

The background of the entire page is a complex, abstract digital graphic. It features a central point from which numerous fine, white lines radiate outwards, creating a starburst or particle trail effect. Overlaid on this are several concentric, glowing blue circles of varying thickness and opacity. The overall color palette is dominated by deep blues and bright whites, giving it a futuristic, high-tech, or space-themed appearance. The text is overlaid on this graphic.

ANNUAL REPORT 2016

Going Beyond to a New Tomorrow

TAIYO YUDEN

Profile

Contents

TAIYO YUDEN is a company that makes electronic components that are indispensable for economic activity in Japan and throughout the world.

Since its founding in 1950, TAIYO YUDEN has worked to develop and mass produce electronic components that meet the most current needs of our customers and the markets we serve, ranging from the research and development of materials to product commercialization. This is what we believe in.

TAIYO YUDEN aims to be an exciting company that is trusted by all its stakeholders, with a foundation comprised mainly of its original technical capabilities and proposal-making abilities that have been developed since the company was first founded.



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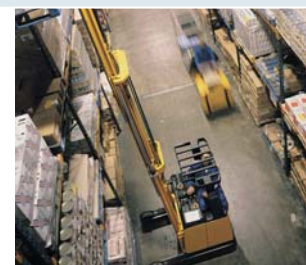
11 Interview with the President

New President Shoichi Tosaka discusses the earnings forecast for the fiscal year ending March 2017, shareholder return policy, and our management policy and growth strategy based on medium- and long-term market outlook and other topics.



16 Special feature: Logistics Reform Brings Competitive Advantages

With logistics positioned at the core of our value chain operations, we developed in-house warehouse management system, and we explain here our progress with logistics reforms since our changeover to a proprietary system.



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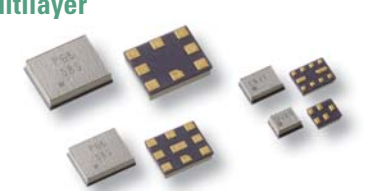

Notes

- Period covered by this report: From April 1, 2015 to March 31, 2016. The figures in this report omit amounts less than hundred million yen and 1 million yen and displays it.
- The following convention has been applied as regards the labeling of fiscal years in graphs: "The fiscal year ended March 2016," for example, has been shortened to "2016."
- The English-language version of this report is based on the Japanese-language version. With the exception of the financial statements, all figures presented have been rounded down to the nearest appropriate unit. As a result, there are cases when a presented figure differs slightly from the equivalent figure in the financial statements.
- The Bluetooth® word mark and logos are registered trademarks owned by Bluetooth SIG, Inc. TAIYO YUDEN has been granted approval to use these trademarks.
- The contents of this Annual Report are correct as of June 29, 2016.

Disclaimer

This Annual Report is intended to provide information about the business performance and strategies of the TAIYO YUDEN Group. It is not intended as an inducement to purchase or sell stock in TAIYO YUDEN or any TAIYO YUDEN Group company. Statements in this report that are not historical fact are forward-looking statements based on the current beliefs, estimates and expectations of TAIYO YUDEN Group management. As these beliefs, estimates and expectations are subject to a number of risks, uncertainties and assumptions, actual results may differ materially. TAIYO YUDEN undertakes no obligation to update any forward-looking statements, and shall in no event be liable for any damages arising out of the use or interpretation of this material. Please refrain from copying or disseminating this material without the prior consent of TAIYO YUDEN

The TAIYO YUDEN Group's business activities center on the development, manufacture, and sales of electronic components.

| Business | Main products |
|--|---|
| <p>Capacitors</p> <p>Capacitors are used in a wide variety of electronic equipment to temporarily store electricity and remove electronic noise. TAIYO YUDEN excels in producing small, high-capacitance multilayer ceramic capacitors, which are best suited to cutting-edge compact, ultrathin digital devices. Large numbers of smartphones, tablet devices, and other devices use these products.</p> | <p>Multilayer ceramic capacitors</p>  |
| <p>Ferrite and Applied Products</p> <p>The main products of the Ferrite and Applied Products segment are inductors used in electronic equipment power and high-frequency circuits for blocking alternating current while allowing direct current to pass through.</p> | <p>Wire-wound chip inductors, multilayer chip inductors, ferrite bead inductors, common-mode choke coils</p>  |
| <p>Integrated Modules & Devices</p> <p>The Integrated Modules & Devices segment's main products are FBAR/SAW devices for mobile communications, frontend modules, and power supply modules. The FBAR/SAW devices are used primarily in smartphones to enable high-speed data communications and high-quality voice communications.</p> | <p>FBAR/SAW devices for mobile communications, power supply modules, high-frequency modules, embedded-parts multilayer wiring substrates</p>  |
| <p>Other Electronic Components</p> <p>The Other Electronic Components segment develops and brings to market a variety of energy devices used as backup power equipment for smart meters and other similar products, and peak current assistance for LED flashes.</p> | <p>Lithium ion capacitors, polyacene capacitors</p>  |

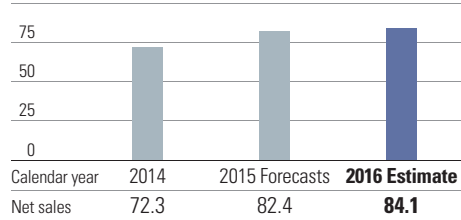
Within the electronics field, we are targeting markets where we anticipate growth.

Market Conditions for Electronic Components and Devices

Electronic components and devices

¥84.1 trillion

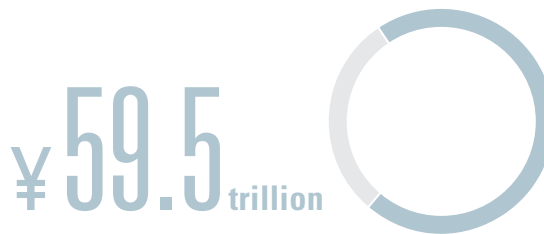
(Trillions of yen)



Note: Figures from 2015 Production Forecasts for the Global Electronics and Information Technology Industries, Japan Electronics and Information Technology Industries Association (JEITA); the electronic components and devices category is as defined in JEITA's statistical breakdown of global electronic component shipments

Electronic devices

Devices that apply functions of electrons to perform active tasks such as amplification



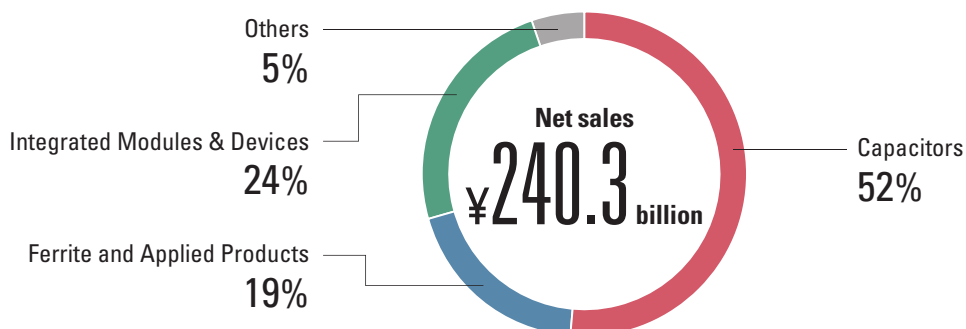
General electronic components

Components that work with and supplement electronic devices



Business Development

Sales by product classifications



Demand continues to grow for our capacitors, inductors, and devices for mobile communications in line with the proliferation of smartphones and increasing use of automotive electronics.

■ TAIYO YUDEN's business domains

Semiconductor devices, integrated circuits, electron tubes, etc.

Passive components

These devices store, control, separate, and perform other tasks on the flow of electrons supplied.

Capacitors, inductors, resistors, transformers, and others

Connecting components

These devices connect, switch, and perform other tasks on electronic circuits and systems

Switches, connectors, and others

Transducers

These devices create sounds, torques, magnetic flux, and others

Electro-acoustic transducers, compact motors, and others

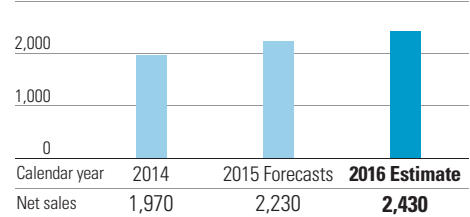
Other electronic components

High-frequency components, mobile communication devices (FBAR/SAW), and power-supply components

Capacitor market size

¥ **2,430** billion

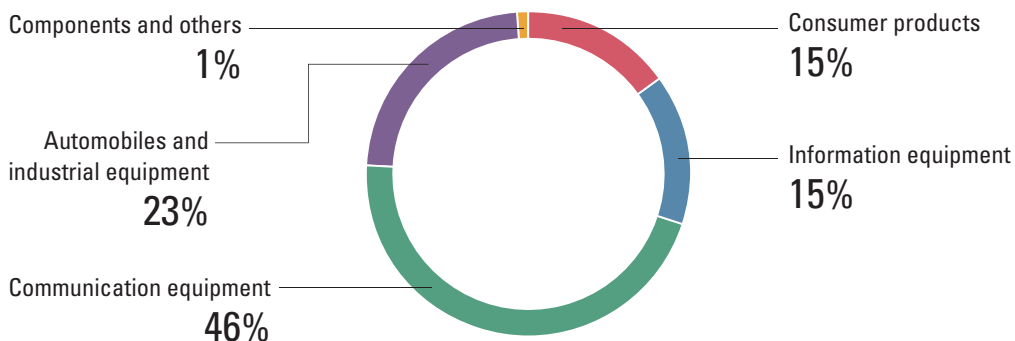
(Billions of yen)



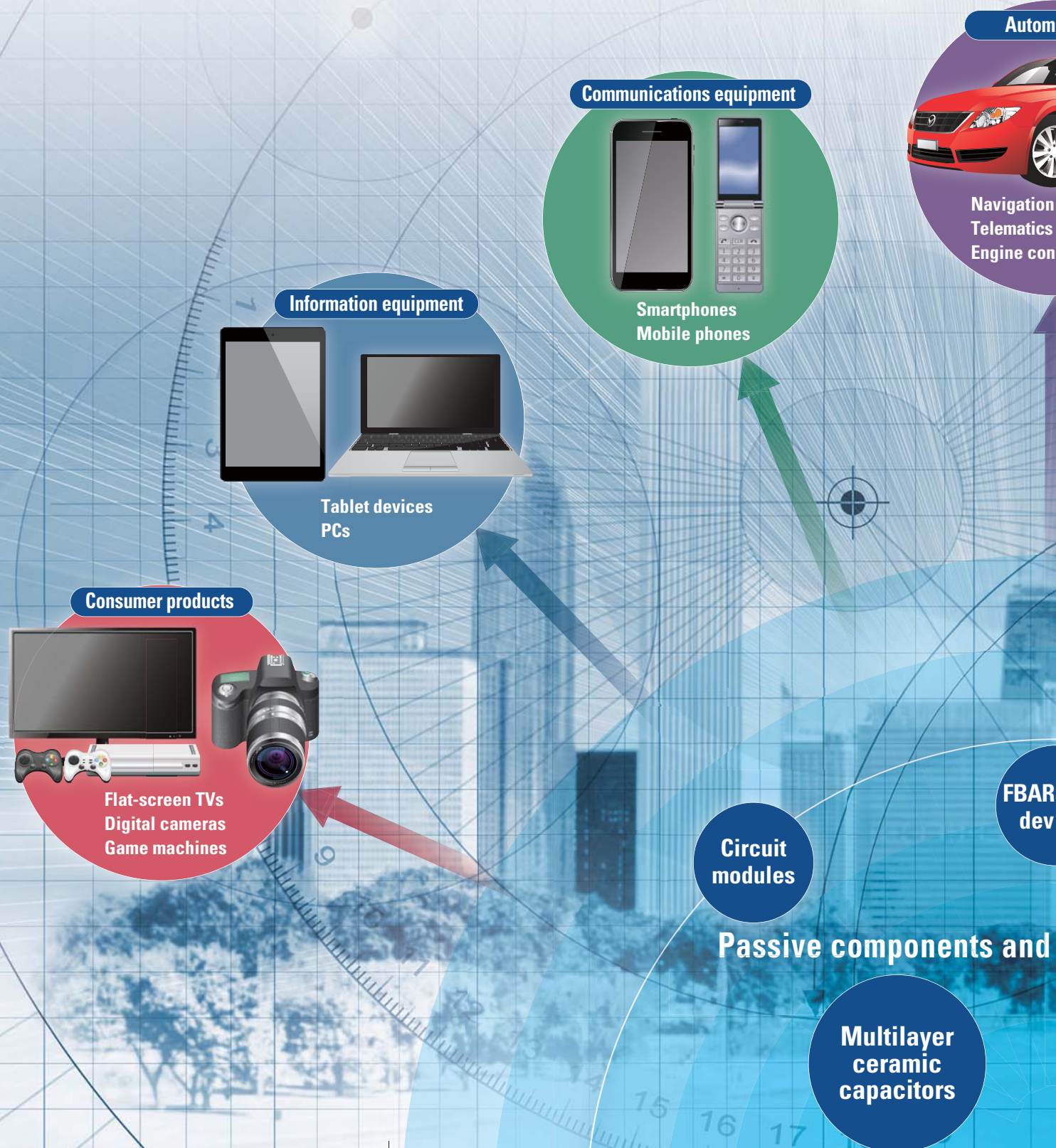
Source: Annual of Electronic Devices & Components 2016, Chunichisha Co., Ltd.

Year ended March 31, 2016

Sales of electronic components by market sector



TAIYO YUDEN presents various solutions with passive components.



TAIYO YUDEN provides solutions for a wide array of fields such as communications equipment and automobiles with passive components like capacitors, inductors, and communications devices.

Automobiles

Systems

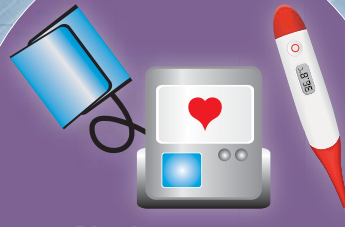
Control units

Industrial equipment



Surveillance cameras
Smart meters

Medical and Healthcare



Blood pressure meters
Patient bed sensors
Health check-ups

Environmental and Energy



Solar power generators
Electric bicycles
Electric vehicles

Energy devices

SAW devices

Other electronic components

Inductors

We will continue using the superior innovation and high reliability of our products to expand our businesses.

1 Growth Strategy

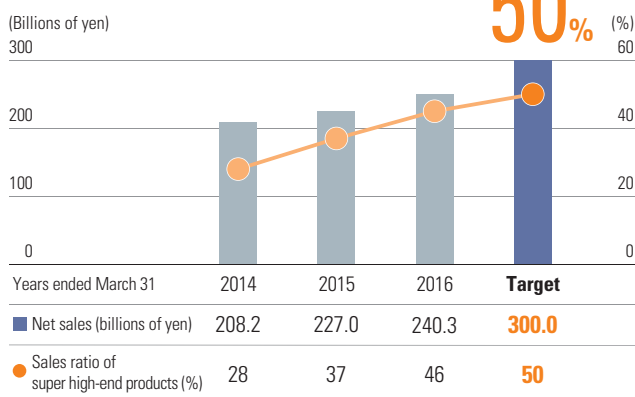
Development of Super High-end Products

The Company's super high-end products are developed using our market leading technical expertise and capabilities. We have advanced these products to mass production ahead of our competitors. The steadfast development of our super high-end products for growth markets and focus markets is essential to the Company's profitable business growth.

Definition of a super high-end product

- 1 Product that obtains the top position in the global market
- 2 Product that only 2.5 suppliers can develop in the field
- 3 Product that provides solutions for growth markets
- 4 Products that sustains a strong competitive edge

Sales ratio of super high-end products



2 Growth Strategy

Product for Focus Markets

Computerization and the use of electronic components are rapidly advancing in markets showing relatively steady demand. Markets such as automobiles, industrial equipment, medical and healthcare products, as well as environmental and energy applications demand a continuous stream of TAIYO YUDEN's products. We are expanding TAIYO YUDEN's high reliable electronic components' lineup and bringing to markets high temperature resistance, long life, and high quality products as well as promoting use of our products as core design components in our customer's products. Our strategy continuously opens new sales routes and opportunities that address market needs.



Automobiles

Navigation systems
Telematics, Engine control units



Industrial Equipment

Surveillance cameras
Smart meters



Medical and Healthcare

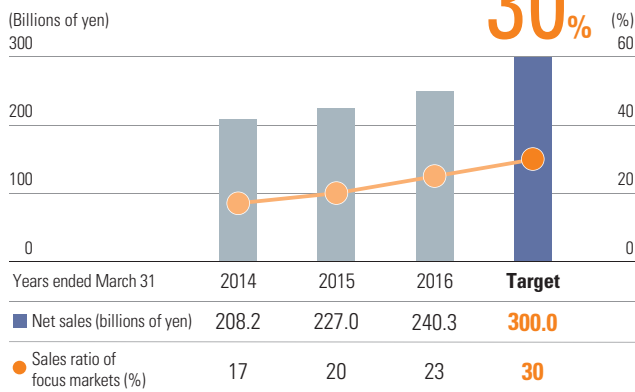
Blood pressure meters
Patient bed sensors, Health check-ups



Environmental and Energy

Solar power generators
Electric bicycles, Electric vehicles

Sales ratio of focus markets




Our key strengths are our early-mover global expansion and technological capabilities to keep creating world-first products.

1 Strength and Uniqueness

The Technological Knowhow to Develop and Bring to Market World-leading Innovative Products

Since its founding, TAIYO YUDEN has followed a credo of starting from material development to complete end products. Our research and development activities have been producing numerous world-first innovations and products for many years.

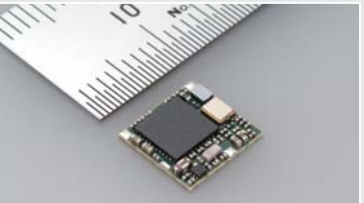
1984
Commercialized the world's first nickel-electrode high-capacity multilayer ceramic capacitor



2004
Achieved the world's best inductance value for high-frequency, EIA 0201-size multilayer chip inductors



2006
World's first mass production of the groundbreaking EOMIN™ embedded parts multilayer wiring substrate with a copper core



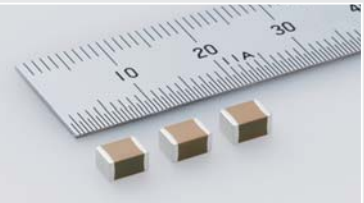
2013
Commercialized the world's first multilayer metal power inductor



2014
Achieved the world's thinnest (0.11mm) multilayer ceramic capacitor



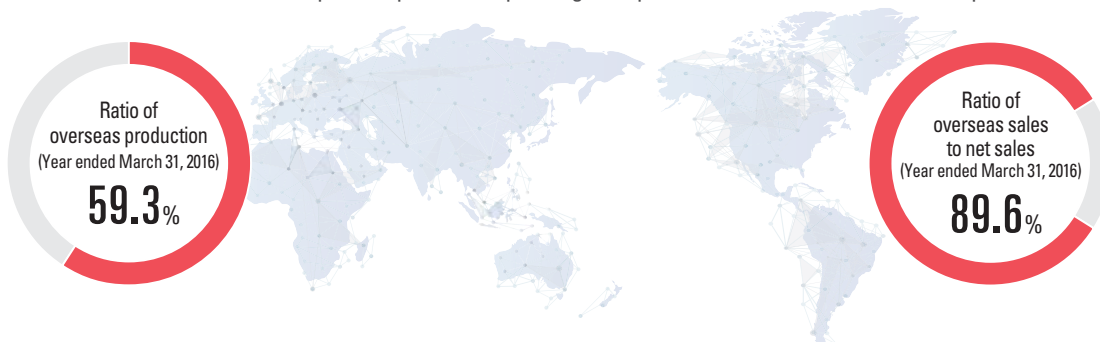
2014
Achieved the world's first 470µF multilayer ceramic capacitor



2 Strength and Uniqueness

Global Production and Extensive Sales Network

TAIYO YUDEN began its global expansion in 1967 with a subsidiary in Taiwan and has continued developing operations focused on North America, Europe, and East Asia. This led to its current development, production, and sales network spanning 16 countries and regions worldwide, including Japan. Today, the Company continually works to improve its reach throughout world markets. In particular, regarding its production activities, the Company is stepping up the development of highend products abroad to make maximize use of its overseas bases as it has put into place the optimal global production network of bases in Japan and around the world.



Financial Highlights

TAIYO YUDEN CO., LTD. and Subsidiaries
Years Ended March 31 and as of March 31

Millions of yen

| Fiscal year | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-----------|-----------|-----------|-----------|------------------|
| Net sales | ¥ 183,795 | ¥ 192,903 | ¥ 208,222 | ¥ 227,095 | ¥ 240,385 |
| Operating income (loss) | (8,010) | 4,850 | 11,358 | 13,153 | 23,370 |
| Ordinary income (loss) | (9,070) | 7,118 | 12,192 | 15,653 | 22,263 |
| Net income (loss) attributable to owners of parent company | (21,599) | 1,867 | 6,989 | 10,919 | 14,751 |
| Total assets | 208,461 | 225,991 | 247,596 | 265,454 | 268,380 |
| Net assets | 104,400 | 115,814 | 128,556 | 150,856 | 153,381 |
| Cash flows from operating activities | 5,534 | 19,496 | 29,724 | 24,896 | 38,278 |
| Cash flows from investing activities | (28,945) | (18,157) | (18,947) | (20,964) | (35,374) |
| Free cash flows | (23,411) | 1,339 | 10,777 | 3,932 | 2,904 |
| Cash flows from financing activities | 11,388 | 2,334 | 8,404 | (21,249) | (2,050) |
| Cash and cash equivalents at end of year | 26,671 | 33,280 | 54,611 | 41,476 | 39,944 |
| R&D expenses | 8,068 | 6,840 | 7,353 | 8,237 | 9,024 |
| Capital investment | 26,764 | 20,702 | 19,126 | 18,773 | 41,261 |
| Depreciation and amortization | 19,250 | 19,832 | 20,750 | 21,813 | 23,767 |

Per share data (yen)

| | | | | | |
|-----------------------------------|----------|----------|-----------|-----------|------------------|
| Net assets per share | ¥ 884.70 | ¥ 981.92 | ¥1,090.26 | ¥1,278.07 | ¥1,299.75 |
| Basic net income (loss) per share | (183.70) | 15.88 | 59.38 | 92.74 | 125.27 |
| Diluted net income per share | — | 15.85 | 58.09 | 85.51 | 115.54 |
| Cash dividends per share | 5.00 | 10.00 | 10.00 | 10.00 | 15.00 |

Financial ratios (%)

| | | | | | |
|------------------------|--------|------|------|------|-------------|
| Equity ratio | 49.9 | 51.1 | 51.8 | 56.7 | 57.1 |
| Return on Equity [ROE] | (18.7) | 1.7 | 5.7 | 7.8 | 9.7 |
| Return on Assets [ROA] | (4.2) | 3.3 | 5.1 | 6.1 | 8.3 |

Other information

| | | | | | |
|--|--------|--------|--------|--------|---------------|
| Number of employees [consolidated] | 16,194 | 15,915 | 16,435 | 18,262 | 18,810 |
| Number of employees [non-consolidated] | 2,977 | 2,632 | 2,572 | 2,577 | 2,618 |

Note: ROE = Net income (loss) attributable to owners of parent company / Shareholders' equity (yearly average) x 100
ROA = Ordinary income / Total assets (yearly average) x 100

Net Sales

¥240,385 million

+5.9%
(YoY)

Net Income Attributable to Owners of Parent Company

¥14,751 million

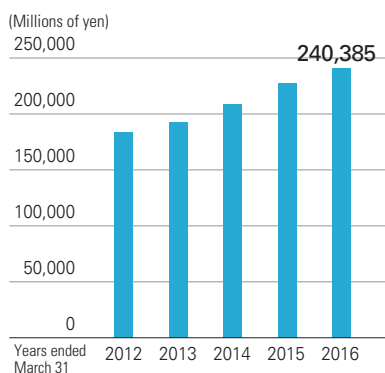
+35.1%
(YoY)

ROE

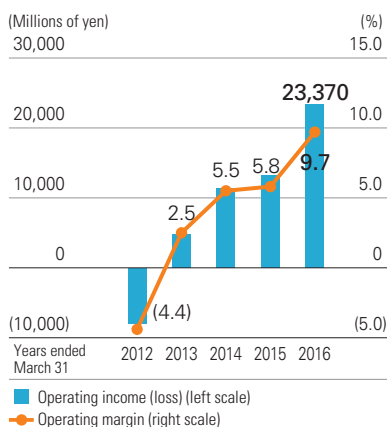
9.7%

+1.9 point
(YoY)

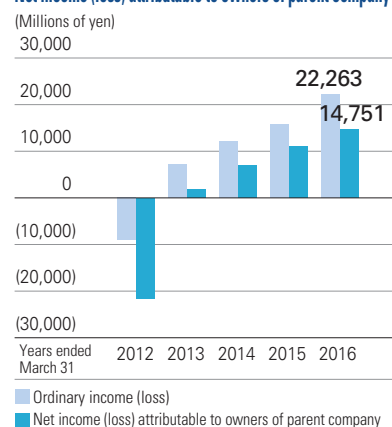
Net sales



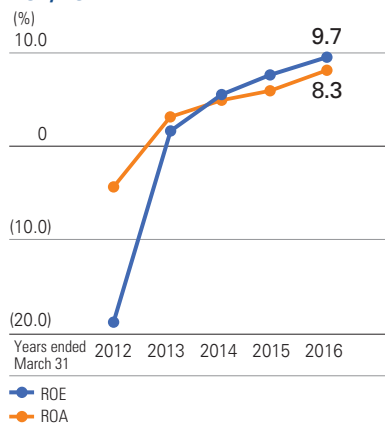
Operating income (loss)/Operating margin



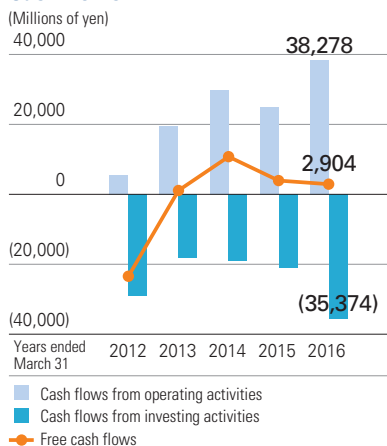
Ordinary income (loss)/Net income (loss) attributable to owners of parent company



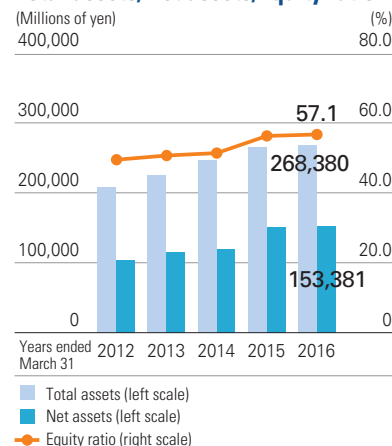
ROE/ROA



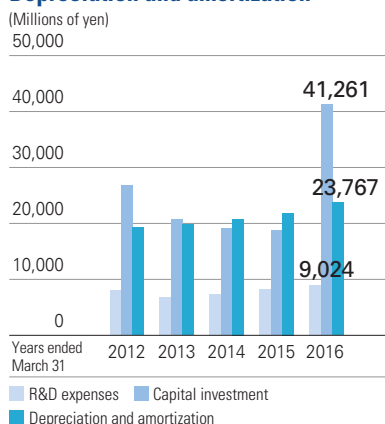
Cash flows



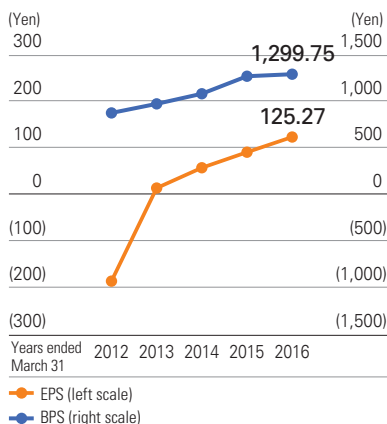
Total assets/Net assets/Equity ratio



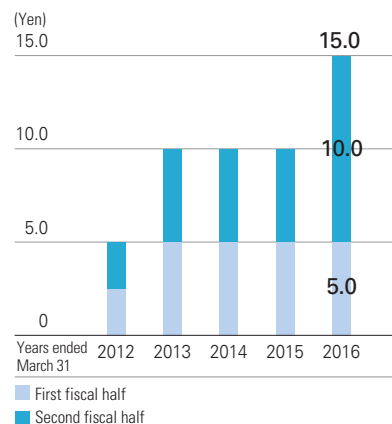
R&D expenses/Capital investment/Depreciation and amortization



EPS/BPS



Cash dividends per share



Message from the President

We are strengthening our business by concentrating our management resources in growth areas, with the aim of becoming an excellent company that enjoys the trust and highest regard from our customers.



In the fiscal year ended March 31, 2016, sales of high value-added, super high-end products expanded in the communications equipment market focused on smartphones. The growth was backed by an increase in the number of electronic components in devices as they became smaller and thinner with higher performance and greater functionality. The growing use of electronics also resulted in higher sales of high-reliability products for automotive and industrial equipment markets where steady demand is expected in the future. The weak yen also helped improve profitability.

As a result, on a consolidated basis, the Company recorded its highest net sales ever at ¥240.3 billion, rising 5.9% year on year. Operating income grew 77.7% to ¥23.3 billion. In addition, net income attributable to owners of parent company increased 35.1% to ¥14.7 billion, marking our fourth consecutive fiscal year with growth in both sales and profit.

There has been a growing sense of uncertainty in external factors since last year amid a slowdown in China and emerging economies. In these circumstances, we will continue to make investments to boost our production capacity and improve productivity to prepare for further strides forward. We will keep our focus on demand growth in the market for communications equipment, mainly smartphones, and in the automotive and industrial equipment markets, as well as watch closely new trends in key growth markets, such as Internet of Things (IoT). We appreciate the continuing support and guidance from our stakeholders as we seek to build from these results and carry that the momentum into the future and position the Group for further growth.

A handwritten signature in black ink that reads "S. Tosaka".

Shoichi Tosaka
President and Chief Executive Officer

Interview with the President

1

Q You became president in November 2015. Please tell us your views on the medium- to long-term market environment, and your approach to leading TAIYO YUDEN going forward to meet the challenges you see.

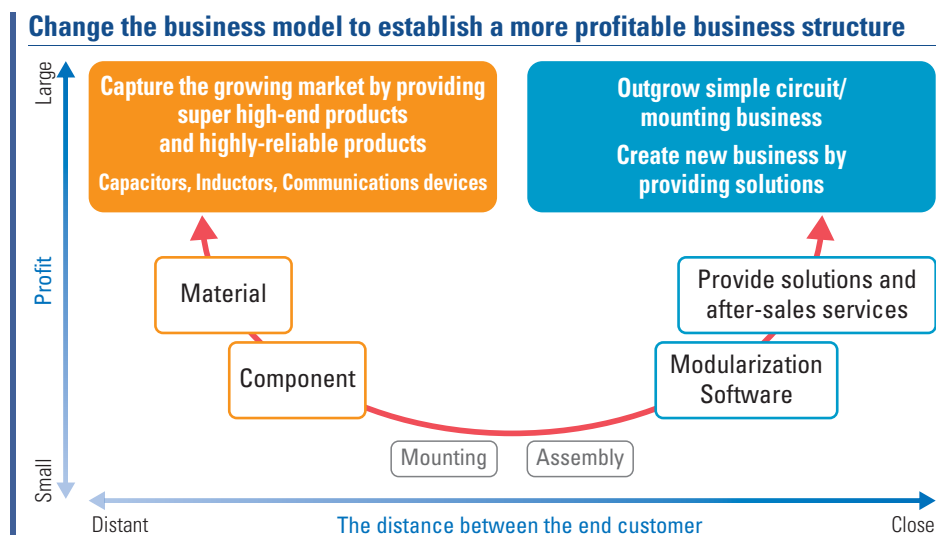
A We aim to capture growth markets in anticipation of ongoing advances in the use of electronics and continually transform our business model to build a stronger and sustainable earnings structure.

Smartphones have become widespread mainly in developed countries, and growth in unit sales has slowed down. Even in such trend, we expect the number of electronic components used in each unit to increase steadily, backed by a shift to higher performance and greater functionality. In addition, the automotive electronic component market is expected to see strong growth, from approximately ¥18 trillion in 2012 to ¥30 trillion in 2020, reflecting the development of electronic and fuel-cell vehicles as well as the rapid progress in the practical application of self-driving systems. Furthermore, as the spread of IoT shifts into high gear, the number of devices connected to networks along with the number of sensors in those devices will surge, leading to an explosive increase in the need for ultra-small and ultra-thin electronics components.

With this outlook for the market environment, the Company will step up its efforts focusing on growth strategies to realize our vision to “become an excellent company that enjoys the trust and

highest regard from our customers.” Trust is earned through our basic business stance of always living up to the expectations of our customers. Moreover, as a company at the forefront of technological innovation, we hope to continue to be an excellent company that proactively creates smart and inspiring products beyond the expectations of our customers.

As an electronic components manufacturer, we also aim to continually transform our business model to build a stronger earnings structure. Specifically, we will increase the sales ratio of super high-end and high-reliability products making use of our strengths in product development that starts from the development of materials. Along with these efforts, we will concentrate our management resources on creating new businesses that range from high value-added modules combined with software, solution proposals backed up by our accumulated technological achievements, to after-sales service.



2

Q

Please talk about the growth potential in the capacitor business and specific initiatives in this area.

A

We will enhance our product lineup that responds to wide ranging market needs.

The four main needs of the market for capacitors are 1) smaller and lower profile (thinner), 2) higher capacitance, 3) higher voltage resistance, and 4) larger and atypical forms. Global annual shipments in the market for multilayer ceramic capacitors (MLCCs) are currently estimated at 2.5 trillion units. The number is expected to reach 4 trillion by around 2020.

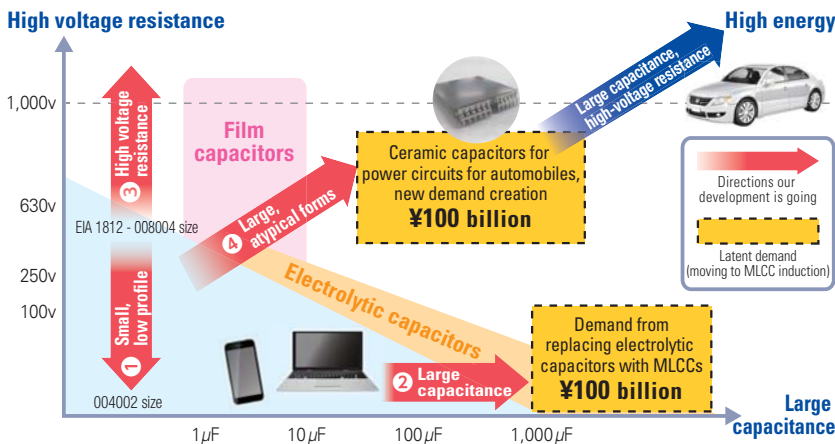
One of the Company's strengths in the capacitor business is materials technology where the development of ceramic materials is a key focus. Leveraging that strength, we have expanded the business based on development of small, low-profile, high-capacitance MLCCs to handle high density mounting that simultaneously achieves downsizing along with higher performance and greater functionality.

The capacitor market has been experiencing a trend toward the phasing out of electrolytic capacitors and film capacitors and a corresponding increase in demand for MLCCs. As MLCC capacitance increases, the market for MLCCs, which are not only smaller and lower profile as compared to other capacitors but also have superior product

life and reliability, is expanding steadily. High-reliability products that deliver high capacitance and high voltage resistance are required to support this market trend particularly in the automotive and industrial equipment markets where the use of electronics is advancing. The Company therefore makes high capacitance a priority for product development with hopes to introduce a 1,000µF MLCC in 2017. If we can increase capacitance to this level, it will be possible to replace a considerable part of the existing electrolytic capacitor market.

Moreover, the semiconductor industry is experiencing a shift in materials from silicon toward the chemical compounds GaN (gallium nitride) and SiC (silicon carbide). The features of MLCCs work effectively with these compact, high-speed and high-voltage-resistant semiconductors. As we anticipate growing demand for MLCCs associated with the growth in next-generation semiconductors, we will concentrate on using our development capabilities in materials technology to develop MLCCs featuring high capacitance and high voltage resistance.

Future direction of capacitor business



- ① **Small, low-profile:**
For smaller form factors
- ② **Increasing capacitance:**
For demand to switch from electrolytic capacitors (plan to launch 1,000µF products in 2017)
- ③ **High voltage resistance:**
For energy market (high-reliability market)
- ④ **Large, atypical forms:**
For demand to switch from film capacitors

Q Sales of inductors and communications devices are also expanding. What are your future growth strategies in these areas?

A We will enhance our inductor lineup through advances in materials and process technologies. We will also accelerate the development of products aimed at the 5G next-generation communication standard and at the automotive market in communications devices.

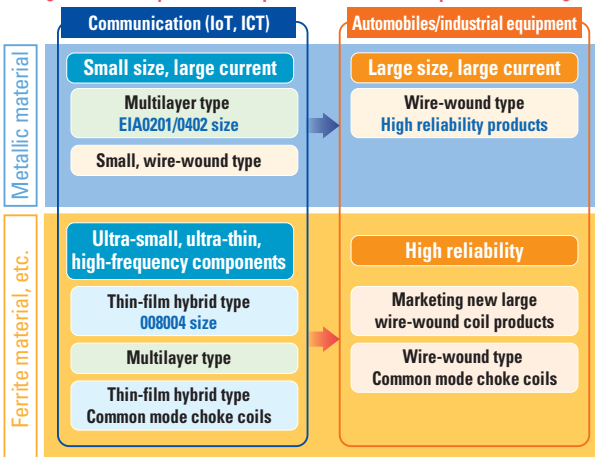


Inductor products include those made of metal materials and ferrite (ceramics whose main component is iron oxide). As with MLCCs, the Company develops inductor products from the materials development stage and has enhanced its product lineup including small wire-wound and multilayered types to handle smaller information and communications devices and high density mounting. However, when considering future growth and market trends, our lineup of large wire-wound products for the automotive and industrial equipment markets needs to further expand. As a response to these market trends and in order to introduce competitive products for the automotive and industrial equipment markets, we plan to strengthen our wire-wound process technologies and enhance our large products and high-reliability products that handle larger rated currents.

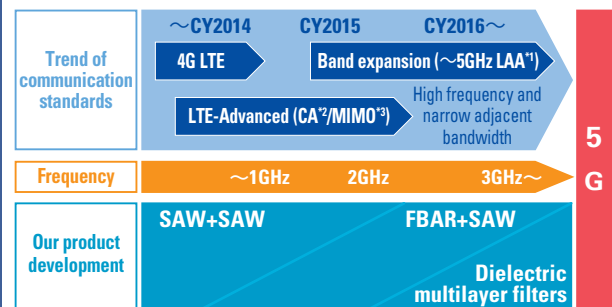
In response to the spread of the LTE high-speed communications standard in the worldwide market, we are expanding the communications devices business by providing products optimal for higher frequencies and narrow adjacent bandwidths. We provide products responding to all current standard frequencies by leveraging our strengths as a developer and producer of both high-performance FBAR and SAW filters. We are preparing for the future launch of 5G (fifth generation mobile communications) services scheduled for around 2020 by developing dielectric multilayer filters and FBAR filters that can handle even higher frequencies. We will also accelerate development of high-reliability products in the millimeter bandwidth for the automotive market.

Future direction of inductor business

Strengthen the line-up with more sophisticated material and process technologies.



Future direction of communications device business



*1 LAA: License assisted access is a new technology that allows the use of the 5GHz bandwidth used in wireless LAN and other networks through mobile phone systems.
 *2 CA: Carrier aggregation is a wireless communication method used to increase bandwidth thereby increasing the bitrate.
 *3 MIMO: Multiple input, multiple output is a wireless communication technology that expands data transceiver bandwidth by combining multiple antennas.



4

Q

It is said that IoT will bring about a fourth industrial revolution. What are your thoughts on IoT?

A

In addition to being an attractive market, we believe the trend IoT is generating is an important tool for innovation that will make our own value chain smarter.

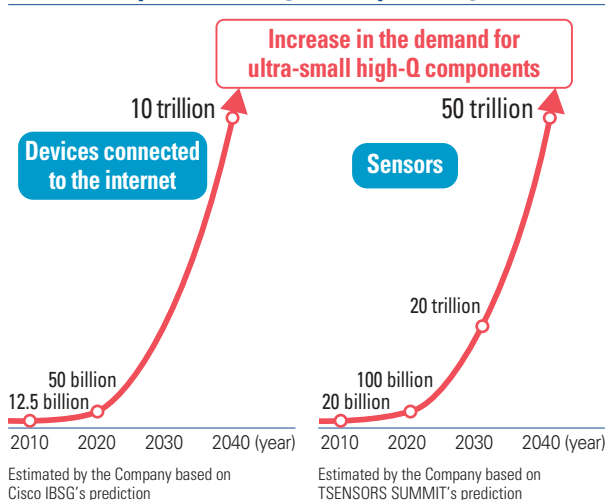
We recognize that IoT will act as a major driving force that propels growth in demand for our super high-end products. Advances in IoT will lead to a rapid increase in the number of devices connected to the Internet, and the number of sensors used in those devices will also increase significantly. The Company is already involved in developing a variety of sensors and actuators and other products needed to support IoT market. The IoT market offers significant potential for us.

At the same time, IoT will be a vital tool in evolving our manufacturing capabilities to handle an unprecedented increase in production volume that is expected in the near future. About 15 years ago, we introduced a system that enabled us to monitor the operating status of our capacitor production bases from a distance in real time. At this point, however, the uses of the system are still limited to help get confirming data such as the operating rate of equipment used in various processes and in checking on equipment downtime.

We believe that when the technology to analyze big data gathered through the use of IoT is established, the search range and speed of fundamental problem solving will improve remarkably. For example, we will be able to foresee the occurrence of problems automatically and with high accuracy, and thus take timely preventive action. The Company expects that IoT has a revolutionary effect in improving production lines to eliminate muda (wastefulness), mura (inconsistency), and muri (excessive burden) and in shortening delivery times.

Ultimately, we hope to make use of IoT not only at manufacturing sites, but also in areas such as procurement, R&D, and sales. By visualizing and centrally managing enormous amounts of information from various worksites in real time, we will be able to swiftly trace the causes of problems and deliver solutions. Furthermore, we will use these enhanced systems and processes to better manage risk avoidance and improvement activities with the aim of building a smart value chain in which all activities are organically synchronized.

IoT market predicted to grow explosively



Continuing investment in facilities

Respond to growing markets

Continue investment to enhance the performance of our super high-end and high reliability products
Accelerate the innovation in production method

+

Make investment in IoT for production process and analyze big data

Further enhance our manufacturing strength

5

Q

Please tell us about the Company's earnings forecasts, investment strategy, and plans for returning profits to shareholders for the fiscal year ending March 31, 2017.

A

Although we are forecasting declines in sales and profit, we expect to stay on track for growth on a volume basis. We plan to continue investing in growth while enhancing return of profits to shareholders targeting a total return ratio of 30%.

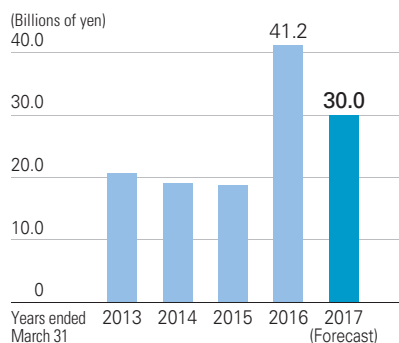
We are forecasting year-on-year decreases of 6.4% in consolidated net sales to ¥225.0 billion, 57.2% in operating income to ¥10.0 billion, and 72.9% in net income attributable to owners of parent company to ¥4.0 billion for the fiscal year ending March 31, 2017. The amounts are based on the assumption the yen will rise significantly for an average exchange rate of ¥105 to the U.S. dollar during the term (compared to ¥120.75 to the dollar in the previous fiscal year). We expect expansion in sales volume of super high-end products mainly for smartphones, and steady progress in cultivating automotive and industrial equipment markets through high-reliability products. Even so, we are forecasting decreases in sales and profit overall resulting from the impact of the strong yen and increased fixed costs due to strengthening production capacity.

We shifted to an aggressive approach to capital investment from the fiscal year ended March 31, 2016 in order to respond to future demand. We are successively raising capacitor production capacity, including construction of a new plant at NIIGATA TAIYO YUDEN

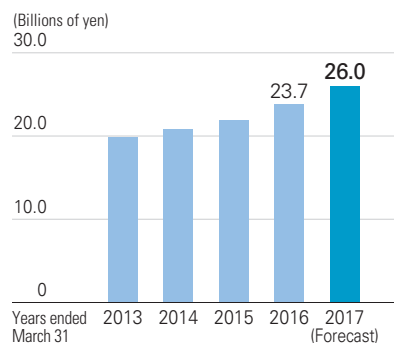
CO., LTD. For the fiscal year ending March 31, 2017 as well, we are planning investments of ¥30.0 billion in order to increase production capacity for capacitors, inductors, and communications devices, and to promote manufacturing reforms including the use of IoT. We have earmarked ¥10.0 billion for R&D expenses to accelerate development of new technologies and products.

With regard to returning profits to shareholders, the Company kept total annual dividends at ¥10 per share until the fiscal year ended March 31, 2015 to prioritize improvement of the earnings structure and financial position. For the fiscal year ended March 31, 2016, however, we raised our annual dividend per share to ¥15, having fortified our financial foundation to maintain a positive net cash position while making the necessary investments for growth. The Company plans an annual dividend per share of ¥20 for the fiscal year ending March 31, 2017, comprising interim and year-end dividend payments of ¥10 each with a target of total return ratio of 30%.

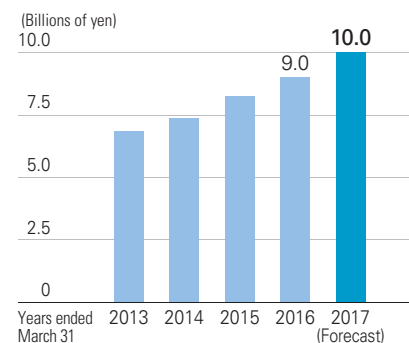
Capital investment



Depreciation and amortization



R&D expenses





Special
feature

Logistics Reform Brings Competitive Advantages

— Controlling our own logistics quality by creating in-house warehouse management system —

TAIYO YUDEN positions at the core of its value chain operations not only production processes but also logistics. In order to create a high-quality, highly efficient logistics system that responds to customer needs, we are moving ahead with reforms by changing our warehouse management from external outsourcing to an in-house system.



Kazuyuki Oshima

Senior Operating Officer,
in charge of Global SCM



Issues with outsourcing logistics operations

Black-boxing harms logistics

Since the collapse of the bubble economy in the early 1990s, many companies have concentrated management resources on their core operations and reviewed value chain to cut costs. In doing so, core operations in the manufacturing industry were procurement, development and production processes that are directly related to manufacturing. Logistics operations were considered as non-core, and a trend of outsourcing logistics to specialized 3PL (third-party logistics) providers became evident. The electronic components industry was no exception.

As a result, the operations outsourced to 3PL providers have become black-boxed. Manufacturers do not accumulate knowhow on validating logistics processes and even their ability to evaluate the quality of logistics is declining. In the electronics industry, meanwhile, manufacturers are required to provide more sophisticated lo-

gistics handling, such as JIT (Just In Time) and VMI (Vendor-Managed Inventory), in order to supply customers with the items they need, when they need, in the amounts they need, according to customer demand fluctuations.

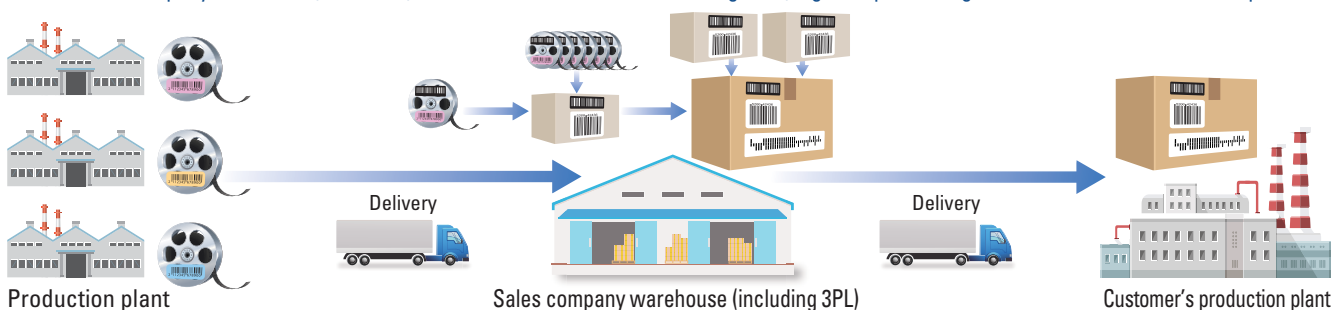
Furthermore, in contrast to B to C transactions, logistics for electronic components in general cannot be centrally managed from inventory through to receiving and placing orders using a uniform code such as a JAN code (EAN code) attached at the time of shipment from a company's own plant. This is because various logistics processes are necessary depending on the demands of the individual customer (see chart below). For example, logistics processes such as attaching labels as specified by the customer are performed at the warehouse that receives the products from the production plant. These logistics processes made warehouse operations more complex and required more man-hours, causing issues in terms of both quality and cost.

Different logistics arrangements (B to C vs. B to B)

B to C (Distribution using same code from start to finish)



B to B (Company's own code, 3PL code, and customer code are crowded together; logistics processing such as label attachment is required.)



Logistics reform through development of in-house warehouse management system

In-house system controls logistics quality

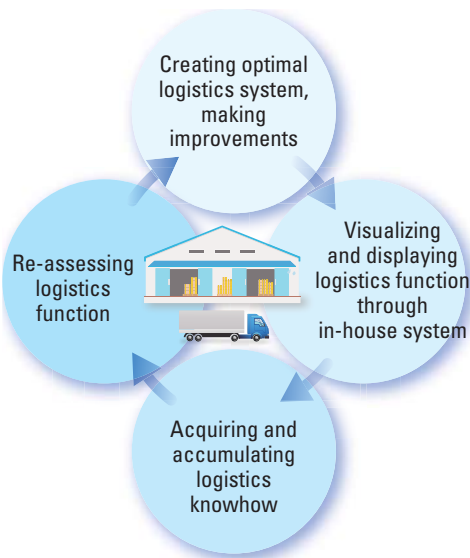
In order to resolve these problems associated with outsourced logistics operations, we began with understanding the entire logistics process, from shipment out of the production plant, to warehouse operations, and finally to delivery of the product to the customer. After sorting out the flow of the process, we began developing an in-house system to conduct the warehouse management that had been outsourced to 3PL providers and started introducing the system in 2014, with only warehouse space and warehouse operations provided by 3PL companies.

The in-house warehouse management system developed by TAIYO YUDEN enables integrated management from production to sales based on an ID printed on a barcode label that is attached at the upstream production plant. This system is optimally suited to the Group, as it leverages the TAIYO YUDEN Group's value chain in which

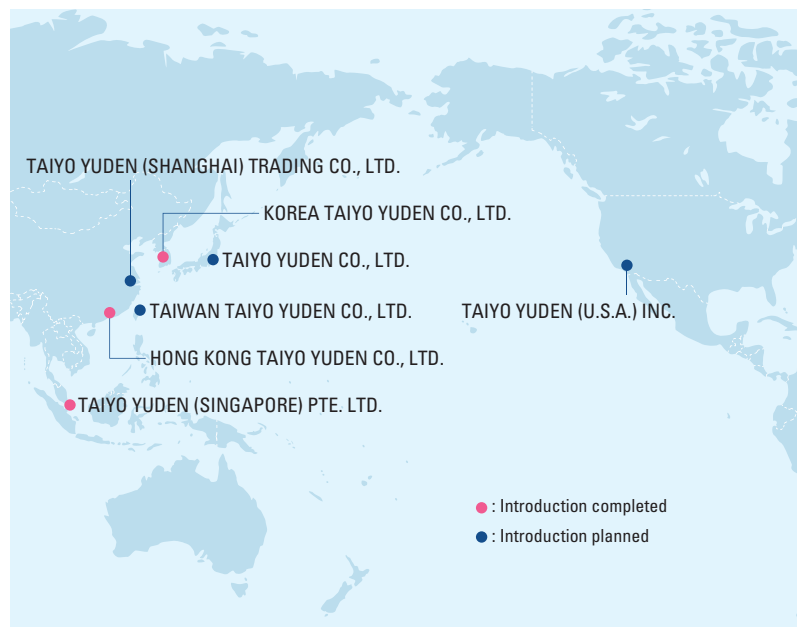
the process from production to sales is handled in-house.

Specifically, the ID is attached to each level of packaging: the individual reel (the smallest packaging format for components), the inner box containing a reel, and the outer box containing the inner boxes. This allows the system to get detailed information about the product inside the outer box without opening it but rather by reading the ID attached to the outer box with a barcode reader at the warehouse. As a result, the system can distinguish whether or not logistics processing is required at the shipment stage, and items that can be shipped in the outer box or inner-box units are shipped in such ways, thus achieving improvements in work efficiency. Furthermore, the system gives operational instructions for items requiring work at the reel-unit level, thereby eliminating mistakes by workers and enabling us to ensure the quality of our logistics.

Advantages of in-house system



Expansion of in-house warehouse management system



Anticipated effects of logistics reform

In-house system improves logistics quality, reduces cost and enhances BCP system

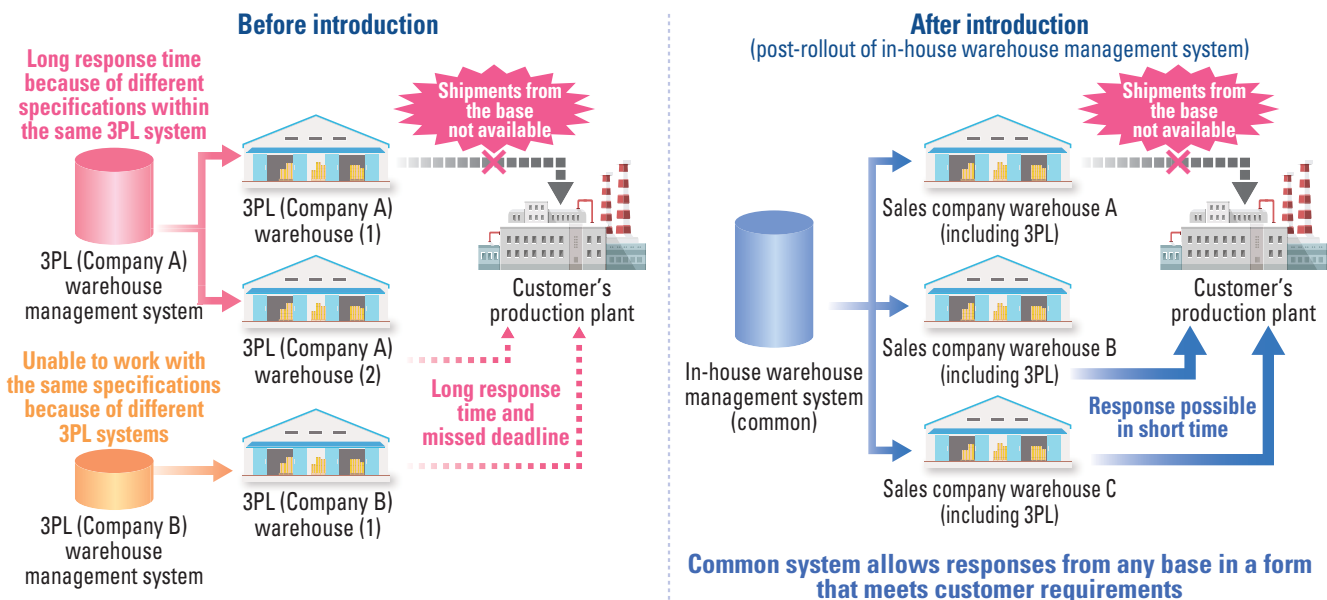
There are three main advantages to introducing this in-house warehouse management system: 1) improvement of logistics quality, 2) cost reductions, and 3) BCP measures.

With regard to improvement of logistics quality, one benefit is that by switching to a mechanism in which the system reads information and makes decisions based on barcode management using IDs as described above, the need for human judgment or visual checks when attaching labels or at other work stages is removed, and human error is therefore eliminated. In addition, by standardizing the warehouse management systems and warehouse operations that had previously been administered according to the separate specifications of each warehouse, it has become possible to extend improvements made at one base to all bases. As for operational costs, since it has become possible to process products as they are, without opening the outer or inner box, operational efficiency has increased remarkably, and costs have been reduced significantly when compared to the previous

3PL outsourcing costs. Moreover, since we had previously outsourced warehouse operations including the warehouse management system to 3PL companies, the choice of providers was limited, but now that we can offer providers our in-house warehouse management system, we can invite a wide range of companies into the bidding process. As a result, the principle of competition comes into play, and we can select the outsourcer that best suits the Company in terms of both quality and cost.

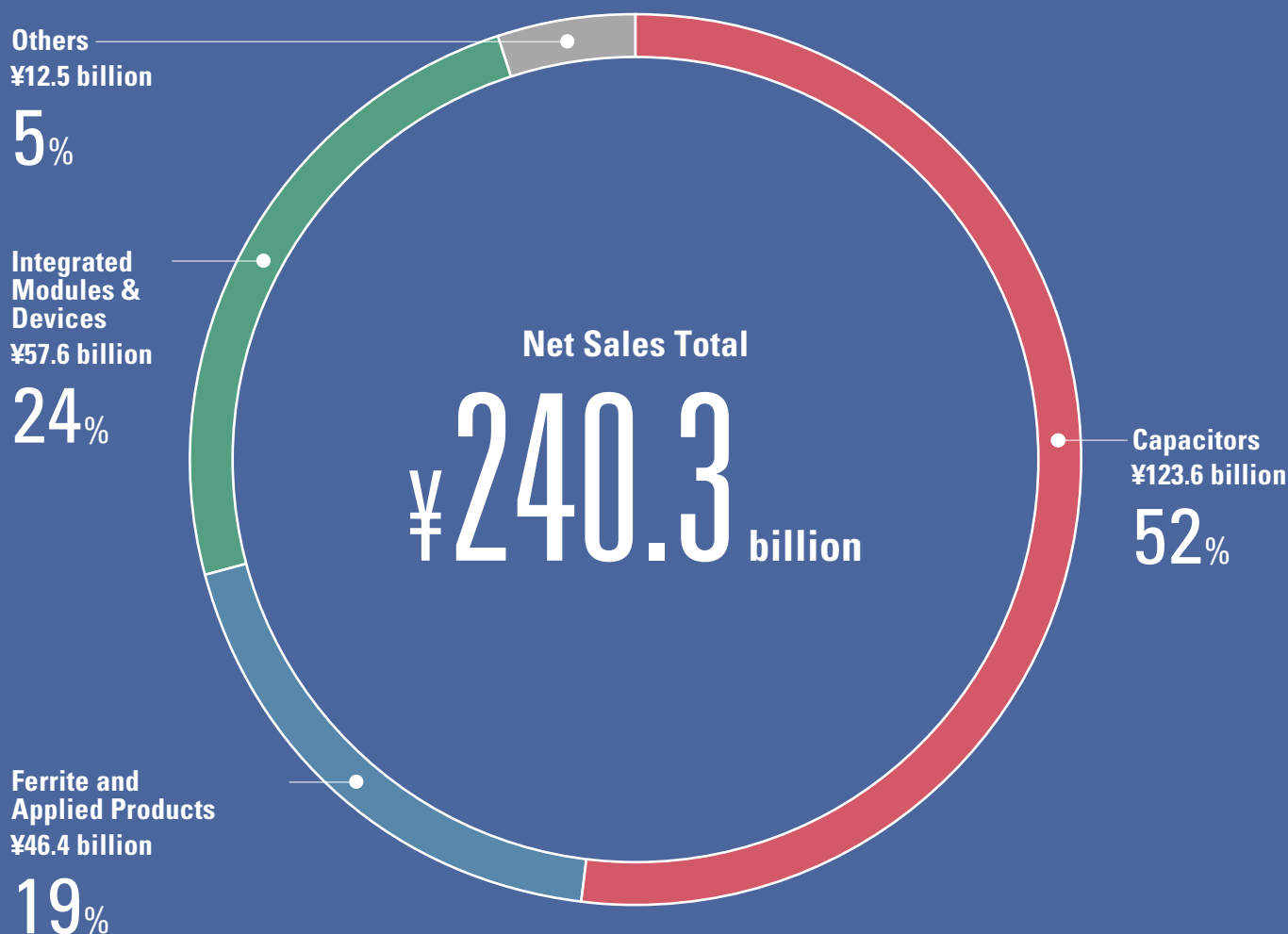
With respect to BCP measures, if an unforeseen situation arises at one logistics base, we can use another base to respond swiftly, because we operate a common system throughout the company. Introduction of the in-house warehouse management system thus has tremendous advantages, particularly in terms of improving our service to customers. We intend to actively expand the system at TAIYO YUDEN Group with the aim of improving our competitiveness. The system has already been introduced at sales bases in Korea, Singapore, and Hong Kong. We are moving ahead with a plan to expand it to all seven target bases within three years.

Different BCP measures



At a Glance

Net sales breakdown by product classifications
Year ended March 31, 2016



The TAIYO YUDEN Group manufactures and markets various electronic components, including capacitors, ferrite and applied products, integrated modules & devices.

Communications equipment, such as smartphones, requires an increasing number of cutting-edge electronic components that are smaller and thinner with better product characteristics as devices become smaller and thinner with higher performance and greater functionality. Also, with the growing use of electronics in automotive, industrial equipment, healthcare, and environment and energy markets, demand for electronic components are rising, resulted in stronger demand for higher quality and higher reliability than ever before.

In such a market, the TAIYO YUDEN Group is focusing on developing

super high-end, strongly competitive products that contribute to developing smaller, thinner devices with higher functionality and greater functionality. The Group has positioned automotive, industrial equipment, healthcare, and environment and energy as focus markets, and is promoting sales of high-reliability products, strengthening proposals on system solutions, and expanding and diversifying distribution channels. Moreover, to meet strong demand, the Group has bolstered its production capacity at home and abroad to support sales growth, while also working to achieve high production efficiency and putting its overseas production bases to full use to build a structure that is resilient to fluctuations in foreign exchange rates and pressure to cut costs.

Review of Operations / Capacitors

Advancing dielectric materials technologies, thin-film and high-capacitance technologies, and production technologies for ultra-small capacitors, we are continuously working to develop cutting-edge, multilayer ceramic capacitors. In particular, we are focused on developing multilayer ceramic capacitors that are ultra-small, ultra-low-profile (thin) with high-capacitance and high-reliability characteristics.

In the fiscal year ended March 31, 2016, sales for consumer products and information equipment declined compared to the previous fiscal year but sales for communications equipment as well as automotive and industrial equipment increased. As a result, net sales rose 8.1% year on year to ¥123,675 million.

Main Products

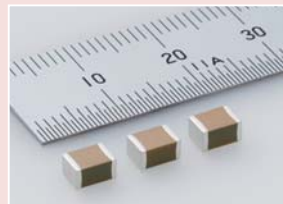
Multilayer ceramic capacitors



008004 size (0.25 mm × 0.125 mm) ultra-small multilayer ceramic capacitors

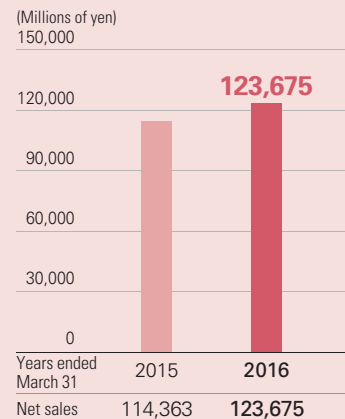


EIA 0402 size (1.0 mm × 0.5 mm) low-profile multilayer ceramic capacitors with 0.11 mm thickness



EIA 1812 size (4.5 mm × 3.2 mm) small high-capacitance multilayer ceramic capacitors with 470 μF capacitance

Net sales



Note: As a result of the revision to product classifications from the fiscal year ended March 31, 2016, the table shows net sales for only two fiscal years. Net sales for the fiscal year ended March 31, 2015 reflect the revised classification.

Review of Operations / Ferrite and Applied Products

We are working to develop small, thin inductors with higher current ratings and large, high-reliability inductors. We are expanding our product lineup through advances in materials development as well as wire-winding and multilayer process technologies.

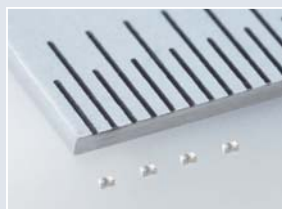
In the fiscal year ended March 31, 2016, sales for consumer products and information equipment declined compared to the previous fiscal year but sales for communications equipment as well as automotive and industrial equipment increased. As a result, net sales rose 10.8% year on year to ¥46,463 million.

Main Products

MCOIL™ metal power inductors, wire-wound inductors, multilayer chip inductors, and many other types of inductors



MCOIL™ metal power inductors

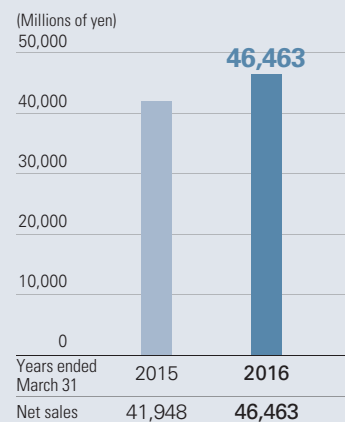


High-Q multilayer chip inductors for high frequency applications



Ultra-small multilayer chip inductors

Net sales



Note: As a result of the revision to product classifications from the fiscal year ended March 31, 2016, the table shows net sales for only two fiscal years. Net sales for the fiscal year ended March 31, 2015 reflect the revised classification.

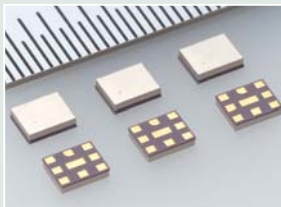
Review of Operations / Integrated Modules & Devices

We are focusing on developing products with cores drawing on LTCC technologies and technologies for FBAR/SAW devices for mobile communications, as well as next-generation solution-based products for focus markets.

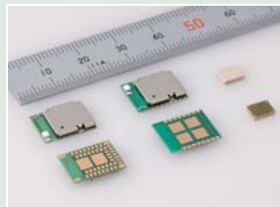
In the fiscal year ended March 31, 2016, sales of power supply modules declined compared to the previous fiscal year but sales of FBAR/SAW devices for mobile communications and high-frequency modules increased. As a result, net sales rose 9.3% year on year to ¥57,696 million.

Main Products

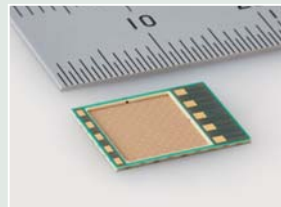
FBAR/SAW devices for mobile communications, power supply modules, high frequency modules and embedded-parts multilayer wiring substrate EOMIN™



FBAR/SAW devices for mobile communications

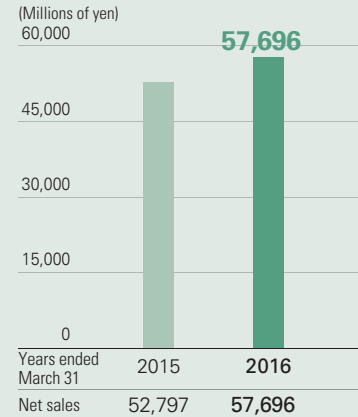


High frequency modules



Embedded-parts multilayer wiring substrate EOMIN™

Net sales



Note: As a result of the revision to product classifications from the fiscal year ended March 31, 2016, the table shows net sales for only two fiscal years. Net sales for the fiscal year ended March 31, 2015 reflect the revised classification.

Review of Operations / Others

We are focusing on developing energy devices, for which demand is expected to grow in the near future, with an eye to entering automotive electronics and high-reliability product markets.

In the fiscal year ended March 31, 2016, owing to our withdrawal from the shrinking market for optical media products, net sales fell 30.2% year on year to ¥12,551 million.

Main Products

Energy devices

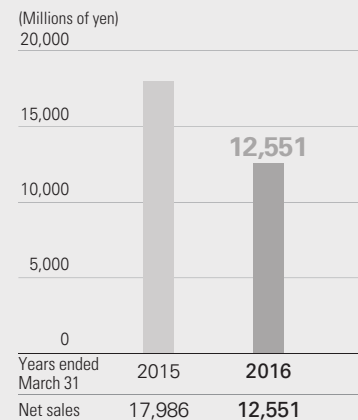


Cylinder type lithium ion capacitors



Cylinder type polyacene capacitors

Net sales



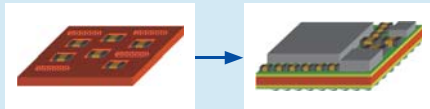
Note: As a result of the revision to product classifications from the fiscal year ended March 31, 2016, the table shows net sales for only two fiscal years. Net sales for the fiscal year ended March 31, 2015 reflect the revised classification.

Topics

June 18, 2015

Made New Proposal of EOMIN™ for Double-Lens Cameras

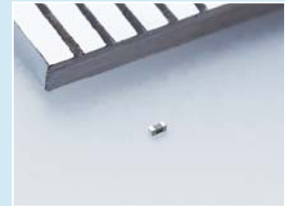
Developed for double-lens camera modules to be incorporated into thin mobile devices such as smartphones and tablets, the new proposal of EOMIN™, an embedded-parts multilayer wiring substrate, enables camera modules to be smaller by embedding parts.



June 24, 2015

Commercialized World's First 0.022μF with 008004 size MLCC

Realizing the world's first 008004 size (0.25mm x 0.125mm) capacitor to achieve a capacitance of 0.022μF, this product contributes to making electronics such as smartphones and wearable devices smaller and thinner.



September 30, 2015

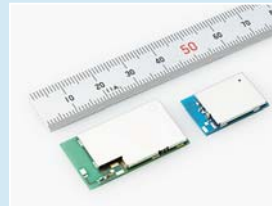
Added ME Series to Lineup of MCOIL™ Metal Power Inductors



The addition of the ME series expanded the lineup of the MCOIL™ series to five, allowing for a wide range of requirements, including needs for small, thin, high-performance devices, lowering costs, and for large-size devices and high-current-rate handling.

October 27, 2015

Launched Wireless Communication Module with Original Embedded Software



Embedded with original software, the module allows wireless communication with simple commands entered from outside. This product enables customers to significantly reduce development times.

February 3, 2016

Completed No. 2 Plant at Niigata Subsidiary Started Operations in March

Subsidiary NIIGATA TAIYO YUDEN CO., LTD. added production capacity for small, multilayer ceramic capacitors with high capacitance. In addition to consumer product market, the TAIYO YUDEN Group is building a system that can meet customer needs in markets such as automotive, industrial equipment, medical and healthcare, and environment and energy.



February 16, 2016

Achieved World's Thinnest 0603-size MLCC at 0.11mm

The world's thinnest 0603-size (0.6mm x 0.3mm) multilayer ceramic capacitor (MLCC) with a thickness of just 0.11mm, this product meets the need for parts suitable for higher-density mounting as devices become thinner with greater functionality, and battery sizes grow larger. The product will contribute to making already small and thin devices even thinner.



Active Participation in Focus Market Exhibitions

We are actively participating in exhibitions, such as CEATEC Japan, the largest comprehensive exhibition in Asia for cutting-edge IT and electronics, and Automotive Engineering Exposition, which feature our focus markets of automotive, industrial equipment, medical and healthcare, and environment and energy. We are also participating in overseas events such as electronica China to expand sales of our products and technologies.



TAIYO YUDEN Group's Research and Development Activities

The Foundation of Our Research and Development Activities

Hikohachi Sato, the founder of TAIYO YUDEN, was a researcher in ceramic materials. Since its establishment, TAIYO YUDEN has believed that product commercialization should start from the development of materials. This has been one of the strengths of TAIYO YUDEN, and has resulted in us creating many products that have been "world firsts."

The TAIYO YUDEN Group's research and development activities are aimed at further honing the many elemental technologies it has so far developed to create products that are highly rated by its customers. In particular, the Group is focusing on the development of super high-end products and high reliability products, as well as on creating new businesses by proposing solutions.

Research and Development Principles

"Innovative advance"

Technology precedence

Promote leading edge technological development as the precursory to innovative product development and become a global leader in technology

Reproducibility

Logically verify the reproducibility of the technology we develop

Technological applicability

Develop technologies that are feasible and applicable economically to our manufacturing process and that meet critical environmental standards

Environmental consideration

Devise technologies which can be applied not only to specific products but also to other areas useful to the markets we serve

Achievement of Our Vision through Development of Smart Products

The TAIYO YUDEN Group aims to manufacture "smart products" and is actively working to develop and supply steadily such products.

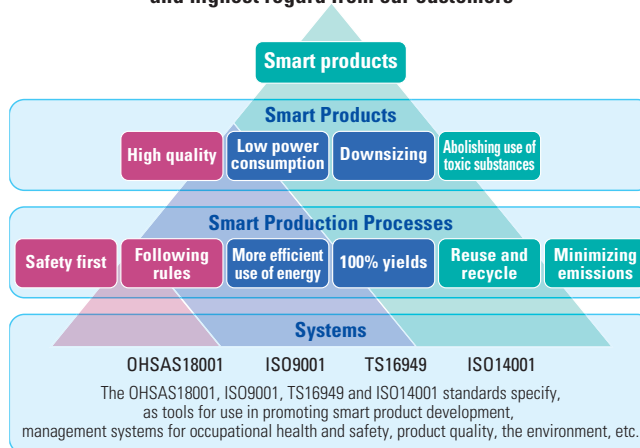
We develop smart products to eliminate the three M's—muda (wastefulness), mura (inconsistency) and muri (overburden)—over their entire life cycle from design through production, sales, and incorporation into the final product right up to final disposal, to add value for customers and local communities we serve as well as our employees.

Combining our "smart processes," which utilized as development and promotional tools management systems for occupational health and safety, quality and the environment and other aspects, with our initiatives towards "smart products" that take usage and final disposal into consideration to reduce environmental impact, we strive to develop smart products.

We believe that our research and development activities aimed at creating a higher standard of smart products will enable us to realize our vision of "becoming an excellent company that enjoys the trust and highest regard from our customers."

— TAIYO YUDEN Vision —

To be an excellent company that enjoys the trust and highest regard from our customers

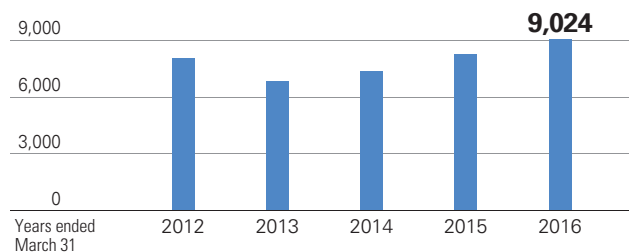


R&D Expenses

We recognize that continuing innovations and advancement in our technologies through R&D is the foundation for the Group to create the future. With this belief, we will continue to invest in R&D activities and the future development of our products.

R&D expenses

12,000 (Millions of yen)



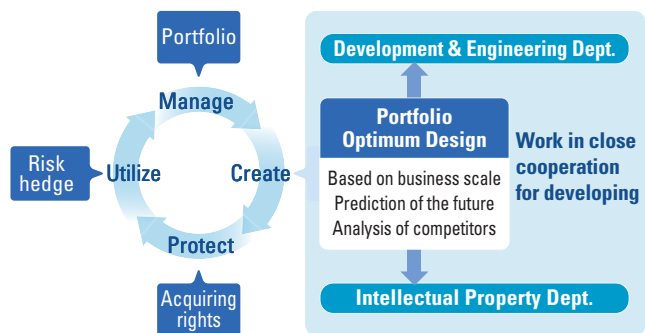
R&D Center, TAIYO YUDEN's Research Facility (Takasaki City, Gunma Prefecture)

As we were committed to continuing to create the world's best products and uphold our claim to be "the TAIYO YUDEN of technology and the TAIYO YUDEN of development," we opened the R&D Center in 1998. In 2003, we established an Anechoic Chamber Test Facility in the same complex, and accelerated our proactive R&D activities in the field of radio communication. Currently, the R&D Center of the TAIYO YUDEN Group drives development and technological progress and takes a role of a foundation of creativity focusing on the future.



Protection of Intellectual Property Rights

At TAIYO YUDEN, the Intellectual Property Department and the Development and Engineering Department work in close cooperation with each other from the early stages of developing new technologies and obtaining intellectual property rights. We have our own management system to create, protect and utilize the intellectual property rights that are suitable for each of our businesses.



Activities on Intellectual Property Rights

Basic Policy

We, the TAIYO YUDEN Group, endeavor to obtain, maintain and protect intellectual property rights for proper use, and also to respect the intellectual property rights of third parties, in accordance with our CSR Code of Conduct.

Interview with Top Management of Research and Development

Speeding up Advancement and Enhancement of Manufacturing by Harnessing IoT Technologies

For the TAIYO YUDEN Group, the foundation of our future lies in research and our development activities.

In the business domains where we operate, materials technologies, particularly those for synthesizing uniform materials, are especially important, and we believe our capabilities in this field are second to none. In recent years, however, it is no longer enough to simply use quality materials to develop quality electronic components; rather, in an increasing number of cases, we must go as far as proposing potential applications based on them. This, in turn, means research and development must cover a broader range of areas from upstream to downstream.

To survive the competition in the electronic components sector, which is evolving at a staggering pace, we must create new products at a speed that exceeds customer expectations. Moreover, the rapid spread of the Internet of Things (IoT) driven by advances in sensor technology and computing capabilities is bringing about significant changes in manufacturing spheres.

Along with developing electronic components that support this innovative advance in technologies, we are strengthening initiatives towards IoT applications in our research and development activities and at frontlines of manufacturing. We will aggregate vast, diversifying data and analyze such collected big data to clarify the mechanisms of manufacturing and provide feedback to research and development activities, and strive to achieve both faster development and high-quality of products.



Hiroshi Kishi

Operating Officer
Laboratory Manager
Research and
Development Laboratory

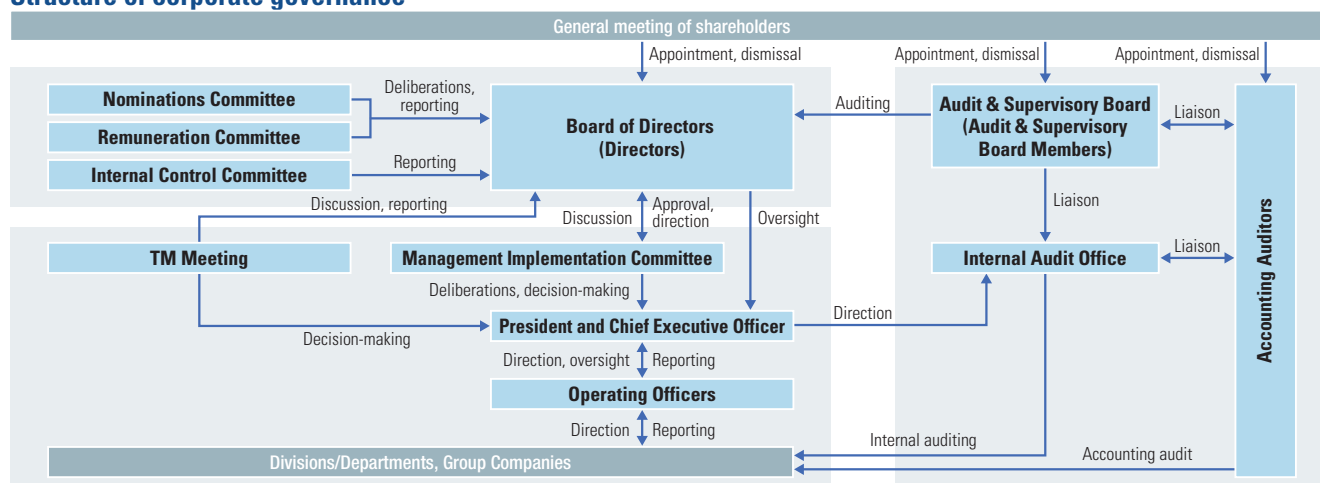
Corporate Governance

Basic Policy for Corporate Governance

The corporate philosophy of the TAIYO YUDEN Group involves the implementation of the three principles of “employee well-being,” “betterment of local communities” and “responsibility to provide returns to shareholders.” The Board of Directors and operating officers believe that the Company’s social responsibility and the mission of management is to support continued development of its business while serving society and public interests and ensuring public nature of our business with a global perspective.

Our management vision is “to be an excellent company that enjoys the trust and highest regard from our customers.” To realize this management philosophy and vision, we will perform the following: engage in measures to improve profitability based on the dual facets of growth strategy and structural reform; emphasize management transparency, fairness as well as information disclosure; and build systems and mechanisms to ensure agile decision-making and operational execution to enhance competitiveness.

Structure of corporate governance



Note: The TM Meeting is an advisory panel for deliberations and decisions on matters concerning personnel and organizations.

Structure of Corporate Governance

Overview of Corporate Governance Structure, Reasons for Adoption

Having adopted an Audit & Supervisory Board system, the Company has a Board of Directors, an Audit & Supervisory Board, and an accounting auditor. Furthermore, all our Outside Directors and Outside Audit & Supervisory Board Members are appointed as independent officers as they meet our standards for independence and are deemed unlikely to have any conflicts of interest with general shareholders. Through a governance system that promotes close collaboration with the Audit & Supervisory Board and internal audit department, the Company works to enable Audit & Supervisory Board Members to perform their roles effectively and strengthen their supervisory function vis-à-vis management.

Roles and Responsibilities of the Board of Directors

1. The Board of Directors shall aim for corporate management to be an excellent company that enjoys the trust and highest regard from stakeholders, including shareholders, customers, employees and local communities, to accomplish the fiduciary responsibility

entrusted by shareholders and increase the Company’s interests and the common interests among shareholders.

2. The Board of Directors shall deliberate and determine important matters for the entire Group with ample time, including management policies, management strategies, business plans, capital policy and the matters on internal control, for the purpose of continuously increasing corporate value from a long-term perspective.
3. The Board of Directors shall strengthen the management system for risk factors surrounding corporate management of the Company and always monitor the execution of business operations.

Delegation of Matters by the Board of Directors to Management

1. To ensure the effective decision-making by the Board of Directors, the Management Implementation Committee shall deliberate in advance policy matters regarding execution of business duties for Group management, whereas the TM (Top Management) Meeting shall deliberate in advance matters concerning personnel, organization and remuneration systems for the entire Group. Both organs shall determine matters delegated by the Board of Directors.

- Operating Officers are in place in order to further clarify roles and responsibilities of Directors who monitor and supervise the management of business and persons who execute business operations. The Operating Officers shall conduct business flexibly and quickly as an executor responsible for the section he or she is in charge, under the direction of the Chief Executive Officer, in accordance with management policies and strategies determined at meetings of the Board of Directors.

Effectiveness of the Board of Directors

- To ensure the fairness of meetings and strengthen the authority of management oversight, the Board of Directors shall be chaired by the Chairman of the Board of Directors (or an Outside Director, if the Chairman of the Board of Directors is absent or unable to act as the chairman).
- At the Board of Directors meeting, the Directors and the Audit & Supervisory Board Members shall evaluate by themselves the effectiveness of the Board of Directors every year. The Board of Directors shall disclose issues to be addressed and others based on analysis results and address how to resolve such issues.

Directors

- The Company has seven Directors, at present. Two of them are appointed as independent Outside Directors.
- To clarify management responsibilities during a given fiscal year and increase shareholders' confidence, Directors' term of office is one year.
- The reason for the selection of Directors is disclosed by taking into account their knowledge, experience, history of achievement and other factors.
- Except for Outside Directors, the Directors concurrently serve as operating officers who are in charge of both oversight and the execution of business operations. Directors shall report to the Board of Directors with an emphasis on the business performance and oversight operations of the divisions/departments for which they are in charge of to the Board of Directors.

Audit & Supervisory Board, Audit & Supervisory Board Members

- The Company has adopted an Audit & Supervisory Board Members system. The Audit & Supervisory Board meeting is held monthly, in principle.
- The Company has four Audit & Supervisory Board Members including Outside Audit & Supervisory Board Members. Two of them are appointed as independent Outside Audit & Supervisory Board Members.
- To raise the effectiveness of audits, each Audit & Supervisory Board Member attends Board of Directors meetings and attends meetings related to the execution of business operations and other important meetings by sharing the tasks with each other. Moreover, Audit & Supervisory Board Members strive to strengthen the auditing system through frequent communications with the accounting auditor and the internal audit department by meeting regularly, witnessing accounting audits as observers and conducting joint audits with the internal audit department.
- The Audit & Supervisory Board has its own dedicated staff to smoothly conduct auditing operations, such as information communications and data management.

Voluntary Advisory Panels

- For the purpose of conducting "highly transparent and fair management," the Company has established a Nominations Committee and a Remuneration Committee.
- Both Committees are composed of the President and Chief Executive Officer, Outside Directors and one Audit & Supervisory Board Member. They are chaired by independent Outside Directors to ensure objectivity of each deliberated matter.
- The Nominations Committee deliberates matters such as the designation of candidates for corporate officers to be elected/dismissed, the draft on nominating or dismissing officer positions and disciplinary actions. The Remuneration Committee deliberates systems of remuneration to corporate officers, as well as details of remuneration to each corporate officer. The matters deliberated at the respective committees are discussed at the Board of Directors for determination.

Policy on Election of Outside Directors and Outside Audit & Supervisory Board Members and Their Roles

- In electing Outside Directors, to ensure transparency in the authority of management oversight, the Company has established rigorous "Standards for the Independence of Outside Directors/ Outside Audit & Supervisory Board Members" as requirements for their appointment referencing, and making it more rigorous than, other standards for independence established by financial instrument exchanges and organizations advising the exercise of voting rights, including the "Securities Listing Regulations" set forth by the Tokyo Stock Exchange.
- The two Outside Directors meet the Company's independency requirements. They make efforts to strengthen the supervisory capability of the Company and strive to strengthen objective management. Specifically, they fulfill a role that is important to the

decision-making process and provide opinions from the perspective of either technical experts or shareholders independent of executive management, based on a broad view that leverages knowledge of corporate legal affairs and the experience of corporate managers.

- The two Outside Audit & Supervisory Board Members meet the Company's independency requirements. They cooperate with each other to monitor the status of internal control of operations on a daily basis. Specifically, they are responsible for investigating and verifying whether the Directors' duties are legally conducted in compliance with the relevant laws. In addition to possessing technical and practical knowledge of their own in the fields of law and accounting, they objectively monitor the execution of duties by Directors.

Reasons for Appointment of Independent Outside Directors

Hisaji Agata, Independent Outside Director

An expert in corporate investment and consulting aiming to formulate a highly transparent and sound business structure, Mr. Hisaji Agata has a long history of achievement and proven insight as a business manager. Based on such experience, he has made active and constructive remarks with regard to significant directions of corporate and other strategies and appropriate risk taking, while maintaining independence and fairness, at meetings of the Company's Board of Directors, thereby fulfilling his role as an Independent Outside Director. He also serves as the Chairman of the Remuneration Committee, providing advice and presiding at meetings from an objective perspective unrelated to business execution to play a part in strengthening the corporate governance function. For these reasons, it was judged that he would be able to execute his duties as an Outside Director appropriately, and he was appointed as an Outside Director.

Masashi Hiraiwa, Independent Outside Director

Engaged in the management of school corporations and investment corporations as an officer or in a similar position, Mr. Masashi Hiraiwa possesses remarkable expertise in the law and a broad perspective as an attorney specializing in corporate legal affairs. For these reasons, it was judged that he would be able to fulfill a monitoring function over the Company's overall management, such as governance and legal compliance including internal control, for example by offering constructive opinions and organizing points of discussion or debate from an objective perspective at meetings of the Company's Board of Directors. Thus, he was appointed as an Outside Director.

Reasons for Appointment Outside Audit & Supervisory Board Members

Hajime Yoshitake, Independent Outside Audit & Supervisory Board Member

Having amassed many years' experience of auditing operations at financial institutions and internal control consulting operations at business corporations, Mr. Hajime Yoshitake possesses exceptional insight, abundant experience and a good track record regarding auditing operations. It is expected that he can help establish a highly transparent and fair management oversight system, supervise the appropriateness of deliberation and decision-making on important matters, and offer insight from his objective "auditor's perspective" based on his knowledge and experience. For these reasons, the Board of Directors appointed him as an independent Outside Audit & Supervisory Board Member. Mr. Yoshitake has significant knowledge of finance and accounting nurtured through his experience with related operations.

Kazuhiro Yamakawa, Independent Outside Audit & Supervisory Board Member

Well versed in general legal affairs, including corporate legal practices based on his abundant experience as a public prosecutor, attorney and university professor, Mr. Kazuhiro Yamakawa has ample insight into auditing management. After becoming an independent Outside Audit & Supervisory Board Member, he has examined whether there are any blind spots unique to the Company in its internal controls and risk management system and has audited business judgments made by the Board of Directors and the discharge of responsibilities by Directors. For these reasons, he was appointed as an independent Outside Audit & Supervisory Board Member.

Policies for Determining Remuneration Paid to Corporate Officers and its Details Thereof

The following are policies we have established to determine the remuneration paid to corporate officers.

1. Remuneration shall be transparent and fair based on quantitative rules.
2. The appropriateness of remuneration levels shall be assessed following the full investigation of other companies in the industry as well as the economic and social situation.
3. The remuneration system shall emphasize performance-linked incentives, aiming at improving performance.

Based on such policies, the company has established the Remuneration Committee as an advisory organ to the Board of Directors to

ensure transparency and fairness in the process of setting remuneration paid to corporate officers. The Remuneration Committee, chaired by an independent Outside Director, deliberates on policies, systems, the formulas, and individual remuneration for the remuneration of corporate officers, and prepares and submits reports thereon. Regarding specific remuneration, an amount is calculated in accordance with the regulations laid down by the Company, within a remuneration framework approved at the general meeting of shareholders. Following deliberations by the Remuneration Committee, the Board of Directors determines the remuneration of Directors, while Audit & Supervisory Board determines the remuneration of its members.

Total remuneration paid to Directors and Audit & Supervisory Board Members for the fiscal year ended March, 2016

| | Total remuneration paid and number of persons | | Total remuneration paid by type of compensation | | | | | |
|---|---|-------------------------|---|-------------------------|-------------------|-------------------------|-------------------|-------------------------|
| | Number of persons | Total (Millions of yen) | Monthly remuneration | | Director bonus | | Stock options | |
| | | | Number of persons | Total (Millions of yen) | Number of persons | Total (Millions of yen) | Number of persons | Total (Millions of yen) |
| Directors | 8 | 321 | 8 | 185 | 6 | 80 | 6 | 55 |
| Audit & Supervisory Board Members | 5 | 63 | 5 | 63 | — | — | — | — |
| Total | 13 | 385 | 13 | 248 | 6 | 80 | 6 | 55 |
| Of which, Outside Directors and Outside Audit & Supervisory Board Members | (4) | (36) | (4) | (36) | (—) | (—) | (—) | (—) |

Notes: 1. The "Number of persons" refers to the number of persons subject to remuneration for the fiscal year ended March 2016, not the number of persons in office.
2. The limit of remunerations paid to Directors was resolved to be ¥450 million or less per year at the 66th Ordinary General Meeting of Shareholders held on June 28, 2007. The limit of remunerations paid to Audit & Supervisory Board Members was resolved to be ¥8 million or less per month at the 75th Ordinary General Meeting of Shareholders held on June 29, 2016.

Standards for the Independence of Outside Directors/Outside Audit & Supervisory Board Members (Summary)

For an individual to be an independent officer of the Company who does not pose any risk of conflict of interest with its general shareholders, the individual must not be categorized under any of the following.

Relationships with Shareholders

- 1) A director, Audit & Supervisory Board member, accounting advisor, corporate officer, operating officer (hereinafter, officer) or employee of any of the major shareholders (holding 10% or more) of the Company
- 2) An individual who in the past five years has been an officer or employee of any of the current major shareholders of the Company
- 3) An individual who is an officer or employee of a company of which the Company is a major shareholder

Relationship with Corporate Clients

- 1) An individual of whom the Company or one of its current subsidiaries is a major corporate client (accounting for 2% or more of the previous year's consolidated gross revenue)
- 2) An individual of whom the Company or one of its current subsidiaries has been a client in the last three years
- 3) An individual who is a major client of the Company, or who has been a major client of the Company in the last three years

Relationships of Financial Interest

An individual who is a current director, auditor, accounting advisor, executive officer or operating officer or employee of a company or of one of its parent or subsidiary companies that employs a Director or Audit & Supervisory Board Member from the Company or one of the Company's current subsidiaries

Purveyors of Specialized Services

- 1) An individual who is a certified public accountant serving as an accounting auditor or accounting advisor of the Company or of one of its current subsidiaries, or an employee, partner or working staff member of an auditing firm that is an accounting auditor or accounting advisor of the Company or of one of its current subsidiaries
- 2) An individual not fulfilling any of the above criteria, but who is a certified public accountant, attorney or other kind of consultant, and who, apart from director's remuneration, has received from the Company or one of its current subsidiaries money or other property benefits averaging 10 million yen or more annually in the last three years

Close Relatives

- 1) A relative within two degrees of kinship of, or living together with, an executive director, operating officer, major shareholder, major client or major creditor of the Company or of one of its current subsidiaries
- 2) An individual who has a relative within two degrees of kinship, or a living together with the individual, who is an accounting auditor or is an employee or partner of an auditing firm of the Company or of one of its current subsidiaries
- 3) An individual who has a relative within two degrees of kinship, or a relative living together with the individual, who is an attorney or other kind of consultant who, apart from director's remuneration, has received from the Company or one of its current subsidiaries money or property benefits averaging 10 million yen or more annually for the last three years
- 4) An individual who has a relative within two degrees of kinship, or a relative living together with the individual, who is a director, auditor, accounting advisor, executive officer or operating officer of a company that employs a director or Audit & Supervisory Board Member from the Company or one of the Company's current subsidiaries

Independent Outside Director Message

Toward a Company That Is Good at Communicating, where Information Is Shared Smoothly and People Can Speak Frankly

Masashi Hiraiwa Independent Outside Director (Newly Appointed)

Since my registration with the Japan Federation of Bar Associations in 1981, I have been involved in corporate governance and the building of internal controls in a number of ways, including through providing shareholders' meeting guidance and IPO procedural support, in my capacity as a lawyer. Having now been appointed Outside Director for TAIYO YUDEN and gained, so to speak, an opportunity to participate in corporate governance from a position inside a company is more than anything a great pleasure. Though this is my personal opinion, I really think that the building of corporate governance and internal controls can be expressed in plain words as whether we can create a company that is good at communicating, where information is shared smoothly and people can speak frankly. I would like to fulfill my duties as an independent Outside Director from the standpoint of all stakeholders, including all shareholders and employees, as well as from the standpoint of an independent expert lawyer.



CSR Activities

Basic Stance Regarding CSR Activities

TAIYO YUDEN's management philosophy is to put into action its three principles: supporting "employee well-being" and "betterment of local communities," and taking "responsibility to provide returns to shareholders." The Company believes that the mission of management and social responsibility of the Company is to support continued development of its business while serving society and public interests and ensuring public nature of our business with a global perspective.

Our vision is to "become an excellent company that enjoys the trust and highest regard from our customers." To this end, we will create smart products that meet market needs so that our products are used in every market of a broad range of fields and aim to expand our business while also raising economic value of the Company. Furthermore, we will fulfill our social responsibility by meeting and even surpassing growing and more sophisticated requirements as well as expectations of stakeholders, and strive to increase social value of the Company.

To accomplish these aims, we will develop, manufacture and sell smart products that are safe and high quality and take responsibility for initiatives we conduct in areas of labor, human rights, safety and health, the environment as well as ethics as we continue our CSR activities.

CSR Charter

To present the management philosophy of the TAIYO YUDEN Group more clearly to stakeholders, in 2005 the CSR Charter (TAIYO YUDEN Group's Charter on Social Responsibility) was established. To win the trust and goodwill of society, the TAIYO YUDEN Group will respect human rights, keep abreast of and comply with laws and international rules and regulations, and take a socially conscious course of action based on high ethical standards.

Business

- The TAIYO YUDEN Group will win our clients' confidence by developing and providing high value-added products and services for which safety is thoroughly considered.
- The TAIYO YUDEN Group will pursue global environmental preservation by reducing environmental impacts caused by our business activities.
- The TAIYO YUDEN Group will engage in fair, open, and free competition while maintaining sound relationships with governmental/administrative bodies, citizens and organizations.

People

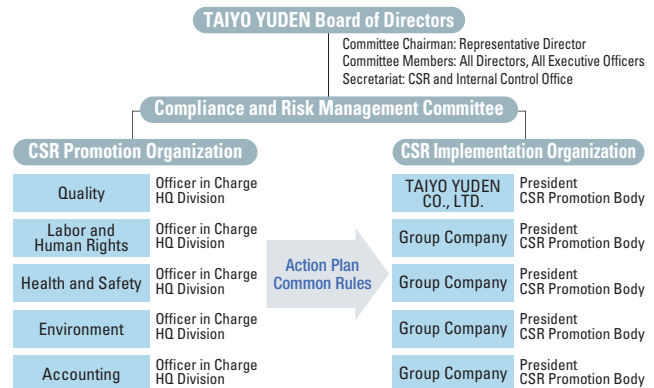
- The TAIYO YUDEN Group will respect the dignity and individuality of each person based on recognition of people's diverse backgrounds and characteristics.
- The TAIYO YUDEN Group will strive to create safe work environments that ensure our employees are able to perform their duties with a sense of reassurance.

Society

- The TAIYO YUDEN Group will actively participate in social contribution efforts while valuing co-existence with local and international communities.
- The TAIYO YUDEN Group will promote widespread communication with society and disclose corporate information on a timely basis in an appropriate manner.

CSR Activities Promotion Framework

In the Group's CSR activities, overall management is provided by the Compliance and Risk Management Committee, chaired by the President and attended by all directors. The promotion organization is comprised of officers in charge and HQ divisions appointed for each provision of the Code of Conduct and each applicable risk, and management is carried out according to a system (the Compliance and Risk Management System) implemented by each group company in accordance with the activity policy and rules in common established by the promotion organization.

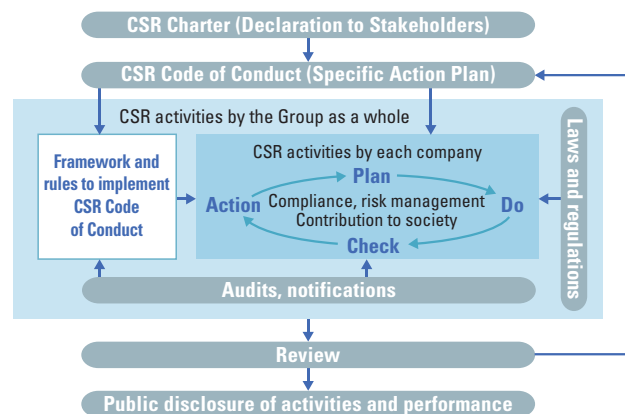


CSR Management System

The TAIYO YUDEN Group has built a CSR management system to achieve the goals set forth in our CSR Charter and assure compliance with the CSR Code of Conduct.

In carrying out CSR activities, we follow the provisions of our Code of Conduct and comply with laws and regulations as a matter of course. We also have a framework and rules in place for promoting proper conduct and all of our group sites employ a management system based on the plan-do-check-act (PDCA) cycle.

These activities are checked through internal audits and a notification system. An annual review of CSR performance is conducted and activities are continually being improved.



Environmental Activities

TAIYO YUDEN received awards overseas

TAIYO YUDEN (PHILIPPINES), INC. received the Energy Leadership Award and the Compliance Champion Award, the major two of the environmental awards given based on the evaluation and selection by Philippine government agencies including the Department of Environment and Natural Resources (DENR) and the Department of Science and Technology (DOST).



Training for Wastewater Treatment Facility Managers

To ensure more appropriate operation of wastewater treatment facilities, TAIYO YUDEN provided training to wastewater treatment facility managers on the mechanisms of wastewater treatment facilities, assessment and judgment of changes in wastewater as well as emergency response measures.



Contributing to Society

Plant tours

The TAIYO YUDEN Group provides plant tours and hands-on work experience events as important ways to communicate with people in local communities. The Tamamura Plant in Japan provides local junior high school students with work experience opportunity at the plant every year. FUKUSHIMA TAIYO YUDEN CO., LTD. and KOREA KYONG NAM TAIYO YUDEN CO., LTD. also organized plant tours for elementary school students and other students.



Volunteering for a Forest Maintenance

As a company operating a number of offices and plants in Gunma Prefecture, TAIYO YUDEN has participated in the forest maintenance project organized for companies by the Prefecture since the fiscal year ended in March 2008, and continued voluntary activities of maintaining the same forest area. The Company has named the area the "Taiyo no Mori (Forest of TAIYO YUDEN)" and its employees clear out undergrowth and thin trees in cooperation with prefectural government employees.

Health and Safety Activities

Fostering a Safe Workplace Culture

The TAIYO YUDEN Group works continuously to promote basic health and safety awareness so that employees always work with health and safety in mind. From 2013 to 2015, we conducted training programs using a common workplace health and safety training textbook (available in local languages) at all bases of the Group companies operating globally, aimed at raising sensitivity to danger and improving knowledge of safety measures.



Participated in Courses Promoting Occupational Health and Safety in Workplaces

We participated in a work-environment management practices class hosted by the Gunma Industrial Health Comprehensive Support Center. We learned how to use instruments such as noise level meters and dust meters. We also practiced and learned how to wear protective masks and earplugs correctly.



For further details on our CSR activities, please visit at <http://www.yuden.co.jp/or/company/csr/>

Directors and Audit & Supervisory Board Members

Directors



Representative Director Shoichi Tosaka

Joined TAIYO YUDEN in 1979, and was mainly engaged in materials development and technological development. Subsequently, in charge of the Electronic Components business, R&D/engineering, and quality assurance. Appointed Director in 2006, and President and Representative Director in November 2015.



Director Seiichi Tsutsumi

Joined TAIYO YUDEN in 1977 and was engaged in sales and marketing for many years. Appointed President of a subsidiary in Singapore in 2000. Appointed Managing Officer in 2007 and in charge of Products/Sales Planning Control at Sales Headquarters and the Greater China Area. Appointed Director in 2010. In charge of New Business Planning and Development and Global SCM Development in 2016.



Director Shinji Masuyama

Joined TAIYO YUDEN in 1980 and was engaged in production technology and system development of electronic components and optical media products for many years. Appointed Managing Officer in 2004, and in charge of the Electronic Components business centered on the Capacitor Product business and Ferrite Application Product business. Appointed Director in 2013. In charge of Management Planning in 2016.



Director Osamu Takahashi

Joined TAIYO YUDEN in 1980. Assigned to quality assurance and materials technology divisions, was engaged in sales promotion and marketing. Subsequently, has been involved in product planning, corporate planning and financial divisions. Appointed Operating Officer in 2003, and Director in 2011. In charge of Integrated Module & Device Business in 2016.



Director Katsuya Sase

Joined TAIYO YUDEN in 1986. Engaged in the development of magnetic tape and multilayer inductor production technologies, was subsequently assigned to Capacitor Product Division in 1996. Appointed Operating Officer in 2013, and in charge of Capacitor Product Division. Appointed Director in June 2016, and in charge of Electronic Components Business.



Outside, Independent Director Hisaji Agata

After working for Nomura Securities Co., Ltd., from 1974 to 1981, Mr. Agata joined the Japan Associated Finance Co., Ltd. (currently JAFCO Co., Ltd.) where he served as Managing Director and Commissioner. He has served as an Outside, Independent Director for the Company since 2008. He has also served as a Special Adviser of HIBIKI Partners Co., Ltd. since 2008 and as an Outside Director of RaQualia Pharma Inc. since 2016.



Outside, Independent Director Masashi Hiraiwa

Admitted to Japan Federation of Bar Association and joined OHHARA LAW OFFICE in 1981. After working for LCP Investment Corporation (currently Invincible Investment Corporation), was appointed as director of The Naganuma School – Tokyo School of Japanese Language in 2011. Subsequently, appointed as an Outside, Independent Director for the Company in June 2016 after serving as a Supervisory Officer at Japan Logistics Fund, Inc.

Audit & Supervisory Board Members



Audit & Supervisory Board Member Takashi Tomaru

Joined TAIYO YUDEN in 1977. Appointed Director in 2005. Assigned to Management Planning Headquarters, Material & Logistics Control Division, CSR & Internal Control Office, Greater China Area, Legal Division. Audit & Supervisory Board Member of the Company in 2015.



Audit & Supervisory Board Member Katsushige Nakano

Joined Fujitsu Ltd. in 1974, was appointed President and Representative Director of Fujitsu Media Devices Ltd. in 2009. Became President and Representative Director of TAIYO YUDEN Mobile Technology Co., Ltd. following the transfer of Fujitsu Media Devices' Communications Device business to TAIYO YUDEN in 2010. Joined TAIYO YUDEN and was appointed Director in 2013. Audit & Supervisory Board Member of the Company in June 2016.



Outside, Independent Audit & Supervisory Board Member Hajime Yoshitake

Joined The Kyowa Bank Ltd. (currently Resona Bank, Limited) in 1979. Concurrently appointed Lecturer at Professional Graduate School of Meiji University in 2007. Appointed as a member of the Board of Directors of the Institute of Internal Auditors-Japan in 2008. Subsequently, appointed as an Outside, Independent Audit & Supervisory Board Member of the Company in June 2016 after serving at Resona Holdings, Inc. as an Executive Officer and General Manager of the Internal Audit Division.



Outside, Independent Audit & Supervisory Board Member Kazuhiro Yamakawa

Joined the Public Prosecutor of Tokyo District Public Prosecutor's Office in 1971. Admitted to Japan Federation of Bar Association in 1983 after serving as a Public Prosecutor with the Civil Affairs Bureau of the Ministry of Justice Tokyo District Public Prosecutors Office. Subsequently, appointed as an Outside, Independent Audit & Supervisory Board Member of the Company in 2011 after serving a Professor at Nihon University Law School. Appointed as a Professor Emeritus at Nihon University in 2015.

Financial Section

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The English language version of this report is based on the Japanese language version. With the exception of the financial statements, all figures presented have been rounded down to the nearest appropriate unit. As a result, there are cases when a figure in the following text differs slightly from the equivalent figure in the financial statements.

11-year Summary

TAIYO YUDEN CO., LTD. and Subsidiaries
Years Ended March 31 and as of March 31

| Fiscal year | 2006 | 2007 | 2008 | 2009 |
|--|-----------|-----------|-----------|-----------|
| Net sales | ¥ 186,539 | ¥ 221,229 | ¥ 238,274 | ¥ 185,452 |
| Operating income (loss) | 6,691 | 22,018 | 21,304 | (12,755) |
| Ordinary income (loss) | 6,997 | 21,641 | 19,141 | (12,601) |
| Net income (loss) attributable to owners of parent company | 3,155 | 12,944 | 10,634 | (14,332) |
| Total assets | 224,381 | 258,552 | 271,605 | 225,451 |
| Net assets | 153,875 | 169,497 | 167,766 | 139,435 |
| Cash flows from operating activities | 20,054 | 28,979 | 29,791 | 15,696 |
| Cash flows from investing activities | (15,290) | (33,780) | (43,768) | (25,665) |
| Free cash flows | 4,764 | (4,801) | (13,977) | (9,969) |
| Cash flows from financing activities | (2,805) | 7,586 | 12,855 | 9,780 |
| Cash and cash equivalents at end of year | 35,672 | 39,435 | 35,401 | 33,110 |
| R&D expenses | 7,096 | 8,207 | 8,888 | 8,463 |
| Capital investment | 15,778 | 30,244 | 44,584 | 27,018 |
| Depreciation and amortization | 17,052 | 18,376 | 23,294 | 27,850 |

Per share data (yen)

| | | | | |
|-----------------------------------|------------|------------|------------|------------|
| Net assets per share | ¥ 1,290.00 | ¥ 1,421.45 | ¥ 1,403.24 | ¥ 1,181.28 |
| Basic net income (loss) per share | 26.00 | 108.58 | 89.22 | (121.51) |
| Diluted net income per share | 25.21 | 104.09 | 82.06 | — |
| Cash dividends per share | 10.00 | 10.00 | 10.00 | 10.00 |

Financial ratios (%)

| | | | | |
|------------------------|------|------|------|-------|
| Equity ratio | 68.6 | 65.5 | 61.6 | 61.6 |
| Return on Equity [ROE] | 2.1 | 8.0 | 6.3 | (9.4) |
| Return on Assets [ROA] | 3.2 | 9.0 | 7.2 | (5.1) |

Other information

| | | | | |
|--|--------|--------|--------|--------|
| Number of employees [consolidated] | 19,656 | 20,387 | 20,117 | 17,478 |
| Number of employees [non-consolidated] | 2,592 | 2,686 | 2,905 | 2,918 |

Note: ROE = Net income (loss) attributable to owners of parent company / Shareholders' equity (yearly average) x 100
ROA = Ordinary income/Total assets (yearly average) x 100

Millions of yen

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------------|------------|-----------|-----------|------------|------------|-------------------|
| ¥ 195,690 | ¥ 210,401 | ¥ 183,795 | ¥ 192,903 | ¥ 208,222 | ¥ 227,095 | ¥ 240,385 |
| 4,203 | 8,792 | (8,010) | 4,850 | 11,358 | 13,153 | 23,370 |
| 1,966 | 6,740 | (9,070) | 7,118 | 12,192 | 15,653 | 22,263 |
| (680) | (5,506) | (21,599) | 1,867 | 6,989 | 10,919 | 14,751 |
| 236,361 | 221,272 | 208,461 | 225,991 | 247,596 | 265,454 | 268,380 |
| 139,263 | 127,626 | 104,400 | 115,814 | 128,556 | 150,856 | 153,381 |
| 25,662 | 25,219 | 5,534 | 19,496 | 29,724 | 24,896 | 38,278 |
| (8,918) | (16,594) | (28,945) | (18,157) | (18,947) | (20,964) | (35,374) |
| 16,744 | 8,625 | (23,411) | 1,339 | 10,777 | 3,932 | 2,904 |
| (8,775) | (8,948) | 11,388 | 2,334 | 8,404 | (21,249) | (2,050) |
| 40,451 | 38,811 | 26,671 | 33,280 | 54,611 | 41,476 | 39,944 |
| 7,698 | 8,475 | 8,068 | 6,840 | 7,353 | 8,237 | 9,024 |
| 9,352 | 17,519 | 26,764 | 20,702 | 19,126 | 18,773 | 41,261 |
| 23,922 | 19,309 | 19,250 | 19,832 | 20,750 | 21,813 | 23,767 |
| ¥ 1,179.82 | ¥ 1,080.61 | ¥ 884.70 | ¥ 981.92 | ¥ 1,090.26 | ¥ 1,278.07 | ¥ 1,299.75 |
| (5.78) | (46.82) | (183.70) | 15.88 | 59.38 | 92.74 | 125.27 |
| — | — | — | 15.85 | 58.09 | 85.51 | 115.54 |
| 10.00 | 10.00 | 5.00 | 10.00 | 10.00 | 10.00 | 15.00 |
| 58.7 | 57.4 | 49.9 | 51.1 | 51.8 | 56.7 | 57.1 |
| (0.5) | (4.1) | (18.7) | 1.7 | 5.7 | 7.8 | 9.7 |
| 0.9 | 2.9 | (4.2) | 3.3 | 5.1 | 6.1 | 8.3 |
| 17,836 | 17,267 | 16,194 | 15,915 | 16,435 | 18,262 | 18,810 |
| 2,957 | 2,988 | 2,977 | 2,632 | 2,572 | 2,577 | 2,618 |

Financial Review

Outline of Business Performance

In the fiscal year ended March 31, 2016, the business environment surrounding the TAIYO YUDEN Group was buoyed by the mild recovery in the overall global economy on the back of the continued recovery in the major industrialized countries despite slowing in the economies of China and other emerging markets.

The Group is strengthening its five bases of market, product, customer, finance, and human resources through the implementation of its growth strategy and improvement of its corporate structure with the aim of achieving its medium-term targets.

In line with the growth strategy, the Group is striving to expand sales of highly competitive super high-end products in the market of growth devices such as smartphones, while also at the same time it positions automobile electronics, industrial equipment, healthcare and environmental and energy markets as focus areas, and is striving to promote sales of high-reliability products, strengthen proposals on system solutions, and expand and diversify distribution channels. The Group is actively expanding production capacity for products such as capacitors, inductors, and communications devices to realize our growth strategy.

In addition, it withdrew from the optical media products business, for which the market continues to shrink, in December 2015. The Group will focus its management resources on growth areas and restructure its business to bolster the corporate structure.

As a result of the above, in the fiscal year ended March 31, 2016, consolidated net sales grew 5.9% from the previous fiscal year to ¥240,385 million.

• Selling and General Administrative Expenses

In the fiscal year ended March 31, 2016, selling, general and administrative expenses rose by ¥441 million from the previous fiscal year to ¥40,037 million. The main factors were increases in employees' salaries and allowances and in R&D expenses. Operating income also rose 77.7% year on year to ¥23,370 million.

• Other Income (Expenses)

In the fiscal year ended March 31, 2016, other expenses of ¥5,086 million was recorded compared to the other income of ¥1,763 million

recorded in the previous fiscal year. This mainly reflected year-on-year increases of ¥3,285 million in loss on foreign exchange, ¥1,475 million in business structure improvement expenses and ¥1,461 million in loss on valuation of investment securities.

As a result, net income attributable to owners of the parent company rose 35.1% from the previous fiscal year to ¥14,751 million.

Financial Position

• Assets

Total assets as of the end of the fiscal year ended March 31, 2016 was ¥268,380 million, up ¥2,926 million from the end of the previous fiscal year. Current assets decreased ¥3,408 million mainly due to a decrease of ¥6,013 million in trade notes and accounts receivable and an increase of ¥2,624 million in work in process. Fixed assets increased by ¥6,334 million mainly due to an increase in property, plant and equipment of ¥9,338 million and a decrease of ¥3,149 million in investments and other assets.

• Liabilities

Total liabilities as of the end of the fiscal year ended March 31, 2016 was ¥114,999 million, up ¥401 million from the end of the previous fiscal year mainly due to increases of ¥930 million in current portion of long-term borrowings and ¥917 million in notes and accounts payable—other, and a decrease of ¥1,424 million in long-term borrowings.

• Net Assets

Net assets as of the end of the fiscal year ended March 31, 2016 was ¥153,381 million, up ¥2,525 million from the end of the previous fiscal year mainly due to an increase of ¥14,751 million on net income attributable to owners of the parent company, a decrease of ¥1,177 million on cash dividends, and decreases of ¥1,057 million in net unrealized holding gain on securities and ¥9,897 million in the foreign currency translation adjustments.

Status of Cash Flows

Net cash provided by operating activities in the fiscal year ended March 31, 2016 was ¥38,278 million, up 53.7% year on year. The main

causes were income before income taxes of ¥18,284 million, depreciation and amortization of ¥23,767 million, an increase in inventories of ¥7,720 million, and a decrease in trade notes and accounts receivables of ¥2,587 million.

Net cash used in investing activities was ¥35,374 million, up 68.7% from the previous fiscal year. The main cause was purchases of property, plant and equipment of ¥37,377 million.

Net cash used in financing activities was ¥2,050 million, down 90.3% from the previous fiscal year. The main causes were repayments of long-term borrowings of ¥5,493 million, proceeds from long-term borrowings of ¥5.0 billion, and payments of cash dividends of ¥1,175 million.

As a result, cash and cash equivalents at the end of the fiscal year ended March 31, 2016 amounted to ¥39,944 million, a decline of ¥1,532 million from the end of the previous fiscal year.

Financial Policy

The TAIYO YUDEN Group conducts centralized management of Group funds to enhance the efficiency of funding operations. The Group collects surplus funds from affiliated companies and allocates funds to affiliated companies as necessary. External sources are utilized when additional funds are needed. The Cash Management System (CMS) is utilized to minimize interest-bearing debt from external sources.

Financing from external sources at the March 31, 2016, consisted of ¥11,979 million in short-term borrowings, ¥6,200 million in current portion of long-term borrowings, ¥20,067 million in convertible bonds with stock acquisition rights, and ¥15,145 million in long-term borrowings. In principle, borrowings are secured within Japan at fixed interest rates. To ensure financial stability, TAIYO YUDEN has also established a commitment line of ¥10,000 million effective for three years. The commitment line was renewed in December 2014 for security in an emergency situation. The Company has not utilized the commitment line as of the March 31, 2016, fiscal year-end.

The Group is capable of generating cash flow through its sound financial position and operating activities. Management believes it is capable of procuring the operating capital and funds for capital investment for activities that may be required in the future to maintain the Group's growth.

Overview of Capital Investment

For the fiscal year ended March 31, 2016, the TAIYO YUDEN Group implemented a total of ¥37,377 million in capital investment mainly to increase production capacity for capacitors, ferrite and applied products, and FBAR/SAW devices for mobile communications as well as for improving productivity.

Consolidated Balance Sheets

 TAIYO YUDEN CO., LTD. and Subsidiaries
 March 31, 2016 and 2015

| ASSETS | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|------------------|------------------|--|
| | 2016 | 2015 | 2016 |
| Current assets: | | | |
| Cash and cash equivalents (Note 3) | ¥39,944 | ¥41,477 | \$353,489 |
| Time deposits (Note 3) | 6,019 | 5,233 | 53,263 |
| Receivables: | | | |
| Trade notes and accounts receivable (Note 3) | 49,759 | 55,773 | 440,349 |
| Allowance for doubtful receivables | (267) | (281) | (2,363) |
| Inventories: | | | |
| Merchandise and finished products | 17,501 | 15,565 | 154,877 |
| Work in process | 18,638 | 16,014 | 164,940 |
| Raw materials and supplies | 12,550 | 12,555 | 111,060 |
| Deferred tax assets (Note 8) | 776 | 1,180 | 6,871 |
| Prepaid expenses and other current assets | 6,643 | 7,455 | 58,781 |
| Total current assets | <u>151,563</u> | <u>154,971</u> | <u>1,341,267</u> |
| Property, plant and equipment (Note 16): | | | |
| Land | 8,611 | 8,635 | 76,200 |
| Buildings and structures | 78,622 | 73,930 | 695,774 |
| Machinery and equipment | 225,863 | 240,195 | 1,998,784 |
| Tools, furniture and fixtures | 20,135 | 21,570 | 178,189 |
| Construction in progress | 5,337 | 8,124 | 47,233 |
| Total | <u>338,568</u> | <u>352,454</u> | <u>2,996,180</u> |
| Accumulated depreciation | <u>(231,521)</u> | <u>(254,745)</u> | <u>(2,048,859)</u> |
| Net property, plant and equipment | <u>107,047</u> | <u>97,709</u> | <u>947,321</u> |
| Investments and other assets: | | | |
| Investment securities (Notes 3 and 4) | 4,389 | 8,500 | 38,842 |
| Investments in affiliate (Note 3) | 1,899 | 572 | 16,802 |
| Deferred tax assets (Note 8) | 959 | 927 | 8,486 |
| Net defined benefit asset (Note 6) | - | 22 | - |
| Other | 2,861 | 3,114 | 25,320 |
| Allowance for doubtful receivables | <u>(338)</u> | <u>(361)</u> | <u>(2,990)</u> |
| Total investments and other assets | <u>9,770</u> | <u>12,774</u> | <u>86,460</u> |
| Total assets | <u>¥268,380</u> | <u>¥265,454</u> | <u>\$2,375,048</u> |

See accompanying notes to consolidated financial statements.

| LIABILITIES AND NET ASSETS | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|-----------------|--|
| | 2016 | 2015 | 2016 |
| Current liabilities: | | | |
| Short-term borrowings (Notes 3 and 5) | ¥11,979 | ¥12,366 | \$106,014 |
| Current portion of long-term borrowings (Notes 3 and 5) | 6,201 | 5,270 | 54,873 |
| Notes and accounts payable: | | | |
| Trade notes and accounts payable (Note 3) | 23,430 | 23,900 | 207,345 |
| Other (Note 3) | 12,353 | 11,435 | 109,317 |
| Income taxes payable (Notes 3 and 8) | 2,340 | 1,709 | 20,713 |
| Accrued bonuses for employees | 3,391 | 3,249 | 30,008 |
| Accrued bonuses for directors | 184 | 109 | 1,630 |
| Deferred tax liabilities (Note 8) | 677 | 788 | 5,990 |
| Other | 7,975 | 7,893 | 70,573 |
| Total current liabilities | 68,530 | 66,719 | 606,463 |
| Long-term liabilities: | | | |
| Long-term borrowings (Notes 3 and 5) | 15,146 | 16,570 | 134,033 |
| Convertible bonds with stock acquisition rights (Notes 3 and 5) | 20,068 | 20,082 | 177,592 |
| Net defined benefit liability (Note 6) | 3,116 | 2,872 | 27,571 |
| Accrued retirement benefits for directors and corporate auditors | 130 | 130 | 1,154 |
| Deferred tax liabilities (Note 8) | 5,907 | 6,290 | 52,274 |
| Other | 2,102 | 1,935 | 18,605 |
| Total long-term liabilities | 46,469 | 47,879 | 411,229 |
| Total liabilities | 114,999 | 114,598 | 1,017,692 |
| Net assets (Note 7): | | | |
| Shareholders' equity: | | | |
| Common stock | | | |
| Authorized - 300,000,000 shares | | | |
| Issued - 120,481,395 shares in 2016 and 2015 | 23,557 | 23,557 | 208,471 |
| Capital surplus | 41,515 | 41,495 | 367,392 |
| Retained earnings (Note 18) | 96,913 | 83,339 | 857,637 |
| Treasury stock, at cost - | | | |
| 2,664,538 shares in 2016 and 2,734,253 shares in 2015 | (3,326) | (3,413) | (29,440) |
| Total shareholders' equity | 158,659 | 144,978 | 1,404,060 |
| Accumulated other comprehensive income: | | | |
| Net unrealized holding gains (losses) on securities | 1,068 | 2,126 | 9,451 |
| Deferred gains (losses) on hedges | 6 | 7 | 54 |
| Foreign currency translation adjustments | (6,123) | 3,774 | (54,186) |
| Adjustment in defined benefit obligation of overseas subsidiaries | (477) | (396) | (4,226) |
| Total accumulated other comprehensive income | (5,526) | 5,511 | (48,907) |
| Stock acquisition rights (Note 14) | 238 | 228 | 2,109 |
| Non-controlling interests | 10 | 139 | 94 |
| Total net assets | 153,381 | 150,856 | 1,357,356 |
| Total liabilities and net assets | ¥268,380 | ¥265,454 | \$2,375,048 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2016 and 2015

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|----------------|--|
| | 2016 | 2015 | 2016 |
| Net income | ¥14,659 | ¥11,035 | \$129,726 |
| Other comprehensive income (Note 15): | | | |
| Net unrealized holding gains (losses) on securities | (1,058) | 1,146 | (9,362) |
| Deferred gains (losses) on hedges | (1) | 39 | (12) |
| Foreign currency translation adjustments | (9,948) | 11,564 | (88,030) |
| Adjustment in defined benefit obligation of overseas subsidiaries | (81) | (362) | (719) |
| Total other comprehensive income | <u>(11,088)</u> | <u>12,387</u> | <u>(98,123)</u> |
| Comprehensive income | <u>¥3,571</u> | <u>¥23,422</u> | <u>\$31,603</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | ¥3,713 | ¥23,293 | \$32,860 |
| Non-controlling interests | (142) | 129 | (1,257) |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2016 and 2015

| | Thousands | Millions of Yen | | | | |
|---|---|----------------------|-------------------|-------------------------|----------------------------|----------|
| | Number of Shares of Common Stock Issued | Shareholders' Equity | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock, at Cost | Total Shareholders' Equity | |
| BALANCE, APRIL 1, 2015 | 120,481 | ¥23,557 | ¥41,495 | ¥83,339 | ¥(3,413) | ¥144,978 |
| Changes during the year | | | | | | |
| Cash dividends, 10.00 yen per share | | | | (1,177) | | (1,177) |
| Net income attributable to owners of the parent | | | | 14,751 | | 14,751 |
| Treasury stock acquired (285shares) | | | | | (1) | (1) |
| Treasury stock disposed (70,000shares) | | | 1 | | 88 | 89 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | | 19 | | | 19 |
| Changes other than shareholders' equity | | | | | | |
| Total changes | - | - | 20 | 13,574 | 87 | 13,681 |
| BALANCE, MARCH 31, 2016 | 120,481 | ¥23,557 | ¥41,515 | ¥96,913 | ¥(3,326) | ¥158,659 |

| | Millions of Yen | | | | | | | |
|---|---|-----------------------------------|--|---|--|--------------------------|---------------------------|------------------|
| | Accumulated Other Comprehensive Income | | | | | | | |
| | Net Unrealized Holding Gains (Losses) on Securities | Deferred Gains (Losses) on Hedges | Foreign Currency Translation Adjustments | Adjustment in Defined Benefit Obligation of Overseas Subsidiaries | Total Accumulated Other Comprehensive Income | Stock Acquisition Rights | Non-controlling Interests | Total Net Assets |
| BALANCE, APRIL 1, 2015 | ¥2,126 | ¥7 | ¥3,774 | ¥(396) | ¥5,511 | ¥228 | ¥139 | ¥150,856 |
| Changes during the year | | | | | | | | |
| Cash dividends, 10.00 yen per share | | | | | | | | (1,177) |
| Net income attributable to owners of the parent | | | | | | | | 14,751 |
| Treasury stock acquired (285shares) | | | | | | | | (1) |
| Treasury stock disposed (70,000shares) | | | | | | | | 89 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | | | | | | | 19 |
| Changes other than shareholders' equity | (1,058) | (1) | (9,897) | (81) | (11,037) | 10 | (129) | (11,156) |
| Total changes | (1,058) | (1) | (9,897) | (81) | (11,037) | 10 | (129) | 2,525 |
| BALANCE, MARCH 31, 2016 | ¥1,068 | ¥6 | ¥(6,123) | ¥(477) | ¥(5,526) | ¥238 | ¥10 | ¥153,381 |

| | Thousands of U.S. Dollars (Note 1) | | | | |
|---|------------------------------------|-----------------|-------------------|-------------------------|----------------------------|
| | Shareholders' Equity | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock, at Cost | Total Shareholders' Equity |
| BALANCE, APRIL 1, 2015 | \$208,471 | \$367,214 | \$737,516 | \$(30,209) | \$1,282,992 |
| Changes during the year | | | | | |
| Cash dividends, 0.09 dollar per share | | | (10,420) | | (10,420) |
| Net income attributable to owners of the parent | | | 130,541 | | 130,541 |
| Treasury stock acquired (285shares) | | | | (4) | (4) |
| Treasury stock disposed (70,000shares) | | | 12 | 773 | 785 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | | 166 | | 166 |
| Changes other than shareholders' equity | | | | | |
| Total changes | - | 178 | 120,121 | 769 | 121,068 |
| BALANCE, MARCH 31, 2016 | \$208,471 | \$367,392 | \$857,637 | \$(29,440) | \$1,404,060 |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | |
|--|---|-----------------------------------|--|---|--|--------------------------|---------------------------|------------------|
| | Accumulated Other Comprehensive Income | | | | | | | |
| | Net Unrealized Holding Gains (Losses) on Securities | Deferred Gains (Losses) on Hedges | Foreign Currency Translation Adjustments | Adjustment in Defined Benefit Obligation of Overseas Subsidiaries | Total Accumulated Other Comprehensive Income | Stock Acquisition Rights | Non-controlling Interests | Total Net Assets |
| BALANCE, APRIL 1, 2015 | \$18,813 | \$66 | \$33,401 | \$(3,507) | \$48,773 | \$2,014 | \$1,231 | \$1,335,010 |
| Changes during the year | | | | | | | | |
| Cash dividends, 0.09 dollar per share | | | | | | | | (10,420) |
| Net income attributable to owners of the parent | | | | | | | | 130,541 |
| Treasury stock acquired (285shares) | | | | | | | | (4) |
| Treasury stock disposed (70,000shares) | | | | | | | | 785 |
| Change in shareholders' equity of parent arising from transactions with non-controlling shareholders | | | | | | | | 166 |
| Changes other than shareholders' equity | (9,362) | (12) | (87,587) | (719) | (97,680) | 95 | (1,137) | (98,722) |
| Total changes | (9,362) | (12) | (87,587) | (719) | (97,680) | 95 | (1,137) | 22,346 |
| BALANCE, MARCH 31, 2016 | \$9,451 | \$54 | \$(54,186) | \$(4,226) | \$(48,907) | \$2,109 | \$94 | \$1,357,356 |

See accompanying notes to consolidated financial statements.

| | Thousands | Millions of Yen | | | | |
|---|---|----------------------|-------------------|-------------------------|----------------------------|----------|
| | Number of Shares of Common Stock Issued | Shareholders' Equity | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock, at Cost | Total Shareholders' Equity | |
| BALANCE, APRIL 1, 2014 | 120,481 | ¥23,557 | ¥41,495 | ¥73,597 | ¥(3,413) | ¥135,236 |
| Changes during the year | | | | | | |
| Cash dividends, 10.00 yen per share | | | (1,177) | | | (1,177) |
| Net income attributable to owners of the parent | | | 10,919 | | | 10,919 |
| Treasury stock acquired (651 shares) | | | | (0) | | (0) |
| Changes other than shareholders' equity | | | | | | |
| Total changes | - | - | 9,742 | (0) | | 9,742 |
| BALANCE, MARCH 31, 2015 | 120,481 | ¥23,557 | ¥41,495 | ¥83,339 | ¥(3,413) | ¥144,978 |

| | Millions of Yen | | | | | | |
|---|---|-----------------------------------|--|---|--|--------------------------|---------------------------|
| | Accumulated Other Comprehensive Income | | | | | | |
| | Net Unrealized Holding Gains (Losses) on Securities | Deferred Gains (Losses) on Hedges | Foreign Currency Translation Adjustments | Adjustment in Defined Benefit Obligation of Overseas Subsidiaries | Total Accumulated Other Comprehensive Income | Stock Acquisition Rights | Non-controlling Interests |
| BALANCE, APRIL 1, 2014 | ¥980 | ¥(32) | ¥(7,775) | ¥(34) | ¥(6,861) | ¥171 | ¥1 |
| Changes during the year | | | | | | | |
| Cash dividends, 10.00 yen per share | | | | | | | |
| Net income attributable to owners of the parent | | | | | | | |
| Treasury stock acquired (651 shares) | | | | | | | |
| Changes other than shareholders' equity | 1,146 | 39 | 11,549 | (362) | 12,372 | 57 | 12 |
| Total changes | 1,146 | 39 | 11,549 | (362) | 12,372 | 57 | 12 |
| BALANCE, MARCH 31, 2015 | ¥2,126 | ¥7 | ¥3,774 | ¥(396) | ¥5,511 | ¥228 | ¥13 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2016 and 2015

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|----------|--|
| | 2016 | 2015 | 2016 |
| Operating activities: | | | |
| Income before income taxes | ¥18,284 | ¥14,916 | \$161,805 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | |
| Depreciation and amortization | 23,767 | 21,814 | 210,330 |
| Impairment loss on property, plant and equipment | 222 | 95 | 1,966 |
| Business structure improvement expense | 1,795 | 320 | 15,889 |
| Gain on business transfer | - | (103) | - |
| Amortization of goodwill | - | 601 | - |
| Increase (decrease) in allowance for doubtful receivables | (19) | (36) | (168) |
| Increase (decrease) in accrued bonuses for employees | 161 | 489 | 1,422 |
| Increase (decrease) in accrued bonuses for directors | 75 | 35 | 664 |
| Increase (decrease) in accrued retirement benefits for directors and corporate auditors | 4 | 10 | 34 |
| Interest and dividend income | (389) | (420) | (3,445) |
| Interest expense | 274 | 324 | 2,421 |
| Interest on bonds | - | 61 | - |
| Equity in earnings of affiliates | (13) | (8) | (115) |
| (Gain) loss on disposal and sales of property, plant and equipment | 71 | 427 | 627 |
| Subsidy income | (159) | (691) | (1,410) |
| Loss on valuation of investment securities | 1,463 | 2 | 12,945 |
| Changes in operating assets and liabilities: | | | |
| Trade notes and accounts receivables | 2,587 | (6,372) | 22,898 |
| Inventories | (7,721) | (4,137) | (68,324) |
| Trade notes and accounts payables | 261 | 64 | 2,307 |
| Other | 1,191 | 576 | 10,546 |
| Subtotal | 41,854 | 27,967 | 370,392 |
| Interest and dividends received | 378 | 425 | 3,340 |
| Interest paid | (271) | (447) | (2,399) |
| Payments for business structure improvement expenses | (390) | (119) | (3,448) |
| Income taxes paid | (3,293) | (2,929) | (29,139) |
| Net cash provided by operating activities | 38,278 | 24,897 | 338,746 |
| Investing activities: | | | |
| Purchases of property, plant and equipment | (37,378) | (18,781) | (330,775) |
| Proceeds from sales of property, plant and equipment | 279 | 75 | 2,469 |
| Purchases of investment securities | (160) | (2,749) | (1,416) |
| Decrease (increase) in time deposits | (1,413) | 35 | (12,508) |
| Proceeds from sales of investment securities | 139 | 254 | 1,229 |
| Income from business transfer (Note 9) | 1,043 | 263 | 9,233 |
| Proceeds from subsidy income | 159 | 692 | 1,410 |
| Purchases of other investments | - | (1,007) | - |
| Proceeds from sales of other investments | 1,093 | - | 9,675 |
| Other | 863 | 253 | 7,632 |
| Net cash used in investing activities | (35,375) | (20,965) | (313,051) |
| Financing activities: | | | |
| Net increase (decrease) in short-term borrowings | (47) | 1,093 | (417) |
| Proceeds from long-term borrowings | 5,000 | - | 44,248 |
| Repayments of long-term borrowings | (5,493) | (12,495) | (48,613) |
| Redemption of convertible bonds with acquisition rights | - | (365) | - |
| Redemption of bonds | - | (8,000) | - |
| Payment of cash dividends to non-controlling interests | (1) | - | (8) |
| Purchases of treasury stock | (1) | (0) | (4) |
| Payments of cash dividends | (1,176) | (1,174) | (10,403) |
| Repayments of lease obligations | (333) | (308) | (2,951) |
| Other | 0 | - | 1 |
| Net cash used in financing activities | (2,051) | (21,249) | (18,147) |
| Effect of exchange rate changes on cash and cash equivalents | (2,385) | 4,182 | (21,108) |
| Net increase (decrease) in cash and cash equivalents | (1,533) | (13,135) | (13,560) |
| Cash and cash equivalents, beginning of year | 41,477 | 54,612 | 367,049 |
| Cash and cash equivalents, end of year | ¥39,944 | ¥41,477 | \$353,489 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2016 and 2015

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TAIYO YUDEN CO., LTD. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, and partially reflect the adjustments which are necessary to conform with Japanese GAAP.

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was 113 yen to 1 U.S. dollar. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation Policies

The consolidated financial statements include the accounts of the Company and all of its subsidiaries (together the "Companies"). The Japanese accounting standards for consolidation require the control or influence concept for the consolidation scope of subsidiaries and equity-method affiliates. The number of consolidated subsidiaries was 30, unchanged during the current 2 fiscal years. As of March 31, 2016 and 2015, the number of equity-method affiliates was 2 and 1, respectively. Significant intercompany accounts, transactions and unrealized profits have been eliminated in consolidation.

ELNA CO., LTD. was included in equity-method affiliates in the fiscal year ended March 31, 2016, due to conversion of preferred stock to common stock.

DONGGUAN TAIYO YUDEN CO., LTD., which was a wholly-owned subsidiary of the Company, had been merged into TAIYO YUDEN (GUANGDONG) CO., LTD., which is a subsidiary of the Company, in the fiscal year ended March 31, 2015.

TAIYO YUDEN ENTERPRISES COMPANY LIMITED had been eliminated from the scope of consolidation due to completion of liquidation.

TAIYO YUDEN (SUZHOU) CO., LTD. had been eliminated from the scope of consolidation due to a share transfer to a third party in the fiscal year ended March 31, 2015.

The difference between cost of the Company's investment securities in subsidiaries and its equity in their net assets at the dates of acquisition ("goodwill") is being amortized over the subsequent five-year periods. Investment in affiliate is accounted for by the equity method. Net income (loss) includes the equity in the current net earnings (losses) of such company after the elimination of unrealized intercompany profit.

(2) 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.

(3) Foreign Currency Transactions

Short-term and long-term foreign currency monetary items are translated into Japanese yen at appropriate fiscal year-end current rates. The resulting net gains (losses) are shown as "Gain (loss) on foreign exchange" in the accompanying consolidated statements of income.

(4) Foreign Currency Financial Statements

In translating the financial statements of foreign subsidiaries for the purpose of consolidation, all assets and liabilities are translated into Japanese yen at appropriate fiscal year-end current rates while net assets accounts are translated at historical rates. Revenue and expense items are translated at the average rates during the fiscal year. The resulting translation differences are shown as "Foreign currency translation adjustments" in net assets at March 31, 2016 and 2015 in the accompanying consolidated balance sheets.

- (5) 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 represent securities not classified as either trading securities or held-to-maturity debt securities. Available-for-sale securities, which have fair value, are reported at fair value with unrealized gains (losses), net of applicable taxes.
Available-for-sale securities, which do not have fair value, are stated at cost using the moving-average method.
Equities of limited liability partnerships for investment business and of other similar partnerships (defined as "securities" by Article 2, Section 2 of the Financial Instruments and Exchange Act) are valued at the net equity equivalents based on the recently available financial statements of the partnership corresponding to the reporting dates of the financial statements defined by the partnership agreements.
- (6) Inventories
Inventories are stated primarily at cost, determined by the average method for merchandise, finished products and work in process and by the first-in, first-out (FIFO) method for raw materials and supplies, modified by the writing down below cost to net realizable value.
- (7) Property, Plant and Equipment (Except for the leased assets)
Property, plant and equipment are stated at cost. For the Company and domestic consolidated subsidiaries, 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 applied to building acquired on and after April 1, 1998. Useful lives of the assets and residual value of the assets are mainly estimated in consistent with the method accepted under the corporate tax law in Japan. For foreign subsidiaries, depreciation is principally computed by straight-line method.
- (8) Leased Assets
- (i) Leased assets, ownership of which is considered to be transferred to the lessee, are depreciated in the same manner as property, plant and equipment.
 - (ii) Leased assets, ownership of which is not considered to be transferred to the lessee, are depreciated over the leased term by the straight-line method with no residual value, except for finance leases commencing prior to March 31, 2008, which are accounted for in the same manner as operating leases.
- (9) Allowance for Doubtful Receivables
The Company and its domestic consolidated subsidiaries provide the allowance for doubtful accounts based on the percentage of actual bad debt losses against the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis. Overseas consolidated subsidiaries record the allowance based primarily on the amount of uncollectible receivables estimated on an individual basis.
- (10) Net Defined Benefit
Accrued retirement benefits for employees at certain consolidated subsidiaries are provided at the amount incurred during the fiscal year, which is based on the estimated present value of the defined benefit obligation less the estimated fair value of plan assets at the end of the fiscal year. Also, certain consolidated subsidiaries provide allowance for accrued pension and severance costs.
- (11) Accrued Retirement Benefits for Directors and Corporate Auditors
Certain subsidiaries of the Company provide lump-sum severance benefits for directors and corporate auditors. Accrued retirement benefits for directors and corporate auditors are provided at the amount which would be required based on their internal regulations if all directors and corporate auditors retired at the balance sheet date.
- (12) Accrued Bonuses for Employees
Accrued bonuses to employees are provided by the estimated amounts, which are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.
- (13) Accrued Bonuses for Directors
Accrued bonuses to directors are provided by the estimated amounts, which are obligated to pay to directors after the fiscal year-end, based on services provided during the current period.
- (14) Income Taxes
The provision for income taxes is computed based on the pretax income for the financial reporting purposes. Deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets if it is not probable that deferred tax assets will be realized in the future.
The Company and certain domestic subsidiaries adopt a consolidated tax return system.

(15) Research and Development Costs

Expenditures by the Company and certain subsidiaries for development of specified new products are charged to income as incurred and were 9,024 million yen (79,861 thousand dollar) and 8,237 million yen for the years ended March 31, 2016 and 2015, respectively.

(16) Derivative and Hedging Activities

Companies are required to state derivative instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative instruments are used for hedging purposes.

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.

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 department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

(17) Per Share Information

Basic earnings per share is computed by dividing net earnings attributable to owners of the parent by the weighted-average number of common shares outstanding in each period, retroactively adjusted for stock splits. Basic earnings per share for the years ended March 31, 2016 and 2015 are computed in accordance with Japanese accounting standards.

Diluted earnings per share reflects the potential dilution that could occur if stock acquisition rights were exercised or convertible bonds are converted into common stock. Diluted earnings 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. Diluted earnings per share for the years ended March 31, 2016 and 2015 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.

(18) Certain Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the presentation of the current year. These reclassifications have no significant impact on previously reported results of operations or retained earnings.

(Consolidated Statements of Income)

Previously, "Life insurance dividend income" amounting to 70 million yen was stated separately in other income (expenses) of consolidated statement of income for the year ended March 31, 2015. However, the Company has changed its method of presentation to include the account in "Other" as it is immaterial for this fiscal year. The consolidated financial statements for the year ended March 31, 2015 were rearranged in order to reflect the changes to presentation.

(19) Change in Accounting Policies

Effective from the year ended March 31, 2016, the Company and its consolidated domestic subsidiaries have applied the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21, September 13, 2013 (hereinafter the "Business Combinations Accounting Standard")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter the "Consolidation Accounting Standard")) and "Revised Accounting Standard for Business Divestitures"(ASBJ Statement No. 7, September 13, 2013 (hereinafter the "Business Divestitures Accounting Standard")). As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With respect to application of the Accounting Standards for Business Combinations, the Company followed the provisional treatments in article 58-2 (4) of the Business Combinations Accounting Standard, article 44-5 (4) of the Consolidation Accounting Standard and article 57-4 (4) of the Business Divestitures Accounting Standard with application from the beginning of the current fiscal year prospectively.

In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

Impact of these changes to the consolidated financial statements was immaterial. Also, impact of these changes to per share information was immaterial.

(20) New Accounting Standards Not Yet Applied

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, issued on March 28, 2016)

(1) Outline

"Implementation Guidance on Recoverability of Deferred Tax Assets" stipulates guidance for the treatment of the recoverability of deferred tax assets when applying "Standards for Tax Effect Accounting" issued by Business Accounting Council. When transferring responsibility of setting such guidance from the Japanese Institute of Certified Public Accountants ("JICPA") to ASBJ, while following the framework of JICPA Audit Committee Report No. 66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets", whereby companies are categorized into following five categories and deferred tax assets are calculated based on each of these categories, certain necessary revisions were made for category requirements and treatment of amounts recorded as deferred tax assets.

- 1) Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- 2) Category requirements for (Category 2) and (Category 3)
- 3) Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- 4) Treatment related to the reasonable estimable period of future taxable income before adjusting temporary differences in companies that qualify as (Category 3)
- 5) Treatment in case that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2) Scheduled date of adoption

The Company plans to apply the guidance from the beginning of the fiscal year ending March 31, 2017.

(3) Impact of adoption of this guidance

At the time of preparation of the accompanying consolidated financial statements, the impact of application of this guidance is currently under assessment.

3. FINANCIAL INSTRUMENTS

(1) Qualitative information on financial instruments

a. Group policy for financial instruments

The Companies, which mainly produce and market electronic components, procure short-term operating funds with bank loans, and long-term funds for capital investment, etc. with bank loans and issuance of bonds in accordance with a capital investment plan.

Temporary surplus funds are managed as safe and secure financial funds such as short-term deposits. The Companies use derivative transactions to hedge risks stated below, and do not intend to use them for speculative purpose.

b. Risk management for financial instruments

Trade notes and accounts receivable which are operating receivables are exposed to consumer credit risk. Therefore, the Companies manage due dates and balances for each customer, and make efforts to early recognize concerns about collectability and reduce its risks due to deterioration in financial conditions, etc.

Investment securities consisting mainly of shares of companies with which the Companies have business relationship are managed by grasping fair values and financial conditions of issuers on a regular basis.

Payment due dates of most trade notes and accounts payable which are operating payables are within one year.

The Companies use borrowings, bonds and convertible bond with stock acquisition rights mainly for the purpose of procuring funds necessary for capital investment. As long-term loans with floating interest rate are exposed to the risk of interest-rate fluctuations, the Companies use derivative transactions (interest-rate swaps) to hedge the risk.

Operating receivables in foreign currency which arise from the Company's global business development are exposed to the risk of exchange-rate fluctuations. The Companies use forward exchange contracts as hedging instruments for operating receivables in foreign currency to reduce the risk of exchange-rate fluctuations, in principle. The Companies also make forward exchange contracts to hedge risks from operating receivables in foreign currency which are surely brought about by forecasted transactions related to exports. The Companies make derivatives transactions only with high-rated financial institutions.

In accordance with the internal risk management regulations providing for trading authority, the ceiling and other matters, the finance and accounting department executes derivative transactions, and manages them by recording details of transactions and checking balances with counterparties.

A manager of finance and accounting department reports monthly results of transactions to a Chief of Headquarters in charge, and he/she reports to the Board of Directors. Consolidated subsidiaries do not use derivative transactions.

The Company unifies the management of funds of the entire Group based on funding plans prepared by each group company in order to allow them to secure adequate liquidity.

c. Supplemental information on market value of financial instruments

Financial instruments without market quotations are stated at reasonably calculated value. Such value is calculated based on variable factors. Therefore, the value may be changed depending on prerequisites to be adopted.

(2) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheets at March 31, 2016 and 2015 are as follows. When it is extremely difficult to measure a fair value of financial instrument, such financial instrument is not included in the table shown below.

| | Millions of yen | | |
|---|-----------------|------------|------------|
| | 2016 | | |
| | Book value | Fair value | Difference |
| (1) Cash, cash equivalents and time deposits | ¥45,963 | ¥45,963 | - |
| (2) Trade notes and accounts receivable | 49,759 | 49,759 | - |
| (3) Investment securities: | | | |
| 1) Held-to-maturity debt securities | - | - | - |
| 2) Available-for-sale securities | 4,075 | 4,075 | - |
| 3) Investments in affiliate | 1,320 | 1,470 | ¥150 |
| Total assets | ¥101,117 | ¥101,267 | ¥150 |
| (4) Trade notes and accounts payable | 23,430 | 23,430 | - |
| (5) Short-term borrowings | 11,979 | 11,979 | - |
| (6) Other accounts payable | 12,353 | 12,353 | - |
| (7) Income taxes payable | 2,340 | 2,340 | - |
| (8) Convertible bonds with stock acquisition rights | 20,068 | 20,224 | ¥156 |
| (9) Long-term borrowings (*1) | 21,347 | 21,305 | (42) |
| Total liabilities | ¥91,517 | ¥91,631 | ¥114 |
| (10) Derivative transactions (*2) | ¥775 | ¥775 | - |

| | Millions of yen | | |
|---|-----------------|------------|------------|
| | 2015 | | |
| | Book value | Fair value | Difference |
| (1) Cash, cash equivalents and time deposits | ¥46,710 | ¥46,710 | - |
| (2) Trade notes and accounts receivable | 55,773 | 55,773 | - |
| (3) Investment securities: | | | |
| 1) Held-to-maturity debt securities | 0 | 0 | - |
| 2) Available-for-sale securities | 8,218 | 8,218 | - |
| 3) Investments in affiliate | - | - | - |
| Total assets | ¥110,701 | ¥110,701 | - |
| (4) Trade notes and accounts payable | 23,900 | 23,900 | - |
| (5) Short-term borrowings | 12,366 | 12,366 | - |
| (6) Other accounts payable | 11,435 | 11,435 | - |
| (7) Income taxes payable | 1,709 | 1,709 | - |
| (8) Convertible bonds with stock acquisition rights | 20,082 | 22,600 | ¥2,518 |
| (9) Long-term borrowings (*1) | 21,840 | 21,766 | (74) |
| Total liabilities | ¥91,332 | ¥93,776 | ¥2,444 |
| (10) Derivative transactions (*2) | ¥(187) | ¥(187) | - |

| | Thousands of U.S. dollars | | |
|---|---------------------------|------------|------------|
| | 2016 | | |
| | Book value | Fair value | Difference |
| (1) Cash, cash equivalents and time deposits | \$406,752 | \$406,752 | - |
| (2) Trade notes and accounts receivable | 440,349 | 440,349 | - |
| (3) Investment securities: | | | |
| 1) Held-to-maturity debt securities | - | - | - |
| 2) Available-for-sale securities | 36,058 | 36,058 | - |
| 3) Investments in affiliate | 11,682 | 13,009 | \$1,327 |
| Total assets | \$894,841 | \$896,168 | \$1,327 |
| (4) Trade notes and accounts payable | 207,345 | 207,345 | - |
| (5) Short-term borrowings | 106,014 | 106,014 | - |
| (6) Other accounts payable | 109,317 | 109,317 | - |
| (7) Income taxes payable | 20,713 | 20,713 | - |
| (8) Convertible bonds with stock acquisition rights | 177,592 | 178,974 | \$1,382 |
| (9) Long-term borrowings (*1) | 188,906 | 188,534 | (372) |
| Total liabilities | \$809,887 | \$810,897 | \$1,010 |
| (10) Derivative transactions (*2) | \$6,857 | \$6,857 | - |

(*1) Long-term borrowings includes current portion.

(*2) Derivatives transactions are stated in net of assets and liabilities. The figures in parenthesis indicate net liabilities.

Note 1: Measurement methods for fair value of financial instruments and matters concerning securities and derivative transactions

Assets:

- (1) Cash, cash equivalents and time deposits and (2) Trade notes and accounts receivable
 Since these are settled in short term, their fair values are close to book values. Accordingly, they are stated at book value.
- (3) Investment securities
 Equity securities are stated at price on exchange market, and bonds are stated at price offered by correspondent financial institutions.

Liabilities:

- (4) Trade notes and accounts payable, (5) Short-term borrowings, (6) Other accounts payable and (7) Income taxes payable
 Since these are settled in short term, their fair values are close to book values. Accordingly, they are stated at book value.
- (8) Convertible bonds with stock acquisition rights
 The prices offered by correspondent financial institutions are regarded as fair values.
- (9) Long-term borrowings
 The fair values of long-term borrowings are measured as present values obtained by discounting total amount of principal and interest at the estimated interest rate if similar borrowings were newly made. Long-term borrowings with floating interest rates are subject to the exceptional accounting method for interest-rate swaps. Their fair values are calculated by discounting the total amount of principal and interest treated together with relevant interest-rate swaps at the estimated interest rate if similar borrowings were newly made.
- (10) Derivative transactions
 The fair values of forward exchange contracts are stated at prices offered by financial institutions.
 As derivative transactions subject to the exceptional accounting method for interest-rate swaps are treated together with hedged long-term borrowings, their fair values are included in the fair values of relevant long-term borrowings.

Note 2: Financial instruments of which fair value is extremely difficult to be identified

| | Millions of yen | | Thousands of |
|--|-----------------|------------|--------------|
| | 2016 | 2015 | U.S. dollars |
| | Book value | Book value | 2016 |
| | | | Book value |
| Unlisted equity securities | ¥156 | ¥10 | \$1,383 |
| Investments in affiliate | 579 | 572 | 5,120 |
| Equities of limited liability partnerships for investment business and of other similar partnerships | 158 | 272 | 1,400 |

As for financial instruments shown above, there is no market price and future cash flow cannot be estimated. Accordingly, since it is considered very difficult to identify their fair value, they are not included in "Assets (3) Investment securities".

Note 3: Planned redemption amounts after March 31, 2016 and 2015 for monetary assets and investment securities

| | Millions of yen | |
|--|-----------------|-------------------------------|
| | 2016 | |
| | Within 1 year | Over 1 year and within 5 year |
| Cash, cash equivalents and time deposits | ¥45,928 | - |
| Trade notes and accounts receivable | 49,759 | - |
| Investment securities | | |
| Held-to-maturity debt securities | - | - |

| | Millions of yen | |
|--|-----------------|-------------------------------|
| | 2015 | |
| | Within 1 year | Over 1 year and within 5 year |
| Cash, cash equivalents and time deposits | ¥46,631 | - |
| Trade notes and accounts receivable | 55,773 | - |
| Investment securities | | |
| Held-to-maturity debt securities | 0 | - |

| | Thousands of U.S. dollars | |
|--|---------------------------|-------------------------------|
| | 2016 | |
| | Within 1 year | Over 1 year and within 5 year |
| Cash, cash equivalents and time deposits | \$406,439 | - |
| Trade notes and accounts receivable | 440,349 | - |
| Investment securities | | |
| Held-to-maturity debt securities | - | - |

4. DEBT AND EQUITY SECURITIES

(1) Held-to-maturity debt securities
Information as of March 31, 2016 and 2015 is not shown as it is immaterial.

(2) Available-for-sale securities

| | Millions of Yen | | |
|---|-----------------|------------------|----------------------|
| | 2016 | | |
| | Book value | Acquisition cost | Unrealized Gain/loss |
| Securities for which book value of consolidated balance sheets exceeds acquisition cost | | | |
| Stock | ¥3,270 | ¥1,789 | ¥1,481 |
| Corporate bonds | - | - | - |
| Other | 62 | 42 | 20 |
| Subtotal | ¥3,332 | ¥1,831 | ¥1,501 |
| Securities for which book value of consolidated balance sheets does not exceed acquisition cost | | | |
| Stock | ¥743 | ¥798 | ¥(55) |
| Corporate bonds | - | - | - |
| Other | - | - | - |
| Subtotal | ¥743 | ¥798 | ¥(55) |
| Total | ¥4,075 | ¥2,629 | ¥1,446 |

| | Millions of Yen | | |
|---|-----------------|------------------|----------------------|
| | 2015 | | |
| | Book value | Acquisition cost | Unrealized Gain/loss |
| Securities for which book value of consolidated balance sheets exceeds acquisition cost | | | |
| Stock | ¥5,536 | ¥2,651 | ¥2,885 |
| Corporate bonds | - | - | - |
| Other | 72 | 43 | 29 |
| Subtotal | ¥5,608 | ¥2,694 | ¥2,914 |
| Securities for which book value of consolidated balance sheets does not exceed acquisition cost | | | |
| Stock | ¥2,610 | ¥2,749 | ¥(139) |
| Corporate bonds | - | - | - |
| Other | - | - | - |
| Subtotal | ¥2,610 | ¥2,749 | ¥(139) |
| Total | ¥8,218 | ¥5,443 | ¥2,775 |

| | Thousands of U.S. Dollars | | |
|---|---------------------------|------------------|----------------------|
| | 2016 | | |
| | Book value | Acquisition cost | Unrealized Gain/loss |
| Securities for which book value of consolidated balance sheets exceeds acquisition cost | | | |
| Stock | \$28,934 | \$15,830 | \$13,104 |
| Corporate bonds | - | - | - |
| Other | 551 | 374 | 177 |
| Subtotal | \$29,485 | \$16,204 | \$13,281 |
| Securities for which book value of consolidated balance sheets does not exceed acquisition cost | | | |
| Stock | \$6,573 | \$7,065 | \$(492) |
| Corporate bonds | - | - | - |
| Other | - | - | - |
| Subtotal | \$6,573 | \$7,065 | \$(492) |
| Total | \$36,058 | \$23,269 | \$12,789 |

(3) Impaired securities

For the years ended March 31, 2016 and 2015, the Company recorded an impairment loss on "Available-for-sale securities". The Company recorded impairment loss of 1,463 million yen (12,945 thousand dollar). The loss is divided to 34 million yen (298 thousands dollars) and 1,429 million yen (12,647 thousand dollars) on other marketable securities and investments in affiliate respectively in the fiscal year ended March 31, 2016. The Company omits the detail about the fiscal year ended March 31, 2015, since the amount of loss is immaterial.

The Company posts the entire amount of impairment loss on all securities whose fair value at the end of the fiscal year is less than 50% of the acquisition cost.

For securities whose fair value at the end of the fiscal year decreases by 30% to 50% from their acquisition cost, the Company posts an impairment loss when it is judged necessary, by examining the impact and recoverability of the amount.

5. INDEBTEDNESS

Short-term borrowing at March 31, 2016 and 2015 principally consist of borrowings from banks at average annual rates of approximately 0.64%.

Long-term debts at March 31, 2016 and 2015 consisted of the following:

| | Millions of Yen | | Thousands of |
|--|-----------------|---------|--------------|
| | 2016 | 2015 | U.S. Dollars |
| | | | 2016 |
| Long-term borrowings from banks and other financial institutions | | | |
| Due within one year, weighted average interest rate 0.74% at March 31, 2016, and 0.84% at March 31, 2015 | ¥6,201 | ¥5,270 | \$54,873 |
| Due after one year, weighted average interest rate 0.76% at March 31, 2016, and 0.86% at March 31, 2015 | 15,146 | 16,570 | 134,033 |
| Euro Yen zero coupon convertible bonds due 2021 | | | |
| Due within one year | - | - | - |
| Due after one year | 20,000 | 20,000 | 176,991 |
| Lease liabilities | | | |
| Due within one year | | | |
| Lease that deem to transfer ownership to lessee | - | - | - |
| Lease that do not transfer ownership to lessee | 291 | 319 | 2,577 |
| Due after one year | | | |
| Lease that deem to transfer ownership to lessee | - | - | - |
| Lease that do not transfer ownership to lessee | 270 | 486 | 2,385 |
| Total | 41,908 | 42,645 | 370,859 |
| Less current portion | (6,492) | (5,589) | (57,450) |
| Long-term debts, less current portion | ¥35,416 | ¥37,056 | \$313,409 |

The average interest rate per annum for lease that do not transfer ownership to lessee is not presented since lease liabilities are stated at the amounts before deducting interest portion which is included in total lease liabilities.

The conversion price per share of Euro Yen zero coupon convertible bonds due 2021 for the years ended March 31, 2016 and 2015 were 2,069 yen (18.31 dollar) - fixed price.

The aggregate annual maturities of long-term debts other than lease liabilities as of March 31, 2016 are as follows:

| For the year ending March 31 | Millions of Yen | Thousands of |
|------------------------------|-----------------|--------------|
| | | U.S. Dollars |
| 2017 | ¥6,201 | \$54,873 |
| 2018 | 11,076 | 98,014 |
| 2019 | 3,938 | 34,852 |
| 2020 | 17 | 155 |
| 2021 | 20,017 | 177,141 |
| 2022 and thereafter | 98 | 862 |
| Total | ¥41,347 | \$365,897 |

The annual maturities of lease liabilities as of March 31, 2016 are as follows:

| For the year ending March 31 | Millions of Yen | Thousands of |
|------------------------------|-----------------|--------------|
| | | U.S. Dollars |
| 2017 | ¥291 | \$2,577 |
| 2018 | 181 | 1,601 |
| 2019 | 66 | 583 |
| 2020 | 15 | 132 |
| 2021 | 7 | 63 |
| 2022 and thereafter | 1 | 6 |
| Total | ¥561 | \$4,962 |

6. RETIREMENT BENEFITS

Outline of retirement benefit plans

The Company and certain domestic subsidiaries have defined contribution pension plans, prepaid retirement plans.

Certain overseas subsidiaries mainly adopted lump-sum retirement benefit plans.

Overseas subsidiaries have applied International Financial Reporting Standards ("IFRS"). "Employee Benefits" ("IAS" No. 19 amended on June 16, 2011) became effective from the fiscal year beginning on and after January 1, 2013. Effective from the fiscal year ended March 31, 2014, certain overseas subsidiaries have adopted the standard.

a. Defined benefit pension plans

(1) The reconciliation of defined benefit obligation for the years ended March 31, 2016 and 2015 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|--------|------------------------------|
| | 2016 | 2015 | 2016 |
| Defined benefit obligation at beginning of year | ¥4,472 | ¥3,141 | \$39,579 |
| Service costs | 803 | 654 | 7,109 |
| Interest cost | 112 | 120 | 994 |
| Actuarial (gain) loss | (73) | 517 | (645) |
| Benefits paid | (211) | (299) | (1,870) |
| Other | (368) | 339 | (3,262) |
| Defined benefit obligation at end of year | ¥4,735 | ¥4,472 | \$41,905 |

Defined benefit obligations in certain domestic consolidated subsidiaries calculated by the simplified method are included.

(2) The reconciliation of plan assets for the years ended March 31, 2016 and 2015 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|--------|------------------------------|
| | 2016 | 2015 | 2016 |
| Fair value of plan assets at beginning of year | ¥1,622 | ¥1,216 | \$14,357 |
| Interest income | 53 | 49 | 469 |
| Actuarial gain (loss) | (51) | 13 | (457) |
| Employer's contribution | 155 | 205 | 1,374 |
| Benefits paid | (47) | (26) | (420) |
| Other | (112) | 165 | (989) |
| Fair value of plan assets at end of year | ¥1,620 | ¥1,622 | \$14,334 |

(3) Reconciliation between the balances of defined benefits obligation and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets as of March 31, 2016 and 2015 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|------------------------------|
| | 2016 | 2015 | 2016 |
| Funded defined benefits obligation | ¥2,187 | ¥2,035 | \$19,354 |
| Plan assets | (1,620) | (1,622) | (14,334) |
| | 567 | 413 | 5,020 |
| Unfunded defined benefits obligation | 2,549 | 2,437 | 22,551 |
| Total net liability (asset) for retirement benefit | ¥3,116 | ¥2,850 | \$27,571 |
| Net defined benefit liability | ¥3,116 | ¥2,872 | \$27,571 |
| Net defined benefit asset | - | (22) | - |
| Total net liability (asset) for retirement benefit | ¥3,116 | ¥2,850 | \$27,571 |

- (4) Components of retirement benefit costs for the years ended March 31, 2016 and 2015 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|------|------------------------------|
| | 2016 | 2015 | 2016 |
| Service costs | ¥804 | ¥654 | \$7,109 |
| Net interest | 59 | 70 | 525 |
| Amortization of actuarial differences | 62 | 10 | 550 |
| Total retirement benefit cost for the fiscal year | ¥925 | ¥734 | \$8,184 |

The Company applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No.18).

Accordingly, the total amounts of actuarial differences have been amortized by a certain period of fixed years within average expected future service years.

- (5) Adjustments in defined benefit obligation of overseas subsidiaries, excluding the income tax effect accounting, for the years ended March 31, 2016 and 2015 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------|-----------------|--------|------------------------------|
| | 2016 | 2015 | 2016 |
| Actuarial differences | ¥(19) | ¥(459) | \$(168) |

- (6) Accumulated amounts of adjustments in defined benefit obligation of overseas subsidiaries, excluding the income tax effect, as of March 31, 2016 and 2015 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|------------------------------------|-----------------|--------|------------------------------|
| | 2016 | 2015 | 2016 |
| Unrecognized actuarial differences | ¥(535) | ¥(515) | \$(4,730) |

- (7) Plan assets

(i) The proportions of plan assets as of March 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|----------------------------|-----------------|-------|
| | Debt securities | 59 |
| Equity securities | 19 | 4 |
| Cash and deposit with bank | 18 | 22 |
| Other | 4 | 4 |
| Total | 100 | 100 % |

77% and 79% of plan assets are retirement benefit trusts established for lump-sum retirement plans as of March 31, 2016 and 2015, respectively.

Equity securities was separately presented in the above table due to increased materiality. As a result, other was restated as of March 31, 2015.

(ii) Rates of expected return

The rates of expected return are not set since the overseas subsidiaries applied the IAS No. 19.

- (8) Actuarial assumptions

| | 2016 | 2015 |
|--|---------------|---------------|
| Discount rates (overseas subsidiaries) | 2.00 - 5.34 % | 3.50 - 5.07 % |
| Expected rate of salary increase | 3.48 - 5.00 % | 0.85 - 5.25 % |

- b. Defined contribution pension plans

The required contribution amounts to the defined contribution pension plans by the Companies were 1,224 million yen (10,835 thousand dollar) and 1,213 million yen as of March 31, 2016 and 2015, respectively.

7. NET ASSETS

Under the Companies Act of Japan ("the Act"), in cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Additional paid-in capital and legal earnings reserve are included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets. Under the Act, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. Appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' approval has been obtained.

8. INCOME TAXES

Income taxes in Japan applicable to the Company and domestic subsidiaries for the years ended March 31, 2016 and 2015 were comprised of (1) a corporation tax at the rate of 25.0% and 25.5% on taxable income, respectively, (2) enterprise tax of approximately 6% and 7% on taxable income and (3) prefectural and residence taxes of approximately 16% and 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.

Significant components of the deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|---------------|------------------------------|
| | 2016 | 2015 | 2016 |
| Deferred tax assets | | | |
| Inventories | ¥744 | ¥1,224 | \$6,588 |
| Accrued expenses | 361 | 329 | 3,194 |
| Retirement benefits | 1,846 | 2,010 | 16,336 |
| Net defined benefit liability | 777 | 593 | 6,874 |
| Enterprise tax payables | 268 | 134 | 2,370 |
| Accrued bonuses | 1,022 | 1,039 | 9,042 |
| Investment securities | 761 | 296 | 6,731 |
| Excess depreciation | 864 | 1,155 | 7,646 |
| Lump-sum depreciable assets | 231 | 151 | 2,040 |
| Allowance for doubtful receivables | 102 | 107 | 903 |
| Unused tax loss carry-forward | 12,655 | 15,918 | 111,995 |
| Other | 1,223 | 1,643 | 10,829 |
| Offset | (154) | (90) | (1,360) |
| Subtotal | 20,700 | 24,509 | 183,188 |
| Valuation allowance | (18,965) | (22,402) | (167,831) |
| Total deferred tax assets | ¥1,735 | ¥2,107 | \$15,357 |
| Deferred tax liabilities | | | |
| Undistributed earnings of foreign subsidiaries | ¥3,516 | ¥3,489 | \$31,118 |
| Inventories | 608 | 746 | 5,379 |
| Reserves | 723 | 781 | 6,399 |
| Unrealized holding gains on investment securities | 397 | 740 | 3,511 |
| Other | 1,494 | 1,412 | 13,217 |
| Offset | (154) | (90) | (1,360) |
| Total deferred tax liabilities | ¥6,584 | ¥7,078 | \$58,264 |

Main items of the reconciliations of the normal income tax rate to the effective income tax rates are as follows:

| | 2016 | 2015 |
|--|---------------|---------------|
| Statutory tax rate | 32.8 % | 35.4 % |
| (Reconciliations) | | |
| Differences in statutory tax rates of foreign subsidiaries | (6.0) | (11.3) |
| Undistributed earnings of foreign subsidiaries | 0.3 | 4.2 |
| Valuation allowance | (6.7) | (10.5) |
| Foreign tax | 0.3 | 4.5 |
| Unrealized profit included in inventories | (2.3) | 2.1 |
| Amortization of goodwill | - | 1.4 |
| Decrease of deferred tax assets and liabilities due to income tax rates change | (0.5) | (1.4) |
| Others - net | 1.9 | 1.6 |
| Effective income tax rate | 19.8 % | 26.0 % |

The "Act on Partial Revision of the Income Tax Act (Act No.15 of 2016)" and the "Act on Partial Revision of the Local Income Tax Act (Act No.13 of 2016)" were enacted by the National Diet on March 29, 2016 and the effective statutory tax rate utilized for the measurements of deferred tax assets and deferred tax liabilities was changed from 32.1% for the fiscal year ended March 31, 2016 to 30.7% in connection with temporary differences expected to be settled or realized in the period between April 1, 2016 and March 31, 2018, and to 30.5% for temporary differences expected to be settled or realized in the fiscal year beginning on April 1, 2018 and thereafter.

As a result, deferred tax assets, deferred tax liabilities, income taxes - deferred, net unrealized holding gains (losses) on securities<net of taxes>, and deferred gains (losses) on hedges<net of taxes>, decreased by 24 million yen (208 thousand dollars), 126 million yen (1,119 thousand dollars), 82 million yen (730 thousand dollars), increased by 20 million yen (180 thousand dollars) and 0 million yen (1 thousand dollars), respectively.

9. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Summary of net assets (liabilities) and net payment for the business transfer is as follows:

March 31, 2015

| | Millions of Yen |
|--|-----------------|
| Current assets | ¥824 |
| Non-current assets | 1,373 |
| Current liabilities | (447) |
| Long-term liabilities | (122) |
| Foreign currency translation adjustments | (188) |
| Gain on business transfer | 103 |
| Consideration for business transfer | 1,543 |
| Cash and cash equivalents of alienated company | (237) |
| Less: Income from business transfer | 1,306 |
| Balance of accrued amounts receivable from business transfer | (1,043) |
| Less: Income from business transfer | ¥263 |

10. LEASE TRANSACTIONS

Operating Lease

The amounts of noncancellable future lease payments as of March 31, 2016 and 2015 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------|-----------------|------|------------------------------|
| | 2016 | 2015 | 2016 |
| Future lease payments | | | |
| Within one year | ¥79 | ¥211 | \$696 |
| Over one year | 205 | 320 | 1,819 |
| Total | ¥284 | ¥531 | \$2,515 |

11. IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT

The Companies categorize their business assets by segmentation for management accounting, and idle assets by individual asset. Property, plant and equipment such as head office and laboratories are categorized as common assets.

For the year ended March 31, 2016, the Companies recognized impairment loss on property, plant and equipment as follows:

| Classification | Description | Location | Millions of | Thousands of |
|---|--|--|-------------|--------------|
| | | | Yen | U.S. Dollars |
| Machinery and Equipment, Buildings, Construction in Progress, Intangible Assets, Others | Business assets (Optical media business) | Date, Fukushima, Others | ¥178 | \$1,576 |
| Machinery and Equipment | Idle assets | Tamamura, Gunma Nakanojo, Gunma Others | 194 | 1,715 |
| Others | Idle assets | Tamamura, Gunma Others | 28 | 251 |
| Total | | | ¥400 | \$3,542 |

For the business assets with no specific utilization plan and low profitability, due to withdrawal from "Optical media" business, their book values have been written down to the memorandum value and such reduction (178 million yen (1,576 thousand dollar)) was included in business structure improvement expenses in other income (expenses). This consists of 85 million yen (755 thousand dollar) for machinery and equipment, 29 million yen (257 thousand dollar) for buildings, 25 million yen (222 thousand dollar) for intangible assets, 22 million yen (195 thousand dollar) for construction in progress and 17 million yen (147 thousand dollar) for others.

For the idle assets with no specific utilization plan and low profitability, their book values have been written down to the memorandum value and such reduction was recorded as impairment loss on property, plant and equipment.

For the year ended March 31, 2015, the Companies recognized impairment loss on property, plant and equipment as follows:

| Classification | Description | Location | Millions of |
|-------------------------|-------------|--|-------------|
| | | | Yen |
| Machinery and Equipment | Idle assets | Tamamura, Gunma Nakanojo, Gunma Others | ¥71 |
| Others | Idle assets | Chuo, Tokyo Tongyeong, Korea Others | 24 |
| Total | | | ¥95 |

For the idle assets with no specific utilization plan and low profitability, their book values have been written down to the memorandum value and such reduction was recorded as impairment loss on property, plant and equipment.

12. NOTES TO CONSOLIDATED STATEMENTS OF INCOME

Gain on business transfer for the year ended March 31, 2015 consists of the followings:

| | Millions of Yen |
|--|-----------------|
| | 2015 |
| Gain on sales of affiliated company's share | ¥472 |
| Special redevelopment support cost | (166) |
| Inventory valuation loss | (82) |
| Loss on disposal of property, plants, equipments | (60) |
| Others | (61) |
| Total | <u>¥103</u> |

13. DERIVATIVE TRANSACTIONS

The fair values of derivatives held by the Companies as of March 31, 2016 and 2015 are summarized as follows. Fair value is computed based on quotes and others by financial institutions and others.

(1) Derivative transactions for which hedge accounting is not applied

| | Millions of Yen | | | |
|-------------------------------------|-----------------|--------------------|------------|------------------------|
| | 2016 | | | |
| | Contract amount | Due after one year | Fair value | Unrealized gain (loss) |
| Foreign exchange forward contracts: | | | | |
| Selling: U.S. Dollar | ¥17,095 | - | ¥791 | ¥791 |
| Foreign exchange forward contracts: | | | | |
| Buying: U.S. Dollar | ¥1,150 | - | ¥(25) | ¥(25) |

| | Millions of Yen | | | |
|-------------------------------------|-----------------|--------------------|------------|------------------------|
| | 2015 | | | |
| | Contract amount | Due after one year | Fair value | Unrealized gain (loss) |
| Foreign exchange forward contracts: | | | | |
| Selling: U.S. Dollar | ¥16,593 | - | ¥(205) | ¥(205) |
| Foreign exchange forward contracts: | | | | |
| Buying: U.S. Dollar | ¥593 | - | ¥7 | ¥7 |

| | Thousands of U.S. Dollars | | | |
|-------------------------------------|---------------------------|--------------------|------------|------------------------|
| | 2016 | | | |
| | Contract amount | Due after one year | Fair value | Unrealized gain (loss) |
| Foreign exchange forward contracts: | | | | |
| Selling: U.S. Dollar | \$151,284 | - | \$6,999 | \$6,999 |
| Foreign exchange forward contracts: | | | | |
| Buying: U.S. Dollar | \$10,178 | - | \$(219) | \$(219) |

(2) Derivative transactions for which hedge accounting is applied

| | | Millions of Yen | | |
|--|----------------------|-----------------|--------------------|------------|
| | | 2016 | | |
| | | Contract amount | Due after one year | Fair value |
| Foreign exchange forward contracts: Selling: U.S. Dollar | Future transaction | ¥6,187 | - | ¥13 |
| Foreign exchange forward contracts: Buying: U.S. Dollar | Future transaction | ¥1,128 | - | ¥(4) |
| Interest-rate swaps: Fixed interest payment and floating interest receipt | Long-term borrowings | ¥10,500 | ¥10,000 | - |

| | | Millions of Yen | | |
|--|----------------------|-----------------|--------------------|------------|
| | | 2015 | | |
| | | Contract amount | Due after one year | Fair value |
| Foreign exchange forward contracts: Selling: U.S. Dollar | Future transaction | ¥6,606 | - | ¥13 |
| Foreign exchange forward contracts: Buying: U.S. Dollar | Future transaction | ¥602 | - | ¥(2) |
| Interest-rate swaps: Fixed interest payment and floating interest receipt | Long-term borrowings | ¥10,800 | ¥10,500 | - |

| | | Thousands of U.S. Dollars | | |
|--|----------------------|---------------------------|--------------------|------------|
| | | 2016 | | |
| | | Contract amount | Due after one year | Fair value |
| Foreign exchange forward contracts: Selling: U.S. Dollar | Future transaction | \$54,749 | - | \$110 |
| Foreign exchange forward contracts: Buying: U.S. Dollar | Future transaction | \$9,984 | - | \$(33) |
| Interest-rate swaps: Fixed interest payment and floating interest receipt | Long-term borrowings | \$92,920 | \$88,496 | - |

For the exceptional accounting method for interest-rate swaps, because they are account for in combination with the hedged long-term borrowings, their fair value is included in the fair value of the long-term

14. STOCK OPTION PLAN

The Company grants stock options to its directors and operating officers in line with resolutions of the board of directors meetings.

Expenses for stock options amounting to 99 million yen (880 thousand dollar) and 57 million yen were recognized in selling, general and administrative expenses in 2016 and 2015, respectively.

For the years ended March 31, 2016 and 2015, a standard option pricing model (i.e., Black-Scholes) was used to measure the fair value of stock options granted to its directors and operating officers.

The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with risk-free interest rates of 0.12% and 0.05% in 2016, 0.37% in 2015, dividends per share of 10 yen (0.09 dollar) in 2016, 10 yen in 2015, and volatility factor of the expected market value of the Company's common stock of 45.1% and 44.5% in 2016, 48.4% in 2015, determined by weekly historical price for the past 6.1 years in 2016, 8.2 years in 2015, which is the same period as expected life of the option.

A summary of the Company's stock options outstanding at March 31, 2016 is as follows:

| | | | | |
|--|--|--|--|---|
| Date of resolution | June 28, 2007 | June 28, 2007 | June 27, 2008 | May 25, 2009 |
| Date of grant | July 13, 2007 | July 13, 2007 | July 14, 2008 | June 9, 2009 |
| Number of options | 32,000 shares of Common stock | 46,000 shares of Common stock | 46,000 shares of Common stock | 37,000 shares of Common stock |
| Exercise price | ¥1 | ¥1 | ¥1 | ¥1 |
| Exercise period | From July 14, 2007 to July 13, 2027 | From July 14, 2007 to July 13, 2027 | From July 15, 2008 to July 14, 2028 | From June 10, 2009 to June 9, 2029 |
| Fair value (per share) | ¥2,761 | ¥2,761 | ¥966 | ¥947 |
| Options outstanding at March 31, 2015 (share) | 6,000 | 10,000 | 10,000 | 10,000 |
| Granted (share) | - | - | - | - |
| Exercised (share) | 3,000 | 4,000 | 4,000 | 4,000 |
| Forfeited/Expired (share) | - | - | - | - |
| Options outstanding at March 31, 2016 (share) | 3,000 | 6,000 | 6,000 | 6,000 |
| Date of resolution | June 29, 2010 | June 29, 2011 | April 25, 2012 | May 24, 2013 |
| Date of grant | July 21, 2010 | July 14, 2011 | May 11, 2012 | June 10, 2013 |
| Number of options | 39,000 shares of Common stock | 44,000 shares of Common stock | 38,000 shares of Common stock | 10,000 shares of Common stock |
| Exercise price | ¥1 | ¥1 | ¥1 | ¥1 |
| Exercise period | From July 22, 2010 to July 21, 2030 | From July 14, 2011 to July 13, 2031 | From May 11, 2012 to May 10, 2032 | From June 10, 2013 to June 9, 2033 |
| Fair value (per share) | ¥1,013 | ¥948 | ¥739 | ¥1,625 |
| Options outstanding at March 31, 2015 (share) | 14,000 | 22,000 | 23,000 | 6,000 |
| Granted (share) | - | - | - | - |
| Exercised (share) | 5,000 | 9,000 | 10,000 | 3,000 |
| Forfeited/Expired (share) | - | - | - | - |
| Options outstanding at March 31, 2016 (share) | 9,000 | 13,000 | 13,000 | 3,000 |
| Date of resolution | June 27, 2013 | June 27, 2014 | June 26, 2015 | November 5, 2015 |
| Date of grant | July 12, 2013 | July 14, 2014 | July 13, 2015 | November 20, 2015 |
| Number of options | 31,000 shares of Common stock | 55,000 shares of Common stock | 62,000 shares of Common stock | 2,000 shares of Common stock |
| Exercise price | ¥1 | ¥1 | ¥1 | ¥1 |
| Exercise period | From July 12, 2013 to July 11, 2033 | From July 14, 2014 to July 13, 2034 | From July 13, 2015 to July 12, 2035 | From November 20, 2015 to November 19, 2035 |
| Fair value (per share) | ¥1,476 | ¥1,032 | ¥1,543 | ¥1,914 |
| Options outstanding at March 31, 2015 (share) | 31,000 | 55,000 | - | - |
| Granted (share) | - | - | 62,000 | 2,000 |
| Exercised (share) | 10,000 | 13,000 | 5,000 | - |
| Forfeited/Expired (share) | - | - | - | - |
| Options outstanding at March 31, 2016 (share) | 21,000 | 42,000 | 57,000 | 2,000 |

15. COMPREHENSIVE INCOME

Reclassification and income tax effects attributable to other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2016 | 2015 | 2016 |
| Net unrealized holding gains (losses) on securities: | | | |
| Gains (losses) arising during the year | ¥(1,540) | ¥1,595 | \$(13,631) |
| Reclassifications and adjustments | 139 | - | 1,231 |
| Before income tax effects | (1,401) | 1,595 | (12,400) |
| Income tax effects | 343 | (449) | 3,038 |
| Net unrealized holding gains (losses) on securities | (1,058) | 1,146 | (9,362) |
| Deferred gains (losses) on hedges: | | | |
| Gains (losses) arising during the year | (68) | (452) | (602) |
| Reclassifications and adjustments | 66 | 495 | 582 |
| Before income tax effects | (2) | 43 | (20) |
| Income tax effects | 1 | (4) | 8 |
| Deferred gains (losses) on hedges | (1) | 39 | (12) |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | (9,931) | 11,813 | (87,879) |
| Reclassifications and adjustments | - | (249) | - |
| Before income tax effects | (9,931) | - | (87,879) |
| Income tax effects | (17) | - | (151) |
| Foreign currency translation adjustments | (9,948) | 11,564 | (88,030) |
| Adjustment in defined benefit obligation of overseas subsidiaries: | | | |
| Gains (losses) arising during the year | (81) | (469) | (718) |
| Reclassifications and adjustments | 62 | 10 | 550 |
| Before income tax effects | (19) | (459) | (168) |
| Income tax effects | (62) | 97 | (551) |
| Adjustment in defined benefit obligation of overseas subsidiaries | (81) | (362) | (719) |
| Total other comprehensive income | ¥(11,088) | ¥12,387 | \$(98,123) |

16. SEGMENT INFORMATION

(1) General information about reportable segments

The Companies' reportable segments are those for which separately financial information is available and regular evaluation by the Company's Board of Directors is performed in order to decide how resources are allocated among the Companies.

From the fiscal year ended March 31, 2016, the Companies changed its reportable segments to a single segment of "Electronic Components". The Companies reached a conclusion that single reportable segment is reasonable and appropriate considering business deployment, allocation of management resources and management control structure of the Companies, as a result of withdrawal from "Optical media" business in December 2015. As a result of this change, the Companies have omitted the disclosure of segment information for the years ended March 31, 2016 and 2015.

(2) Basis of measurement about reportable segment income or loss, segment assets and other material items

Information have been omitted since the Companies have the single segment.

(3) Information related to the amounts of net sales, profit and loss, assets, liabilities and other items by reportable segments

As the Companies have a single business segment, there're no items to report.

(4) Information by products classification

The Companies set four product classifications ; "Capacitors", "Ferrite and applied products", "Integrated modules & devices", and "Others".

Net sales by product classifications is as follows

| Millions of Yen | | | | |
|---------------------------|------------------------------|------------------------------|-----------|-------------|
| 2016 | | | | |
| Capacitors | Ferrite and applied products | Integrated modules & devices | Others | Total |
| ¥123,675 | ¥46,464 | ¥57,696 | ¥12,551 | ¥240,386 |
| Millions of Yen | | | | |
| 2015 | | | | |
| Capacitors | Ferrite and applied products | Integrated modules & devices | Others | Total |
| ¥114,363 | ¥41,948 | ¥52,798 | ¥17,986 | ¥227,095 |
| Thousands of U.S. dollars | | | | |
| 2016 | | | | |
| Capacitors | Ferrite and applied products | Integrated modules & devices | Others | Total |
| \$1,094,470 | \$411,182 | \$510,584 | \$111,072 | \$2,127,308 |

(5) Transactions by geographical areas
 (i) Sales

| Millions of Yen | | | | |
|-----------------|----------|-----------|-------------|----------|
| 2016 | | | | |
| Japan | China | Hong Kong | Other areas | Total |
| ¥24,910 | ¥107,995 | ¥29,713 | ¥77,768 | ¥240,386 |

| Millions of Yen | | | | |
|-----------------|---------|-----------|-------------|----------|
| 2015 | | | | |
| Japan | China | Hong Kong | Other areas | Total |
| ¥32,038 | ¥90,596 | ¥22,542 | ¥81,919 | ¥227,095 |

| Thousands of U.S. dollars | | | | |
|---------------------------|-----------|-----------|-------------|-------------|
| 2016 | | | | |
| Japan | China | Hong Kong | Other areas | Total |
| \$220,439 | \$955,706 | \$262,948 | \$688,215 | \$2,127,308 |

Hong Kong was included in Other areas for the year ended March 31, 2015. However, Hong Kong is separately presented since sales in Hong Kong exceeded 10% of consolidated net sales for the year ended March 31, 2016. Also, prior year information was reclassified to conform to the above change.

(ii) Property, plant and equipment

| Millions of Yen | | | | |
|-----------------|---------|----------|-------------|----------|
| 2016 | | | | |
| Japan | China | Malaysia | Other areas | Total |
| ¥66,784 | ¥14,212 | ¥14,135 | ¥11,916 | ¥107,047 |

| Millions of Yen | | | | |
|-----------------|---------|----------|-------------|---------|
| 2015 | | | | |
| Japan | China | Malaysia | Other areas | Total |
| ¥53,914 | ¥16,980 | ¥14,055 | ¥12,760 | ¥97,709 |

| Thousands of U.S. dollars | | | | |
|---------------------------|-----------|-----------|-------------|-----------|
| 2016 | | | | |
| Japan | China | Malaysia | Other areas | Total |
| \$591,010 | \$125,776 | \$125,085 | \$105,450 | \$947,321 |

(6) Information about impairment loss on property, plant and equipment by reportable segments

The disclosure of Information about impairment loss on property, plant and equipment by reportable segments has been omitted since the Companies have single segment.

(7) Information about amortization and the balance of (negative) goodwill by reportable segments

There're no items to report.

(8) Information about major customers

Information for major customers has been omitted since there are no major customers accounts with more than 10% of net sales on consolidated statements of income for the years ended March 31, 2016 and 2015.

17. EARNINGS PER SHARE

Reconciliation of the basic and diluted earnings per share ("EPS") for the years ended March 31, 2016 and 2015 were as follows:

| For the year ended March 31, 2016 | Millions of | Thousands of | Yen | U.S. Dollar |
|--|-------------|----------------|---------|-------------|
| | Yen | Shares | | |
| | Net | Weighted | | |
| | Earnings | Average Shares | EPS | |
| Basic EPS | | | | |
| Net income attributable to common shareholders of the parent | ¥14,751 | 117,754 | ¥125.27 | \$1.1 |
| Effect of dilutive securities | | | | |
| Convertible bonds | - | - | - | |
| Convertible bonds with stock acquisition rights | (10) | 9,667 | - | |
| Stock acquisition rights | - | 165 | - | |
| Diluted EPS | | | | |
| Earnings for computation | ¥14,741 | 127,586 | ¥115.54 | \$1.0 |

| For the year ended March 31, 2015 | Millions of | Thousands of | Yen |
|--|-------------|----------------|--------|
| | Yen | Shares | |
| | Net | Weighted | |
| | Earnings | Average Shares | EPS |
| Basic EPS | | | |
| Net income attributable to common shareholders of the parent | ¥10,919 | 117,747 | ¥92.74 |
| Effect of dilutive securities | | | |
| Convertible bonds | - | - | - |
| Convertible bonds with stock acquisition rights | (9) | 9,667 | - |
| Stock acquisition rights | - | 178 | - |
| Diluted EPS | | | |
| Earnings for computation | ¥10,910 | 127,592 | ¥85.51 |

18. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2016 were approved at the Company's shareholders' meeting held on June 29, 2016:

| | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Cash dividend, 10.00 yen (0.09 dollar) per share | ¥1,178 | \$10,426 |

CONSOLIDATED SUBSIDIARIES and EQUITY-METHOD AFFILIATES

CONSOLIDATED SUBSIDIARIES

| Domestic (Japan) | Ownership |
|--|------------------|
| TAIYO YUDEN CHEMICAL TECHNOLOGY CO., LTD. | 100.0% |
| TAIYO YUDEN TECHNO SOLUTIONS CO., LTD. | 100.0% |
| Sun Vertex Co., Ltd. | 100.0% |
| FUKUSHIMA TAIYO YUDEN CO., LTD. | 100.0% |
| Kankyo Assist Co., Ltd. | 100.0% |
| Niigata Taiyo Yuden Co., Ltd. | 100.0% |
| TAIYO YUDEN ENERGY DEVICE CO., LTD. | 100.0% |
| WAKAYAMA TAIYO YUDEN CO., LTD. | 100.0% |
| Victor Advanced Media Co., Ltd. | 100.0% |
| TAIYO YUDEN Mobile Technology Co., Ltd. | 100.0% |
| Overseas | Ownership |
| 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 (SARAWAK) SDN. BHD. | 100.0% |
| TAIYO YUDEN (MALAYSIA) SDN. BHD. | 100.0% |
| TAIYO YUDEN (GUANGDONG) CO., LTD. | 100.0% |
| KOREA KYONG NAM TAIYO YUDEN CO., LTD. | 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% |
| TAIYO YUDEN (CHINA) CO., LTD. | 100.0% |
| JVC ADVANCED MEDIA U.S.A. INC. | 100.0% |
| JVC Advanced Media EUROPE GmbH | 100.0% |
| JVC Advanced Media (Tianjin) Co., Ltd. | 100.0% |
| TAIYO YUDEN TRADING (THAILAND) CO., LTD | 91.5% |

EQUITY-METHOD AFFILIATES

| Domestic (Japan) | Ownership |
|-------------------------|------------------|
| START Lab Inc. | 49.9% |
| ELNA CO., LTD. | 26.5% |



Independent Auditor's Report

To the Board of Directors of TAIYO YUDEN CO., LTD.:

We have audited the accompanying consolidated financial statements of TAIYO YUDEN CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TAIYO YUDEN CO., LTD. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

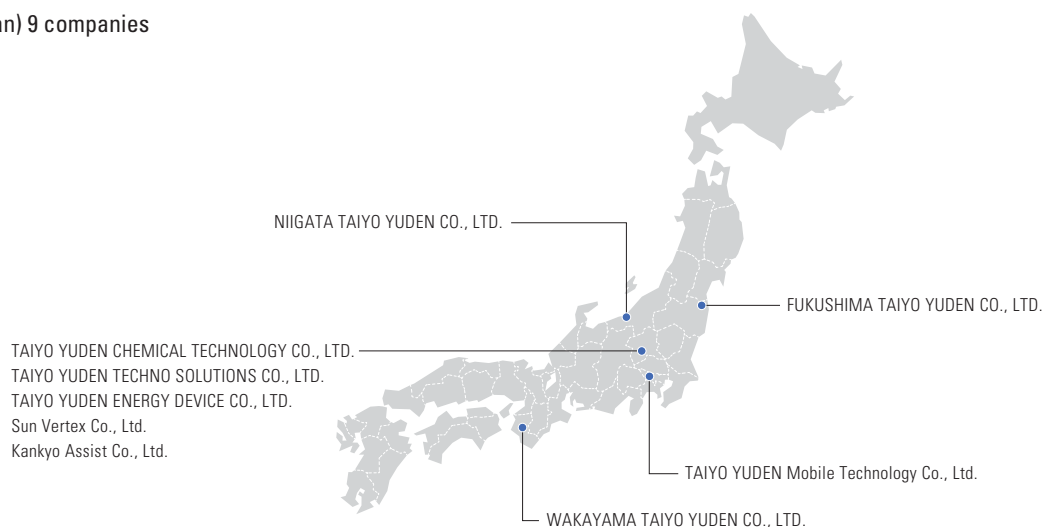
July 13, 2016
Tokyo, Japan

Corporate Data As of July 1, 2016

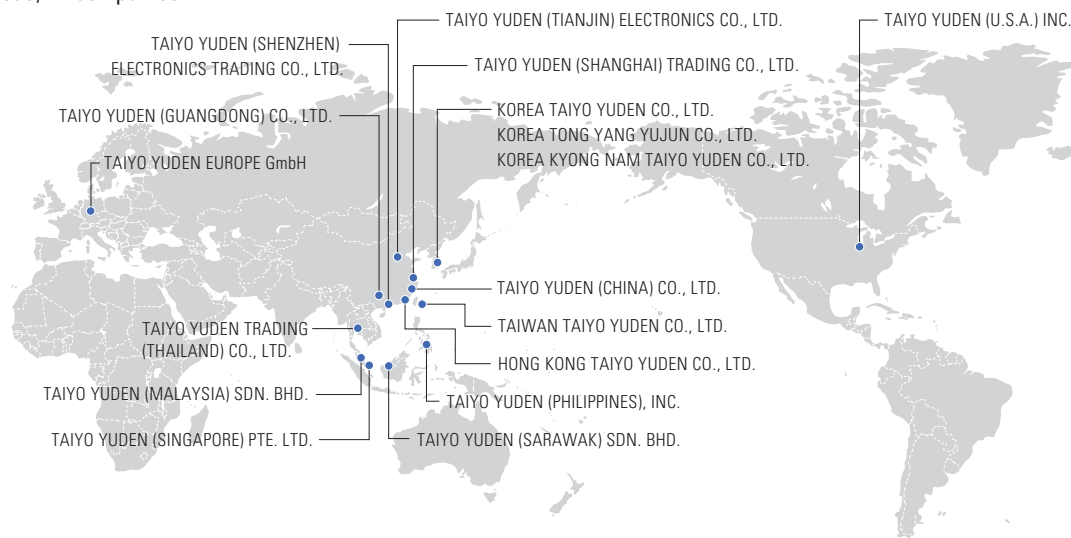
| | | | |
|---------------------------------------|---|---------------------|--|
| Company name | TAIYO YUDEN CO., LTD. | Paid-in capital | ¥23,557 million (as of March 31, 2016) |
| Head office | 6-16-20, Ueno, Taito-ku, Tokyo 110-0005, Japan Tel: +81-3-3832-0101 | Number of employees | 18,810 (Consolidated) 2,618 (Non-consolidated) (as of March 31, 2016) |
| President and Chief Executive Officer | Shoichi Tosaka | Main products | Ceramic capacitors, inductors, FBAR/SAW devices for mobile communications, functional modules, energy devices, etc. |
| Date of establishment | March 23, 1950 | | |
| URL | http://www.ty-top.com/ | | |

TAIYO YUDEN Group

(Japan) 9 companies



(Overseas) 17 companies

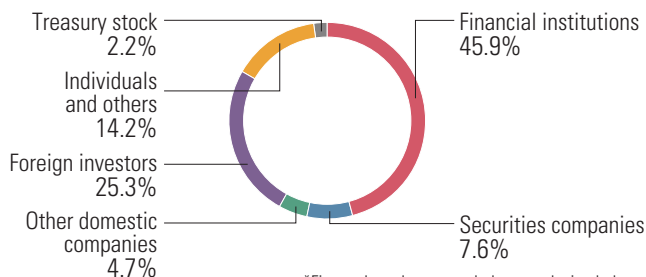


Stock Information As of March 31, 2016

Stock Information

| | |
|-------------------------|--|
| Common stock | Authorized: 300,000,000 |
| | Issued: 120,481,395 |
| | (Including 2,664,538 shares of treasury stock) |
| Stock exchange listing: | First section of Tokyo Stock Exchange |
| Securities code: | 6976 |
| Unit of trading: | 100 shares |
| Number of shareholders: | 15,520 |

Composition of Shareholders



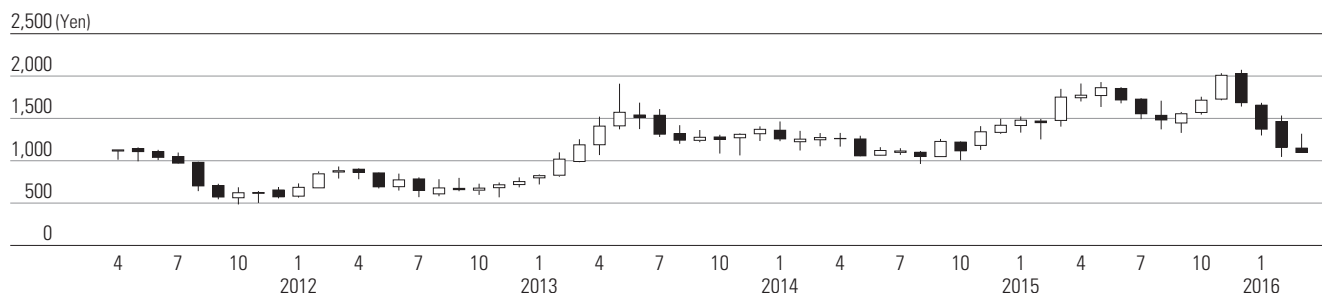
Major Shareholders

| Name | Number of shares (hundreds) | Voting rights (%) |
|---|-----------------------------|-------------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 203,592 | 17.29 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 87,763 | 7.45 |
| Sumitomo Mitsui Banking Corporation | 40,000 | 3.39 |
| Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account) | 36,356 | 3.08 |
| The Iyo Bank, Ltd. | 30,001 | 2.54 |
| BNP Paribas Securities (Japan) Ltd. | 24,000 | 2.03 |
| Sato Traffic Orphan Welfare Fund | 19,166 | 1.62 |
| CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW | 18,994 | 1.61 |
| Goldman Sachs Japan Co., Ltd. | 17,067 | 1.44 |
| Nippon Life Insurance Company | 16,664 | 1.41 |

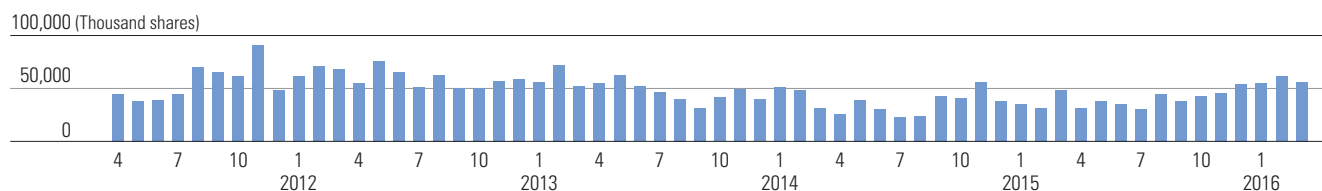
Notes 1. The Company holds 2,664,538 shares of treasury stock; however, this is excluded from the above-mentioned major shareholders.
2. The figures in this table are rounded down.

Stock Price/Trading Volume

Stock price



Trading volume



TAIYO YUDEN's History

1950s

1950.03

TAIYO YUDEN CO., LTD. was established

Founder Hikohachi Sato and the first office in Chiyoda Ward, Tokyo



1950.09

Sales of Rutilcon, barium titanate ceramic capacitors, began



1954.09

Production of Ferrit Cores, small ferrite cores, began

1960s

1964.09

Established the technical research laboratory

1965

Sales of inductors using in-house ferrite cores began



1967.05

Established our first overseas subsidiary TAIWAN TAIYO YUDEN CO., LTD. in Taipei

1970s

1970.03

Listed on the Second Section of the Tokyo Stock Exchange. In 1973, moved to the First Section.

1976.07

The world's first sales of axial leaded ceramic capacitors began



1977.04

Sales of axial leaded inductors began

1977.10

Developed world's first tubular chip type ceramic capacitors

1980s

1984.07

The world's first sales of nickel electrode high-capacitance multilayer ceramic capacitors began



1986.06

Established the EMC Center

1988.09

Announced the release of the world's first recordable CD-R compact disks



1990s

1998.06

Sales of the LB Series of wire-wound chip inductors for power circuits began

1998.11

Established the R&D Center



2000s

2000

Established four production bases abroad simultaneously

2001.04

Acquired the world's first Bluetooth® standard version 1.1 qualification for Bluetooth® full modules

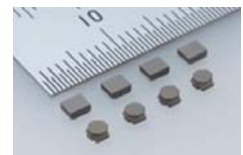
2010s

2010.03

Acquired TAIYO YUDEN Mobile Technology Co., Ltd.

2012.05

Sales of MCOIL™, metal power inductors, began



2014.09

Sales of 008004 size multilayer ceramic capacitors began



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