

GROWING WITH SOCIETY TOWARD NEW IoT ERA

Integrated Report

**TAIYO YUDEN Report
2018**

TAIYO YUDEN

CONTENTS

Editorial Policy

From the fiscal 2018 report, TAIYO YUDEN has added information of a non-financial nature—centered on the resolution of social issues through its businesses and its ESG (environmental, social and governance) initiatives—to the conventional annual report content and published an integrated report. We will be delighted if, through this report, all our stakeholders gain a deeper understanding about the Group that upholds its vision to “be an excellent Company that enjoys the trust and highest regard of its customers.”

Scope of Report

This report covers (as of March 31, 2018) 27 companies, comprising the Company, 10 domestic subsidiaries and 16 overseas subsidiaries.

Reference Guidelines

For editing purposes, reference was made to the International Integrated Reporting Framework recommended by the International Integrated Reporting Council (IIRC) and the Guidance for Collaborative Value Creation provided by the Ministry of Economy, Trade and Industry. For ESG-related information, we referred to the Ministry of the Environment's Environmental Reporting Guidelines (2012 version). We also refer to GRI guidelines and publish environment-related indicators.

Notes

- Period covered by this report: From April 1, 2017 to March 31, 2018. 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 2018,” for example, has been shortened to “2018.”
- 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 Integrated Report are correct as of June 29, 2018.

Disclaimer

This Integrated 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.

Management Philosophy/TAIYO YUDEN Vision

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President Shoichi Tosaka provides explanations of the business strategies formulated in response to the environmental changes and changes that TAIYO YUDEN is facing in the electronic components industry, and of the creation of social value through the Company's business activities.



21 Special feature Growth strategies for the IoT era

Ahead of the full-scale arrival of the IoT era, we offer an explanation of the Company's growth strategy, which is centered on markets where an explosive increase in demand for capacitors can be expected, such as the automobile, industrial equipment and power equipment markets.



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Management Philosophy/TAIYO YUDEN Vision

Management Philosophy

Employee Well-being Betterment of Local Communities Responsibility to Provide Returns to Shareholders

Since its founding in 1950, TAIYO YUDEN has built a foundation for growth by working to develop and mass produce ceramic capacitors and other products that meet the most current needs of our customers and the markets we serve based on our corporate philosophy of conducting every step “from the research and development of materials to product commercialization.” Currently, we are deploying our research, development, production, and supply of capacitors, inductors, functional modules, and FBAR/SAW devices globally, thereby supporting the growth of the IT and electronics industries from the field of high-quality, sophisticated electronic components.

In order to realize the TAIYO YUDEN Management Philosophy, we must continue to reliably deliver products with unquestionable quality to our customers around the world and ensure the perpetual, steady growth of the company. TAIYO YUDEN aims not only to enhance economical value but also to heighten social value by fulfilling our social responsibilities in response to the demands and expectations from our stakeholders. We are also committed to undertaking activities aimed at the promotion of labor and human rights, health and safety, environment conservation, and ethics, as well as product safety and quality.

Going forward, we will continue to further strengthen our bonds with all of our stakeholders as we aim to become a trusted partner.

TAIYO YUDEN Vision

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

Supplying Passive Components in Support of Greater Electronics Use

Of the different types of electronic components, the TAIYO YUDEN Group is particularly focused on supplying capacitors, inductors, and other passive components to a wide range of fields, including communication equipment, thereby supporting the greater use of electronics around the world.

■ TAIYO YUDEN Main Products
➔ p.26 At a Glance



Communication equipment

- Smartphones
- Mobile phones



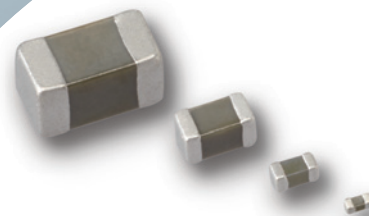
Information equipment

- Tablet devices
- PCs



Consumer products

- Flat-screen TVs
- Digital cameras
- Game machines

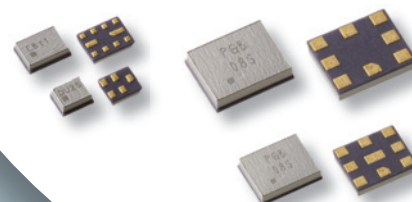


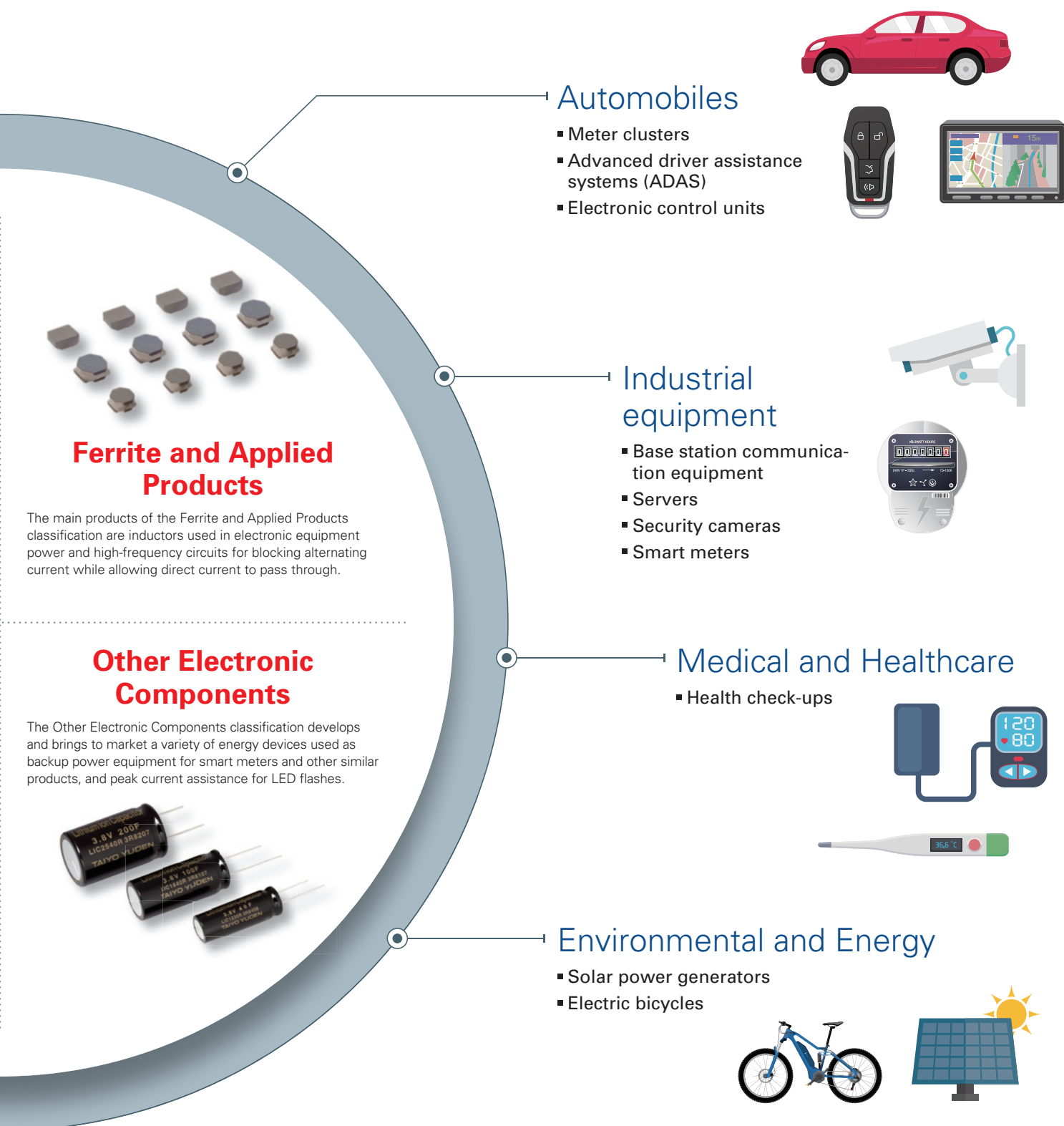
Capacitors

Capacitors are used in a wide variety of electronic equipment to temporarily store electricity and remove electronic noise. TAIYO YUDEN excels in producing leading-edge, highly-reliable multilayer ceramic capacitors which are best suited to cutting-edge electronic devices including smartphones and automobiles, and large numbers of multilayer ceramic capacitors are loaded into such devices.

Integrated Modules & Devices

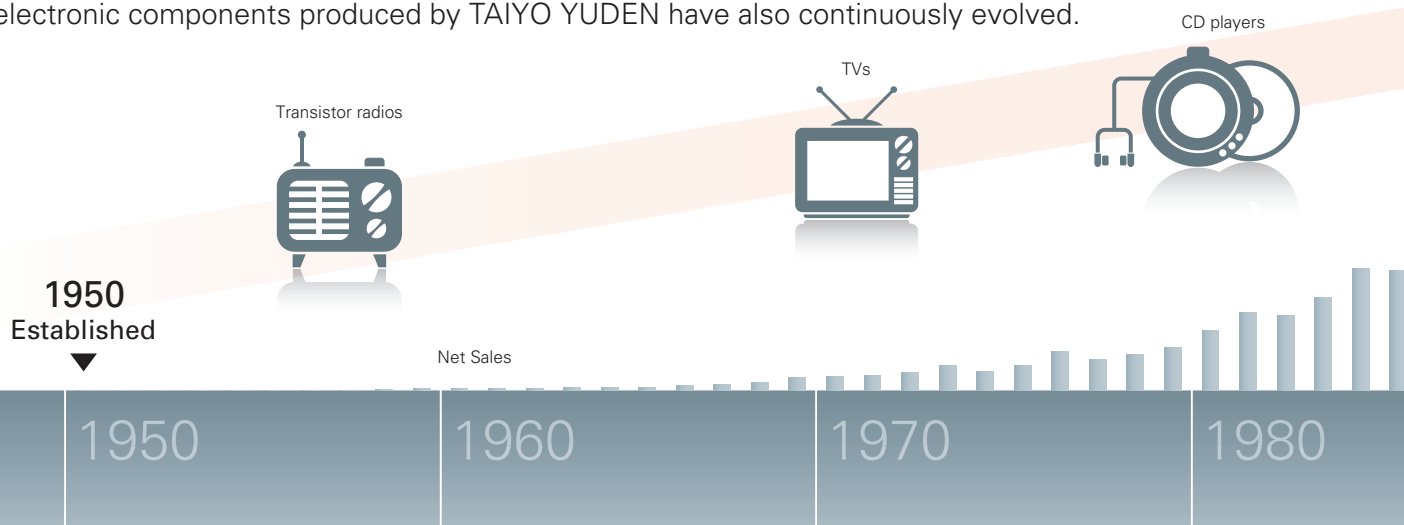
The Integrated Modules & Devices classification's main products are FBAR/SAW devices for mobile communications and power supply modules. The FBAR/SAW devices are used primarily in smartphones to enable high-speed data communications and high-quality voice communications.





Evolving Together With the Greater Use of Electronics Around the World

In step with the development of radios, televisions, personal computers, mobile phones, LCD televisions, smartphones, automobiles, and other types of new electronic equipment, the electronic components produced by TAIYO YUDEN have also continuously evolved.



Sept. 1950

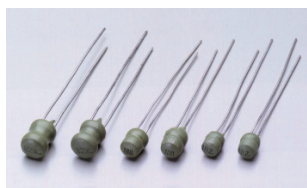
Sales of Rutilcon, barium titanate ceramic capacitors, began



Rutilcon (HiK series)

Sept. 1954

Production of Ferrit Cores, small ferrite cores, began



Ferrit Cores, small ferrite cores, began

Sept. 1964

Established the technical research laboratory

May 1967
Established our first overseas subsidiary TAIWAN TAIYO YUDEN CO., LTD. in Taipei



TAIWAN TAIYO YUDEN at the time of establishment

Mar. 1970

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

July 1976

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



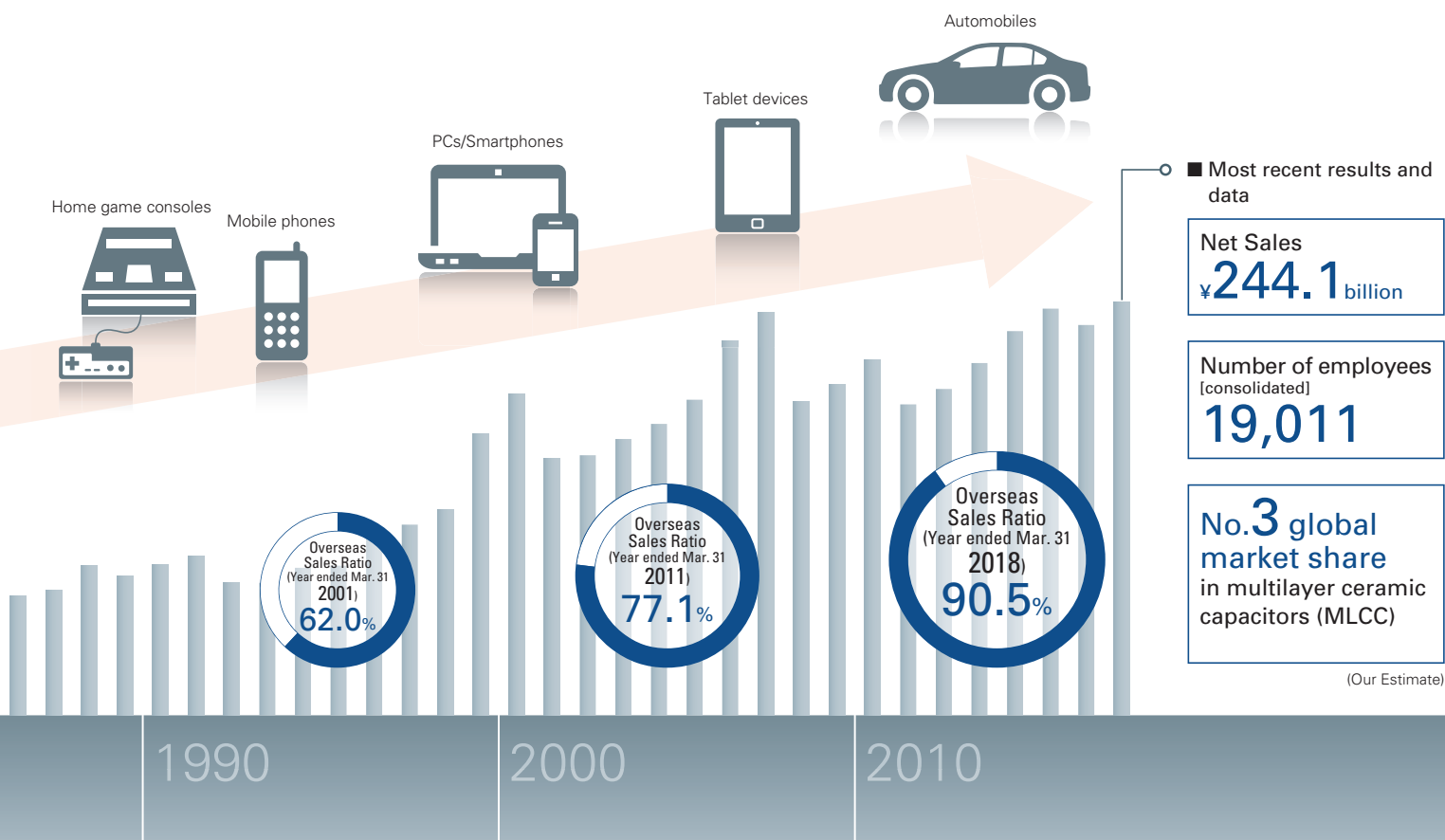
Axial leaded ceramic capacitors

Oct. 1977

Developed world's first tubular chip type ceramic capacitors

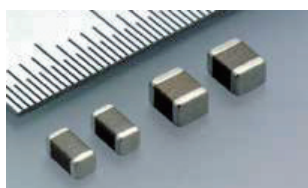


Tubular chip type ceramic capacitors



July 1984

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



Nickel-electrode high-capacitance multilayer ceramic capacitors [3216] type and [3225] type

Sept. 1988

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



DVD-R, BD-R, CD-R

1999-2000

Established four production bases abroad simultaneously



TAIYO YUDEN (SARAWAK)

Apr. 2001

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

Mar. 2010

Acquired TAIYO YUDEN Mobile Technology Co., Ltd.



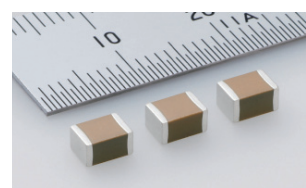
TAIYO YUDEN Mobile Technology Co., Ltd.

Apr. 2018

ELNA CO., LTD. becomes a subsidiary

May 2018

Commercialized the world's first multilayer ceramic capacitors with a capacitance of 1,000μF



4532 size (4.5mm×3.2mm) small high-capacitance multilayer ceramic capacitors with 1,000 μF capacitance

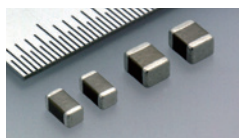
Leveraging "World-First" Technologies for Global Sales Expansion

With a focus on capacitors, the TAIYO YUDEN Group has developed various world-first products that it produces and sells around the world.

Strength

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.



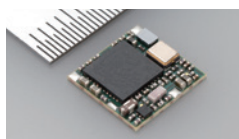
1984

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



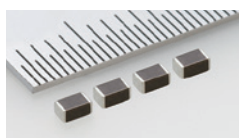
2004

Achieved the world's best inductance value for high-frequency, 0603 size multilayer chip inductors



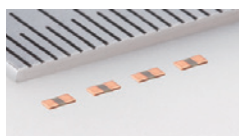
2006

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



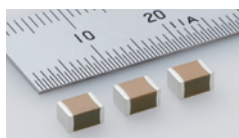
2013

Commercialized the world's first multilayer metal power inductor



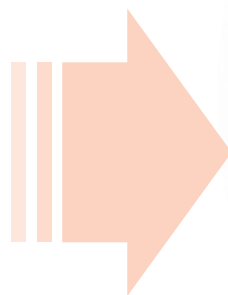
2014

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



2018

Achieved the world's first 1,000 µF multilayer ceramic capacitor



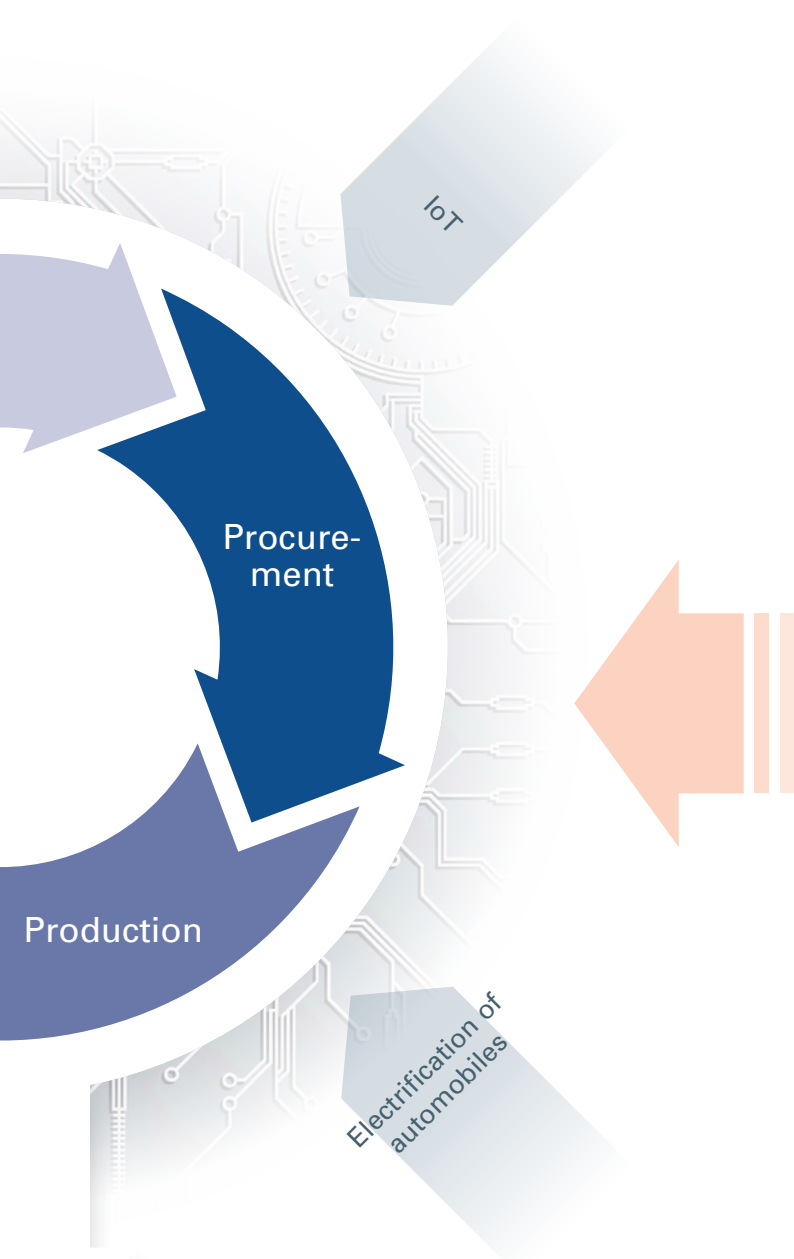
The fourth industrial revolution

Digitalization of home appliances

R&D

Sales/
Marketing

Value created through business

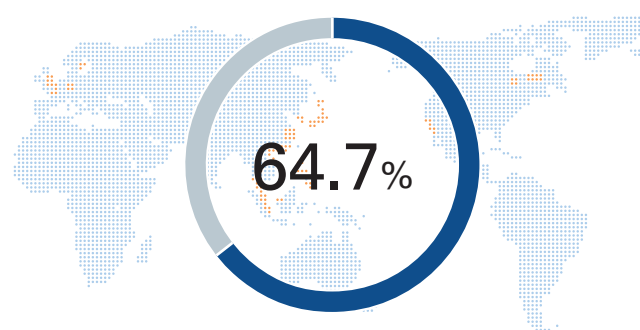


Uniqueness

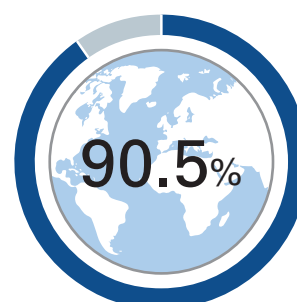
Global Production and Extensive Sales Network

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 15 countries and regions worldwide, including Japan. In particular, regarding its production activities, the Company is stepping up the development of high-end products abroad to make maximum use of its overseas bases as it has put into place the optimal global production network of bases in Japan and around the world.

■ Ratio of overseas production
(Year ended March 31, 2018)

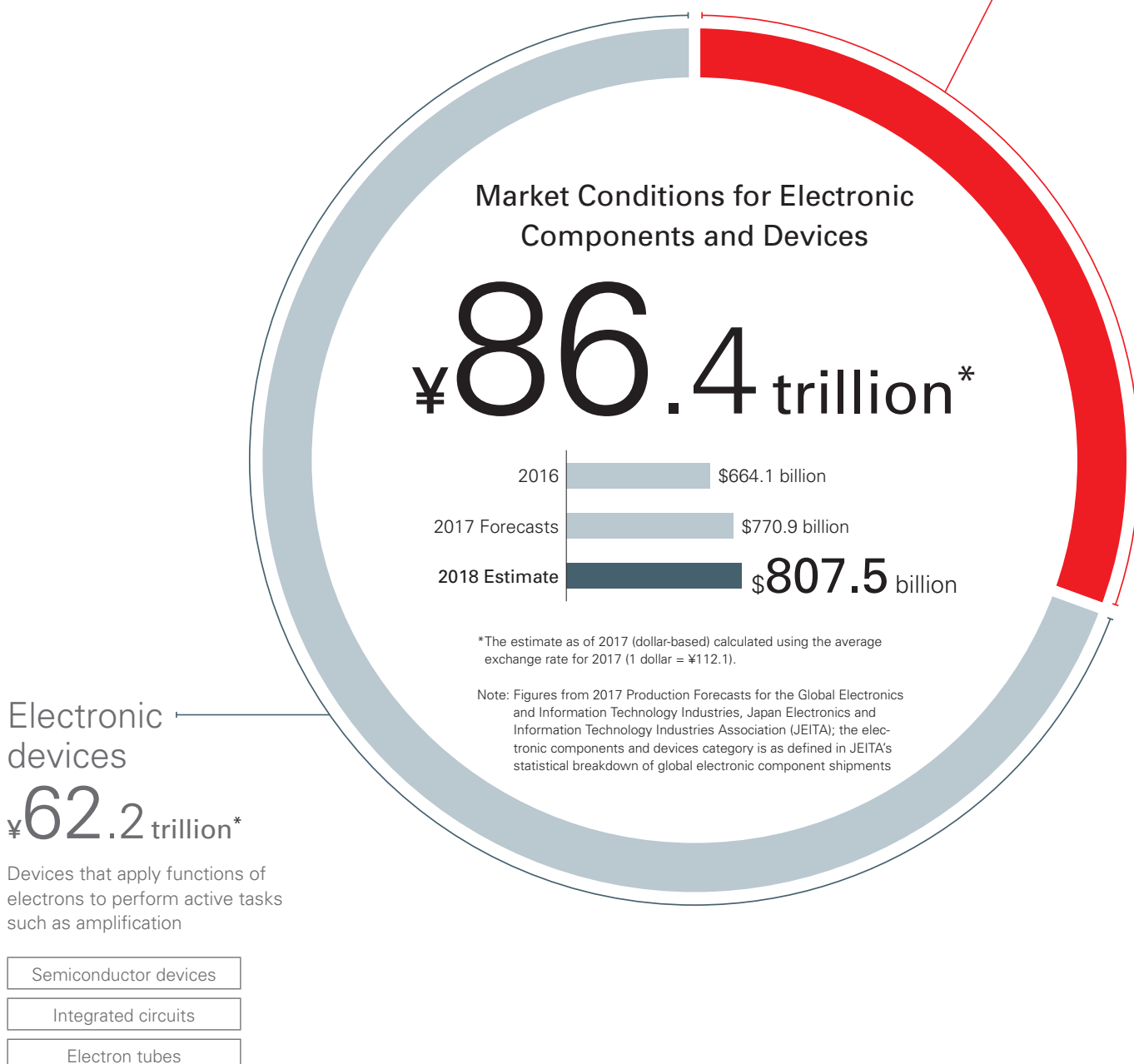


■ Ratio of overseas sales to net sales
(Year ended March 31, 2018)



Continued Growth in Demand as a Result of Greater Electronics Use

In addition to the proliferation of smartphones, the greater use of electronics in automobiles and other products that had remained free of electronics until now continues to drive the demand for electronic components.



General electronic components

¥24.2trillion*

Components that work with and supplement electronic devices

Passive components

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

Capacitors

Inductors

Resistors

Transformers

Others

Capacitor market size



Source: Annual of Electronic Devices & Components 2018, Chunichisha Co., Ltd.

Connecting components

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

Switches

Connectors

Others

Transducers

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

Electro-acoustic transducers

Compact motors

Others

Other electronic components

High-frequency components

Mobile communication devices (FBAR/SAW)

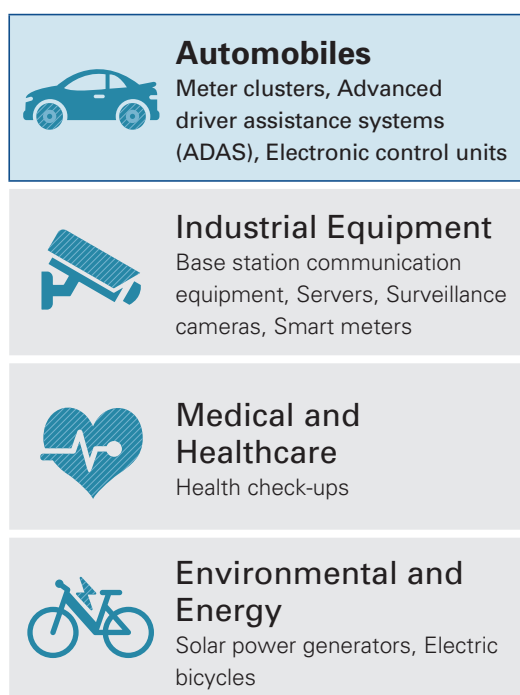
Power-supply components

■ TAIYO YUDEN's business domains

Promoting Growth Strategies Aimed at the Arrival of the IoT Era

Strategies in Focus Markets

■ Product for Focus Markets



FOCUS Computerization and electrification are the key to the automotive electronics market
 → p.21 Special Feature

Infotainment:
1.6 times

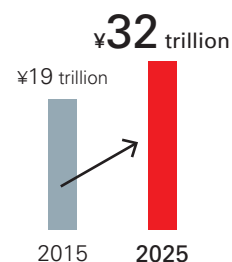
Body:
1.6 times



Safety:
1.8 times

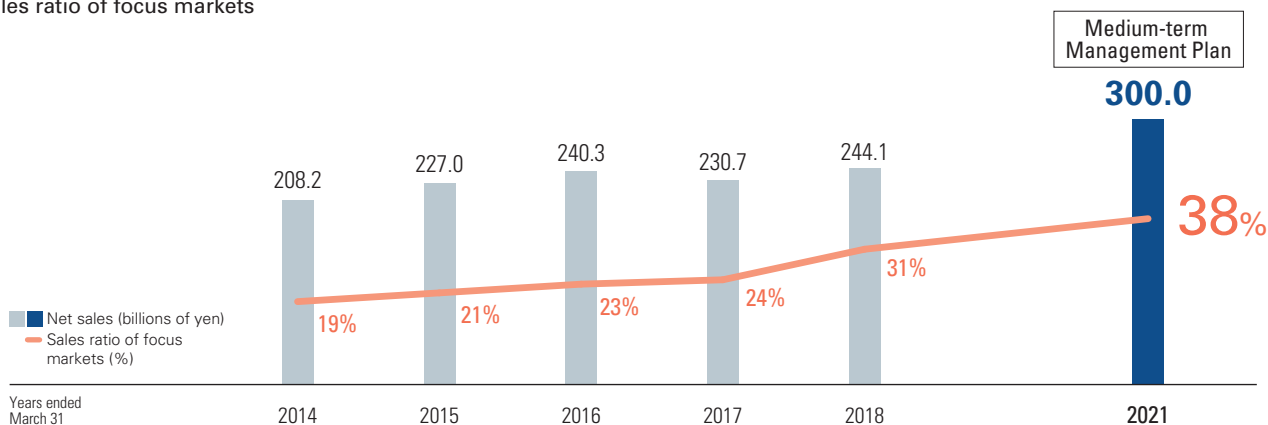
Power-train:
1.7 times

■ Automotive Electronics Market
 (TAIYO YUDEN estimates)



Increasing demand for large-size, high-voltage-resistant, and highly-reliable components

■ Sales ratio of focus markets

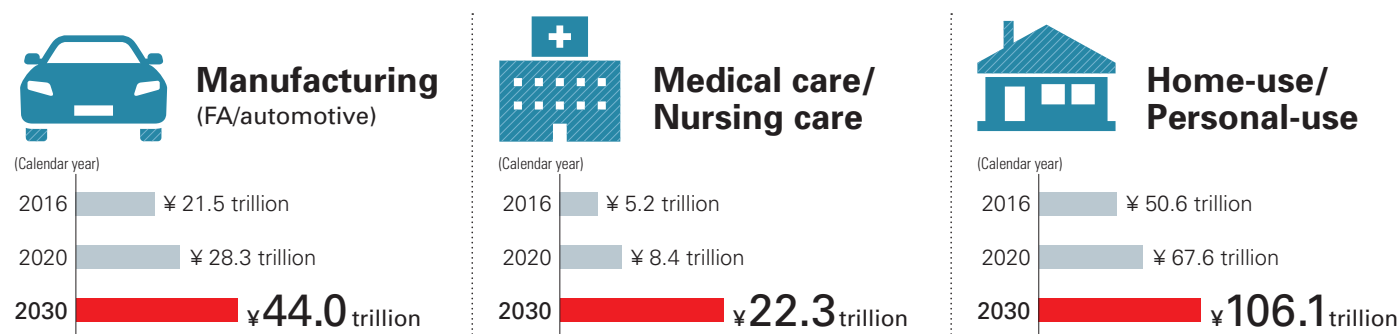


The TAIYO YUDEN Group is strengthening its marketing activities and enhancing its production capacity for the electronic components market, on which explosive growth in demand is anticipated for automotive electronics and other devices.

Enhanced Production Capacity for Addressing a Broader Range of Needs

The value of the global CPS* and IoT market will grow to approximately **¥400 trillion** by 2030

Manufacturing, Medical care/Nursing care, and Home-use/Personal-use will all more than double compared with 2016

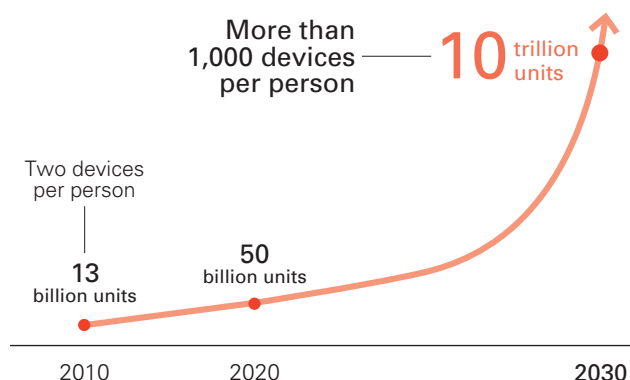


*CPS: Cyber-physical System. A service or system that collects various types of data via a sensor network, for example, which it then utilizes and analyzes as a means of realizing an efficient, advanced society.

Source: Japan Electronics and Information Technology Industries Association (JEITA) "Demand Value Forecast by Application Field on the CPS (Cyber-physical System and IoT (Internet of Things) Market (Global Market)"

Enhancing Productivity in Preparation for the Era of 10 Trillion Devices

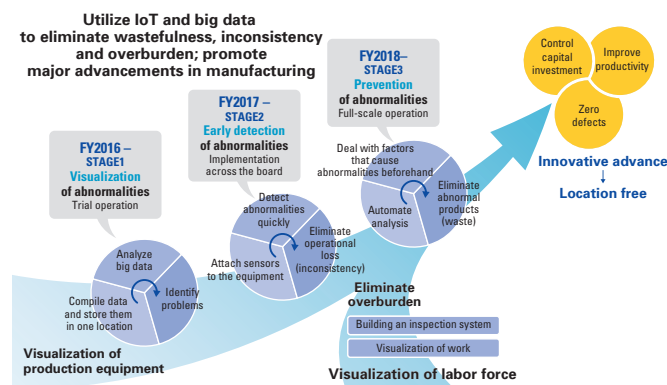
■ Number of devices connected to the Internet



As the IoT develops and connects every-"thing" around us to the internet, the number of internet-connected devices in use is expected to balloon from 13 billion in 2010 to 10 trillion by 2030.

*TAIYO YUDEN estimate based on Cisco IBSG forecasts

■ Smart.E project: Advancements in manufacturing



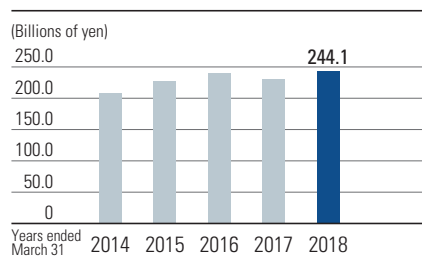
Along with this skyrocketing growth in internet-connected devices, the demand for electronic components is also anticipated to explode. In pursuit of expanded production volume and consistent quality, the TAIYO YUDEN Group is eliminating wastefulness, inconsistency and overburdening to reduce loss, and is promoting the "smart.E" project as a productivity enhancing measure designed to establish a production structure that can undertake this exponentially greater volume of production.

Financial and Non-financial Highlights


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

[Financial]

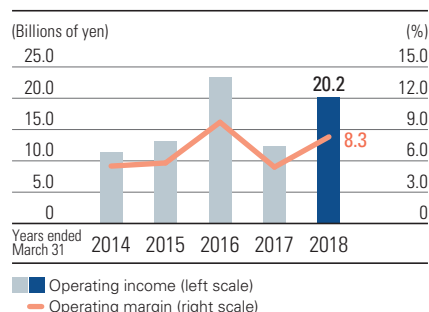
Net sales **¥244.1 billion**
5.8% up  (YoY)



Growth in communication equipment-related components, primarily those for smartphones, and steady growth in automobile and industrial equipment-related components, both of which are TAIYO YUDEN's focus markets, resulted in an uptrend in net sales.


Operating income **¥20.2 billion**
63.3% up 

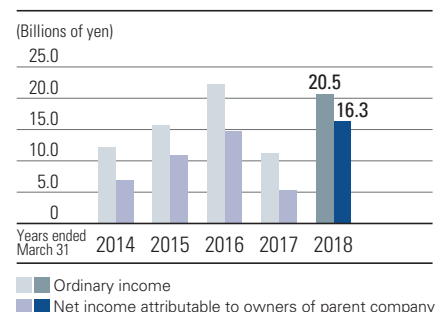
Operating margin **8.3%**
2.9pt up 



Despite ongoing initiatives to increase profitability, including improvements in production efficiency, both operating income and margin are in a state of fluctuation attributable to the impact of the exchange rate and other factors.

Ordinary income **¥20.5 billion**
83.5% up 

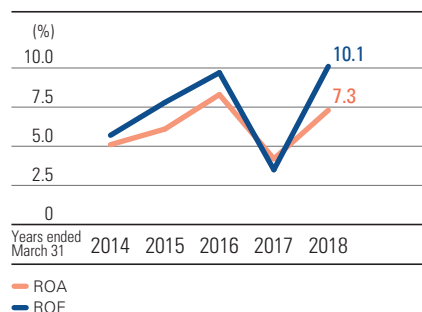
Net income attributable to owners of parent company **¥16.3 billion**
201.3% up 



Ordinary income has closely tracked fluctuations in operating income. Whereas the fiscal year ended in March 31, 2017 coincided with business structure improvement expenses, net income attributable to owners of parent company improved significantly because such expenses did not occur during the fiscal year ended in March 30, 2018.

ROE **10.1%**
6.6pt up 

ROA **7.3%**
3.1pt up 

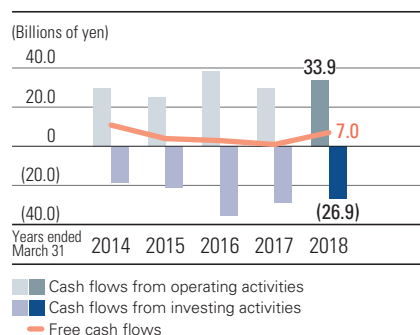


Having established a medium-term plan that continues to target an ROE of at least 10% by the fiscal year ending March 31, 2021, TAIYO YUDEN has been working to enhance profitability by expanding in the focus markets of automobiles and industrial equipment, and by undertaking productivity improvement activities.

Cash flows from operating activities **¥33.9 billion**

Cash flows from investing activities **¥(26.9) billion**

Free cash flows **¥7.0 billion**

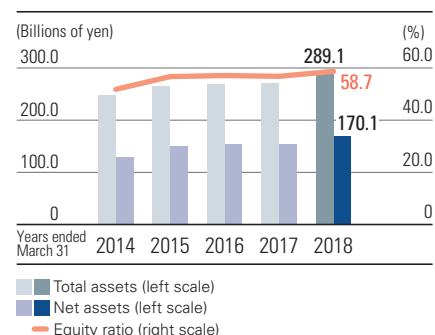


Cash flows from operating activities trended upwards as a result of higher earnings. Meanwhile, increases in expenditures attributable to property, plant, and equipment purchases stemming from capital investments have also led to continued investment cash flow outlays.

Total assets **¥289.1 billion**
6.6% up 

Net assets **¥170.1 billion**
10.4% up 

Equity ratio **58.7%**
1.9pt up 

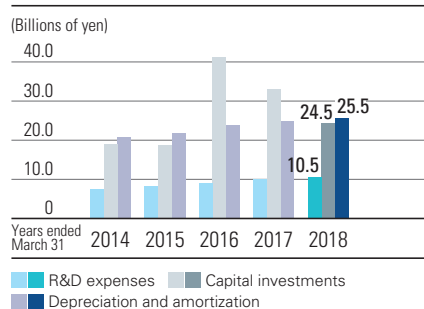


Given the strong demand, the scale continues to expand, leading to growth in total assets. Meanwhile, holding down increases in interest-bearing debt has resulted in an equity ratio that remains in the upper 50% range.

R&D expenses ¥10.5 billion
5.7% up ↗

Capital investments ¥24.5 billion
26.0% down ↘

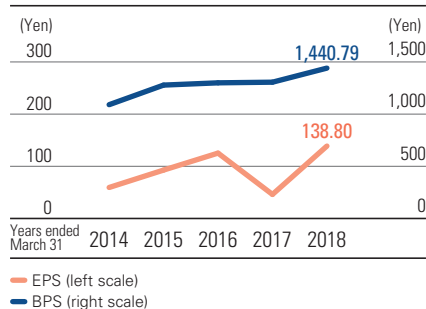
Depreciation and amortization ¥25.5 billion
2.7% up ↗



Faced with the imminent arrival of 5G networks, as well as greater automotive-related demand, TAIYO YUDEN continues to make aggressive capital investments, while at the same time increasing R&D expenses aimed at energizing new business and new product development.

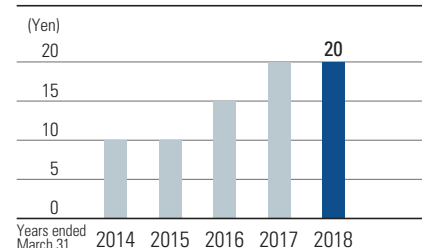
BPS ¥1,440.79

EPS ¥138.80



As a result of the upward trends in both net income attributable to the owners of parent company and net assets, both BPS and EPS are trending upwards.

Cash dividends ¥20

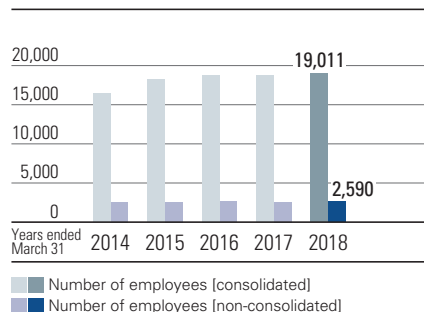


Having stated "Responsibility to Provide Returns to Shareholders" as one of our Management Philosophies, TAIYO YUDEN's medium-term business plan targets a more robust earnings structure and improved financial structure, while at the same time targeting a total return ratio of 30%, including repurchased shares.

[Non-financial]

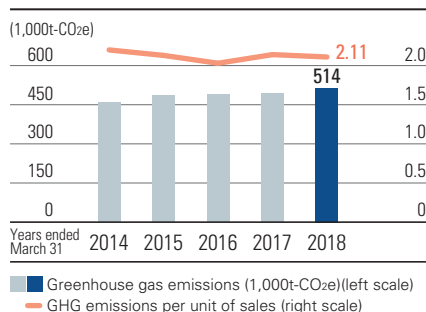
Number of employees [consolidated] 19,011
1.4% up ↗

Number of employees [non-consolidated] 2,590
0.2% up ↗



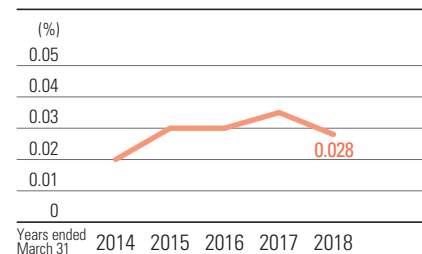
The impact of increasing production capacity has led to an increase in the number of employees. However, promoting greater production efficiency has kept this increase in the number of employees minimal compared with the growth in capacity.

Greenhouse gas emissions 514 t-CO₂e
4.3% up ↗



Increases in productivity has led to a sharp increase in greenhouse gas emissions. However, further increasing production efficiency by revising production processes, primarily for our main products, has led to an improvement in emissions per unit of sale.

Incidence rate of injuries and illness 0.028%
0.007pt down ↘



As a result of conducting risk assessments for all work sites and promoting measures to prevent the occurrence of work-related accidents and work-related illnesses, the medium-term plan target of less than 0.040% for the incidence rate of injuries and illness continues to be met.

Message from the President



S. Tosaka

Shoichi Tosaka
President and Chief Executive Officer

We will accelerate the pace of implementing measures aimed at positioning TAIYO YUDEN to take the next dramatic leap forward while taking all necessary steps needed to respond the growing demand for electronic components.

Since its founding in 1950, TAIYO YUDEN has engaged in the development, manufacture, and supply of electronic components used in a wide variety of electronic equipment.

The Company's electronic components, especially its capacitors, are essential to the manufacture of electronic equipment, including smartphones and PCs. Our technology solution provide the underlying strength for the continued technology evolution in the computerization of automobiles, which continues to gather pace, and the imminent emergence of an AI and IoT society. This makes our electronic components increasingly important across all these markets. Against this backdrop, TAIYO YUDEN will continue to engage in the global volume supply of leading-edge, high-quality electronic components that address the needs of customers. In this manner, we will help in the realization of an affluent society while both creating social value and securing the Company's sustainable growth.

TAIYO YUDEN's most recent financial results show consolidated sales at a record level climbing 5.8% compared to the previous fiscal year to ¥244.1 billion in the fiscal year ended March 31, 2018. From a profit perspective, operating income jumped 63.3%, to ¥20.2 billion and net income attributable to owners of parent company surged 201.3%, to ¥16.3 billion year on year. Of particular note, sales of capacitors were strong overall, growing across the automotive and industrial equipment as well as other sectors, increasing by a substantial 21.4% from the previous fiscal year.

TAIYO YUDEN expects demand to again expand in the fiscal year ending March 31, 2019, primarily in the automotive and industrial equipment market sectors. On this basis, consolidated sales are forecast to increase 4.5% year on year, to ¥255 billion for a second consecutive year of record-high revenue. While operating income is expected to reach ¥21 billion, an improvement of 3.8% year on year, other expenses are anticipated to exceed other income. Accounting for these factors, net income attributable to owners of parent company is forecast to decline 20.5%, to ¥13 billion. (Full fiscal year forecasts upwardly revised on August 6, 2018.)

Under these circumstances, TAIYO YUDEN plans to undertake capital investments totaling ¥43 billion in the current fiscal year. This includes the construction of a new capacitor plant located in Japan aimed at addressing the forecast explosive demand for electronic components. As the IoT era firmly takes hold from 2020 and beyond, we will take all necessary steps to prepare for the next dramatic leap forward.

Changes in the Business Environment

With the full-scale start of an IoT era imminent, conditions are far removed from the IT bubble period immediately prior to and after the year 2000. At that time, mobile phones were essentially the only device that drove demand for electronic components. Today, the connection of a wide variety of equipment to the Internet is fueling advances in IoT across an increasingly broad area while also accommodating dramatic increases in the volume of data. A prime example is the automobile and related technologies in that market sector.

We are seeing continued progress in the computerization of cars across the entire industry. This trend is reinforced by commitments at the national level to promote the development of electric vehicles and automatic operating systems. This is especially the case for Europe, where environmental regulations are extremely stringent, and China, which continues to

implement public policies at a comparatively fast pace. As a result, electronic components are being used for a wide variety of applications in the automotive field. In addition, IoT is also advancing quickly in prominence in the industrial equipment field. In addition to rapid developments in Industry 4.0 and other trends, activities are expected to extend strongly in the health and nursing care fields.

We anticipate these trends will accelerate demand for electronic components at an extreme pace around 2020 with the full-scale introduction of 5G (fifth generation mobile communications). As a result, demand for data centers that are capable of collecting, storing, and analyzing data is expected to expand at a rapid pace. When you combine each of these factors, the electronic component sector will without a doubt enter a period of explosive demand growth.

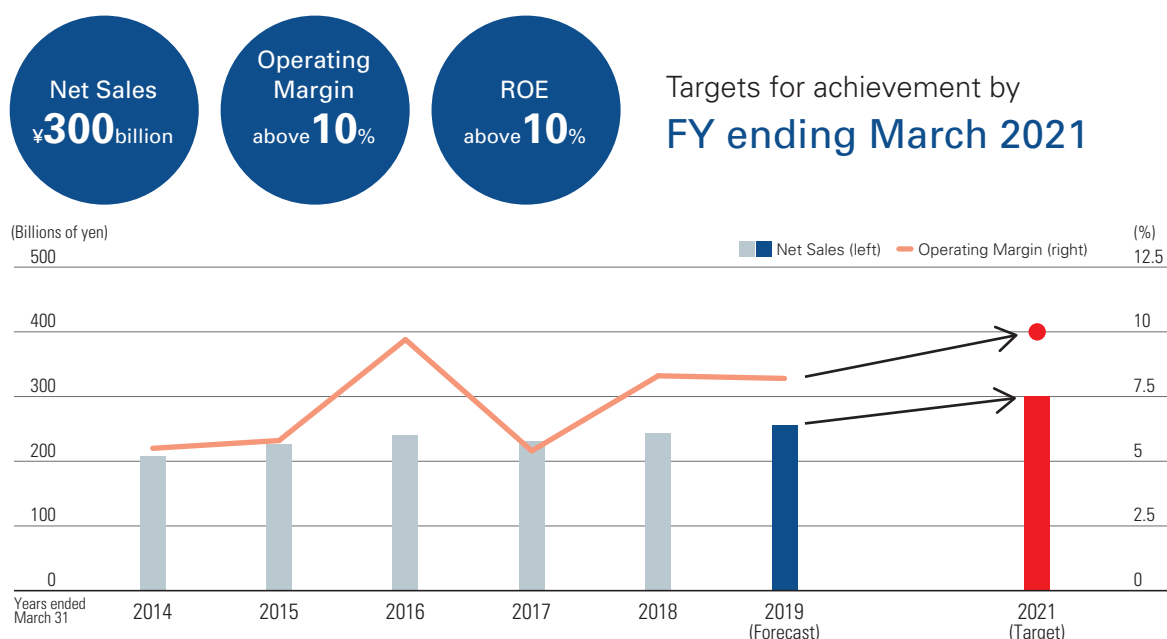
Medium-term Management Plan

In addition to this projected growth in electronic component demand, we are witnessing improvements in our traditional business structure that is dependent upon smartphones. In light of these developments and under our Medium-term Management Plan, we are targeting net sales of ¥300 billion, an operating margin of 10% or more, and ROE of 10% or more by the fiscal year ending March 31, 2021. In order to achieve these targets, we will engage in three key initiatives, which are (1) expanding focus markets, (2) promoting further advancements in manufacturing, and (3) shifting to aggressive capital investment.

To address our aim of expanding focus markets, we will look to extend the composition of automobiles and industrial equipment sales as a percent of our total sales from 31% in the

fiscal year ended March 31, 2018 to 38% by the fiscal year ending March 31, 2021. For automobiles alone, the goal is to increase the composition of sales from 9% to 15% over the aforementioned period.

Turning to efforts aimed at promoting further advancements in manufacturing, we will put in place a production framework that is capable of efficiently undertaking higher levels of volume production on a location free basis under TAIYO YUDEN's productivity improvement initiative, the smart.E Project. This project was launched in the fiscal year ended March 31, 2017. Finally, we will further ramp up aggressive capital investments and dramatically increase production capacity focusing mainly on capacitors.



Cultivating Focus Markets

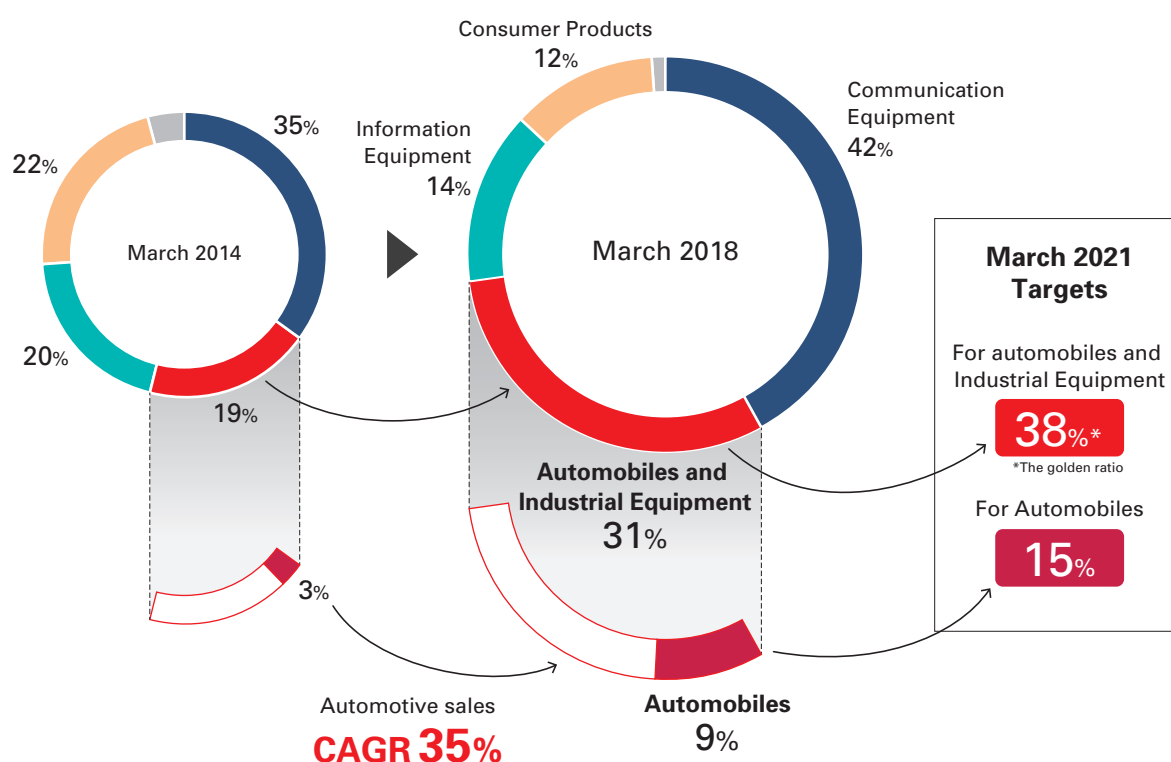
Among focus markets under its Medium-term Management Plan, TAIYO YUDEN places the utmost importance on the automobile sector where demand for electronic components has expanded rapidly over recent years. Based on the Company's estimates, the average electric vehicle uses 14,000 electronic components compared with 6,300 for a middle-class gasoline-powered automobile. Of this total, roughly one half are multilayer ceramic capacitors. Notwithstanding our position as a generic manufacturer in the automotive market, our entry coincided with a period of high demand for electronic components. This largely reflects developments in safety performance and the shift toward electric vehicles. As a result, we continue to enjoy an average annual sales growth rate of 35% in the automotive market, which far outstrips the rate of market expansion.

In the industrial equipment market, demand for highly reliable, high capacitance, high voltage resistant electronic components is rising sharply. In the environmental and energy market as well as the medical and healthcare market, we are targeting opportunities in high-value-added businesses by putting forward solution proposals that bring together the Company's elemental technologies and software.

The automotive and industrial equipment markets are little affected by seasonal factors and cycles of equipment demand. Sales growth in each of these fields is helping to stabilize the Company's production facility operations. To date, TAIYO YUDEN's operating margin has generally hovered around 5% plus or minus 5%. In favorable years, our operating margin has ballooned to nearly 10% owing mainly to production trends for such devices as mobile and smartphones and movements in foreign currency exchange rates. As conditions turn the other way, we have seen sudden drops in profit which has led to an unstable earnings structure.

However, as automotive- and industrial equipment-related sales make up a higher percentage of total sales, we are securing a certain level of profit even in years when external conditions deteriorate. This will drive a shift toward a corporate structure that is capable of continuous growth. Looking ahead, we will improve our earnings structure and transition to a company that maintains a stable operating margin of 10% plus or minus 5% over the medium term.

■ Sales Composition by Market Sector



Advancements in Manufacturing

TAIYO YUDEN is now in the third year of its smart.E Project that began in the fiscal year ended March 31, 2017. This project is designed to “promote advancements in manufacturing,” an initiative under the Company’s Medium-term Management Plan. Under this project, we are working to improve yields by eliminating inconsistencies in equipment and personnel. At the same time, we are endeavoring to achieve the ultimate goal of zero defects by uncovering the reasons for faults and malfunction and implementing immediate and proper corrective actions.

As a part of efforts to visualize the labor force, we have been monitoring the behavior of operators across each operating process and worked to identify the reasons behind inconsistencies in operator productivity and the rate of defects. Armed with this information, we are encouraging operators to align their activities to the standards set by operators who continue to work at a high level. Coupled with efforts to uncover production equipment abnormalities at an early stage, these endeavors are projected to generate productivity improvements of around 30% compared with existing levels for certain processes.

Building on the results of efforts aimed at visualizing equipment and the labor force, we have initiated steps to

prevent abnormalities. By eliminating muda (wastefulness), mura (inconsistency), and muri (overburden) with respect to both equipment and the labor force, we are confident that we are steadily approaching our goal of zero defects. While the focus of the smart.E Project has to date been mainly in production bases in Japan, we are at the same time extending the project to overseas production bases. Our goal is to have a borderless production network.



A smart.E Project activity

Capital as well as Research and Development Investment

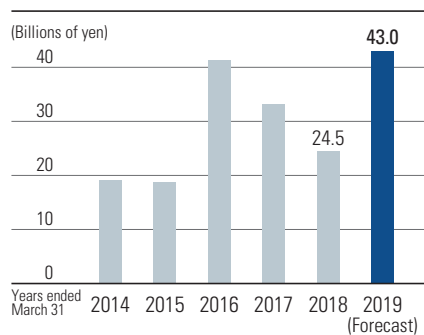
Turning to the third initiative under the Medium-term Management Plan, a shift to aggressive capital investment, TAIYO YUDEN has over the past three years undertaken expenditures totaling ¥100 billion. In a bid to further expand its business scale and address the projected explosive demand for electronic components, the Company will lift this expenditure to ¥150 billion over the next three years. Every effort will be made to continuously expand capacity.

Work on a new capacitor manufacturing facility at the Company’s subsidiary, NIIGATA TAIYO YUDEN CO., LTD., is scheduled for completion at the end of 2018. Over and above

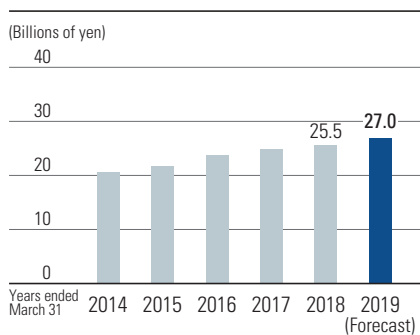
the aforementioned, we understand there is a need to strengthen our production network. This includes the construction of another plant facility. Pressed by ongoing advancements in manufacturing, our policy is to accelerate the pace of capital investment while minimizing losses and greatly improving productivity.

Meanwhile, we will maintain an aggressive approach toward R&D investment. In addition to the development of products including capacitors, inductors, and communication devices, we will focus on creating new businesses through solution proposals.

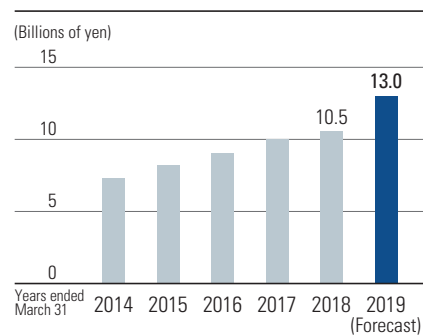
Capital investment



Depreciation and amortization



R&D expenses



“ We will engage vigorously in capital investments and dramatically improve our production capacity focusing on capacitors. ”



Strategies That Address Environmental, Social, and Governance (ESG) Concerns

TAIYO YUDEN is committed to fulfilling its management vision, “to be an excellent company that enjoys the trust and highest regard from its customers,” to help build an affluent society and resolve social challenge through the development and supply of smart products*.

The adoption of sustainability development goals (SDGs) by the United Nations and growing ESG investment by investors are just a few examples of society’s mounting expectation toward the corporate sector to engage in sustainable business activities that emphasize ESG concerns. TAIYO YUDEN is working to share throughout the Company future business opportunities and risks that touch on ESG concerns while addressing specified issues.

For example, we are endeavoring to contribute to the environment through our product strategy. Strongly recognizing that climate change will have a massive impact on the future, we are making every effort to reduce CO₂ emissions and energy consumption across our manufacturing process, as an important environmental issue, in a bid to help realize a zero carbon society. Furthermore, as a company that undertakes business

activities globally, we are aware of the importance of human rights as a core social concern. We closely monitor issues such as forced labor, child labor, working conditions, harassment, and discrimination, and pay the utmost respect to the right of all individuals in the conduct of our business activities worldwide.

* Smart products: Highly reliable and safe products that are energy efficient and do not employ hazardous materials.

SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD





“ We will clarify the ideal scenario for the Company a decade from now in order to develop our governance framework. ”

As far as governance is concerned, we recognize the critical need to clarify the ideal scenario for the Company five and 10 years down the road in order to ensure the proper development of the corporate governance function. After objectively analyzing any discrepancies between the current status of governance within the Company and the aforementioned ideal scenario, we must take steps to fill this gap. Improving governance as merely a formality makes little to no sense. Our goal is to develop an effective governance framework.

Further to this objective and in order to bolster global governance, we are putting in place a framework that is capable

of monitoring the status of our overseas operations, by reinforcing the audit of overseas subsidiaries.

From a succession planning perspective, TAIYO YUDEN will introduce an executive coaching program for candidates who the Company believes have the potential to lead in the future. Through this program, we will promote the development of the necessary skills for candidates to carry the Company forward, with a broader perspective and deeper insight.

Looking ahead, we will continue to bolster activities aimed at addressing ESG concerns.

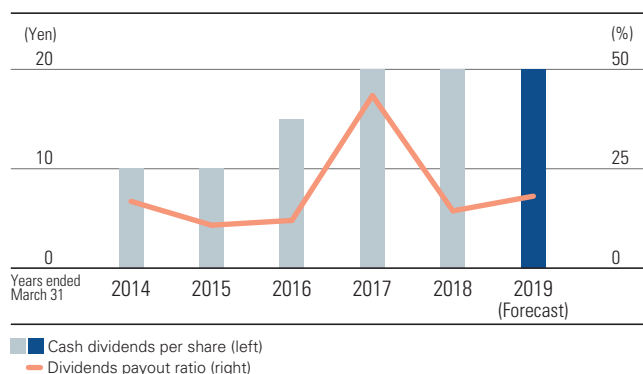
→ p.34 ESG Management System

Returning Profits to Shareholders

TAIYO YUDEN has positioned the “responsibility to provide returns to shareholders” as a key component of its management philosophy. As such, returning profits to shareholders is of particular importance to the company’s management group. Our policy is to target a total return ratio of 30% through such measures as the acquisition of treasury stock while building a stable and sustainable earnings structure and improving our financial foundation, which includes maintaining a positive net cash position.

TAIYO YUDEN is currently in a critical period and recognizes the need to invest for growth to prepare for the future. This reflects expanding demand for electronic components in line with the development of an IoT society. While a little time will be required before achieving a total return ratio of 30%, we will endeavor to return profits to shareholders on a stable basis in line with the target levels according to improvements in our cash position.

Return to shareholders

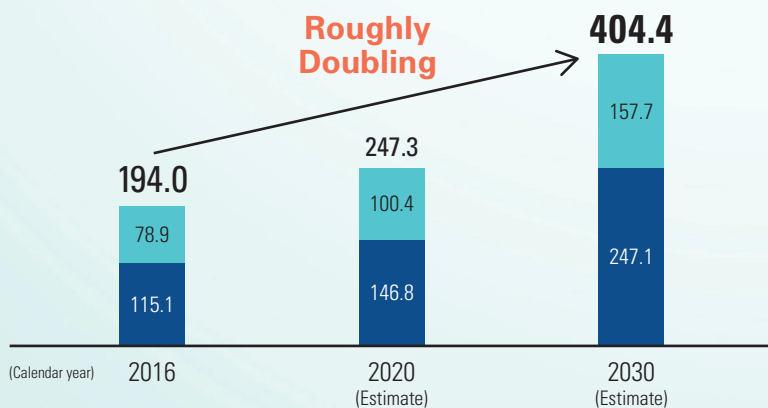




Growth Strategies for the IoT Era

The IoT era, in which almost everything is connected to the Internet, is nearly upon us. We expect to see a sharp increase in demand for our products in this era and accordingly remain focused on adapting to related trends.

■ Forecast for global demand in the CPS*/IoT market
(unit: ¥ trillion)



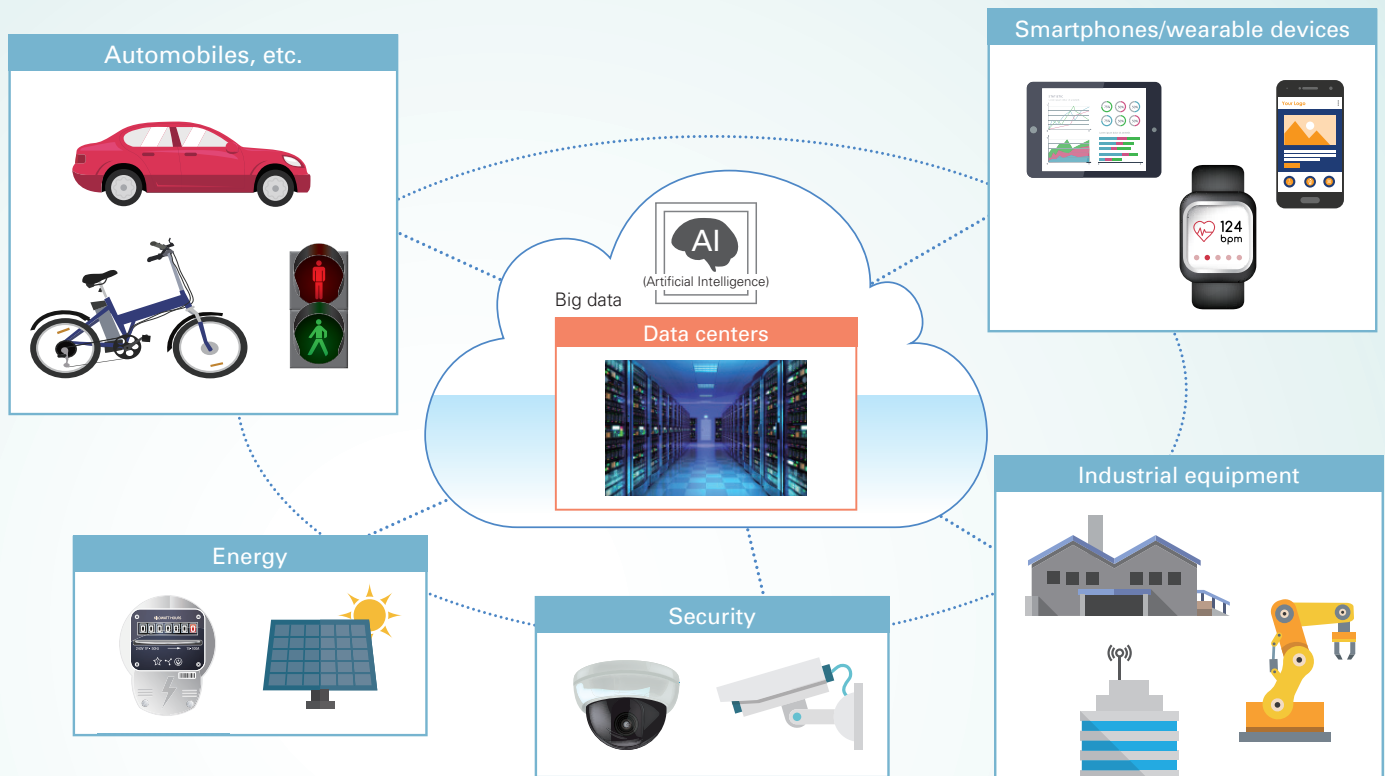
■ Solutions services
■ IoT equipment

*CPS is an abbreviation for cyber physical systems. CPS provides services and systems that collect a wide variety of data, including through sensor networks, and then analyze and use that data to contribute to an increasingly efficient and advanced society.

Source for forecasts:
Production Forecasts for the Global Electronics and Information Industries from the Japan Electronics and Information Technology Industries Association (JEITA)

Special feature

—Growth Strategies for the IoT Era—



As Demand for IoT Equipment Increases, So Too Does the Market for Related Services

The IoT era does not mean simply that a number of devices will be connected to a network. It also means that data collected via networked equipment is likely to be used to create new services and provide solutions that could contribute to the resolution of many of the issues confronting societies around the world.

Annual growth in the market for IoT equipment tops 5%

The IoT era entails electronics devices that were previously operating in isolation now being connected to a network and exchanging huge amounts of data. The Japan Electronics and Information Technology Industries Association (JEITA) estimates the ratio of equipment compatible with IoT rising from about 66% in 2016 to 86% in 2030. The JEITA also estimates that, as a result of the ongoing shift in standalone products to IoT products the market for IoT equipment would expand by an annual average of 5.6% through 2030. Moreover, demand for electronic components appears likely to expand at a pace exceeding that of IoT equipment, thanks in part to the synergistic effects stemming from an expansion in product demand and an increase in the number of components used in each product.

IoT market valued at about ¥400 trillion in 2030

In the IoT era, not only is there likely to be an expansion in demand for IoT devices, but there could also be an increase in solutions services using these devices. One example of this can be seen in the aging of Japanese society, with IoT being used in services providing nursing care, including monitoring and emergency communication services for the nation's elderly. The IoT era is also likely to bring services that have never existed before, including the unmanned delivery services currently being tested in the distribution and logistics sector. As a result of the creation of new services, we estimate the global IoT market expanding from about ¥194 trillion in 2016 to about ¥404 trillion in 2030.

1 A Business Strategy for the IoT Era

TAIYO YUDEN has to date been focused on product development in the information and communications sector, including smart-phones that can make the best use of our mainstay and highly advanced multilayer ceramic capacitor (MLCC) products. Recent technological advancements have allowed improved voltage resistance and enhanced capacity, meaning that MLCC products can be used in a broader range of fields. Coupled with an increase in demand brought about by the arrival of the IoT era, this offers the promise of new growth.

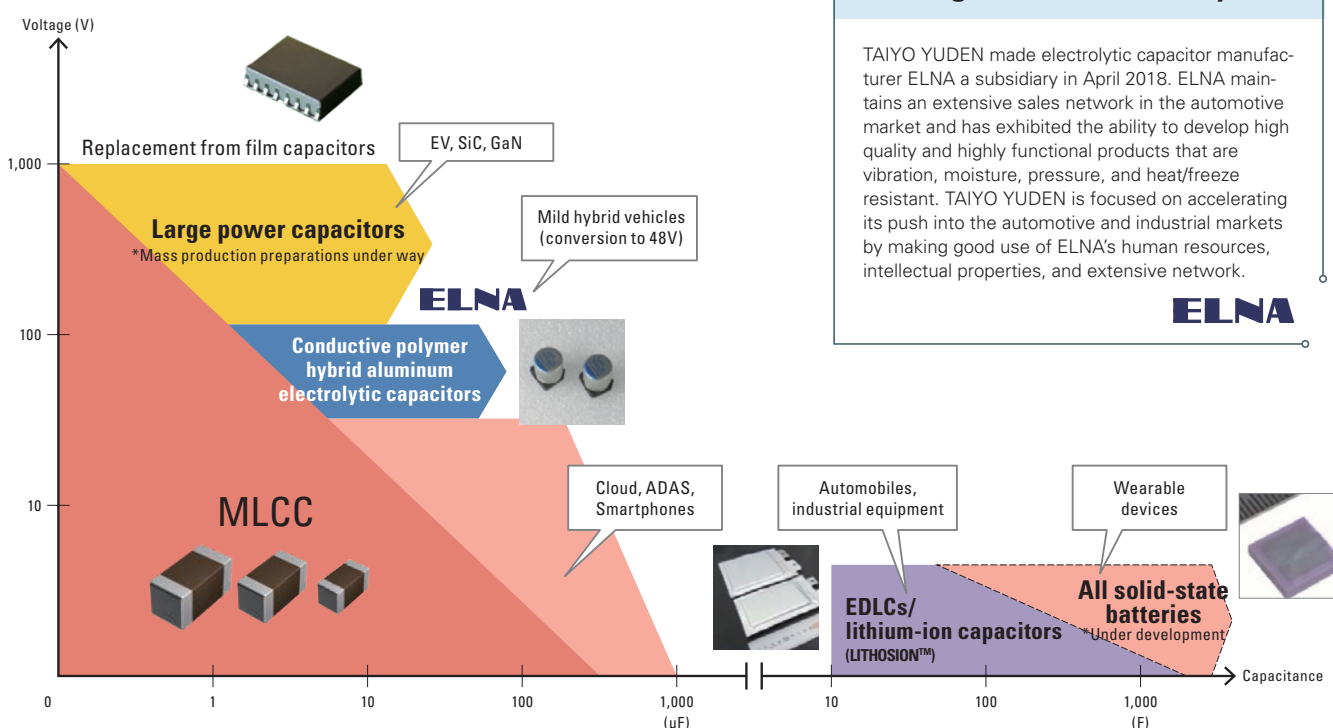
Expanding our business portfolio

With our strength in MLCC, TAIYO YUDEN has been a consistent leader in advancing technology aimed at thinning and downsizing electronic components, which has earned for the Company a solid position in the market for information and communication devices such as tablets and smartphones. With the goal of diversifying revenue and keeping up with an expanding market, we have also focused on leveraging our strengths in advanced MLCCs to develop markets other than the information and communication devices markets. We aim to expand into a number of different markets, including those where the shift to IoT continues to advance and where MLCC utilization is not yet mainstream. We believe these include the automobile and industrial equipment markets, which could benefit from our large capacity MLCC and large power capacitor proposals.

Promoting the stabilization of earnings by broadening our business portfolio

By expanding business in the automotive and industrial equipment markets, we aim not only to expand, but also stabilize revenue. The automotive and industrial equipment markets are less impacted by seasonal equipment demand cycles and an expansion in sales in each of these markets could serve to further stabilize capacity utilization at the Company. Moreover, fluctuations in demand in these markets are smaller than in the information and communications equipment markets, which could ensure for the Company a certain level of earnings even in years characterized by a deterioration in the external environment.

Capacitor Business Trends



2 Growth Strategies and Products in Key Areas of Focus

TAIYO YUDEN is advancing its growth strategies in the following key areas amid expectations for a sharp increase in demand for electronic components as the IoT era brings with it a surge in demand for electronic devices.

Source for forecasts: Production Forecasts for the Global Electronics and Information Industries from the Japan Electronics and Information Technology Industries Association (JEITA)

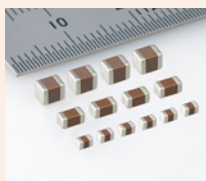
Automotive market

■ Product requirements

The ongoing electrification of vehicles brought on by increased use of xEVs* and electronic control equipment, with advanced driver assistance systems (ADAS) being the clearest example, has contributed to an increase in the number of automotive onboard electronic circuits. Particularly, the increase in electric control units (ECUs) housed in the engine room means that electronic components used in these devices need to be resistant to higher temperatures. They also need to be highly vibration and shock resistant.

*xEV refers collectively to electric vehicles (EV), hybrid electric vehicles (HEV), and plug-in hybrid electric vehicles (PHEV).

■ Leading TAIYO YUDEN automotive components



High reliability products (MLCC/Inductors)

■ TAIYO YUDEN's automotive components qualify for AEC-Q200 (Automobile Electronics Council testing standard for reliability in passive onboard components).

■ Outlook (Autonomous driving vehicles)



■ Growth strategies

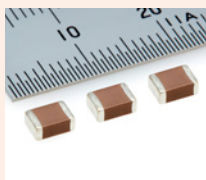
TAIYO YUDEN is working to increase the sales ratio for automotive products from 9% at present to 15%. By refining the structural designs and material technologies we have developed, we are now commercializing high temperature and vibration resistant MLCC and inductor products. We are also promoting visualization of the production process to further improve product quality assurance, and as part of this effort assign unique data matrix codes to some products, which allows a process trace for a single unit.

Industrial equipment market

■ Product requirements

Demand for ICT infrastructure, including servers and base station communications equipment, is rapidly increasing. A substantial number of MLCC and electrolytic capacitors are needed in order for power circuits within this equipment to work in a stable manner. Given the emphasis on reliability in the industrial equipment market, we believe there is a growing potential for small, high-quality MLCCs with good frequency characteristics.

■ Leading TAIYO YUDEN industrial equipment components



MLCC/Inductors

■ High pressure-resistant, high capacity, high current

■ Outlook (Broadcasting, communications CPS/IoT markets)



■ Growth strategies

TAIYO YUDEN is a leading manufacturer of high-capacitance MLCCs with a track record of commercializing the world's first MLCC with 1,000μF capacitance. Taking advantage of our strength in this field, we will make proposals that enable customers to use MLCC in place for electrolytic capacitors. In making these proposals, we will offer an expanded lineup of MLCC products that have a smaller mounting area than comparable models of electrolytic capacitors, thus promoting the shift to power circuits using only MLCCs.

Energy market

■ Product requirements

Demand is expected to expand for capacitors in xEVs and electric-assist bicycles, as well as in renewable energy, including solar power generation. Given the need for long and continuous operations, it is essential that these capacitors exhibit stable operation without error or failure.

■ Leading TAIYO YUDEN components used in the energy market



LITHOSION™ (Lithium ion capacitors)

- High safety and reliability even at high temperatures
- Long life and high energy density

■ Outlook (Environment, energy)



■ Growth strategies

TAIYO YUDEN targets market development through proposing solutions that combine the elemental technologies and software that we have developed over the years, including in energy recovery systems for electric-assist bicycles and solar power monitoring systems. We are engaged in application development for the LITHOSION™ lithium ion capacitor and the commercialization of highly safe all-solid state lithium ion D secondary batteries.

Security market

■ Product requirements

There is an increased focus on safety in society, with security being tightened through the installation of monitoring and security cameras throughout urban and residential areas. These security cameras require a stable communications environment, free from any concern over signal interception or a breakdown in communications.

■ Leading TAIYO YUDEN components in the security market



Optical wireless communication equipment

- Easy to install, even in places where wired communications equipment might be problematic
- No radio wave interference, no effect from electromagnetic noise

■ Outlook (Home, individual CPS/IoT markets)



■ Growth strategies

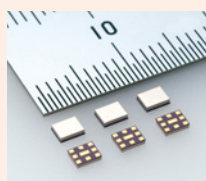
TAIYO YUDEN's optical wireless communication provides point-to-point wireless communication with stable (100Mbps) speed. Since radio waves are not employed, interference or noise is not an issue, allowing wireless communications in areas where it is difficult to establish radio wave communications. This technology is best suitable for wireless communications for security cameras.

Smartphone and wearable device markets

■ Product requirements

Smartphones and wearable devices are becoming thinner and multifunctional, and as the trend toward larger batteries contributes to an ongoing reduction in the mounting area for components, there is a pressing need for smaller components offering higher performance that will allow higher component density.

■ Leading TAIYO YUDEN components for smartphones and wearable devices



MLCC/Inductors

- Small and thin, with high capacitance and current

Communication devices

- Optimum proposals combining three filter technologies (SAW, FBAR, multilayer ceramic)

■ Outlook (Global communication equipment production)



■ Growth strategies

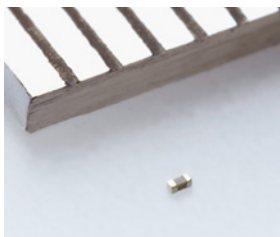
With the goal of meeting demand for improved density, we are improving our material technologies to advance development of ever smaller and thinner products, the effort of which led to the development of the world's thinnest MLCC at 0.09mm. In preparation for the 5G era, we are developing hybrid filters combining three filter technologies (SAW filters, FBAR filters, and multilayer ceramic filters).

At a Glance

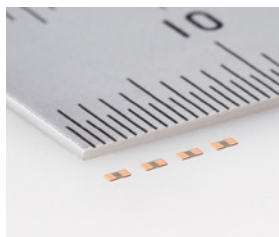
Main Products

Capacitors

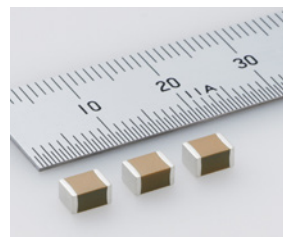
- Multilayer ceramic capacitors



0201 size(0.25mm×0.125mm) ultra-small multilayer ceramic capacitors



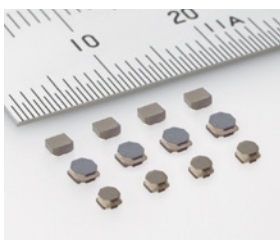
1005 size(1.0mm×0.5mm) low-profile multilayer ceramic capacitors with 0.11mm thickness



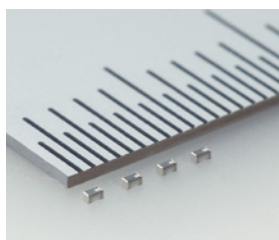
4532 size(4.5mm×3.2 mm) small high-capacitance multilayer ceramic capacitors with 1,000 μ F capacitance

Ferrite and Applied Products

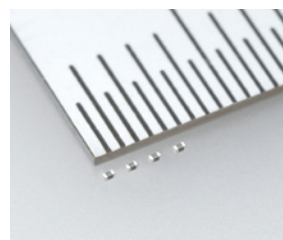
- Wire-wound inductors
- Multilayer chip inductors, and many other types of inductors



Metal power inductors MCOIL™



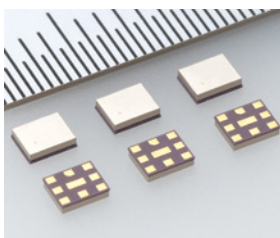
High-Q multilayer chip inductors for high frequency applications



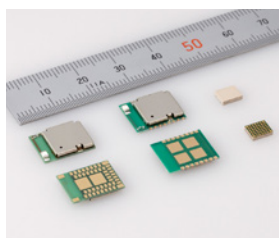
Ultra-small multilayer chip inductors

Integrated Modules & Devices

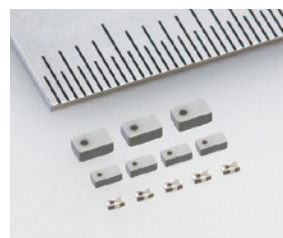
- FBAR/SAW devices for mobile communications
- Power supply modules
- High frequency modules
- Embedded-parts multilayer wiring substrate EOMIN™



FBAR/SAW devices for mobile communications



High frequency modules



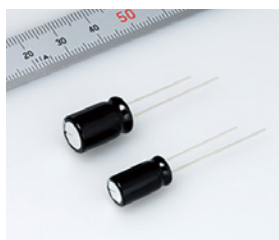
Multilayer ceramic filters

Others

- Energy devices



Cylinder type lithium ion capacitors

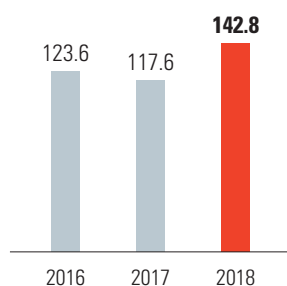


Cylinder type electric double-layer capacitors

Net Sales Breakdown by Product Classifications (Year ended March 31, 2018)

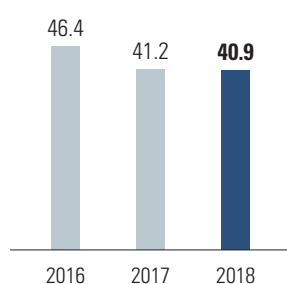
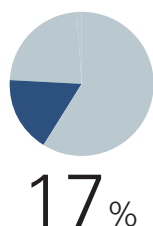
Net Sales (Billions of yen)

Review of Operations



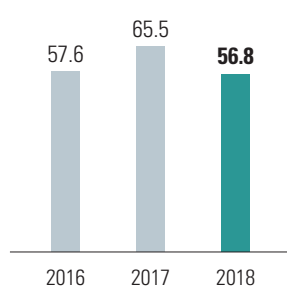
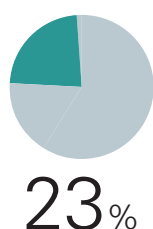
We are focusing on the development of multilayer ceramic capacitors that are small and thin with high capacitance and high reliability. We are also continuing the development of cutting-edge multilayer ceramic capacitors by advancing our dielectric materials technologies, thin-film and high-capacitance technologies, and ultra-small capacitor production technologies.

In the fiscal year ended March 31, 2018, sales for all equipment increased compared with the previous fiscal year. As a result, net sales increased 21.4% year on year to ¥142,858 million.



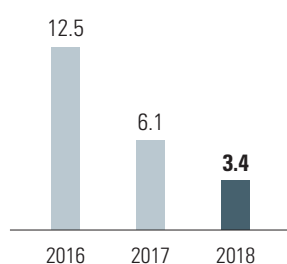
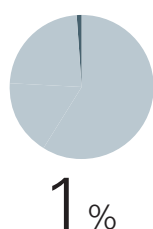
In addition to small, thin inductors with higher current, we are working on the development of large, high-reliability inductors and targeting automotive and industrial equipment applications. We are also developing competitive products by bringing about even greater sophistication in our materials development as well as our wire-winding and multilayer process technologies.

In the fiscal year ended March 31, 2018, despite increased year-on-year sales for consumer products, automotive equipment, and industrial equipment, sales for information and communication equipment decreased. As a result, net sales decreased 0.7% year on year to ¥40,977 million.



We are focusing on the technologies for film bulk acoustic resonator/surface acoustic wave (FBAR/SAW) filter devices for mobile communications and the development of products with cores drawing on our multilayer ceramic filter technologies, as well as on the development of next-generation, solutions-based products intended for the focus markets that combine the Company's core technologies.

In the fiscal year ended March 31, 2018, sales of FBAR/SAW devices for mobile communications, etc., decreased compared with the previous fiscal year. As a result, net sales decreased 13.3% year on year to ¥56,838 million.



We are focusing on developing energy devices with an eye to entering the automotive electronics and high-reliability product markets, in particular.

In the fiscal year ended March 31, 2018, net sales fell 44.4% year on year to ¥3,443 million.

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.

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.”

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 future development of our products.

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

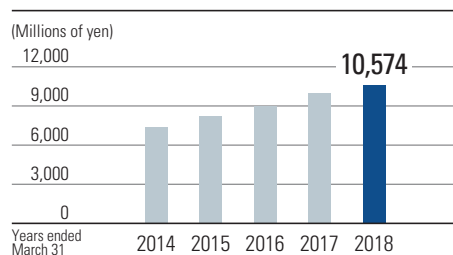
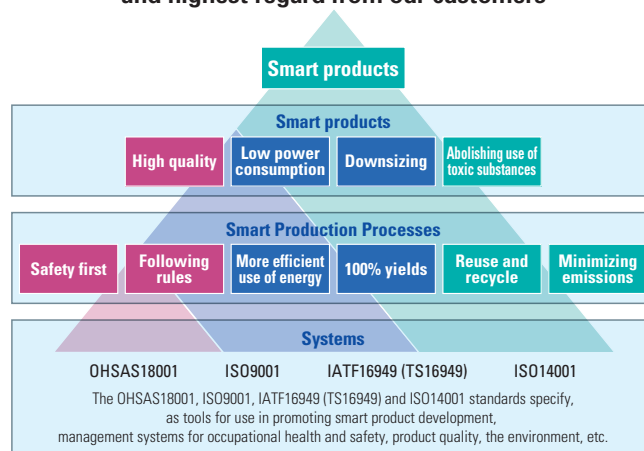
Develop technologies that are feasible and applicable economically to our manufacturing process and that meet critical environmental standards

Environmental consideration

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

— TAIYO YUDEN Vision —

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



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.



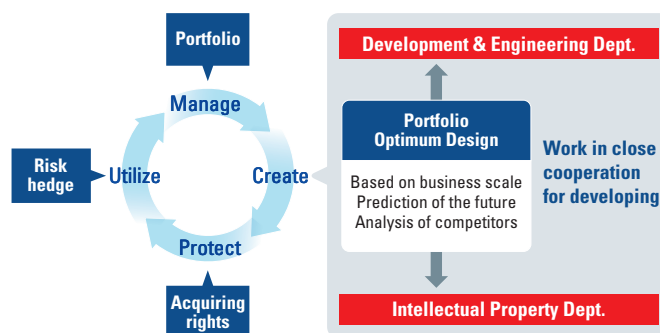
Activities on Intellectual Property Rights

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.

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.



Interview with Head of R&D

Utilizing a difference in background to establish new research approaches

Given that TAIYO YUDEN's core business is ceramic capacitors, human resources with a background in inorganic ceramic technology have served as head of the research and development laboratory until now.

Against this backdrop, being a researcher specialized in organic chemistry, I feel that my appointment during the previous fiscal year as head of the laboratory sends a message that the company expects to see a new approach to research unlike that of the past.

One thing I noticed about the research laboratory as a whole after my appointment was that there were few research themes looking five or ten years out. In terms of research and development, any company that fails to maintain a good balance between developments that support today and research that builds the future will not last. So I feel it is essential for us to prioritize tackling the new—creativity—more than we have in the past.

Undertaking novel concepts requires contemplation in environments that are removed from the every-day. I think it important that employees are evaluated for their contribution to creativity. I hope to put together the necessary environment for establishing new approaches to research, thereby transforming the research and development department into one that can contribute to the medium- and long-term creation of value.



Shoichiro Hirakuni
Laboratory Manager
Research and Development Laboratory

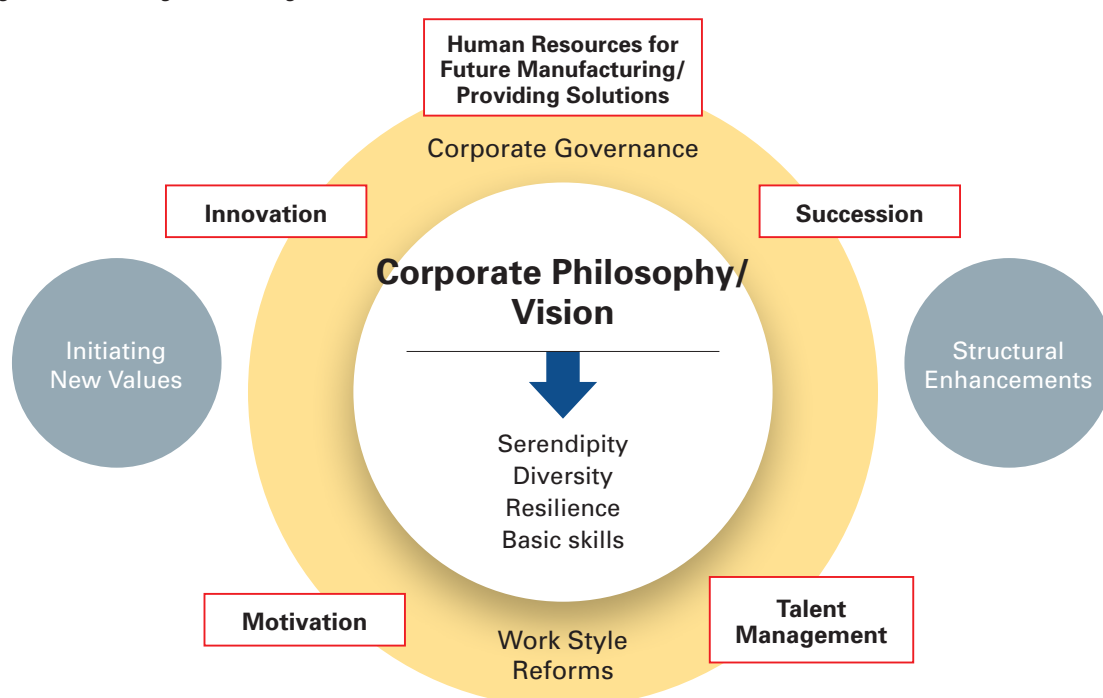
Human Resources Strategy

The TAIYO YUDEN Group policy on developing human resources

In line with our founding philosophy, the TAIYO YUDEN Group aims to bolster the quality of life of each of our employees by respecting the dignity and individuality of each person based on recognition of people's diverse backgrounds and characteristics. To this end we are providing an educational environment and opportunity for employees to expand their horizons and improve their abilities, as well as study on their own. Through the development of human resources, we will continue to create a global

workforce that can effectively implement the company's operating strategies based on the experiences of different cultures, and foster employees who can create new values which contribute to society by enhancing creativity and expertise. By offering an environment in which employees are free to strive without fear of failure, and bolster their abilities in a variety of fields, we aim for the development of the TAIYO YUDEN Group as well as the self-growth of each and every employee.

■ HR strategies in the AI, big data, IoT age



TOPICS

TAIYO YUDEN Included in the MSCI Japan Empowering Women (WIN) Select Index

In 2018, TAIYO YUDEN was selected as a constituent stock in the MSCI Japan Empowering Women (WIN) Select Index, which has been developed to encourage environmental, social, and governance (ESG) investment. Developed by MSCI Inc.—the leader in ESG research in the United States—WIN selects companies that are leaders in their industries in pursuing the hiring, ongoing employment, and promotion of women along with diversity.

We think TAIYO YUDEN being included in this index represents the recognition for the predominance of women in female/male average years of service as well as the Company disclosing quantitative data such as recruitment planning period and female employment ratios on its diversity webpage.

Looking ahead, TAIYO YUDEN will work to promote diversity even further with the aim of being a company that maximizes the abilities of a wide array of personnel by leveraging their diverse set of values.



Training Case Study 1:

Developing the Next-Generation of Leaders**Executive Coaching**

TAIYO YUDEN has introduced an executive coaching program for future management candidates to develop the next-generation of leaders. The objective of executive coaching is to change the way trainees think and act in order to create more effective leaders who can have a positive impact on those around them. Through this program, we will work to develop the skills necessary for future managers, imbuing them with both a greater perspective and deeper insight.



Training Case Study 2:

Global Human Resources Development**Global-oriented Training for the Next-Generation Human Resources Who Lead the Group in the Future**

As a manufacturing company, TAIYO YUDEN is working to create personnel recruitment/management systems that will enable it to prevail against global competition. We are developing human resources of the next generation at every level by enhancing the training of executive candidates at domestic and overseas Group companies, managerial selection mechanisms, specialized on-the-job training by dispatching employees to the Japan headquarters, and technical internship and other training programs. We will expedite preparations toward the next stage by providing targeted/systematic training for the next generation at every level globally.

Training Case Study 3:

Manufacturing Personnel Training**Introducing Statistical Analysis Training**

With operations getting faster and more complicated, it is vital to have the ability to solve problems. Having a statistical viewpoint is critical for being able to find solutions by making judgments based on data collection and analysis. We have introduced data and statistical analysis software to help employees incorporate statistical points of view. Through statistical analysis training, we are working to improve operational efficiency through greater visualization.



Directors, Audit & Supervisory Board Members, and Operating Officers

As of June 28, 2018



From left of back row: Hajime Yoshitake, Takashi Tomaru, Masashi Hiraiwa, Seiichi Koike, Katsushige Nakano, Kazuhiro Yamakawa
From left of front row: Osamu Takahashi, Shoichi Tosaka, Shinji Masuyama, Katsuya Sase

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 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 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.

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.

Outside, Independent Director Masashi Hiraiwa

Admitted to Japan Federation of Bar Association and joined OHHARA LAW OFFICE in 1981. After serving as a Supervisory Officer at LCP Investment Corporation (currently Invincible Investment Corporation) and serving and as a Supervisory Officer at Japan Logistics Fund, Inc., he was appointed as an Outside, Independent Director of the Company in June 2016.

Outside, Independent Director Seiichi Koike

After working for Toyo Kogyo Co., Ltd. (currently Mazda Motor Corporation), from 1980 to 1982, Mr. Koike joined Honda R&D Co., Ltd. After gaining experience in the positions as General Manager of Advanced Material Research Laboratory, and General Manager of Automobile R&D Center Brazil, he was appointed Executive Officer of Honda Foundry Co., Ltd. in 2008. After serving in several positions including Director and Audit & Supervisory Board Member of Honda Foundry Co., Ltd., he was appointed as an Outside, Independent Director for the Company in June 2018.



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.

Operating Officers

President and Chief Executive Officer
Shoichi Tosaka

Senior Executive Operating Officer
Shinji Masuyama
Katsuya Sase

Executive Operating Officer
Osamu Takahashi
Kazuya Umezawa

Senior Operating Officer
Toshio Mishuku
Kazuyuki Oshima
Tomomitsu Fukuda
Toshimitsu Honda

Operating Officer
Hirokazu Chazono
Mitsuo Takagi
Susumu Higuchi
Osamu Ikata
Shinya Miyazawa
Toshiyuki Watanabe
Shunji Murai

Committed to Solving Social Issues

The International community came together at the United Nations Summit in 2015 to adopt and call on companies to work toward achieving 17 Sustainable Development Goals (SDGs). In support of this international effort and following our corporate philosophy and the upcoming needs of an AI and IoT-based society, the TAIYO YUDEN Group remains committed to resolving social issues by working to clarify priority issues.

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.

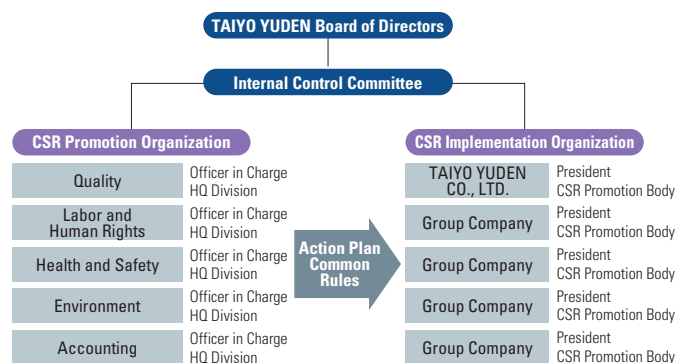
CSR Charter

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.

CSR Activities Promotion Framework

In the Group's CSR activities, overall management is provided by the Internal Control Committee. 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.



Compliance and Risk Management

At TAIYO YUDEN compliance and risk management is a key activity of our CSR management system.

The laws and regulations that require compliance are listed by organization along with the risks that might adversely affect business, and regulatory compliance procedures and risk mitigation measures are drafted and implemented as part of the system.

New laws/regulations and risks are regularly added to the list and the compliance procedures and mitigation measures pertaining to existing laws/regulations and risks are reassessed for aptness each fiscal term. We are making thorough efforts to achieve regulatory compliance and prevent and minimize risks.

 <https://www.yuden.co.jp/or/company/csr/management/>

CSR Management and SDGs

The TAIYO YUDEN Group has constructed a CSR management system to achieve the goals set forth in our CSR Charter and to ensure compliance with the CSR Code of Conduct as well as all related laws and regulations. We have also created a framework and rules for promoting proper conduct as outlined in the Code of Conduct, and all of our Group companies employ a management system based on the plan-do-check-act (PDCA) cycle.

We intend to contribute toward the resolution of the various social issues raised in the Sustainable Development

Goals (SDGs) adopted at the UN Summit in 2015 though the TAIYO YUDEN Group's business activities and ESG efforts while simultaneously achieving sustainable growth in our business by making continuous improvements in our CSR management system.

In the following section we would like to explain how the TAIYO YUDEN Group's business activities and ESG efforts contribute to the achievement of these Sustainable Development Goals.

■ SDGs and Efforts

SDGs	Efforts	Links for Details
 Ensure healthy lives and promote well-being for all at all ages	<ul style="list-style-type: none"> Periodical blood donation by employees at each of TAIYO YUDEN Group sites 	Social Contribution (Blood Donation Activities)
 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	<ul style="list-style-type: none"> Electronic handicraft workshop for students to develop an interest in science. Donation for the welfare fund for orphans from traffic accidents founded by the founder of TAIYO YUDEN and some scholarships 	Social Contribution (Manufacturing Lessons) Social Contribution (Support for Social Welfare Activities)
 Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> Formulation and implement of action plan about promotion of women's participation and advancement 	Diversity Promotion Activity
 Ensure availability and sustainable management of water and sanitation for all	<ul style="list-style-type: none"> Treatment of used water in factory to displace clean water Cleanup activities to protect ecosystem on the waterfront where various species live Reduction of water use by recycling water 	Safety & Environmental Report, Data by Site Social Contribution (Community cleanup activities on hills, riversides, and sea coasts) Our Efforts (Reducing Water Use) Reducing Waste & Preserving Water Resources
 Ensure access to affordable, reliable, sustainable and modern energy for all	<ul style="list-style-type: none"> Providing solutions to improve photovoltaics efficiency using PV Micro Converter and monitoring system Generation of electricity with photovoltaic power plant to promote utilization of sustainable energy 	Solution Proposals/Solar Power Generation News Release "Operation Start of Hongo Photovoltaic Power Plant"
 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	<ul style="list-style-type: none"> Enhancement of safety working environment to level up Health and Safety 	Health & Safety Activities (Efforts and Status)
 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	<ul style="list-style-type: none"> For enhancement of energy efficiency, development and supply the Lithium Ion Capacitor; long life and high capacity 	Solution Proposals (Lithium Ion Capacitor) TAIYO YUDEN products found in everyday life
 Reduce inequality within and among countries	<ul style="list-style-type: none"> Establishment and implement of equal opportunity policy to prohibit any discriminations 	Activities on Labor and Human Rights
 Make cities and human settlements inclusive, safe, resilient and sustainable	<ul style="list-style-type: none"> Providing solutions to realize safety in city with wireless sensor network for security system 	Medical care, nursing care and crime prevention
 Ensure sustainable consumption and production patterns	<ul style="list-style-type: none"> Effective Use of Natural Resources 3R activities (Reduce, Reuse, Recycle) of waste and water resources considering biodiversity and coexistence between humans and nature Reduction of energy use to curb global warming Annual reporting on sustainability activity 	Achievement Levels for Medium-Term Environmental Targets Reducing Waste & Preserving Water Resources Curbing Global Warming Safety & Environmental Report
 Take urgent action to combat climate change and its impacts	<ul style="list-style-type: none"> Reduction of energy use to curb global warming Annual reporting on sustainability activity 	Curbing Global Warming Safety & Environmental Report
 Conserve and sustainably use the oceans, seas and marine resources for sustainable development	<ul style="list-style-type: none"> Mangrove tree plantation (10,000 per year) to achieve healthy and productive oceans in Philippines Cleanup activities on riversides and seacoasts to prevent marine pollution 	Contributing to Society (Mangrove plantation) Contributing to Society (Community cleanup activities on hills, riversides, and sea coasts)
 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	<ul style="list-style-type: none"> Plantation in Philippines and Malaysia to restore forests Weeding and thinning in forests to conserve mountain ecosystems Extermination of invasive alien species to protect land and water ecosystems 	Contributing to Society (Mangrove plantation) Action Policy for Biodiversity Conservation (Volunteering for Forest Maintenance) Extermination of alien species
 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	<ul style="list-style-type: none"> Identification and assessment of conflict minerals, and sourcing responsible minerals 	Activities on Procurement/Conflict Minerals

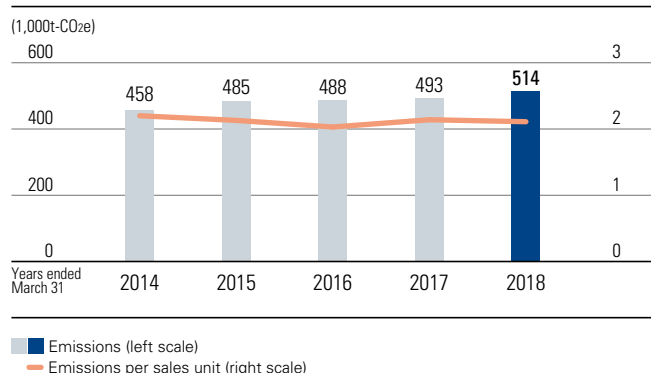
ESG

—Environment (E) and Social (S) activities—

Environmental activities

In order to contribute to the passing on of our irreplaceable natural world to future generations, the TAIYO YUDEN Group is promoting environmental activities based on our philosophy of reducing the environmental impact of our business activities, including everything from product research, development and design to the procurement of materials, manufacturing, sales

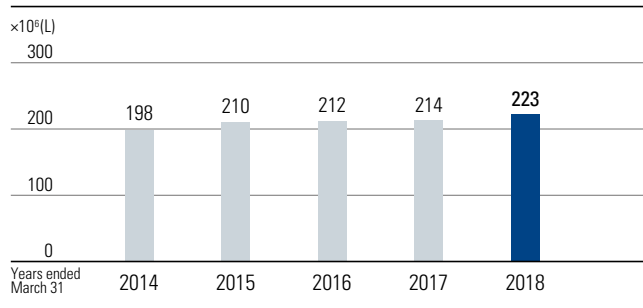
■ Greenhouse gas emissions (calculated from total energy consumption)



and after-sales service.

As part of this, we are working toward achieving priority goals such as reducing greenhouse gas emissions (output unit-based reductions) and improving efficiency in energy use (output unit-based conservation of energy).

■ Energy Consumption (crude oil equivalent)



Labor and Human Rights Activities

The TAIYO YUDEN Group has defined a Code of Conduct regarding labor and human rights within the CSR Code of Conduct which stipulates that child labor or forced labor are not to be conducted. A survey on child labor and forced labor was conducted in all countries where Group companies are located, and the results confirmed that these stipulations were being complied with 100%. In addition, the Code of Conduct stipulates that we will respect the diversity, personality, and individuality of employees, ensure a work environment without any discrimination, and not conduct acts of harassment by authority in the organization, and we are also promoting compliance with these provisions.

In line with our founding philosophy, the TAIYO YUDEN Group aims to bolster the quality of life of each of our employees by respecting the personality and individuality of each person

based on recognition of people's diverse backgrounds and characteristics. To this end we are providing an educational environment and opportunity for employees to expand their horizons and improve their abilities, as well as study on their own.

Through our continuous efforts to develop human resources, we will aim to create a global workforce built on different cultures that can effectively implement the company's management strategy and enhance creativity and specialization of employees so that they can create new value that contributes to society.

By offering an environment in which employees are free to strive without fear of failure, and bolster their abilities in a variety of fields, we aim to advance not only the TAIYO YUDEN Group, but also the potential of each of our employees.

→ p.30-31 Human Resources Strategy

Health and Safety Activities

The TAIYO YUDEN Group works to eliminate work-related accidents and reduce major risks based on the principles of safety and health that provide workplaces which always maintain safety and where employees can work in confidence in order to ensure their well-being, as they are an important resource for the company.

Currently, to achieve the new medium-term occupational health and safety targets for the fiscal year ending March 31, 2019, we are promoting initiatives to improve the level of the 5M (Man, Machine, Method, Material, and Measurement) items in order to eliminate unstable conditions and unsafe behavior that cause work-related accidents.

■ New Medium-term Occupational Health and Safety Targets

Results and Targets	5Ms for Medium-term Targets
Incidence rate of injuries and illness Year ending March 31, 2019 Targets Less than 0.04 Year ended March 31, 2018 Results 0.028	Man Creation of "safe workplace" culture
	Machine Bringing safety equipment activities to the world level (ISO, IEC)
	Method Standardization of procedures for safe work
	Material Minimization of toxicity and danger of chemical substances
	Measurement Strengthening of checking system

Materials Procurement Activities

Recently, there have been strong international demands for companies to conduct business activities with a social consciousness based on high ethical and moral standards. The TAIYO YUDEN Group has established a basic policy on

materials procurement, and is promoting CSR procurement activities for not only suppliers of parts, materials, machinery as well as technologies and services procured by the Group, but also the entire supply chain including all clients.

Dealing with Conflict Minerals

According to Article 1502 of the U.S. financial regulatory reform bill (Dodd-Frank Wall Street Reform and Consumer Protection Act) enacted in 2010, listed U.S. companies that require conflict minerals from the Democratic Republic of the Congo (DRC) and adjoining countries for their product functions or production are now obliged to specify and report to the U.S. Securities and Exchange Commission (SEC) whether such conflict minerals come from the DRC and adjoining countries.

The TAIYO YUDEN Group, under this purpose, aims for procurement that does not involve such conflict. Accordingly, we request our suppliers to understand the Group's procurement policies and to cooperate with investigations, and furthermore to procure from smelters certified as not complicit in conflicts, such as smelters that are in compliance with the

Conflict-Free Smelter program established by the RMI*. Furthermore, the contents of investigations by the TAIYO YUDEN Group will be disclosed to customers.

*RMI (Responsible Minerals Initiative): An organization that establishes international guidelines regarding conflict minerals

■ Usage Examples of Subject Minerals in Electronic Components

	MLCC, Inductors	SAW devices	Modules
Tantalum		●	●
Tin	●	●	●
Tungsten		●	●
Gold		●	●

Social Contribution Activities

The Group regards coexistence with the local community and global society as a basic stance, and it is actively involved in

social contribution activities including factory tours and interaction with the local community and other companies.

TAIYO YUDEN SOLFILLE Women's Softball Team

The women's softball team was established in 1984 for the purpose of improving employee motivation and the name recognition of the company. The team has been in the first division of the Japan Softball League for 31 years since 1987. During this time, it has had a spectacular track record that includes gaining championship titles in the league and

the All Japan National Championship, and it has also produced some Olympic national team players.

In addition, the team plays a major role in inspiring not only employees, but also people in the local community and children through means such as holding softball classes for future players nationwide.



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 the 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

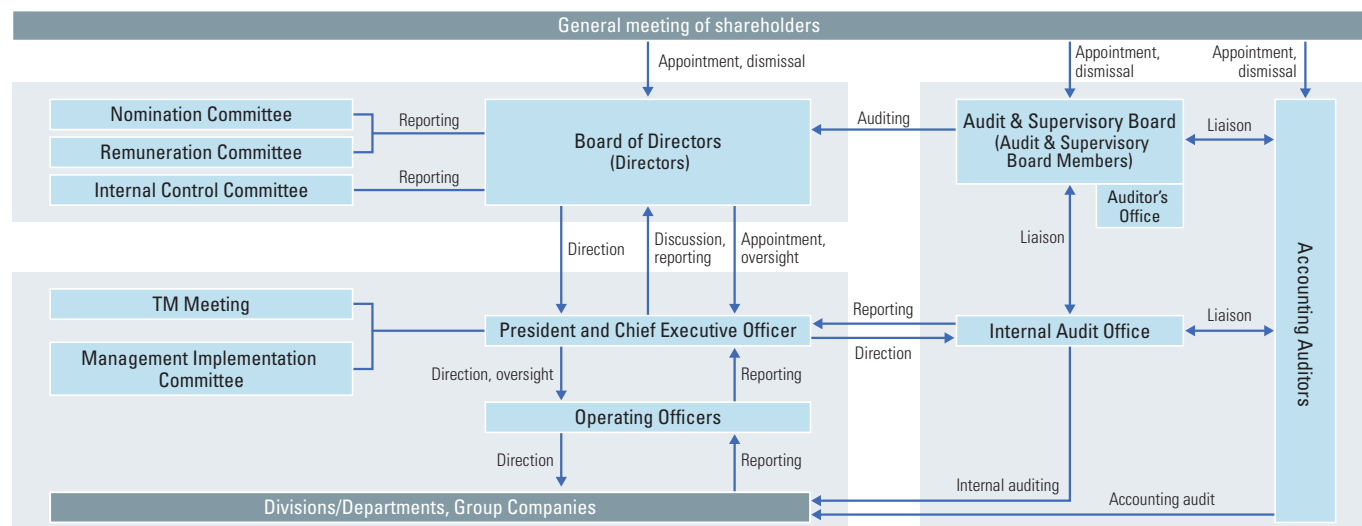
Overview of Corporate Governance Structure, Reasons for Adoption

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.

■ Structure of Corporate Governance (As of July 2018)



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

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.
2. 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

1. To ensure the fairness of the meetings and strengthen the authority of management oversight, the Board of Directors shall be chaired by the Chairman of the Board of Directors. If the Chairman of Board of Directors is absent, the President and Chief Executive Officer shall be chaired the Board of Directors.
2. 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

1. The Company has six Directors, as of July 2018. Two of them are appointed as independent Outside Directors. Two of them are appointed as independent Outside Directors.
2. To clarify management responsibilities during a given fiscal year and increase shareholders' confidence, Directors' term of office is one year.
3. The reason for the selection of Directors is disclosed by taking into account their knowledge, experience, history of achievement and other factors.
4. 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

1. The Company has adopted an Audit & Supervisory Board Members system. The Audit & Supervisory Board meeting is held monthly, in principle.
2. 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. Moreover, at least one member with an appropriate level of expertise in finance and accounting is appointed to the Audit & Supervisory Board in order to ensure the effectiveness of audits.

3. 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.
4. The Audit & Supervisory Board has its own dedicated staff to smoothly conduct auditing operations, such as information communications and data management.

Transition of Corporate Governance Structure for Recent Years

April	2001:	Introduction of Operating Officers System
June	2006:	One Outside Director
June	2008:	Two Outside Directors
		Board of Directors Term of Office Changed to 1 Year
June	2010:	Establishment of Nomination Committee (Voluntary)
		Establishment of Remuneration Committee (Voluntary)
June	2013:	Establishment of Independence Standard for Outside Officers
November	2015:	Establishment of Basic Policy for Corporate Governance
June	2016:	Implementation of Evaluation of Board of Directors' Effectiveness
February	2018:	Formulation of successor plan of the chief executive officer and etc.

Voluntary Advisory Panels

1. For the purpose of conducting "highly transparent and fair management," the Company has established a Nomination Committee and a Remuneration Committee.
2. 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.
3. The Nomination Committee deliberates matters such as the designation of candidates for corporate officers to be elected/ dismissed 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.

(As of July 2018)

	Total Members (persons)	Internal Directors (persons)	Outside Directors (persons)	Audit & Supervisory Board Members (persons)	Chairperson
Nomination Committee	4	1	2	1	Independent Outside Director
Remuneration Committee	4	1	2	1	Independent Outside Director

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

1. 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.
2. The two Outside Directors meet the Company’s independence 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.
3. 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

Masashi Hiraiwa, Independent Outside Director

Mr. Masashi Hiraiwa has served as an officer or in a similar position at investment corporations, and possesses abundant experience and high-level expertise as an attorney specializing in corporate legal affairs. He has demonstrated a high sense of ethics by offering constructive opinions and organizing points of discussion or debate from an objective perspective, and fulfilling the monitoring function over the Company’s overall management such as governance and legal compliance including internal control, at meetings of the Company’s Board of Directors. For these reasons, it was judged that he would be able to fulfill his duties as Independent Outside Director who supervises business execution. Therefore, he was appointed as an Outside Director.

Seiichi Koike, Independent Outside Director

Mr. Seiichi Koike has engaged in material development for automotive components and research and development related to production technology at an automotive maker over many years, and possesses wide-ranging expertise in relation to the automotive electronics business. In addition, the Company also believes it will be valuable to the Group for his wide-ranging expertise from an investor’s perspective to be reflected in the management of the Company, utilizing his abundant experience, including corporate management in the automotive components industry and strengthening governance systems as an Audit & Supervisory Board Member. For these reasons, it was judged that he will be able to provide valuable advice and suggestions regarding overall management at meetings of the Company’s Board of Directors. Therefore, he was appointed as an Outside Director.

Newly Appointed Director’s Message

Visiting many sites and listening to the voices of employees to fulfill the role of Outside Director

For many years, I was involved in developing material technologies at Honda R&D aimed at light-weighting automobiles. I was also responsible for establishing Honda’s Automobile R&D Center in Brazil, and worked to maximize corporate value and strengthen internal control as the Executive Officer, Director, and Audit & Supervisory Board Member of Honda Foundry, a subsidiary of Honda. Utilizing this experience and expertise, I hope to provide opinions that offer new insight into and perspectives on management, as well as opinions that stimulate management. I also hope to offer advice regarding various measures in three areas, namely the automotive business, a segment on which the Company is focusing, research and development, and improving production efficiency. As such, I feel it is necessary for me to refine my sensibilities and elevate my own capacities, but I want to begin by visiting many sites and listening to the voices of employees in order to understand TAIYO YUDEN as it stands today.

Under a management environment that changes in a discontinuous manner, sustained enhancement of corporate value requires the creation of new business through the promotion of innovation. The energy for realizing this will emerge when those having different qualities gather with a common goal and with a sense of equal camaraderie to undertake challenges with a positive outlook.

As I accompany the TAIYO YUDEN Group during its corporate activities, I hope to fulfill my role as outside director.

Seiichi Koike
Outside,
Independent 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 of Directors, excluding Outside Directors and Audit & Supervisory Board Members, employs the remuneration system based on performance-linked incentives, aiming at performance improvement.

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, 2018

	Total remuneration paid and number of persons		Total remuneration paid by type of compensation					
			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)	Number of persons	Total (Millions of yen)
Directors	7	288	7	160	5	89	5	39
Audit & Supervisory Board Members	4	79	4	79	—	—	—	—
Total	11	368	11	239	5	89	5	39
Of which, Outside Directors and Outside Audit & Supervisory Board Members	(4)	(49)	(4)	(49)	(—)	(—)	(—)	(—)

Notes: 1. The "Number of persons" refers to the number of persons subject to remuneration for the fiscal year ended March 2018, not the number of persons in office.

2. The upper 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 upper 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.

**Kazuhiro
Yamakawa**

Outside, Independent
Audit & Supervisory
Board Member



**Hajime
Yoshitake**

Outside, Independent
Audit & Supervisory
Board Member



Conversation with Outside Audit & Supervisory Board Members

In order to realize sustainable growth and increase corporate value over the medium to long term, creating a corporate governance structure that enables transparent, fair, rapid, and decisive decision-making is vital. TAIYO YUDEN has received proposals from Outside Audit & Supervisory Board Members Hajime Yoshitake and Kazuhiro Yamakawa regarding corporate governance reforms and corporate value enhancement, initiatives being pursued by the Company.

Enhancing the Structure of Corporate Governance

Yoshitake: TAIYO YUDEN is a company that has from early on taken steps to enhance corporate governance. It seems to me that the Company has quickly done what is necessary to develop its corporate governance structure by establishing a system that supports multiple outside directors as well as by voluntarily setting up nomination and remuneration committees at a relatively early stage. Beyond these mechanisms, I feel

that the content and direction of Board of Directors' discussions are highly effective.

Yamakawa: I feel the same way. A big reason for this high degree of effectiveness perhaps lies in the Company maintaining a diverse array of personnel among its directors and auditors.

Inside and outside directors have varied backgrounds that include quality assurance officers, department managers and group company president among the former, and a former corporate manager and a lawyer among the latter. Not strictly limited to managers, I believe that the addition of experts with specialized knowledge and understanding helps the Board make important decisions.

Yoshitake: At the most recent shareholders meeting held in June, the Board of Directors reduced the number of inside directors by one to four, which with two outside directors gives the Board a two-to-one ratio inside to outside directors. While some believe that the Board should have a majority of outside directors, I believe the first step is to have well balanced membership.



The Role of Outside Officers & Efficacy Evaluations

Yamakawa: The most important thing for us as outside officers is to provide external points of view. On boards with only internal directors, a sense of common destiny tends to creep in. Comments by outside officers that intentionally run contrary to this sense and mood can often lead to breakthroughs.

Yoshitake: Valuing the standpoint of outside officers, the Company has created mechanisms that enable us to function effectively in my view. Attending Management Implementation, Internal Control, and other committee meetings as observers, outside officers are able to keep an eye on the types of discussions being held.

Yamakawa: Director effectiveness is evaluated by all directors and auditors, with the results being reported to the Board of Directors, including improvement measures. Apart from this, mechanisms that bring together directors in charge of management planning with outside directors and auditors with no business execution functions to jointly discuss specific improvement measures enables multi-layered initiatives that ensures a high level of effectiveness.

Global Corporate Governance

Yoshitake: In recent years dishonest practices have surfaced at the subsidiaries of Japanese companies both here and abroad. In the case of TAIYO YUDEN, however, I think such an occurrence is unlikely because the Company regularly performs audits through internal control departments and internal audit offices at its 30 bases in Japan and overseas in tandem with auditors being dispatched on-site to undertake inspections, guidance, and audits. In addition, the Company has established internal reporting systems at the headquarters and domestic/overseas bases that provide auditors with all forms of negative information.

Yamakawa: It is vital for the Company's headquarters to have a thorough understanding of the differences between Japanese and local cultures, laws, and accounting standards when conducting audits of overseas bases. For this reason, auditors coordinate with local auditing firms, legal offices, and consultants in an effort to conduct even more effective and efficient audits.

Yoshitake: Beyond regular field audits, I would like to see the Company introduce mechanisms that enable real-time monitoring using IT and AI in the years ahead.

Plans to Pass the Mantle to the Next Generation of Top Managers



Yamakawa: As for who will be the next to be chosen as directors and how to approach director compensation, these key corporate governance themes are decided by the Nomination and Remuneration Committees, both of which are composed of four members—the president, outside directors, and auditor—and is chaired by outside director. Such matters being decided by committees that primarily consist of non-executive directors is laudable in my view.

Yoshitake: I couldn't agree more with that. While decision-making mechanisms to choose next directors also have a role to play, the Company introducing mandatory retirement ages for the president and other executive officers shows its painstaking efforts to prevent inertia and collusion.

Yamakawa: Considering that a company's lifespan is longer than that of any individual manager, having a succession plan is critical regardless of the company. Through the formulation and implementation of representative director succession plans by the Nomination Committee, TAIYO YUDEN is working to build mechanisms to improve corporate value over the medium to long term.

11-year Summary

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

(Millions of yen)

Fiscal year	2008	2009	2010	2011
Business results				
Net sales	238,274	185,452	195,690	210,401
Operating income (loss)	21,304	(12,755)	4,203	8,792
Ordinary income (loss)	19,141	(12,601)	1,966	6,740
Net income (loss) attributable to owners of parent company	10,634	(14,332)	(680)	(5,506)
Total assets	271,605	225,451	236,361	221,272
Net assets	167,766	139,435	139,263	127,626
Cash flows from operating activities	29,791	15,696	25,662	25,219
Cash flows from investing activities	(43,768)	(25,665)	(8,918)	(16,594)
Free cash flows	(13,977)	(9,969)	16,744	8,625
Cash flows from financing activities	12,855	9,780	(8,775)	(8,948)
Cash and cash equivalents at end of year	35,401	33,110	40,451	38,811
R&D expenses	8,888	8,463	7,698	8,475
Capital investment	44,584	27,018	9,352	17,519
Depreciation and amortization	23,294	27,850	23,922	19,309

Per share data (yen)

Net assets per share	1,403.24	1,181.28	1,179.82	1,080.61
Basic net income (loss) per share	89.22	(121.51)	(5.78)	(46.82)
Diluted net income per share	82.06	—	—	—
Cash dividends per share	10.00	10.00	10.00	10.00

Financial ratios (%)

Equity ratio	61.6	61.6	58.7	57.4
Return on Equity [ROE]	6.3	(9.4)	(0.5)	(4.1)
Return on Assets [ROA]	7.2	(5.1)	0.9	2.9

Other data

Number of employees [consolidated]	20,117	17,478	17,836	17,267
Number of employees [non-consolidated]	2,905	2,918	2,957	2,988
Greenhouse gas emissions (1,000t-CO ₂ e)				
(Emissions per sales unit)				
Incidence rate of injuries and illness (%)				
Incidence rate of mental health problems (%)				

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)

2012	2013	2014	2015	2016	2017	2018
183,795	192,903	208,222	227,095	240,385	230,716	244,117
(8,010)	4,850	11,358	13,153	23,370	12,385	20,221
(9,070)	7,118	12,192	15,653	22,263	11,200	20,553
(21,599)	1,867	6,989	10,919	14,751	5,428	16,355
208,461	225,991	247,596	265,454	268,380	271,149	289,135
104,400	115,814	128,556	150,856	153,381	154,150	170,118
5,534	19,496	29,724	24,896	38,278	29,692	33,944
(28,945)	(18,157)	(18,947)	(20,964)	(35,374)	(28,806)	(26,918)
(23,411)	1,339	10,777	3,932	2,904	887	7,026
11,388	2,334	8,404	(21,249)	(2,050)	(4,342)	953
26,671	33,280	54,611	41,476	39,944	36,094	43,837
8,068	6,840	7,353	8,237	9,024	10,008	10,574
26,764	20,702	19,126	18,773	41,261	33,161	24,549
19,250	19,832	20,750	21,813	23,767	24,908	25,589
884.70	981.92	1,090.26	1,278.07	1,299.75	1,305.96	1,440.79
(183.70)	15.88	59.38	92.74	125.27	46.08	138.80
—	15.85	58.09	85.51	115.54	42.43	127.88
5.00	10.00	10.00	10.00	15.00	20.00	20.00
49.9	51.1	51.8	56.7	57.1	56.8	58.7
(18.7)	1.7	5.7	7.8	9.7	3.5	10.1
(4.2)	3.3	5.1	6.1	8.3	4.2	7.3
16,194	15,915	16,435	18,262	18,810	18,753	19,011
2,977	2,632	2,572	2,577	2,618	2,586	2,590
	477	458	485	488	493	514
	(2.47)	(2.20)	(2.13)	(2.03)	(2.14)	(2.11)
	N.A.	0.020	0.030	0.030	0.035	0.028
	0.80	0.74	0.85	0.45	0.60	1.15

Financial Review

Outline of Business Performance

In the fiscal year ended March 31, 2018, the business environment surrounding the TAIYO YUDEN Group maintained a tone of moderate recovery for the global economy as a whole. Although the recovery trend is expected to continue going forward, the situation continues to be unpredictable; such as the outlook for China and emerging economies in Asia, the impact of monetary policy in individual countries, and exchange rate trends.

The Group aims to achieve its medium-term targets and management vision by focusing on growth markets such as communication equipment and automotive and industrial equipment centered on the solution business that leverages the Group's core technologies, in addition to cutting-edge products and high reliability products that draw on the Group's strengths of research and development and production technology. Moreover, the Group is strengthening its manufacturing capabilities in order to build a structure that can enhance profitability and meet the future increase in demand for components. In addition to enhancing production capacity, the Group is accelerating improvements in production efficiency by promoting advances in underlying technologies and transforming production methods.

In the communication device market, advances in smart-phone functionality and performance have continued, and demand for capacitors increased. Demand for large, high voltage resistant, high reliability components also increased in the automotive and industrial equipment markets along with the increased use of automotive electrical equipment and the further advance of electronic components in industrial equipment. As a result, sales of capacitors expanded significantly, leading to growth in sales and profit.

Accounting for each of these factors, in the fiscal year ended March 31, 2018, consolidated net sales increased 5.8% compared with the previous fiscal year, to ¥244,117 million.

Meanwhile, the average foreign currency exchange rate for the fiscal year ended March 31, 2018 was US\$1: ¥111.44. This is a depreciation of ¥3.01 compared with the average value of the yen in the previous fiscal year of US\$1: ¥108.43.

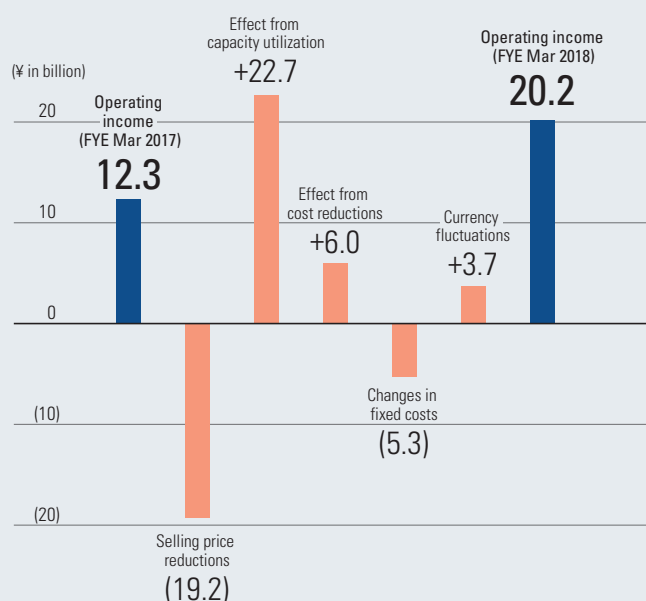
Selling, General and Administrative Expenses

In the fiscal year ended March 31, 2018, selling, general and administrative (SG&A) expenses increased ¥2,762 million compared with the previous fiscal year, to ¥41,730 million. In addition to the upswing in R&D expenses, the main factors for the increase were higher tariffs and commission fees in line with the growth in sales. Despite this increase in SG&A expenses, operating income jumped 63.3% year on year, to ¥20,221 million.

Other Income (Expenses)

In the fiscal year ended March 31, 2018, other expenses - net came to ¥497 million compared with ¥4,878 million in the previous fiscal year. Although TAIYO YUDEN reported an increase in subsidy income as well as other factors including decreases in loss on disposal and sales of property, plant and equipment and business structure improvement expenses, other income was more than offset by other expenses including a loss on foreign exchange. Despite this outcome, net income attributable to owners of the parent surged 201.3% year on year, to ¥16,355 million.

■ Factors behind Operating Income in FYE March 2018



Financial Position

Assets

Total assets as of the end of the fiscal year ended March 31, 2018 stood at ¥289,135 million, up ¥17,986 million compared with the end of the previous fiscal year. Current assets increased ¥17,901 million. This was largely due to upswings in cash and cash equivalents as well as time deposits of ¥9,630 million and trade note and accounts receivable of ¥3,142 million. Fixed assets edged up ¥84 million. Major movements included an increase in investments and other assets of ¥657 million and a decrease in property, plant and equipment of ¥650 million.

Liabilities

Total liabilities stood at ¥119,017 million as of the end of the fiscal year ended March 31, 2018. This was ¥2,017 million higher than the end of the previous fiscal year. While long-term borrowings and short-term borrowings climbed ¥4,826 million and ¥4,274 million, respectively, current portion of long-term borrowings declined ¥5,913 million.

Net Assets

Net assets stood at ¥170,118 million as of March 31, 2018, up ¥15,968 million compared with the end of the previous fiscal year. Principal movements in net assets included an increase of ¥16,355 million on net income attributable to owners of the parent and a decrease of ¥2,356 million on cash dividends.

Status of Cash Flows

Net cash provided by operating activities in the fiscal year ended March 31, 2018 came to ¥33,944 million, up 14.3% compared with the previous fiscal year. The principal cash inflows were income before income taxes of ¥19,724 million as well as depreciation and amortization of ¥25,589 million. The major cash outflows included an increase in trade notes and accounts receivable of ¥3,775 million, an increase in inventories of ¥3,162 million, and income taxes paid of ¥4,515 million.

Net cash used in investing activities amounted to ¥26,918 million, down 6.6% compared with the previous fiscal year. The major cash outflow was purchases of property, plant and equipment of ¥26,549 million.

Net cash provided by financing activities was ¥953 million compared with net cash used in financing activities of ¥4,342 million in the previous fiscal year. The principal cash inflows were proceeds from long-term borrowings of ¥10,000 million and net increase in short-term borrowings of ¥4,456 million. The major cash outflows included repayments of long-term borrowings of ¥11,087 million and payments of cash dividends of ¥2,352 million.

Accounting for each of these activities, cash and cash equivalents stood at ¥43,837 million as of the end of the fiscal year ended March 31, 2018, an increase of ¥7,743 million compared with the end of the previous fiscal year.

Financing from external sources as of March 31, 2018 consisted of ¥20,737 million in short-term borrowings, ¥5,160 million in current portion of long-term borrowings, ¥20,039 million in convertible bonds with stock acquisition rights, and ¥8,882 million in long-term borrowings. In principle, borrowings are procured within Japan at fixed interest rates. Moreover, and to ensure financial stability, TAIYO YUDEN has also established a commitment line of ¥10,000 million effective for three years. The Company has not utilized the commitment line as of the March 31, 2018 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

In the fiscal year ended March 31, 2018, the TAIYO YUDEN Group undertook a total of ¥26,549 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 Financial Statements

Consolidated Balance Sheets

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2018 and 2017

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Current assets:			
Cash and cash equivalents (Note 3)	¥43,838	¥36,095	\$413,564
Time deposits (Note 3)	5,862	3,975	55,304
Receivables:			
Trade notes and accounts receivable (Note 3)	56,934	53,791	537,113
Allowance for doubtful receivables	(279)	(273)	(2,628)
Inventories:			
Merchandise and finished products	19,310	17,281	182,174
Work in process	21,119	19,473	199,234
Raw materials and supplies	11,667	12,025	110,065
Deferred tax assets (Note 8)	2,831	1,084	26,704
Prepaid expenses and other current assets	5,875	5,805	55,427
Total current assets	<u>167,157</u>	<u>149,256</u>	<u>1,576,957</u>
 Property, plant and equipment (Note 14):			
Land	9,422	9,416	88,889
Buildings and structures	81,603	79,287	769,836
Machinery and equipment	245,008	233,806	2,311,394
Tools, furniture and fixtures	22,662	20,936	213,789
Construction in progress	6,501	3,816	61,332
Total	<u>365,196</u>	<u>347,261</u>	<u>3,445,240</u>
Accumulated depreciation	<u>(254,749)</u>	<u>(236,165)</u>	<u>(2,403,293)</u>
Net property, plant and equipment	<u>110,447</u>	<u>111,096</u>	<u>1,041,947</u>
 Investments and other assets:			
Investment securities (Notes 3 and 4)	6,357	5,685	59,974
Investments in affiliate (Note 3)	812	1,076	7,660
Deferred tax assets (Note 8)	1,183	983	11,157
Net defined benefit asset (Note 6)	-	59	-
Other	3,499	3,330	33,008
Allowance for doubtful receivables	(319)	(336)	(3,006)
Total investments and other assets	<u>11,532</u>	<u>10,797</u>	<u>108,793</u>
Total assets	<u>¥289,136</u>	<u>¥271,149</u>	<u>\$2,727,697</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥20,738	¥16,463	\$195,637
Current portion of long-term borrowings (Notes 3 and 5)	5,160	11,074	48,683
Notes and accounts payable:			
Trade notes and accounts payable (Note 3)	25,390	26,735	239,528
Other (Note 3)	12,793	12,259	120,684
Income taxes payable (Notes 3 and 8)	1,685	2,083	15,893
Accrued bonuses for employees	3,663	3,219	34,561
Accrued bonuses for directors	231	76	2,181
Deferred tax liabilities (Note 8)	688	719	6,494
Other	7,808	7,658	73,663
Total current liabilities	<u>78,156</u>	<u>80,286</u>	<u>737,324</u>
Long-term liabilities:			
Long-term borrowings (Notes 3 and 5)	8,883	4,056	83,800
Convertible bonds with stock acquisition rights (Notes 3 and 5)	20,039	20,054	189,050
Net defined benefit liability (Note 6)	2,866	3,208	27,037
Accrued retirement benefits for directors and corporate auditors	132	126	1,241
Deferred tax liabilities (Note 8)	6,324	4,892	59,658
Other	2,617	4,377	24,693
Total long-term liabilities	<u>40,861</u>	<u>36,713</u>	<u>385,479</u>
Total liabilities	<u>119,017</u>	<u>116,999</u>	<u>1,122,803</u>
Net assets (Note 7):			
Shareholders' equity:			
Common stock			
Authorized - 300,000,000 shares			
Issued - 120,481,395 shares in 2018 and 2017	23,557	23,557	222,238
Capital surplus	41,518	41,519	391,682
Retained earnings (Note 16)	113,984	99,985	1,075,323
Treasury stock, at cost - 2,645,260 shares in 2018 and 2,650,804 shares in 2017	(3,302)	(3,309)	(31,159)
Total shareholders' equity	<u>175,757</u>	<u>161,752</u>	<u>1,658,084</u>
Accumulated other comprehensive income:			
Net unrealized holding gains (losses) on securities	2,896	2,239	27,321
Deferred gains (losses) on hedges	(15)	21	(146)
Foreign currency translation adjustments	(9,029)	(9,762)	(85,176)
Adjustment in defined benefit obligation of overseas subsidiaries	168	(368)	1,583
Total accumulated other comprehensive income	<u>(5,980)</u>	<u>(7,870)</u>	<u>(56,418)</u>
Stock acquisition rights (Note 12)	<u>342</u>	<u>268</u>	<u>3,228</u>
Total net assets	<u>170,119</u>	<u>154,150</u>	<u>1,604,894</u>
Total liabilities and net assets	<u>¥289,136</u>	<u>¥271,149</u>	<u>\$2,727,697</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net sales (Note 14)	¥244,117	¥230,717	\$2,302,994
Cost of sales	182,165	179,363	1,718,539
Gross profit	61,952	51,354	584,455
Selling, general and administrative expenses	41,730	38,969	393,684
Operating income	20,222	12,385	190,771
Other income (expenses)			
Interest and dividend income	396	317	3,735
Interest expense	(239)	(243)	(2,254)
Equity in losses of affiliate	(264)	(301)	(2,491)
Loss on foreign exchange	(1,649)	(1,257)	(15,560)
Depreciation of inactive noncurrent assets	(207)	(474)	(1,949)
Gain on sales of property, plant and equipment	21	57	203
Loss on disposal and sales of property, plant and equipment	(358)	(672)	(3,377)
Loss on valuation of investment securities (Note 4)	(0)	(160)	(4)
Impairment loss on property, plant and equipment (Note 10)	(396)	(749)	(3,737)
Business structure improvement expenses (Note 6)	-	(2,194)	-
Subsidy income	2,058	848	19,416
Gain on liquidation of subsidiaries and affiliates	-	40	-
Head office transfer cost	(96)	(15)	(904)
Other	237	(75)	2,234
Other income (expenses) - net	(497)	(4,878)	(4,688)
Income before income taxes	19,725	7,507	186,083
Income taxes (Note 8)			
Current	(4,114)	3,688	(38,806)
Deferred	744	(1,611)	7,020
Total income taxes	(3,370)	2,077	(31,786)
Net income	16,355	5,430	154,297
Net income attributable to non-controlling interests	-	1	-
Net income attributable to owners of the parent	¥16,355	¥5,429	\$154,297
	Yen		U.S. Dollars (Note 1)
Per share of common stock (Note 15):	2018	2017	2018
Basic earnings	¥138.80	¥46.08	\$1.31
Diluted earnings	127.88	42.43	1.21
Cash dividends applicable to the year	20.00	20.00	0.19

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net income	¥16,355	¥5,430	\$154,297
Other comprehensive income (Note 13):			
Net unrealized holding gains (losses) on securities	657	1,171	6,195
Deferred gains (losses) on hedges	(36)	15	(346)
Foreign currency translation adjustments	733	(3,633)	6,921
Adjustment in defined benefit obligation of overseas subsidiaries	536	109	5,058
Total other comprehensive income	1,890	(2,338)	17,828
Comprehensive income	<u>¥18,245</u>	<u>¥3,092</u>	<u>\$172,125</u>
Total comprehensive income attributable to:			
Owners of the parent	¥18,245	¥3,085	\$172,125
Non-controlling interests	-	7	-

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2018 and 2017

	Thousands	Millions of Yen				
	Number of Shares of Common Stock Issued	Shareholders' Equity				Total Shareholders' Equity
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost		
BALANCE, APRIL 1, 2017	120,481	¥23,557	¥41,519	¥99,985	¥(3,309)	¥161,752
Changes during the year						
Cash dividends, 20.00 yen per share			(2,356)			(2,356)
Net income attributable to owners of the parent			16,355			16,355
Treasury stock acquired (456shares)				(1)		(1)
Treasury stock disposed (6,000shares)			(1)	8		7
Changes other than shareholders' equity						
Total changes	-	-	(1)	13,999	7	14,005
BALANCE, MARCH 31, 2018	120,481	¥23,557	¥41,518	¥113,984	¥(3,302)	¥175,757

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, 2017	¥2,239	¥21	¥(9,762)	¥(368)	¥(7,870)	¥268	¥ -
Changes during the year							
Cash dividends, 20.00 yen per share							(2,356)
Net income attributable to owners of the parent							16,355
Treasury stock acquired (456shares)							(1)
Treasury stock disposed (6,000shares)							7
Changes other than shareholders' equity	657	(36)	733	536	1,890	74	1,964
Total changes	657	(36)	733	536	1,890	74	15,969
BALANCE, MARCH 31, 2018	¥2,896	¥(15)	¥(9,029)	¥168	¥(5,980)	¥342	¥170,119

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, 2017	\$222,238	\$391,689	\$943,259	\$(31,222)	\$1,525,964
Changes during the year					
Cash dividends, 0.19 dollar per share			(22,233)		(22,233)
Net income attributable to owners of the parent			154,297		154,297
Treasury stock acquired (456shares)				(7)	(7)
Treasury stock disposed (6,000shares)			(7)	70	63
Changes other than shareholders' equity					
Total changes	-	(7)	132,064	63	132,120
BALANCE, MARCH 31, 2018	\$222,238	\$391,682	\$1,075,323	\$(31,159)	\$1,658,084

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, 2017	\$21,126	\$200	\$(92,097)	\$(3,475)	\$(74,246)	\$2,531	\$ -
Changes during the year							
Cash dividends, 0.19 dollar per share							(22,233)
Net income attributable to owners of the parent							154,297
Treasury stock acquired (456shares)							(7)
Treasury stock disposed (6,000shares)							63
Changes other than shareholders' equity	6,195	(346)	6,921	5,058	17,828	697	18,525
Total changes	6,195	(346)	6,921	5,058	17,828	697	150,645
BALANCE, MARCH 31, 2018	\$27,321	\$(146)	\$(85,176)	\$1,583	\$(56,418)	\$3,228	\$1,604,894

See accompanying notes to consolidated financial statements.

	Thousands	Millions of Yen				
	Number of Shares of Common Stock Issued	Shareholders' Equity				Total Shareholders' Equity
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	
BALANCE, APRIL 1, 2016	120,481	¥23,557	¥41,515	¥96,913	¥(3,326)	¥158,659
Changes during the year						
Cash dividends, 20.00 yen per share				(2,357)		(2,357)
Net income attributable to owners of the parent				5,429		5,429
Treasury stock acquired (266shares)					(0)	(0)
Treasury stock disposed (14,000shares)			2		17	19
Change in shareholders' equity of parent arising from transactions with non-controlling			2			2
Changes other than shareholders' equity						
Total changes	-	-	4	3,072	17	3,093
BALANCE, MARCH 31, 2017	120,481	¥23,557	¥41,519	¥99,985	¥(3,309)	¥161,752

	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, 2016	¥1,068	¥6	¥(6,123)	¥(477)	¥(5,526)	¥238	¥10	¥153,381
Changes during the year								
Cash dividends, 20.00 yen per share								(2,357)
Net income attributable to owners of the parent								5,429
Treasury stock acquired (266shares)								(0)
Treasury stock disposed (14,000shares)								19
Change in shareholders' equity of parent arising from transactions with non-controlling								2
Changes other than shareholders' equity	1,171	15	(3,639)	109	(2,344)	30	(10)	(2,324)
Total changes	1,171	15	(3,639)	109	(2,344)	30	(10)	769
BALANCE, MARCH 31, 2017	¥2,239	¥21	¥(9,762)	¥(368)	¥(7,870)	¥268	¥ -	¥154,150

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Operating activities:			
Income before income taxes	¥19,725	¥7,507	\$186,083
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	25,590	24,909	241,411
Impairment loss on property, plant and equipment	396	749	3,737
Business structure improvement expense	-	2,194	-
Head office transfer cost	96	15	904
Increase (decrease) in allowance for doubtful receivables	(12)	(3)	(116)
Increase (decrease) in accrued bonuses for employees	439	(164)	4,144
Increase (decrease) in accrued bonuses for directors	155	(108)	1,459
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	5	(5)	49
Interest and dividend income	(396)	(317)	(3,735)
Interest expense	239	243	2,254
Equity in (earnings) losses of affiliates	264	301	2,491
(Gain) loss on disposal and sales of property, plant and equipment	336	615	3,170
Subsidy income	(1,819)	(613)	(17,156)
Loss on valuation of investment securities	0	160	4
Gain on liquidation of subsidiaries and affiliates	-	(40)	-
Changes in operating assets and liabilities:			
Trade notes and accounts receivables	(3,775)	(3,500)	(35,614)
Inventories	(3,162)	(1,246)	(29,834)
Trade notes and accounts payables	(1,453)	3,595	(13,704)
Other	1,761	1,176	16,610
Subtotal	38,389	35,468	362,157
Interest and dividends received	370	677	3,495
Interest paid	(241)	(240)	(2,271)
Payments for business structure improvement expenses	-	(2,210)	-
Payments for head office transfer cost	(59)	-	(552)
Income taxes paid	(4,515)	(4,003)	(42,599)
Net cash provided by operating activities	33,944	29,692	320,230
Investing activities:			
Purchases of property, plant and equipment	(26,550)	(31,553)	(250,468)
Proceeds from sales of property, plant and equipment	70	90	665
Decrease (increase) in time deposits	(1,840)	1,840	(17,361)
Proceeds from sales of investment securities	56	92	525
Proceeds from subsidy income	1,419	609	13,382
Proceeds from liquidation of subsidiaries and affiliates	-	150	-
Other	(73)	(34)	(691)
Net cash used in investing activities	(26,918)	(28,806)	(253,948)
Financing activities:			
Net increase (decrease) in short-term borrowings	4,457	4,608	42,045
Proceeds from long-term borrowings	10,000	-	94,340
Repayments of long-term borrowings	(11,087)	(6,216)	(104,595)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(10)	-
Purchases of treasury stock	(1)	(0)	(7)
Payments of cash dividends	(2,352)	(2,351)	(22,193)
Repayments of lease obligations	(63)	(374)	(591)
Other	0	0	0
Net cash provided by (used in) financing activities	954	(4,343)	8,999
Effect of exchange rate changes on cash and cash equivalents	(237)	(392)	(2,233)
Net increase (decrease) in cash and cash equivalents	7,743	(3,849)	73,048
Cash and cash equivalents, beginning of year	36,095	39,944	340,516
Cash and cash equivalents, end of year	¥43,838	¥36,095	\$413,564

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TAIYO YUDEN CO., LTD. and Subsidiaries
March 31, 2018 and 2017

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 aspects 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, 2018, which was 106 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. As of March 31, 2018 and 2017, the number of consolidated subsidiaries was 26. As of March 31, 2018 and 2017, the number of equity-method affiliates was 1. Significant intercompany accounts, transactions and unrealized profits have been eliminated in consolidation.

The difference between cost of the Company's investment securities in subsidiaries and its equity in their net assets at the dates of acquisition ("equivalents amount of goodwill") is being amortized within the subsequent 20 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, 2018 and 2017 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:

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, and facilities attached to buildings and structures, which were acquired since April 1, 2016. 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**
 Leased assets are depreciated over the leased term by the straight-line method with no residual value.
- (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 10,574 million yen (99,757 thousand dollar) and 10,008 million yen for the years ended March 31, 2018 and 2017, 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 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, 2018 and 2017 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, 2018 and 2017 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) Change in Accounting Policies

Due to amendments to the Japanese Corporation Tax Act, the Company and its consolidated domestic subsidiaries have applied "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practice Issue Task Force No.32, June 17, 2016 (hereinafter, "PITF No.32")) from the year ended March 31, 2017 and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired since April 1, 2016, from the declining balance method to the straight line method. Impact of this change to the consolidated financial statements was immaterial.

(19) New Accounting Standards Not Yet Applied

Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, revised on February 16, 2018), and Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, revised on February 16, 2018)

(1) Outline

In the course of transferring practical guidance related to accounting for income tax effects prescribed by the Japanese Institute of Certified Public Accountants to ASBJ, the ASBJ basically followed the contents and made required modifications to the "Implementation Guidance on Tax Effect Accounting", etc.

(Major modified accounting treatments)

- Treatment of taxable temporary differences relating to subsidiary shares in non-consolidated financial statements
- Treatment of recoverability of deferred tax assets for entities fall under Category 1

(2) Scheduled date of adoption

The Company plans to apply the guidance from the beginning of the fiscal year ending March 31, 2019.

(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.

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018), and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Outline

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board of the United States of America ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS No. 15, issued by IASB and Topic 606, issued by FASB) in May 2014. Considering the situation that IFRS No.15 has become applicable from the fiscal year beginning on and after January 1, 2018 and Topic 606 from the fiscal year beginning after December 15, 2017, ASBJ developed a comprehensive accounting standard for revenue recognition and issued it together with implementation guidance.

ASBJ's basic policy in developing the accounting standard for revenue recognition was to establish accounting standards as a starting point to adopt basic principles of IFRS No. 15 from the viewpoint of comparability of financial statements which is one of benefits of maintaining consistency with IFRS No. 15, and to add alternative treatments to the extent not to impair comparability in cases where previous practices and others in Japan should be considered

(2) Scheduled date of adoption

The Company plans to apply the guidance from the beginning of the fiscal year ending March 31, 2022.

(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.

(20) 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, "Head office transfer cost" amounts to 15 million yen was included in "Other" in other income (expenses) of consolidated statements of income for the year ended March 31, 2017. However, the Company has changed its method of presentation to state separately "Head office transfer cost" as it is material from this fiscal year. The consolidated financial statements for the year ended March 31, 2017 were rearranged in order to reflect the changes to presentation.

(Consolidated Statements of Cash Flows)

Previously, "Head office transfer cost" amounts to 15 million yen was included in "Other" in operating activities of consolidated statements of cash flows for the year ended March 31, 2017. However, the Company has changed its method of presentation to state separately "Head office transfer cost" as it is material from this fiscal year. The consolidated financial statements for the year ended March 31, 2017 were rearranged in order to reflect the changes to presentation.

(21) Additional information

Effective from the year ended March 31, 2017, the Company and its consolidated domestic subsidiaries have applied "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")).

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 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 department executes derivative transactions, and manages them by recording details of transactions and checking balances with counterparties.

A manager of finance department reports the 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, 2018 and 2017 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			
2018			
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	¥49,700	¥49,700	-
(2) Trade notes and accounts receivable	56,934	56,934	-
(3) Investment securities:			
1) Available-for-sale securities	6,286	6,286	-
2) Investments in affiliate	792	1,620	¥828
Total assets	¥113,712	¥114,540	¥828
(4) Trade notes and accounts payable	25,390	25,390	-
(5) Short-term borrowings	20,738	20,738	-
(6) Other accounts payable	12,793	12,793	-
(7) Income taxes payable	1,685	1,685	-
(8) Convertible bonds with stock acquisition rights	20,039	22,175	¥2,136
(9) Long-term borrowings (*1)	14,043	13,936	(107)
Total liabilities	¥94,688	¥96,717	¥2,029
(10) Derivative transactions (*2)	¥579	¥579	-

Millions of yen			
2017			
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	¥40,070	¥40,070	-
(2) Trade notes and accounts receivable	53,791	53,791	-
(3) Investment securities:			
1) Available-for-sale securities	5,564	5,564	-
2) Investments in affiliate	1,056	1,320	¥264
Total assets	¥100,481	¥100,745	¥264
(4) Trade notes and accounts payable	26,735	26,735	-
(5) Short-term borrowings	16,463	16,463	-
(6) Other accounts payable	12,259	12,259	-
(7) Income taxes payable	2,083	2,083	-
(8) Convertible bonds with stock acquisition rights	20,054	21,150	¥1,096
(9) Long-term borrowings (*1)	15,130	15,121	(9)
Total liabilities	¥92,724	¥93,811	¥1,087
(10) Derivative transactions (*2)	¥399	¥399	-

Thousands of U.S. dollars			
2018			
	Book value	Fair value	Difference
(1) Cash, cash equivalents and time deposits	\$468,868	\$468,868	-
(2) Trade notes and accounts receivable	537,113	537,113	-
(3) Investment securities:			
1) Available-for-sale securities	59,303	59,303	-
2) Investments in affiliate	7,472	15,283	\$7,811
Total assets	\$1,072,756	\$1,080,567	\$7,811
(4) Trade notes and accounts payable	239,528	239,528	-
(5) Short-term borrowings	195,637	195,637	-
(6) Other accounts payable	120,684	120,684	-
(7) Income taxes payable	15,893	15,893	-
(8) Convertible bonds with stock acquisition rights	189,050	209,198	\$20,148
(9) Long-term borrowings (*1)	132,483	131,486	(997)
Total liabilities	\$893,275	\$912,426	\$19,151
(10) Derivative transactions (*2)	\$5,462	\$5,462	-

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

(*2) Derivatives transactions are stated in net of assets and 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 on reasonably calculated value.

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 U.S. dollars
	2018	2017	2018
	Book value	Book value	Book value
Unlisted equity securities	¥2	¥3	\$21
Investments in affiliate	20	20	189
Equities of limited liability partnerships for investment business and of other similar partnerships	69	118	649

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, 2018 and 2017 for monetary assets and investment securities

		Millions of yen	
		2018	
		Within 1 year	Over 1 year and within 5 year
Cash, cash equivalents and time deposits		¥49,650	-
Trade notes and accounts receivable		56,934	-

		Millions of yen	
		2017	
		Within 1 year	Over 1 year and within 5 year
Cash, cash equivalents and time deposits		¥39,997	-
Trade notes and accounts receivable		53,791	-

		Thousands of U.S. dollars	
		2018	
		Within 1 year	Over 1 year and within 5 year
Cash, cash equivalents and time deposits		\$468,400	-
Trade notes and accounts receivable		537,113	-

4. DEBT AND EQUITY SECURITIES**(1) Available-for-sale securities**

Millions of Yen			
2018			
	Book value	Acquisition cost	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	¥6,139	¥2,511	¥3,628
Other	81	42	39
Subtotal	¥6,220	¥2,553	¥3,667
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	¥66	¥103	¥(37)
Other	-	-	-
Subtotal	¥66	¥103	¥(37)
Total	¥6,286	¥2,656	¥3,630
Millions of Yen			
2017			
	Book value	Acquisition cost	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	¥5,415	¥2,521	¥2,894
Other	68	42	26
Subtotal	¥5,483	¥2,563	¥2,920
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	¥81	¥103	¥(22)
Other	-	-	-
Subtotal	¥81	¥103	¥(22)
Total	¥5,564	¥2,666	¥2,898
Thousands of U.S. Dollars			
2018			
	Book value	Acquisition cost	Unrealized Gain/loss
Securities for which book value of consolidated balance sheets exceeds acquisition cost			
Stock	\$57,918	\$23,688	\$34,230
Other	764	399	365
Subtotal	\$58,682	\$24,087	\$34,595
Securities for which book value of consolidated balance sheets does not exceed acquisition cost			
Stock	\$621	\$975	\$(354)
Other	-	-	-
Subtotal	\$621	\$975	\$(354)
Total	\$59,303	\$25,062	\$34,241

(2) Impaired securities

For the years ended March 31, 2018 and 2017, the Company recorded an impairment loss on "Available-for-sale securities". The Company recorded impairment loss of 0 million yen (4 thousand dollar), 160 million yen respectively. The loss in the year ended March 2018 and 2017 is all for other marketable securities.

The Company posts an 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, 2018 and 2017 principally consist of borrowings from banks at average annual rates of approximately 0.69% and 0.67% respectively.

Long-term debts at March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Long-term borrowings from banks and other financial institutions			
Due within one year, weighted average interest rate 0.46% at March 31 2018, and 0.84% at March 31, 2017	¥5,160	¥11,074	\$48,683
Due after one year, weighted average interest rate 0.54% at March 31, 2018, and 0.53% at March 31, 2017	8,883	4,056	83,800
Euro Yen zero coupon convertible bonds due 2021			
Due within one year	-	-	-
Due after one year	20,000	20,000	188,679
Lease liabilities			
Due within one year	59	63	556
Due after one year	169	228	1,591
Total	34,271	35,421	323,309
Less current portion	(5,219)	(11,137)	(49,239)
Long-term debts, less current portion	¥29,052	¥24,284	\$274,070

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, 2018 and 2017 were 2,058.5 yen (19.42 dollar) and 2,066 yen.

The aggregate annual maturities of long-term debts other than lease liabilities as of March 31, 2018 are as follows:

For the year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥5,160	\$48,683
2020	2,465	23,251
2021	22,664	213,812
2022	2,464	23,241
2023	1,237	11,670
2024 and thereafter	53	505
Total	¥34,043	\$321,162

The annual maturities of lease liabilities as of March 31, 2018 are as follows:

For the year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥59	\$556
2020	27	255
2021	18	173
2022	19	177
2023	17	163
2024 and thereafter	88	823
Total	¥228	\$2,147

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, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Defined benefit obligation at beginning of year	¥4,670	¥4,735	\$44,055
Service costs	610	686	5,755
Interest cost	122	118	1,149
Actuarial (gain) loss	(620)	(146)	(5,852)
Benefits paid	(232)	(719)	(2,190)
Other	(105)	(4)	(986)
Defined benefit obligation at end of year	<u>¥4,445</u>	<u>¥4,670</u>	<u>\$41,931</u>

(2) The reconciliation of plan assets for the years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Fair value of plan assets at beginning of year	¥1,521	¥1,620	\$14,345
Interest income	50	53	469
Actuarial gain (loss)	(24)	(49)	(230)
Employer's contribution	175	403	1,652
Benefits paid	(79)	(454)	(748)
Other	(64)	(52)	(594)
Fair value of plan assets at end of year	<u>¥1,579</u>	<u>¥1,521</u>	<u>\$14,894</u>

(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, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefits obligation	¥1,823	¥1,924	\$17,194
Plan assets	<u>(1,579)</u>	<u>(1,521)</u>	<u>(14,894)</u>
	244	403	2,300
Unfunded defined benefits obligation	<u>2,622</u>	<u>2,746</u>	<u>24,737</u>
Total net liability (asset) for retirement benefit	<u>¥2,866</u>	<u>¥3,149</u>	<u>\$27,037</u>
Net defined benefit liability	¥2,866	¥3,208	\$27,037
Net defined benefit asset	-	(59)	-
Total net liability (asset) for retirement benefit	<u>¥2,866</u>	<u>¥3,149</u>	<u>\$27,037</u>

- (4) Components of retirement benefit costs for the years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service costs	¥610	¥686	\$5,755
Net interest	72	64	680
Amortization of actuarial differences	45	59	428
Total retirement benefit cost for the fiscal year	<u>¥727</u>	<u>¥809</u>	<u>\$6,863</u>

i) 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.

ii) Other than the above retirement benefit costs in defined benefit pension plan, overseas subsidiaries record voluntary retirements cost amounts to 2,210 million yen as "Business structure improvement expenses" in Other expense for the year ended March 31, 2017.

- (5) Adjustments in defined benefit obligation of overseas subsidiaries, excluding the income tax effect accounting, for the years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Actuarial differences	¥632	¥155	\$5,960

- (6) Accumulated amounts of adjustments in defined benefit obligation of overseas subsidiaries, excluding the income tax effect, as of March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial differences	¥253	¥(379)	\$2,384

- (7) Plan assets

(i) The proportions of plan assets as of March 31, 2018 and 2017 are as follows:

	2018	2017	
Debt securities	63	64	%
Equity securities	17	19	
Cash and deposit with bank	16	11	
Other	4	6	
Total	<u>100</u>	<u>100</u>	%

76% and 76% of plan assets are retirement benefit trusts established for lump-sum retirement plans as of March 31, 2018 and 2017, respectively.

(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

	2018		2017	
Discount rates (overseas subsidiaries)	2.20 - 7.27	%	1.90 - 5.05	%
Expected rate of salary increase	2.41 - 5.00	%	2.24 - 5.00	%

- b. Defined contribution pension plans

The required contribution amounts to the defined contribution pension plans by the Companies were 1,284 million yen (12,110 thousand dollar) and 1,241 million yen for the year ended March 31, 2018 and 2017, 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, 2018 and 2017 were comprised of (1) a corporation tax at the rate of 24.4% on taxable income, (2) enterprise tax of approximately 4% on taxable income and (3) prefectural and residence taxes of approximately 16% 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, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets			
Inventories	¥1,362	¥956	\$12,849
Accrued expenses	271	266	2,552
Retirement benefits	1,682	1,774	15,870
Net defined benefit liability	757	774	7,140
Enterprise tax payables	141	328	1,329
Accrued bonuses	1,088	969	10,263
Investment securities	732	808	6,909
Excess depreciation	1,240	970	11,696
Lump-sum depreciable assets	167	312	1,579
Allowance for doubtful receivables	142	94	1,337
Unused tax loss carry-forward	11,399	14,652	107,538
Other	1,066	1,493	10,050
Subtotal	20,047	23,396	189,112
Valuation allowance	(15,695)	(21,035)	(148,061)
Offset	(338)	(294)	(3,190)
Total deferred tax assets	¥4,014	¥2,067	\$37,861
Deferred tax liabilities			
Undistributed earnings of foreign subsidiaries	¥3,779	¥2,315	\$35,651
Inventories	659	650	6,217
Reserves	729	730	6,877
Unrealized holding gains on investment securities	756	702	7,130
Other	1,427	1,508	13,467
Offset	(338)	(294)	(3,190)
Total deferred tax liabilities	¥7,012	¥5,611	¥66,152

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

	2018	2017
Statutory tax rate	30.7 %	30.7 %
(Reconciliations)		
Differences in statutory tax rates of foreign subsidiaries	(5.8)	(11.2)
Undistributed earnings of foreign subsidiaries	7.4	(16.0)
Valuation allowance	(21.4)	10.3
Foreign tax	2.1	1.0
Unrealized profit included in inventories	1.8	(0.8)
Decrease of deferred tax assets and liabilities due to income tax rates change	—	(2.0)
Non-deductible expenses	1.4	11.6
Others - net	0.9	4.1
Effective income tax rate	17.1 %	27.7 %

9. LEASE TRANSACTIONS

Operating Lease

The amounts of non-cancellable future lease payments as of March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Future lease payments			
Within one year	¥204	¥164	\$1,925
Over one year	617	381	5,823
Total	<u>¥821</u>	<u>¥545</u>	<u>\$7,748</u>

10. 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, 2018, the Companies recognized impairment loss on property, plant and equipment as follows:

Classification	Description	Location	Millions of Yen	Thousands of U.S. Dollars
Machinery and Equipment	Idle assets	Nakanojo factory (Nakanojo town, Gunma)	¥313	\$2,951
		Yawatabara factory (Takasaki city, Gunma)		
		Others		
Others	Idle assets	Inami town, Wakayama	83	786
		Others		
	Total		<u>¥396</u>	<u>\$3,737</u>

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, 2017, the Companies recognized impairment loss on property, plant and equipment as follows:

Classification	Description	Location	Millions of Yen
Machinery and Equipment	Idle assets	Nakanojo factory (Nakanojo town, Gunma)	¥613
		Yawatabara factory (Takasaki city, Gunma)	
		Others	
Buildings and structures	Idle assets	Haruna factory (Takasaki city, Gunma)	101
		Others	
Others	Idle assets	Takasaki global center (Takasaki city, Gunma)	35
		Haruna (Takasaki city, Gunma)	
		Others	
	Total		<u>¥749</u>

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.

11. DERIVATIVE TRANSACTIONS

The fair values of derivatives held by the Companies as of March 31, 2018 and 2017 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			
	2018			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:				
Selling: U.S. Dollar	¥23,589	-	¥617	¥617
Foreign exchange forward contracts:				
Buying: U.S. Dollar	¥1,614	-	¥(22)	¥(22)

	Millions of Yen			
	2017			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:				
Selling: U.S. Dollar	¥28,483	-	¥383	¥383
Foreign exchange forward contracts:				
Buying: U.S. Dollar	¥2,256	-	¥(14)	¥(14)

	Thousands of U.S. Dollars			
	2018			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:				
Selling: U.S. Dollar	\$222,541	-	\$5,819	\$5,819
Foreign exchange forward contracts:				
Buying: U.S. Dollar	\$15,223	-	\$(211)	\$(211)

(2) Derivative transactions for which hedge accounting is applied

		Millions of Yen		
		2018		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts:	Future transaction			
Selling: U.S. Dollar		¥5,252	-	¥(20)
Foreign exchange forward contracts:	Future transaction			
Buying: U.S. Dollar		¥1,584	-	¥4
Interest-rate swaps:	Long-term borrowings			
Fixed interest payment and floating interest receipt		-	-	-

		Millions of Yen		
		2017		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts:	Future transaction			
Selling: U.S. Dollar		¥7,300	-	¥42
Foreign exchange forward contracts:	Future transaction			
Buying: U.S. Dollar		¥1,691	-	¥(12)
Interest-rate swaps:	Long-term borrowings			
Fixed interest payment and floating interest receipt		¥10,000	-	-

		Thousands of U.S. Dollars		
		2018		
		Contract amount	Due after one year	Fair value
Foreign exchange forward contracts:	Future transaction			
Selling: U.S. Dollar		\$49,550	-	\$(184)
Foreign exchange forward contracts:	Future transaction			
Buying: U.S. Dollar		\$14,945	-	\$38
Interest-rate swaps:	Long-term borrowings			
Fixed interest payment and floating interest receipt		-	-	-

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 borrowings.

12. 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 81 million yen (760 thousand dollar) and 53 million yen were recognized in selling, general and administrative expenses in 2018 and 2017, respectively.

For the years ended March 31, 2018 and 2017, 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 (0.07)% in 2018, (0.39)% in 2017, dividends per share of 20 yen (0.19 dollar) in 2018, 15 yen in 2017, and volatility factor of the expected market value of the Company's common stock of 45.3% in 2018, 45.8% in 2017, determined by weekly historical price for the past 5.0 years in 2018, 6.0 years in 2017, which is the same period as expected life of the option.

A summary of the Company's stock options outstanding at March 31, 2018 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, 2017 (share)	3,000	6,000	6,000	6,000
Granted (share)	-	-	-	-
Exercised (share)	-	-	-	-
Forfeited/Expired (share)	-	-	-	-
Options outstanding at March 31, 2018 (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, 2017 (share)	9,000	13,000	13,000	3,000
Granted (share)	-	-	-	-
Exercised (share)	-	-	-	-
Forfeited/Expired (share)	-	-	-	-
Options outstanding at March 31, 2018 (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, 2017 (share)	17,000	37,000	49,000	2,000
Granted (share)	-	-	-	-
Exercised (share)	-	2,000	2,000	-
Forfeited/Expired (share)	-	-	-	-
Options outstanding at March 31, 2018 (share)	17,000	35,000	47,000	2,000

Date of resolution	June 29, 2016	June 29, 2017
Date of grant	July 15, 2016	July 18, 2017
Number of options	64,000 shares of Common stock	61,000 shares of Common stock
Exercise price	¥1	¥1
Exercise period	From July 15, 2016 to July 14, 2036	From July 18, 2017 to July 17, 2037
Fair value (per share)	¥834	¥1,762
Options outstanding at March 31, 2017 (share)	64,000	-
Granted (share)	-	61,000
Exercised (share)	2,000	-
Forfeited/Expired (share)	-	-
Options outstanding at March 31, 2018 (share)	62,000	61,000

13. COMPREHENSIVE INCOME

Reclassification and income tax effects attributable to other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holding gains (losses) on securities:			
Gains (losses) arising during the year	¥711	¥1,470	\$6,703
Reclassifications and adjustments	-	6	-
Before income tax effects	711	1,476	6,703
Income tax effects	(54)	(305)	(508)
Net unrealized holding gains (losses) on securities	657	1,171	6,195
Deferred gains (losses) on hedges:			
Losses arising during the year	(17)	(274)	(167)
Reclassifications and adjustments	(28)	296	(268)
Before income tax effects	(45)	22	(435)
Income tax effects	9	(7)	89
Deferred gains (losses) on hedges	(36)	15	(346)
Foreign currency translation adjustments:			
Adjustments arising during the year	733	(3,690)	6,921
Reclassifications and adjustments	-	40	-
Before income tax effects	733	(3,650)	6,921
Income tax effects	-	17	-
Foreign currency translation adjustments	733	(3,633)	6,921
Adjustment in defined benefit obligation of overseas subsidiaries:			
Gains (losses) arising during the year	587	97	5,532
Reclassifications and adjustments	45	58	428
Before income tax effects	632	155	5,960
Income tax effects	(96)	(46)	(902)
Adjustment in defined benefit obligation of overseas subsidiaries	536	109	5,058
Total other comprehensive income	¥1,890	¥(2,338)	\$17,828

14. 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.

The Companies have omitted the disclosure of segment information since the Companies have single segment.

(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				
2018				
Capacitors	Ferrite and applied products	Integrated modules & devices	Others	Total
¥142,858	¥40,977	¥56,838	¥3,444	¥244,117
Millions of Yen				
2017				
Capacitors	Ferrite and applied products	Integrated modules & devices	Others	Total
¥117,666	¥41,273	¥65,581	¥6,197	¥230,717
Thousands of U.S. dollars				
2018				
Capacitors	Ferrite and applied products	Integrated modules & devices	Others	Total
\$1,347,720	\$386,577	\$536,216	\$32,481	\$2,302,994

(5) Transactions by geographical areas

(i) Sales

Millions of Yen				
2018				
Japan	China	Hong Kong	Other areas	Total
¥23,135	¥100,281	¥36,594	¥84,107	¥244,117

Millions of Yen				
2017				
Japan	China	Hong Kong	Other areas	Total
¥22,115	¥100,326	¥37,460	¥70,816	¥230,717

Thousands of U.S. dollars				
2018				
Japan	China	Hong Kong	Other areas	Total
\$218,252	\$946,047	\$345,226	\$793,469	\$2,302,994

(ii) Property, plant and equipment

Millions of Yen				
2018				
Japan	China	Malaysia	Other areas	Total
¥77,650	¥10,447	¥11,597	¥10,753	¥110,447

Millions of Yen				
2017				
Japan	China	Malaysia	Other areas	Total
¥76,716	¥10,907	¥11,596	¥11,877	¥111,096

Thousands of U.S. dollars				
2018				
Japan	China	Malaysia	Other areas	Total
\$732,545	\$98,551	\$109,406	\$101,445	\$1,041,947

(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

The disclosure of Information about amortization and the balance of (negative) goodwill by reportable segments has been omitted since the Companies have single segment.

(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, 2018 and 2017.

15. EARNINGS PER SHARE

Reconciliation of the basic and diluted earnings per share ("EPS") for the years ended March 31, 2018 and 2017 were as follows:

For the year ended March 31, 2018

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Earnings	Weighted Average Shares	EPS	
Basic EPS				
Net income attributable to common shareholders of the parent	¥16,355	117,835	¥138.80	\$1.31
Effect of dilutive securities				
Convertible bonds with stock acquisition rights	(10)	9,716	-	-
Stock acquisition rights	-	268	-	-
Diluted EPS				
Earnings for computation	¥16,345	127,819	¥127.88	\$1.21

For the year ended March 31, 2017

	Millions of Yen	Thousands of Shares	Yen
	Net Earnings	Weighted Average Shares	EPS
Basic EPS			
Net income attributable to common shareholders of the parent	¥5,429	117,826	¥46.08
Effect of dilutive securities			
Convertible bonds with stock acquisition rights	(10)	9,680	-
Stock acquisition rights	-	212	-
Diluted EPS			
Earnings for computation	¥5,419	127,718	¥42.43

16. SUBSEQUENT EVENT

- The following appropriations of retained earnings at March 31, 2018 were approved at the Company's shareholders' meeting held on June 28, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividend, 10.00 yen (0.09 dollar) per share	¥1,178	\$11,117

2. Business Combination through Acquisition

The meeting of the Company's Board of Directors held on February 26, 2018 resolved to conclude an agreement to enter into a capital and business alliance with ELNA CO., LTD. ("ELNA") ("the Capital and Business Alliance Agreement") and to make ELNA into a subsidiary of the Company through the underwriting of a capital increase by way of third-party allotment that ELNA will implement ("the Third-Party Allotment"). The Company completes its payment on April 3, 2018.

(1) Overview of the Business Combination

a. Name of the Acquired Company and Description of the Acquired Business

Name of the Acquired Company: ELNA CO., LTD.

Main operations: Manufacturing and sales of electronic parts (capacitors)

b. Reason for Implementing the Business Combination

The Company is engaged in businesses primarily centered on multilayer ceramic capacitors, inductors, FBAR/SAW devices for mobile communications and functional modules. Most of these products are primarily used in various IT and electronic devices, such as smartphones and PCs. In particular, in recent years we have focused our business expansion efforts on the further adoption of our products in the automotive, industrial, healthcare equipment, and environmental energy markets, all of which are expected to see further market expansion and growth going forward. ELNA's business operations have focused on capacitors for some 80 years since its founding. In particular, ELNA has concentrated on developing products that can demonstrate their high quality and high performance even in environments that require vibration resistance, humidity resistance, voltage resistance, and high and low temperature resistance. ELNA has been promoting product development that can fulfill the needs of its many customers in the automotive and industrial equipment markets.

Given this, in accelerating the global expansion of its business in the automotive, industrial equipment, and environmental energy markets, the Company concluded a capital and business alliance agreement in November 2014 with ELNA, with which it has complementary strengths in products and sales channels. Under this agreement, the Company acquired 15,000,000 Class A preferred shares in ELNA from Japan Industrial Partners II Investment Limited Partnership and Japan Industrial Partners II Parallel Investment Limited Partnership through a share transfer (as of December 16, 2015, the Company exercised its right to request conversion to ordinary shares, thus all of the said Class A preferred shares were converted into 15,000,000 ordinary shares, and the Company has continued to hold the said ordinary shares). In addition, to enhance market competitiveness, and to expand their business, the two companies have worked to cooperate in terms of producing, jointly procuring materials, sharing technological and production expertise, and expanding sales through mutual cooperation, for electric double layered capacitors ("EDLCs") and lithium ion capacitors for automotive, industrial equipment, and environmental energy markets where growth is expected going forward.

The Company has now concluded the Capital and Business Alliance Agreement with ELNA and decided to underwrite the Third-Party Allotment in order to strengthen the collaboration between the two companies even more going forward and to further expand profitability and enhance the associated corporate value by promoting operations based on a medium-to-long term and company-wide common strategy, which resulted to be the Company's subsidiary.

c. Date of the Business Combination

April 3, 2018

d. Legal Form of the Business Combination

Acquisition of shares through the underwriting of a capital increase by way of third-party allotment

e. Name of Company after Combination

No change

f. Percentage of Voting Rights Acquired

Percentage of voting rights owned before the business combination: 22.32%

Percentage of voting rights acquired on the date of the business combination: 41.46%

Percentage of voting rights after the acquisition: 63.78%

g. Main Grounds to Determine Acquiring Company

TAIYO YUDEN acquired 63.78% of voting rights of ELNA through the acquisition of shares for a cash consideration.

(2) Acquisition Cost of the Acquired Company and Breakdown by Type of Consideration

Cash consideration for additional acquisition of common stock: 5,000 million yen (47,170 thousand dollar)

Note: The acquisition cost and gain/loss on the step acquisition have not been finalized yet.

(3) Details and Amounts of Main Acquisition-related Expenses

Advisory fee: 54million yen (513 thousand dollar)

(4) Goodwill Arising from the Business Combination, Reason for the Goodwill, and Method and Period of Amortization

Yet to be finalized.

(5) Assets Received and Liabilities Undertaken on Date of Business Combination and the Principal Components

Yet to be finalized

3. Early Redemption of Convertible Bonds due 2021

The conditions of the early redemption option which allows the Company to redeem all of the outstanding Taiyo Yuden Co., Ltd. YEN20,000,000,000 zero coupon convertible bonds due 2021 (the "Bonds"), contained in the terms and conditions of the Bonds, issued on January 27, 2014, were fulfilled on June 28, 2018. The Company decided to exercise the option and redeem all of the outstanding Bonds early.

- (1) Bonds to be redeemed
Taiyo Yuden Co., Ltd.
YEN20,000,000,000 Zero Coupon Convertible Bonds due 2021
- (2) Early redemption amount
All of the Bonds outstanding
Outstanding amount as of June 30, 2018: 20,000 million yen (188,679 thousand dollar) (face value)
- (3) Early redemption date
August 6, 2018:
- (4) Redemption amount
100% of the face value
- (5) Expected decrease in interest expense
The Bonds bear no interest. No decrease is expected.

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%
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%
TAIYO YUDEN TRADING (THAILAND) CO., LTD.	100.0%

EQUITY-METHOD AFFILIATES

Domestic (Japan)	Ownership
ELNA CO., LTD.	22.3%



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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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 9, 2018
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

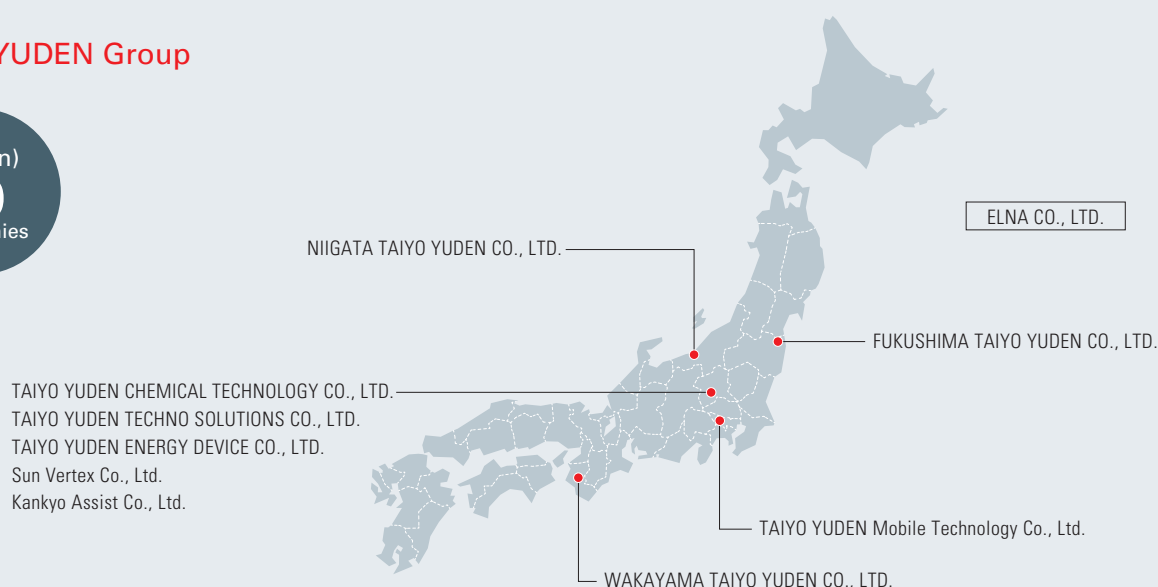
Corporate Data

As of July 1, 2018

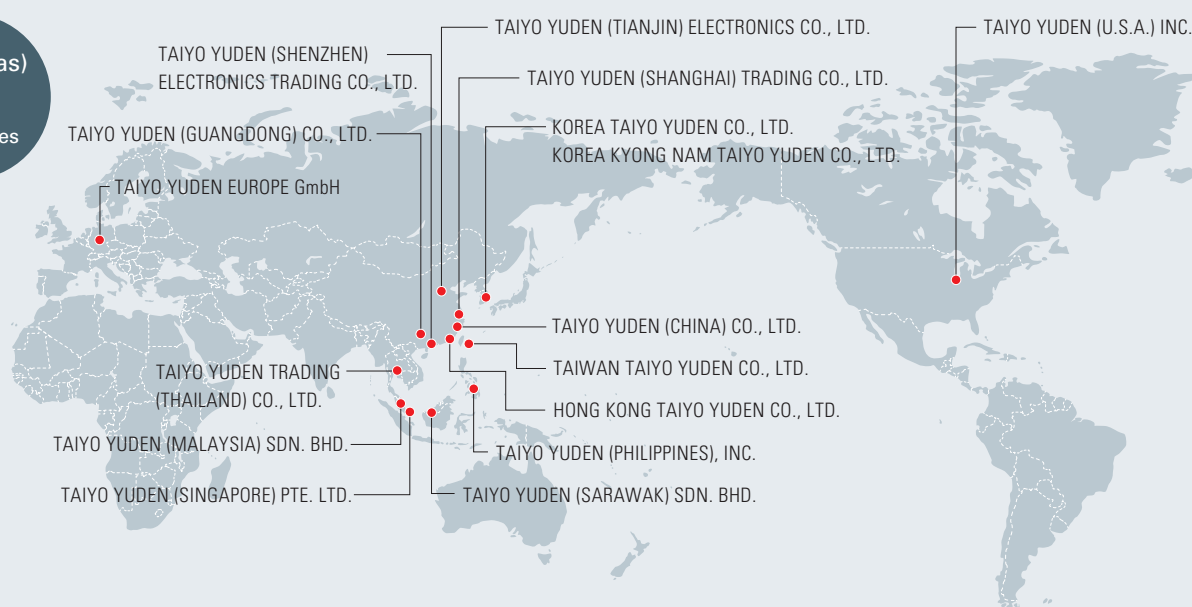
Company name	TAIYO YUDEN CO., LTD.	Paid-in capital	¥23,557 million (as of March 31, 2018)
Head office	2-7-19, Kyobashi, Chuo-ku, Tokyo 104-0031, Japan	Number of employees	19,011 (Consolidated) 2,590 (Non-consolidated) (as of March 31, 2018)
Tel	+81-3-6757-8310	Main products	Ceramic capacitors, inductors, FBAR/SAW devices for mobile communications, functional modules, energy devices, etc.
President and Chief Executive Officer	Shoichi Tosaka		
Date of establishment	March 23, 1950		
URL	http://www.ty-top.com/		

TAIYO YUDEN Group

(Japan)
10
companies



(Overseas)
16
companies



Stock Information

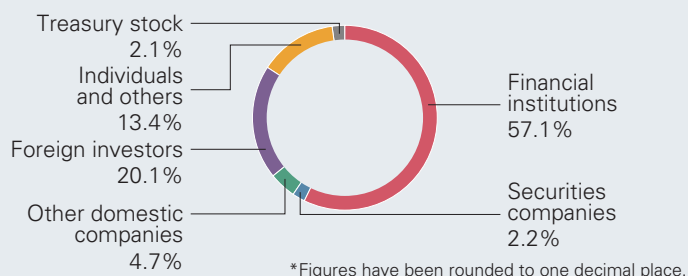
As of March 31, 2018

OTHER INFORMATION

Stock Information

Common stock	Authorized: 300,000,000 Issued: 120,481,395 (Including 2,645,260 shares of treasury stock)
Stock exchange listing	First section of Tokyo Stock Exchange
Securities code	6976
Unit of trading	100 shares
Number of shareholders	17,315

Composition of Shareholders



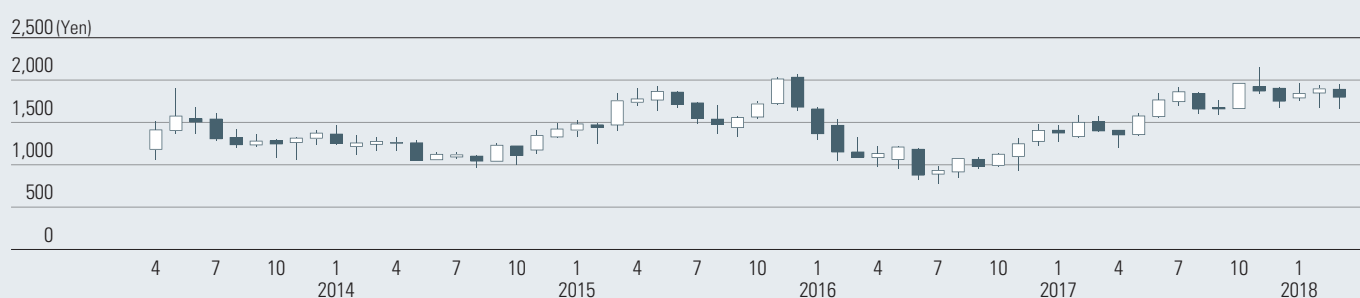
Major Shareholders

Name	Number of shares (hundreds)	Voting rights (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	237,011	20.1
Japan Trustee Services Bank, Ltd. (Trust Account)	115,879	9.8
Japan Trustee Services Bank, Ltd. (Trust Account 9)	71,990	6.1
Sumitomo Mitsui Banking Corporation	40,000	3.3
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	38,868	3.2
The Iyo Bank, Ltd.	30,001	2.5
Sato Traffic Orphan Welfare Fund	19,166	1.6
GOLDMAN, SACHS & CO. REG	17,570	1.4
Japan Trustee Services Bank, Ltd. (Trust Account 5)	17,151	1.4
Nippon Life Insurance Company	16,664	1.4

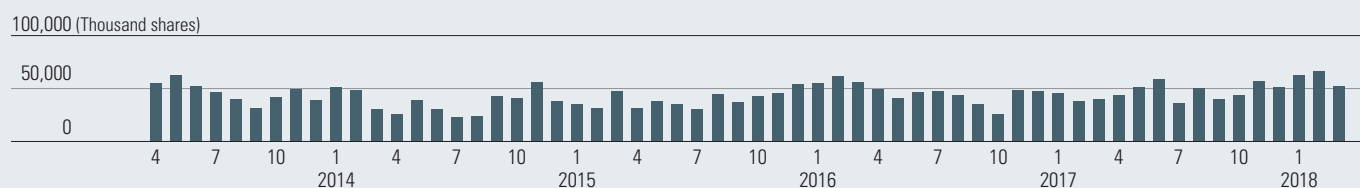
Notes 1. The Company holds 2,645,260 shares of treasury stock; however, this is excluded from the above-mentioned major shareholders.
2. The figures in this table are rounded down.

Stock Price/Trading Volume

Stock price



Trading volume



TAIYO YUDEN CO., LTD.

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