurred by certain foreign subsidiaries to comply with the accounting standards of each country as of March 31, 2007.

(3) Retirement benefit costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Contribution to defined contribution pension plan	¥931	¥905	\$7,891
	¥931	¥905	\$7,891

In addition to the above retirement benefit costs, 846 million yen (\$7,173 thousand) were incurred by certain foreign subsidiaries to comply with the accounting standards of each country for the year ended March 31, 2007.

8. SHAREHOLDERS' EQUITY

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan (the "Code"), went into effect on May 1, 2006. The Law provides that an amount equals to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the board of directors if certain conditions are met. Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the board of directors, account for an amount not exceeding one-half of the proceeds of the sale of the new shares as additional paid-in capital.

9. INCOME TAXES

Income taxes in Japan applicable to the Company for the years ended March 31, 2007 and 2006 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, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets			
Inventories	¥779	¥46	\$6,599
Retirement benefit	3,202	2,955	27,132
Enterprise tax	485	83	4,113
Accrued bonus	1,050	832	8,906
Operating loss carryforwards	-	2,071	-
Foreign tax credits carryforwards	586	833	4,968
Other	1,846	1,490	15,647
Offset	(1,792)	(1,623)	(15,188)
Subtotal	¥6,156	¥6,687	\$52,177
Valuation reserve	(373)	-	(3,164)
Total deferred tax assets	¥5,783	¥6,687	\$49,013
Deferred tax liabilities			
Allowance for doubtful receivables	¥6	¥7	\$51
Undistributed earnings of foreign subsidiaries	8,575	7,972	72,670
Reserves	977	1,044	8,280
Other	1,015	687	8,602
Offset	(1,792)	(1,623)	(15,188)
Total deferred tax liabilities	¥8,781	¥8,087	\$74,415

Note: Certain reclassifications of prior year's amounts have been made to confirm to the presentation for 2007.

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

	2007	2006
Statutory tax rate	40.4 %	40.4 %
International tax rate differences	(9.0)	(27.5)
Undistributed earnings of foreign subsidiaries	2.9	17.6
Impact of consolidation elimination of dividends from foreign subsidiaries	12.0	20.5
Foreign tax credit	(7.9)	-
Tax credit for research and development costs	(3.1)	-
Others - net	1.4	2.2
Effective income tax rate	36.7 %	53.2 %

10. 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, 2007 and 2006, were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
The amount corresponding to acquisition cost	¥2,579	¥2,392	\$21,854
The amount corresponding to accumulated depreciation	1,090	1,012	9,233
The amount corresponding to net book value	<u>¥1,489</u>	<u>¥1,380</u>	<u>\$12,621</u>

The amounts of outstanding future lease payments due at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Future lease payments			
Within one year	¥445	¥439	\$3,772
Over one year	1,044	941	8,849
Total	<u>¥1,489</u>	<u>¥1,380</u>	<u>\$12,621</u>

Lease rental expense and the amounts corresponding to depreciation for the years ended March 31, 2007 and 2006 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Lease rental expense	¥483	¥518	\$4,093
The amount corresponding to depreciation expense	483	518	4,093

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.

11. CONTINGENT LIABILITIES

At March 31, 2007 and 2006 the companies had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
As guarantor of bank loans and indebtedness	¥24	¥34	\$200

12. 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.

13. SEGMENT INFORMATION

For the years ended March 31, 2007 and 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

March 31, 2007

	Millions of Yen					
	Japan	Asia	Other	Total	Elimination	Consolidated
Sales:						
Customers	¥69,851	¥120,120	¥31,259	¥221,230	–	¥221,230
Intersegment	144,061	77,299	1,666	223,026	(¥223,026)	–
Total	213,912	197,419	32,925	444,256	(223,026)	221,230
Operating expenses	198,297	190,882	32,603	421,782	(222,570)	199,212
Operating income	¥15,615	¥6,537	¥322	¥22,474	(¥456)	¥22,018
Assets	¥192,720	¥128,551	¥9,789	¥331,060	(¥72,507)	¥258,553

March 31, 2006

	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

March 31, 2007

	Thousands of U.S. Dollars					
	Japan	Asia	Other	Total	Elimination	Consolidated
Sales:						
Customers	\$591,958	\$1,017,968	\$264,903	\$1,874,829	–	\$1,874,829
Intersegment	1,220,859	655,080	14,115	1,890,054	(\$1,890,054)	–
Total	1,812,817	1,673,048	279,018	3,764,883	(1,890,054)	1,874,829
Operating expenses	1,680,485	1,617,646	276,288	3,574,419	(1,886,186)	1,688,233
Operating income	\$132,332	\$55,402	\$2,730	\$190,464	(\$3,868)	\$186,596
Assets	\$1,633,216	\$1,089,418	\$82,954	\$2,805,588	(\$614,463)	\$2,191,125

(a) The above segments are classified geographically.

(b) Main countries or areas other than Japan:

Asia Taiwan, Hong Kong, Korea, China, Malaysia, Singapore
Other U.S.A., Germany

(c) Common assets were ¥17,733 million (\$150,278 thousand) and ¥16,512 million at March 31, 2007 and 2006, respectively. They are principally comprised of cash and cash equivalents and investments of the Company.

(d) Due to the change in accounting standard for share-based payment stated at accompanying Note 3, operating expenses for the year ended March 31, 2007 increased by 44 million yen (\$371 thousand) in Japan.

(e) Due to the change in accounting standard for directors' bonus stated at accompanying Note 3, operating expenses for the year ended March 31, 2007 increased by 40 million yen (\$339 thousand) in Japan.

(3) Foreign Sales Information

March 31, 2007

	Millions of Yen				
	Asia	North America	Europe	Other	Total
Foreign sales	¥128,910	¥16,272	¥10,562	¥276	¥156,020
Consolidated sales					¥221,230
Percentage of foreign sales in proportion to consolidated sales	58.3%	7.3%	4.8%	0.1%	70.5%

March 31, 2006

	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%

March 31, 2007

	Thousands of U.S. Dollars				
	Asia	North America	Europe	Other	Total
Foreign sales	\$1,092,456	\$137,901	\$89,510	\$2,338	\$1,322,205
Consolidated sales					\$1,874,829

(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.

14. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2007 and 2006 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, 2007				
Basic EPS				
Net income allocated to common shareholders	¥12,945	119,220	¥108.58	\$0.92
Effect of dilutive securities				
Convertible bonds	46	5,554	(4.46)	(0.04)
Stock acquisition rights	—	35	(0.03)	(0.00)
Diluted EPS				
Net income for computation	¥12,991	124,809	¥104.09	\$0.88
For the year ended March 31, 2006				
Basic EPS				
Net income allocated to common shareholders	¥3,100	119,253	¥26.00	
Effect of dilutive securities				
Convertible bonds	46	5,559	(0.78)	
Stock acquisition rights	—	18	(0.01)	
Diluted EPS				
Net income for computation	¥3,146	124,830	¥25.21	

15. BUSINESS REORGANIZATION

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 gain.

16. 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 due to the new accounting treatment for the year ended March 31, 2006. Cumulative impairment loss is deducted directly from respective fixed asset accounts based on the revised regulations concerning financial statements.

17. SUBSEQUENT EVENT

- The following appropriations of retained earnings at March 31, 2007 were approved at the Company's shareholders' meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividend, ¥5.00 (\$0.04) per share	¥596	\$5,051

- Based on a resolution approved by the Board of Directors on April 11, 2007, the Company issues Euro Yen "Zero Coupon Convertible Bonds due 2014 of Taiyo Yuden Co., Ltd." in the aggregate principal amount of 20 billion yen.

- Principal amount of each bond is 5 million yen (\$42 thousand).
- Purchase amount for each bond is 100% of principal amount.
- Issuing price (offer price) for bonds with stock acquisition rights is 102.5% of principal amount.
- Date of issue is April 27, 2007 (London time).
- Redemption at maturity is 100% of the bond principal amount at the time of maturity on April 28, 2014.
- Conversion price is 3,746 yen (\$31.75).
- Period for exercise of stock acquisition rights is from May 11, 2007 to the end of the business hours of the agent office where the exercise of stock is granted on April 14, 2014.

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.	100.0%
Bifrostec Inc.	66.7%
Niigata Taiyo Yuden Co., Ltd.	100.0%
Shoei Electronics Co., Ltd.	100.0%
 <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%
TAIYO YUDEN (CHINA) CO., LTD.	100.0%
TAIYO YUDEN (SUZHOU) CO., LTD.	100.0%

AFFILIATES

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