

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:

	Millions of Yen	Thousands of U.S. Dollars
For the year ending March 31		
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:

	Millions of Yen	Thousands of U.S. Dollars
For the year ending March 31		
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	¥4,445	¥4,670	\$41,931

(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	¥1,579	¥1,521	\$14,894

(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	(1,579)	(1,521)	(14,894)
	244	403	2,300
Unfunded defined benefits obligation	2,622	2,746	24,737
Total net liability (asset) for retirement benefit	¥2,866	¥3,149	\$27,037
Net defined benefit liability	¥2,866	¥3,208	\$27,037
Net defined benefit asset	-	(59)	-
Total net liability (asset) for retirement benefit	¥2,866	¥3,149	\$27,037

(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	¥727	¥809	\$6,863

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:

	Millions of Yen		
	2018	2017	
Debt securities	63	64	%
Equity securities	17	19	
Cash and deposit with bank	16	11	
Other	4	6	
Total	100	100	%

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
	2018	2017	U.S. Dollars
Deferred tax assets			2018
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 Others	83	786
	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	Idle assets	Takasaki global center (Takasaki city, Gunma) Haruna (Takasaki city, Gunma) Others	35
	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

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

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

- 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.
- 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.
- 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

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.