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(Securities Code: 6976)
June 6, 2019

To Those Shareholders with Voting Rights:

Shoichi Tosaka
President and Chief Executive Officer
TAIYO YUDEN CO., LTD.
2-7-19, Kyobashi, Chuo-Ku, Tokyo, Japan

# NOTICE OF CONVOCATION OF THE 78TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 78th Ordinary General Meeting of Shareholders of TAIYO YUDEN CO., LTD. (the "Company").

**1. Date and Time:** 2:00 p.m., June 27, 2019 (Thursday) (Reception desk opens at 1:00 p.m.)

**2. Place:** JP Tower Hall & Conference (KITTE 4th Floor) Hall, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo, Japan

**3. Agenda of the Meeting:**

**Matters to be reported:**

Details of the Business Report, the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the 78th Fiscal Term (from April 1, 2018, to March 31, 2019), and results of the audit of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board

**Matters to be resolved:**

**Proposal No. 1:** Appropriation of Surplus

**Proposal No. 2:** Election of Eight (8) Directors

**Proposal No. 3:** Election of Two (2) Audit & Supervisory Board Members

**Proposal No. 4:** Revision of the Amount of Remuneration for Directors

**Proposal No. 5:** Revision of the Amount and Other Terms of Stock Option Remuneration for Directors

Among documents which shall be provided with this Convocation Notice, the following documents are posted on the Company website in accordance with laws and regulations, and Article 14 of the Articles of Incorporation. Therefore, they are not included in the attached documents to this Convocation Notice. The documents attached to this Convocation Notice and the documents listed below were audited in preparing the Auditors' Report by Audit & Supervisory Board Members and Independent Auditors' Report by Accounting Auditors.

- **Issues relating to Share Acquisition Rights**
- **Basic policy on the Control over the Company**
- **Notes to Consolidated Financial Statements, and**
- **Notes to Non-consolidated Financial Statements**

**In case any revisions are made to the Reference Documents for the General Meeting of Shareholders, the Business Report, the Consolidated Financial Statements or the Non-Consolidated Financial Statements after the dispatch of this Convocation Notice up till the day prior to the date of the General Meeting of Shareholders, the revised contents will be disclosed on the following Company website.**

**The Company's website: http://www. ty-top.com/**

**Reference Documents for the General Meeting of Shareholders**

## Proposals and References

### Proposal No. 1: Appropriation of Surplus

The Company considers one of the most important issues for management to be the distribution of plentiful returns to its shareholders, and under the policy to strive to realize a steady increase of dividend, the year-end dividend for the fiscal year under review shall be ¥11 per share as follows.

**Year-end dividend**

1. Type of dividend property:

   Cash

2. Matters regarding the allocation of dividend property to shareholders and its total amount:

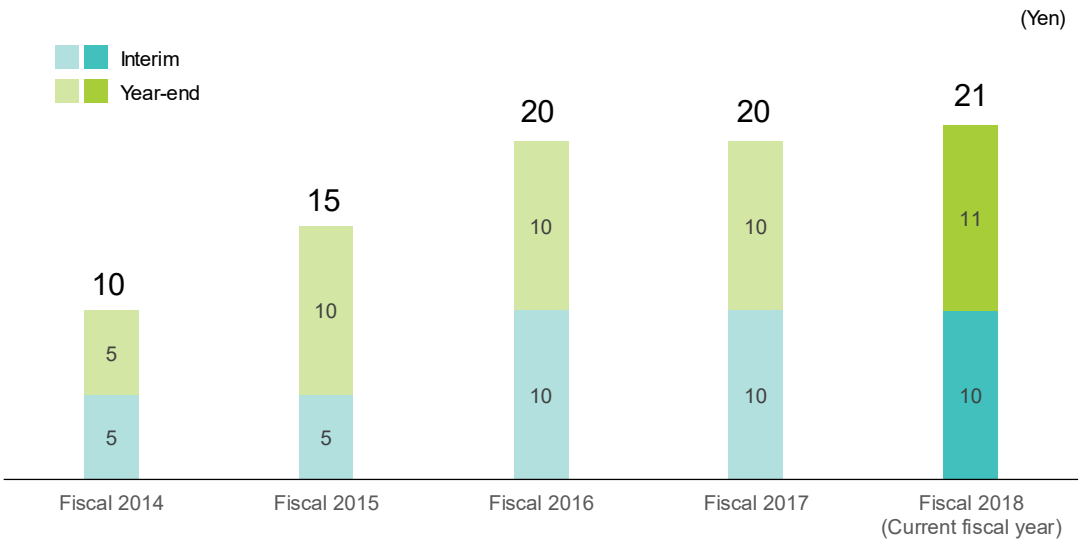
   ¥11 per share (common stock of the Company)

   Total amount: ¥1,404,287,335

3. Effective date for dividends of surplus:

   June 28, 2019

**Dividend per share**




For the basic policy regarding dividends of surplus, etc., refer to page 29.

**Proposal No. 2: Election of Eight (8) Directors**

The terms of office of all of the six (6) Directors will expire at the conclusion of this General Meeting of Shareholders. Therefore, the Company hereby requests that eight (8) Directors be elected to increase the number of Directors by two (2) in order to strengthen the Company's management structure and corporate governance in anticipation of further business expansion of the Group.

The candidates for Director are as follows:

The content of this proposal had been deliberated at the voluntary Nomination Committee chaired by an independent Outside Director. Based on the Committee's opinions, this proposal has been made.

| Candidate No. | Name | | Position and responsibilities | Attendance of meetings of the Board of Directors | Term of office |
|---|---|---|---|---|---|
| 1 | Shoichi Tosaka | Reappointment | President and Chief Executive Officer<br>In charge of R&D/Engineering | 100%<br>(18/18 times) | 13 years |
| 2 | Shinji Masuyama | Reappointment | Director and Senior Executive Operating Officer<br>In charge of Management Planning | 100%<br>(18/18 times) | 6 years |
| 3 | Katsuya Sase | Reappointment | Director and Senior Executive Operating Officer<br>In charge of Electronic Components Business | 100%<br>(18/18 times) | 3 years |
| 4 | Osamu Takahashi | Reappointment | Director and Executive Operating Officer<br>In charge of Integrated Module & Device Business | 100%<br>(18/18 times) | 8 years |
| 5 | Kazuya Umezawa | New appointment | Executive Operating Officer<br>In charge of Sales and New Business Planning and Development | – | – |
| 6 | Masashi Hiraiwa | Reappointment<br>Outside<br>Independent | Outside Director<br>(Independent Director) | 100%<br>(18/18 times) | 3 years |
| 7 | Seiichi Koike | Reappointment<br>Outside<br>Independent | Outside Director<br>(Independent Director) | 100%<br>(13/13 times) | 1 year |
| 8 | Emiko Hamada | New appointment<br>Outside<br>Independent<br>Female | – | – | – |

Notes: 1. Positions and responsibilities above are as of the date when this Notice of Convocation is dispatched.

2. Terms of office shown are as of the conclusion of this Ordinary General Meeting of Shareholders.

3. The attendance of meetings of the Board of Directors of Mr. Seiichi Koike is calculated based on the Board of Directors meetings held after the assumption of office as Director on June 28, 2018.

## 1 Shoichi Tosaka

(Date of birth: August 5, 1955)

| Number of Company shares held | Attendance at meetings of the Board of Directors | Term of office |
|---|---|---|
| 13,700 shares | 100% | 13 years |



Reappointment

**Career summary, position and responsibilities**

| | |
|---|---|
| March 1979 | Joined the Company |
| June 2006 | Director and Senior Operating Officer of the Company |
| April 2007 | Senior Executive Director and Senior Operating Officer of the Company |
| July 2010 | Director and Senior Executive Operating Officer of the Company |
| June 2012 | Director and Executive Operating Officer of the Company |
| April 2015 | Director and Senior Executive Operating Officer of the Company |
| October 2015 | Representative and Senior Executive Operating Officer of the Company |
| **November 2015** | **President and Chief Executive Officer, in charge of R&D/Engineering of the Company (to the present)** |

**Reasons for appointment of candidate for Director**

Having engaged in management of various areas such as the production, R&D/Engineering, quality assurance and corporate business planning divisions, Mr. Shoichi Tosaka has abundant experience and a good track record as a corporate manager and an engineer. Since Mr. Tosaka assumed the post of President and Chief Executive Officer of the Company, he has been striving to transform the business model into a highly profitable one, and with his powerful leadership, has strove to enhance the corporate value to lead the Company to the next step. For these reasons, it was judged that Mr. Tosaka would be able to properly execute such duties as taking management initiatives for the enhancement of corporate value over the medium- to long-term as the top management of the TAIYO YUDEN Group, making important managerial decisions and supervising business execution, and the Company believes utilizing his capabilities will be the best for the Company, therefore he was reappointed as a candidate for Director.

Note: No special interests exist between the Company and Mr. Shoichi Tosaka.

## 2 Shinji Masuyama

(Date of birth: February 28, 1957)

| Number of Company shares held | Attendance at meetings of the Board of Directors | Term of office |
|---|---|---|
| 4,600 shares | 100% | 6 years |



Reappointment

**Career summary, position and responsibilities**

| | |
|---|---|
| March 1980 | Joined the Company |
| January 2004 | Operating Officer of the Company |
| July 2011 | Senior Operating Officer of the Company |
| June 2013 | Director and Senior Operating Officer of the Company |
| April 2015 | Director and Executive Operating Officer of the Company |
| **June 2018** | **Director and Senior Executive Operating Officer, in charge of Management Planning of the Company, Chief of Management Planning Headquarters of the Company (to the present)** |

**Reasons for appointment of candidate for Director**

Mr. Shinji Masuyama has abundant experience and a good track record through practical business in various areas such as production system R&D/engineering and business divisions since joining the Company. He presently oversees management planning as Director and Senior Executive Operating Officer, thereby contributing to smooth business operation, risk reduction and the improvement of corporate governance. For these reasons, Mr. Masuyama was reappointed as a candidate for Director, expected to properly execute such duties as the making of important managerial decisions and supervision of business execution as Director.

Note: No special interests exist between the Company and Mr. Shinji Masuyama.

## 3 Katsuya Sase

(Date of birth: January 12, 1964)

| Number of Company shares held | Attendance at meetings of the Board of Directors | Term of office |
|---|---|---|
| 4,400 shares | 100% | 3 years |



Reappointment

**Career summary, position and responsibilities**

| | |
|---|---|
| April 1986 | Joined the Company |
| June 2013 | Operating Officer of the Company |
| April 2015 | Senior Operating Officer of the Company |
| April 2016 | Executive Operating Officer of the Company |
| June 2016 | Director and Executive Operating Officer of the Company |
| **June 2018** | **Director and Senior Executive Operating Officer, in charge of Electronic Components Business, Chief of Electronic Components Headquarters of the Company (to the present)** |

**Reasons for appointment of candidate for Director**

Mr. Katsuya Sase has abundant experience and a good track record through engaging, since joining the Company, in operations in various areas such as the engineering and business divisions and leading the capacitors business, which is the Company's principal business. Presently, as Director and Senior Executive Operating Officer, Mr. Sase makes use of his knowledge and experience as a leading engineering expert by overseeing the electronic components business, thereby contributing to strengthening engineering capability and improving productivity. For these reasons, Mr. Sase was reappointed as a candidate for Director, expected to properly execute such duties as the making of important managerial decisions and supervision of business execution as Director.

Note: No special interests exist between the Company and Mr. Katsuya Sase.

## 4 Osamu Takahashi

(Date of birth: November 25, 1955)

| Number of Company shares held | Attendance at meetings of the Board of Directors | Term of office |
|---|---|---|
| 5,700 shares | 100% | 8 years |



Reappointment

**Career summary, position and responsibilities**

| | |
|---|---|
| March 1980 | Joined the Company |
| April 2003 | Operating Officer of the Company |
| July 2010 | Senior Operating Officer of the Company |
| July 2011 | Director and Senior Operating Officer of the Company |
| **April 2016** | **Director and Executive Operating Officer, in charge of Integrated Module & Device Business, Chief of Integrated Module & Device Business Headquarters of the Company (to the present)** |

**Reasons for appointment of candidate for Director**

Mr. Osamu Takahashi has built up abundant experience and a good track record through practical business, since joining the Company, in various areas, both domestic and overseas, such as engineering, marketing, management and administration, and corporate-planning divisions, and as the president of sales subsidiaries mainly in Taiwan. He is presently contributing to strengthening product competitiveness and the expansion of customers in the Group's Integrated Modules & Devices business as Director and Executive Operating Officer. For these reasons, Mr. Takahashi was reappointed as a candidate for Director, expected to properly execute such duties as the making of important managerial decisions and supervision of business execution as Director.

Note: No special interests exist between the Company and Mr. Osamu Takahashi.

## 5 Kazuya Umezawa

(Date of birth: November 20, 1959)

| Number of Company shares held | Term of office |
|---|---|
| 2,200 shares | – |



New appointment

**Career summary, position and responsibilities**

| | |
|---|---|
| April 1983 | Joined the Company |
| April 2001 | Senior Operating Officer and General Manager of Technology Group of the Company |
| July 2004 | Senior Operating Officer and Chief of Marketing Headquarters of the Company |
| April 2008 | Operating Officer, in charge of Product Structure Reform of the Company |
| April 2012 | Operating Officer, in charge of Supervising New Business Planning and Development of the Company |
| April 2015 | Senior Operating Officer, in charge of New Business Planning and Development of the Company |
| April 2016 | Executive Operating Officer, in charge of Sales of the Company |
| **June 2018** | **Executive Operating Officer, in charge of Sales and New Business Planning and Development, Chief of Sales Headquarters of the Company (to the present)** |

**Reasons for appointment of candidate for Director**

Mr. Kazuya Umezawa has abundant experience and a good track record through practical business in various areas such as sales, marketing, product development, and new business planning since joining the Company. As an Executive Operating Officer, Mr. Umezawa presently supervises sales and new business planning and has helped the Group to enter the automotive components and industrial equipment markets, develop new products, promote solution business, improve product features, and implement cost strategies.

For these reasons, Mr. Umezawa was appointed as a candidate for Director, expected to properly execute such duties as the making of important managerial decisions and supervision of business execution as Director.

Note: No special interests exist between the Company and Mr. Kazuya Umezawa.

## 6 Masashi Hiraiwa

(Date of birth: December 4, 1952)

| Number of Company shares held | Attendance at meetings of the Board of Directors | Term of office | Number of officer positions concurrently held at listed companies |
|---|---|---|---|
| 0 shares | 100% | 3 years | 0 |



Reappointment
Outside
Independent

**Career summary, position and responsibilities**

| | |
|---|---|
| **April 1981** | **Admitted to the Japan Federation of Bar Associations (to the present)** |
| **April 1981** | **Joined OHHARA LAW OFFICE (to the present)** |
| August 2005 | Supervisor of LCP, Inc. (retired in March 2013) |
| October 2012 | Supervisor of Japan Logistics Fund, Inc. (retired in May 2015) |
| **June 2016** | **Outside Director of the Company (to the present)** |

**Significant concurrent positions and relationship with the Company**

| Organizations where concurrent positions are held | Position | Business relationship between the Company and the organizations where concurrent positions are held |
|---|---|---|
| OHHARA LAW OFFICE | Attorney | Not applicable |

**Reasons for appointment of candidate for 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 reappointed as a candidate for Outside Director.

Although Mr. Hiraiwa has not been involved in corporate management in ways other than being an outside officer, it was judged for the above-mentioned reasons that he would be able to appropriately execute the duties of Outside Director.

**Independence of the candidate**

The candidate meets the requirements for Independent Officer defined by the Tokyo Stock Exchange and is registered with the Exchange to that effect.

Notes: 1. No special interests exist between the Company and Mr. Masashi Hiraiwa.

2. Mr. Masashi Hiraiwa is a candidate for Outside Director as stipulated in Article 2, paragraph 3, item 7 of the Ordinance for Enforcement of the Companies Act.

3. Mr. Masashi Hiraiwa does not fall under any of the following facts:

   1) the candidate was a business operator or an officer of the Company or any of its subsidiaries in the past; 2) the candidate is currently or was in the past five (5) years a business operator or an officer of a business concern that has specific relations with the Company; 3) the candidate is going to receive or has received in the past two (2) years a considerable amount of cash and/or other assets from the Company or such business concern; or 4) the candidate is a spouse, a relative within the third (3rd) degree of kinship of a business operator or an officer of the Company or such business concern, or any other equivalent person.

4. In accordance with Article 427, paragraph 1 of the Companies Act, an agreement to limit any liability for damages prescribed in the provision of Article 423, paragraph 1 of the said Act is in force between the Company and Mr. Hiraiwa. If his appointment is approved, the Company plans to continue said agreement. The limit on liability for damages under the said agreement is set at the minimum liability amount provided in Article 425, paragraph 1 of the Companies Act.

## 7 Seiichi Koike

(Date of birth: January 3, 1956)

| Number of Company shares held | Attendance at meetings of the Board of Directors | Term of office | Number of officer positions concurrently held at listed companies |
|---|---|---|---|
| 0 shares | 100% | 1 year | 0 |



Reappointment
Outside
Independent

**Career summary, position and responsibilities**

| | |
|---|---|
| April 1980 | Joined Toyo Kogyo Co., Ltd. (Currently Mazda Motor Corporation) |
| March 1982 | Joined Honda R&D Co., Ltd. |
| April 1993 | General Manager of Advanced Material Research Laboratory, R&D Center of Honda R&D Co., Ltd. |
| April 2004 | General Manager of Automobile R&D Center Brazil of Honda R&D Co., Ltd. |
| April 2008 | Executive Officer and General Manager of Development Engineering Headquarters of Honda Foundry Co., Ltd. |
| June 2011 | Director of Honda Foundry Co., Ltd. (retired in June 2013) |
| June 2012 | Director of Metts Corporation (retired in June 2013) |
| June 2013 | Audit & Supervisory Board Member of Metts Corporation (retired in June 2016) |
| | Audit & Supervisory Board Member of Honda Foundry Co., Ltd. (retired in June 2017) |
| **June 2018** | **Outside Director of the Company (to the present)** |

**Significant concurrent positions and relationship with the Company**

There is no significant concurrent position.

**Reasons for appointment of candidate for 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, and therefore he was reappointed as a candidate for Independent Outside Director.

**Independence of the candidate**

The candidate meets the requirements for Independent Officer defined by the Tokyo Stock Exchange and is registered with the Exchange to that effect.

Notes: 1. No special interests exist between the Company and Mr. Seiichi Koike.

2. Mr. Seiichi Koike is a candidate for Outside Director as stipulated in Article 2, paragraph 3, item 7 of the Ordinance for Enforcement of the Companies Act.

3. Mr. Seiichi Koike does not fall under any of the following facts:

   1) the candidate was a business operator or an officer of the Company or any of its subsidiaries in the past; 2) the candidate is currently or was in the past five (5) years a business operator or an officer of a business concern that has specific relations with the Company; 3) the candidate is going to receive or has received in the past two (2) years a considerable amount of cash and/or other assets from the Company or such business concern; or 4) the candidate is a spouse, a relative within the third (3rd) degree of kinship of a business operator or an officer of the Company or such business concern, or any other equivalent person.

4. In accordance with Article 427, paragraph 1 of the Companies Act, an agreement to limit any liability for damages prescribed in the provision of Article 423, paragraph 1 of the said Act is in force between the Company and Mr. Koike. If his appointment is approved, the Company plans to continue said agreement. The limit on liability for damages under the said agreement is set at the minimum liability amount provided in Article 425, paragraph 1 of the Companies Act.

## ⑧ Emiko Hamada

(Date of birth: November 23, 1958)

| Number of Company shares held | Term of office | Number of officer positions concurrently held at listed companies |
|---|---|---|
| 1,000 shares | – | 1 |



New appointment
Outside
Independent
Female

**Career summary, position and responsibilities**

| | |
|---|---|
| April 1984 | Joined the Company |
| December 2001 | General Manager of R Technology Department, Overall Technology & Quality Assurance Management, Technology Group of the Company |
| September 2003 | Chief Researcher of Basic Research and Development Department, Research Institute, Technology Group of the Company |
| April 2007 | Left the Company |
| November 2008 | Associate Professor of Center for Social Contribution and Collaboration of Nagoya Institute of Technology |
| April 2011 | Professor (Techno-Business Administration) of Graduate School at Center for Social Contribution and Collaboration of Nagoya Institute of Technology |
| April 2012 | Professor of Center for Research on Assistive Technology for Building a New Community of Nagoya Institute of Technology |
| **May 2015** | **Third Sector Program Officer of Adaptable and Seamless Technology transfer Program through targetdriven R&D of Japan Science and Technology Agency (to the present)** |
| **July 2016** | **Part-time Lecturer of Nagoya Institute of Technology (to the present)** |
| **August 2016** | **Visiting Professor of Nagoya University (to the present)** |
| **June 2017** | **Outside Director of NGK INSULATORS, LTD. (to the present)** |

**Significant concurrent positions and relationship with the Company**

| Organizations where concurrent positions are held | Position | Business relationship between the Company and the organizations where concurrent positions are held | Transaction size relative to consolidated net sales of the Company |
|---|---|---|---|
| NGK INSULATORS, LTD. | Outside Director | Purchase of ceramic products | Less than 0.1% |

**Reasons for appointment of candidate for Outside Director**

While Ms. Emiko Hamada was employed by the Company, she engaged in the development and commercialization of CD-R and DVD-R. After she left the Company, she has conducted research activities for many years as a university professor mainly focusing on industry-academia-government collaboration projects. She also has experience in serving as an Outside Director at another company. The Company believes her suggestions of business execution and management supervision as an Outside Director will be valuable to the Group. For these reasons, it was judged that she will be able to provide advice and suggestions regarding overall management at the meetings of the Company's Board of Directors, and therefore she was appointed as a candidate for Independent Outside Director.

Although Ms. Hamada has not been involved in corporate management in ways other than being an outside officer, it was judged for the above-mentioned reasons that she would be able to appropriately execute the duties of Outside Director.

**Independence of the candidate**

The candidate meets the requirements for Independent Officer defined by the Tokyo Stock Exchange. If the appointment of Ms. Emiko Hamada is approved, the Company plans to register her with the Exchange as an Independent Officer. Although Ms. Hamada worked for the Company from April 1984 to April 2007 as a business operator, there has been no transaction to be noted between Ms. Hamada and the Company, and no special interests currently exist between her and the Company.

Notes: 1. Ms. Emiko Hamada is a candidate for Outside Director as stipulated in Article 2, paragraph 3, item 7 of the Ordinance for Enforcement of the Companies Act.

2. Ms. Emiko Hamada does not fall under any of the following facts:

   1) the candidate is currently or was in the past five (5) years a business operator or an officer of a business concern that has specific relations with the Company;

   2) the candidate is going to receive or has received in the past two (2) years a considerable amount of cash and/or other assets from the Company or such business concern;

   or 3) the candidate is a spouse, a relative within the third (3rd) degree of kinship of a business operator or an officer of the Company or such business concern, or any other equivalent person.

3. It is prescribed in the Articles of Incorporation that the Company may enter into an agreement with a Non-executive Director to limit his or her liability for damages arising from a failure to perform his or her duties. If the appointment of Ms. Emiko Hamada is approved, the Company will enter into such a liability limitation agreement with her.

   The limit on liability for damages under the said agreement is set at the minimum liability amount provided in Article 425, paragraph 1 of the Companies Act.

4. Ms. Emiko Hamada's legal name registered in the family register is Emiko Kato.

5. In January 2018, NGK INSULATORS, LTD. confirmed the existence of cases in which the company did not properly perform delivery inspections as required by relevant contracts with regard to certain insulators and other products. This incident occurred while Ms. Emiko Hamada was serving as an Outside Director at the company. Although Ms. Hamada did not recognize this fact in advance, she had made statements from the perspective of strengthening compliance on a regular basis at meetings of the Board of Directors and other occasions. After the fact came to light, she has performed her duties by, for example, making suggestions to ask for fact-finding research, the identification of causes, and the development of measures to prevent recurrence through, among others, activities of the committee established following the discovery of these cases.

**Proposal No. 3: Election of Two (2) Audit & Supervisory Board Members**

The terms of office of Audit & Supervisory Board Members Takashi Tomaru and Kazuhiro Yamakawa will expire at the conclusion of this General Meeting of Shareholders. Therefore, the Company hereby requests that two (2) Audit & Supervisory Board Members be elected. This proposal has been consented by the Audit & Supervisory Board.

The candidates for Audit & Supervisory Board Member are as follows:

□ Toshio Mishuku
(Date of birth: February 10, 1957)

| Number of Company shares held |
|---|
| 29,300 shares |



New appointment

**Career summary and position**

| | |
|---|---|
| March 1980 | Joined the Company |
| July 2007 | Operating Officer, in charge of Human Resources and General Affairs of the Company |
| July 2009 | Operating Officer, in charge of Human Resources and General Affairs, CSR and Internal Control of the Company |
| April 2015 | Operating Officer, in charge of Global HR Center, South Korea of the Company |
| April 2016 | Senior Operating Officer, in charge of Human Resources, South Korea of the Company |
| **April 2017** | **Senior Operating Officer, in charge of Human Resources, General Affairs, Intellectual Property, Legal, and CSR, and Deputy Chief of Management Planning Headquarters of the Company (to the present)** |

**Reasons for appointment of candidate for Audit & Supervisory Board Member**

Mr. Toshio Mishuku has extensive knowledge and experience in business operations as he has worked in such areas as human resources and general affairs, CSR and internal control at various Group companies both in Japan and overseas since joining the Company. For these reasons, Mr. Mishuku was appointed as a candidate for Audit & Supervisory Board Member as he is expected to be able to audit management decisions by the Board of Directors and business execution by Directors and to help the Company to improve its corporate governance.

Note: No special interests exist between the Company and Mr. Toshio Mishuku.

## 2 Tomomi Fujita

(Date of birth: November 4, 1980)

| Number of Company shares held | Number of officer positions concurrently held at listed companies |
|---|---|
| – | – |



**Career summary and position**

| | |
|---|---|
| **April 2003** | **Admitted to the Japan Federation of Bar Associations (to the present)** |
| October 2004 | Associate of Kitahama Partners |
| January 2012 | Partner of Kitahama Partners (left the firm in March 2016) |
| **April 2016** | **Partner of Innoventier (to the present)** |
| **February 2017** | **Director of Licensing Executives Society Japan (to the present)** |
| **April 2018** | **Assistant Lecturer of KYOTO UNIVERSITY LAW SCHOOL (to the present)** |

New appointment
Outside
Independent
Female

**Significant concurrent positions and relationship with the Company**

| Organizations where concurrent positions are held | Position | Business relationship between the Company and the organizations where concurrent positions are held |
|---|---|---|
| Innoventier | Attorney | None |

**Reasons for appointment of candidate for Outside Audit & Supervisory Board Member**

Ms. Tomomi Fujita has abundant experience as an attorney and a thorough knowledge of legal affairs in general and corporate legal affairs in particular. As such, she has sufficient insight to audit corporate management. For these reasons, Ms. Fujita was appointed as candidate for Independent Outside Audit & Supervisory Board Member as she is expected to be able to audit management decisions at meeting of the Board of Directors and business execution by Directors objectively based on her strong expertise.

Although Ms. Fujita has not been involved in corporate management in ways other than being an outside officer, it was judged for the above-mentioned reasons that she would be able to appropriately execute the duties of Outside Audit & Supervisory Board Member.

**Independence of the candidate**

The candidate meets the requirements for Independent Officer defined by the Tokyo Stock Exchange. If the appointment of Ms. Tomomi Fujita is approved, the Company plans to register her with the Exchange as an Independent Officer.

Notes: 1. No special interests exist between the Company and Ms. Tomomi Fujita.

2. Ms. Tomomi Fujita is a candidate for Outside Audit & Supervisory Board Member as stipulated in Article 2, paragraph 3, item 8 of the Ordinance for Enforcement of the Companies Act.

3. Ms. Tomomi Fujita does not fall under any of the following facts:

   1) the candidate was a business operator or an officer of the Company or any of its subsidiaries in the past;

   2) the candidate is currently or was in the past five (5) years a business operator or an officer of a business concern that has specific relations with the Company;

   3) the candidate is going to receive or has received in the past two (2) years a considerable amount of cash and/or other assets from the Company or such business concern;

   or 4) the candidate is a spouse, a relative within the third (3rd) degree of kinship of a business operator or an officer of the Company or such business concern, or any other equivalent person.

4. It is prescribed in the Articles of Incorporation that the Company may enter into an agreement with an Audit & Supervisory Board Member to limit his or her liability for damages arising from a failure to perform his or her duties. If the appointment of Ms. Tomomi Fujita is approved, the Company will enter into such a liability limitation agreement with her. The limit on liability for damages under the said agreement is set at the minimum liability amount provided in Article 425, paragraph 1 of the Companies Act.

5. Ms. Tomomi Fujita's legal name registered in the family register is Emiko Okada.

**Proposal No. 4: Revision of the Amount of Remuneration for Directors**

Remuneration for Directors of the Company consists of "basic remuneration" and "performance-based bonus," which are monetary remuneration and "stock compensation-type stock options," which is stock remuneration.

The upper limits of remuneration for Directors approved at the 66th Ordinary General Meeting of Shareholders held on June 28, 2007 are ¥300 million per year (including ¥20 million for Outside Directors) for monetary remuneration and ¥150 million per year for stock remuneration.

As it is proposed to elect eight (8) Directors in Proposal No. 2 at this General Meeting of Shareholders, we also propose to revise the upper limit of monetary remuneration for Directors, including basic remuneration and bonus, to ¥500 million per year (including ¥40 million for Outside Directors).

The number of Directors is currently six (6) (including two (2) Outside Directors) and will be eight (8) (including three (3) Outside Directors) if Proposal No. 2 is approved as originally proposed.

**[Reference]**

**Specific revision of remuneration for directors to be implanted if Proposal No. 4 and Proposal No. 5 are approved**

| | Annual remuneration amount | Content | | | |
|---|---|---|---|---|---|
| | | Monetary remuneration amount | Stock option remuneration | | |
| | | | Remuneration amount | Upper limit of the total number of share acquisition rights and the number of shares (*) | Number of shares to be issued or transferred upon exercise of share acquisition rights |
| Current | ¥450 million or less | ¥300 million or less (including ¥20 million or less for Outside Directors) | ¥150 million or less | 50 units<br>50,000 shares of the common stock of the Company | 1,000 shares of the common stock of the Company |
| | * Approved at the 66th Ordinary General Meeting of Shareholders held on June 28, 2007 | | | | |
| After the revision | ¥700 million or less | ¥500 million or less (including ¥40 million or less for Outside Directors) | ¥200 million or less | 500 units<br>50,000 shares of the common stock of the Company | 100 shares of the common stock of the Company |

* 1 For the fiscal year, as of the end of March, 2019, the dilution rate based on the total number of shares issued (excluding treasury shares) is equivalent to approximately 0.039%.

**Proposal No. 5: Revision of the Amount and Other Terms of Stock Option Remuneration for Directors**

The upper limits of remuneration for Directors of the Company approved at the 66th Ordinary General Meeting of Shareholders held on June 28, 2007 are ¥300 million per year (including ¥20 million for Outside Directors) for monetary remuneration and ¥150 million per year for stock remuneration. It was also approved that the upper limit of the total number of share acquisition rights is 50 units and the number of shares to be issued or transferred upon exercise of one unit of share acquisition rights is 1,000 shares.

To further increase the effectiveness of the compensation-type stock option plan given the expansion of business results, encourage shareholding by Directors during their term of office, and give flexibility to the number of share acquisition rights to be granted, we propose to revise the upper limit of stock remuneration for Directors (excluding Outside Directors) to 200 million per year, the upper limit of the total number of share acquisition rights to 500 units, and the number of shares to be issued or transferred upon exercise of one unit of share acquisition rights to 100 shares. There will be no change in the class of shares to be issued or transferred upon exercise of share acquisition rights and the overall upper limit of the number of shares of the common stock of the Company of 50,000 shares, which is calculated by multiplying the upper limit of units of share acquisition rights by the number of shares to be issued or transferred upon exercise of share acquisition rights.

If this proposal is approved, the revision will apply to share acquisition rights allotted annually to Directors of the Company (excluding Outside Directors) based on a resolution passed at the meetings of the Board of Directors held after this General Meeting of Shareholders.

The number of Directors is currently four (4) (excluding Outside Directors) and will be five (5) (excluding Outside Directors) if Proposal No. 2 is approved and adopted as originally proposed.

The summary terms and conditions of the share acquisition rights are as follows:

i) The class and the number of shares to be issued or transferred upon exercise of share acquisition rights

Not to exceed 50,000 shares of the common stock of the Company.

If the Company carries out a share split, share consolidation, etc., any adjustment deemed necessary by the Company shall be made to the number of shares above as appropriate.

ii) Total number of the share acquisition rights

Not exceeding 500 units.

The number of shares to be issued or transferred upon exercise of one unit of share acquisition rights shall be 100 shares. If the Company makes the adjustment set forth in i) above, the number of shares to be issued or transferred upon exercise of one unit of share acquisition rights shall also be adjusted similarly.

iii) Value of the assets contributed upon the exercise of share acquisition rights

The paid-in amount per share to be issued or transferred upon exercise of share acquisition rights (exercise price) shall be ¥1. The total paid-in amount shall be calculated by multiplying ¥1 by the number of shares to be issued or transferred upon exercise.

iv) Exercise period for share acquisition rights

To be determined by the Board of Directors within 20 years from the day immediately following the issue date of share acquisition rights.

v) Conditions for the exercise of share acquisition rights

Notwithstanding iv) above, a holder of share acquisition rights may exercise share acquisition rights only within ten (10) days from the day on which he or she has forfeited all positions as Director and/or Operating Officer of the Company.

Any other conditions for the exercise of share acquisition rights shall be prescribed by the “Share Acquisition Rights Allotment Agreement” to be entered into between the Company and each holder of share acquisition rights.

vi) Restrictions on the transfer of share acquisition rights

Any acquisition of share acquisition rights by way of transfer shall be subject to the approval of the Board of Directors.

vii) Other terms and conditions of share acquisition rights

To be determined by the Board of Directors.

**[Reference]** Composition and expertise of the Board of Directors of when Proposal No. 2 and Proposal No. 3 are approved will be as follows.
Note that the table below does not necessarily show all knowledge that the officers have.

| | | Name | Corporate management | Technology/ R&D | Sales/ marketing | International experience | Finance/ accounting | Legal | Audit | Committee membership slated |
|---|---|---|---|---|---|---|---|---|---|---|
| Directors | | Shoichi Tosaka | ● | ● | | | | | | Nomination Committee Remuneration Committee |
| | | Shinji Masuyama | ● | ● | | | ● | | | |
| | | Katsuya Sase | ● | ● | | | | | | |
| | | Osamu Takahashi | ● | | ● | ● | ● | | | |
| | | Kazuya Umezawa | ● | ● | ● | | | | | |
| | Outside Independent | Masashi Hiraiwa | | | | ● | | ● | | Nomination Committee Remuneration Committee |
| | Outside Independent | Seiichi Koike | ● | ● | | ● | | | | Nomination Committee Remuneration Committee |
| | Outside Independent Female | Emiko Hamada | | ● | ● | | | | | Nomination Committee Remuneration Committee |
| Audit & Supervisory Board Members | | Katsushige Nakano | ● | | | ● | ● | | ● | |
| | | Toshio Mishuku | ● | | | ● | | | | Remuneration Committee |
| | Outside Independent | Hajime Yoshitake | ● | | | ● | ● | | ● | Nomination Committee |
| | Outside Independent Female | Tomomi Fujita | | | | | | ● | | |

**[Reference] Policies and Procedures for Appointment and Dismissal of Officers (Summary)**

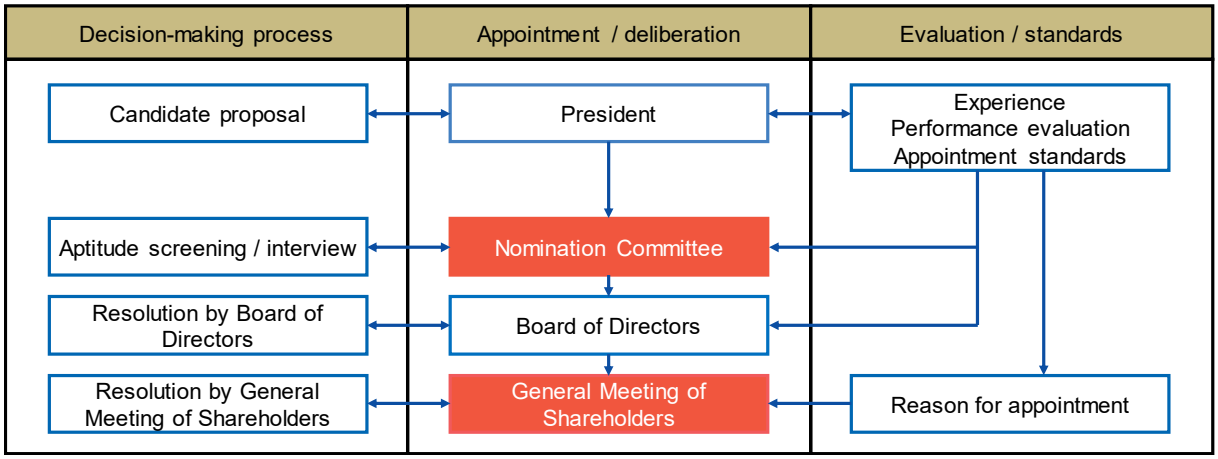
To ensure ample diversity in terms of gender and nationality and adequate balance in the composition of the Board of Directors, candidates for Executive Director are selected from among persons who have excellent personality and insight, have achieved a good track record to date in business areas of which they have been in charge, and have a thorough knowledge of management and business based on the "Officer Appointment and Dismissal Standards." Candidates for Outside Director are selected based on selection criteria including personality, experience, strong expertise, and the "Standards for the Independence of Outside Directors/Outside Audit & Supervisory Board Members."

**Appointment Standards and Appointment Process for Executive Directors**

**(1) Appointment standards**

1) Those who shall not fall under any of the reasons for disqualification as Directors provided for by Article 331, paragraph 1 of the Companies Act
2) Those who have abundant knowledge and experience for Operating Officer, and have made achievements
3) Those who are equipped with insight, determination, a sense of ethics and respect for the law
4) Those who are able to address opinions from a company-wide and management perspective

**(2) Appointment process**




**(3) Dismissal standards**

If it is made clear at the Nomination Committee that an Executive Director does not meet the appointment standards, and the Board of Directors reviews the finding and determines that the finding is correct, then the Board will dismiss the Operating Officer or remove him/her from executive position. In addition, the Nomination Committee will deliberate on whether a further action needs to be taken.

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

In order to objectively judge the independence of Outside Directors and Outside Audit & Supervisory Board Members, the Company has established its own "Standards for the Independence of Outside Directors/Outside Audit & Supervisory Board Members." These standards were developed by reference to 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. It has been confirmed that the Outside Directors and Outside Audit & Supervisory Board Members of the Company are not categorized under any of the following, and have been elected as independent directors who do not pose any risk of conflict of interest with the Company's general shareholders.

**Relationships with Shareholders**

1) A director, audit & supervisory board member, accounting advisor, executive officer, operating officer, or employee of any of the major shareholders (holding 10% or more) of the Company
2) An individual who in the past five (5) years has been an officer or employee of any of the current major shareholders of the Company
3) An individual who is a director, accounting advisor, executive officer, operating officer or employee of a company for which the Company is a major shareholder

**Relationship with Corporate Clients**

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

**Relationships of Financial Interest**

An individual who is a current director, accounting advisor, executive officer, operating officer or employee of a company or of one of its parent or subsidiary companies that employs a director or audit & supervisory board member from the Company or one of the Company's current subsidiaries.

**Providers of Specialized Services**

1) An individual who is an employee, partner, or working staff member of a certified public accountant or auditing firm that is an accounting auditor or accounting advisor of the Company or of one of its current subsidiaries.
2) An individual not fulfilling any of the above criteria, but who is a certified public accountant, tax accountant, attorney, or other kind of consultant, and who, apart from director remuneration, has received from the Company or one of its current subsidiaries money or other property benefits averaging ¥10 million or more annually in the last three (3) years.

**Close Relatives**

1) A relative within two (2) degrees of kinship of, or living together with, an executive director, operating officer, major shareholder, major client, or an officer of a major creditor of the Company or of one of its current subsidiaries.
2) An individual who has a relative within two (2) degrees of kinship, or a relative living together with the individual, who is an employee or partner of an accounting auditing firm of the Company or one of its current subsidiaries.
3) An individual who has a relative within two (2) degrees of kinship, or a relative living together with the individual, who is an attorney or other kind of consultant who, apart from director remuneration, has received from the Company or one of its current subsidiaries money or property benefits averaging ¥10 million or more annually for the last three (3) years.
4) An individual who has a relative within two (2) degrees of kinship, or a relative living together with the individual, who is a director, audit & supervisory board member, accounting advisor, executive officer,

or corporate officer of a company that employs a director or audit & supervisory board member from the Company or one of the Company's current subsidiaries.

Note: The above content is a general overview of the Company's "Standards for the Independence of Outside Directors/Outside Audit & Supervisory Board Members," and is not an exact statement of the relevant bylaws, Companies Act, or other regulations.

**Attached Documents**

# BUSINESS REPORT

(from April 1, 2018 to March 31, 2019)

## 1. Corporate Philosophy and Vision

The management philosophy of the Group is to practice the three principles of "employee well-being," "betterment of local communities" and "responsibility to provide returns to shareholders." The Company believes in corporate social responsibility and the mission of management to develop businesses on an ongoing basis while fulfilling sociality, public interest and public nature of the Company from a global viewpoint.

The vision of the Company 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 the growing, more sophisticated requirements and expectations of stakeholders, and strive to increase social value of the Company.

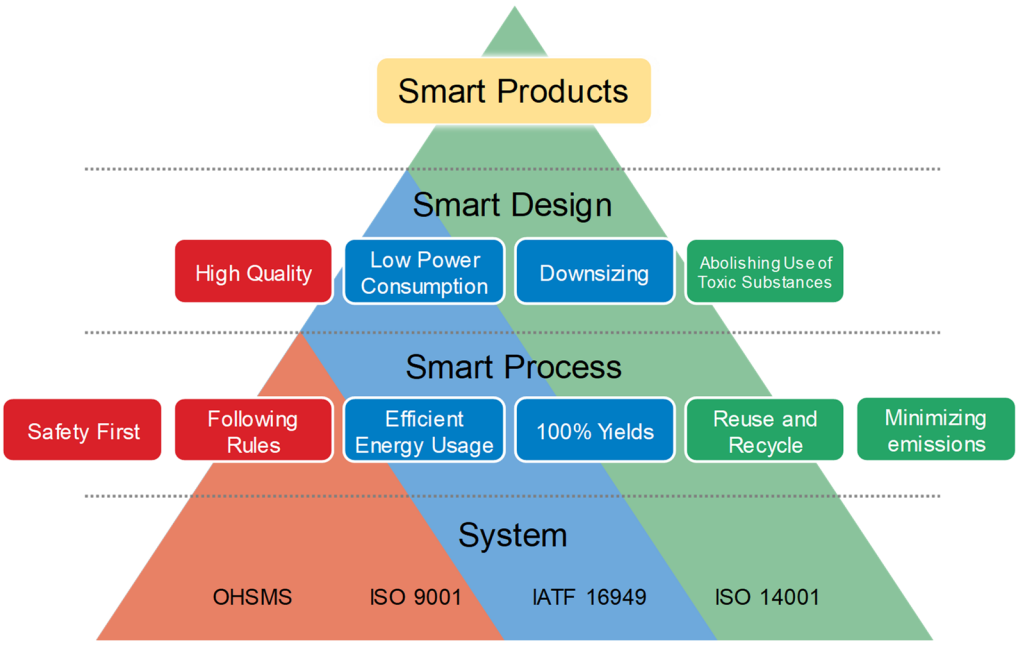
To accomplish these aims, we will develop, manufacture and sell smart products that are safe and high quality, the Company's activities comply with its responsible attitude in terms of the safety and quality of products, and continue with responsibility our initiatives in such fields as labor and human rights, safety and health, the environment and corporate ethics.

**Management Philosophy of the Taiyo Yuden Group**

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

**TAIYO YUDEN Vision**

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



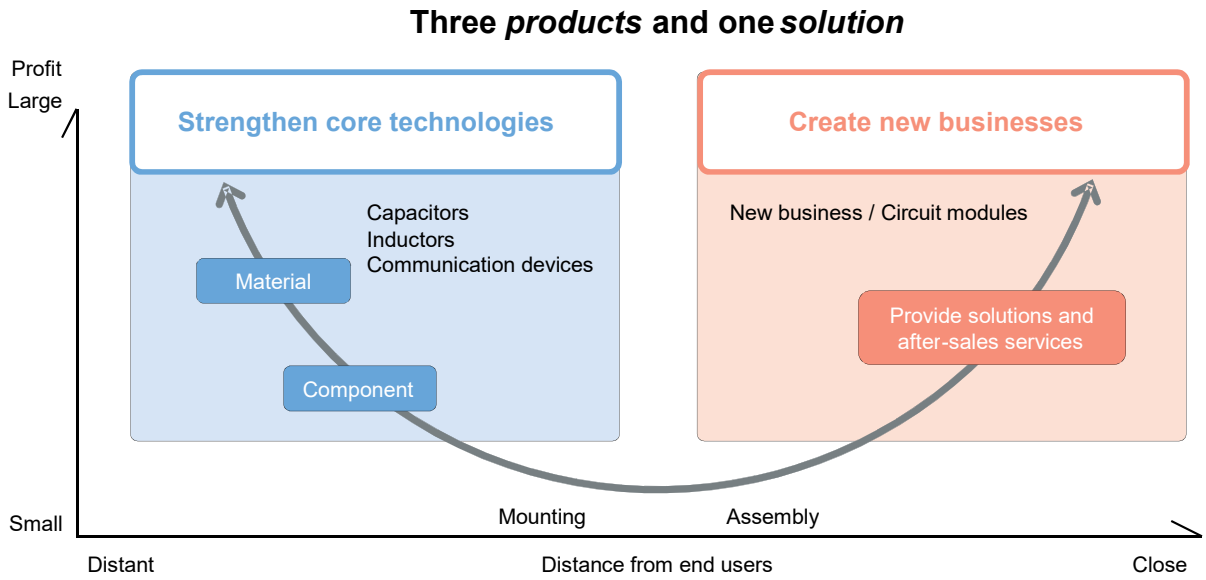
**[Reference] Management Policy**

**Business model reform for high-profit structure and Medium-term Management Plan**

**Establish a high-profit structure with three *products* and one *solution***

The Group will revamp its business model combining evolution of existing core businesses and creation of new businesses. In the Group's core businesses of capacitors, inductors, and communication devices (three products), it will work to capture the market by strengthening its core technologies, including material technology, process technology and design, to maximize the performance of electronic components and also by efficiently producing quality products through advanced manufacturing.

In addition, it will create new businesses by providing solution, to establish a higher profit structure. Anticipating progress of IoT, the Group aims to develop and expand businesses with high added value, above and beyond simple mounting and assembly, by providing solutions that combine underlying technologies and software properties of the Group.



**Medium-term Management Plan**

| | |
|---|---|
| Net sales (goal to achieve in FY2020) | ¥300.0 billion |
| Operating margin | 15% |
| ROE | 10% or more |

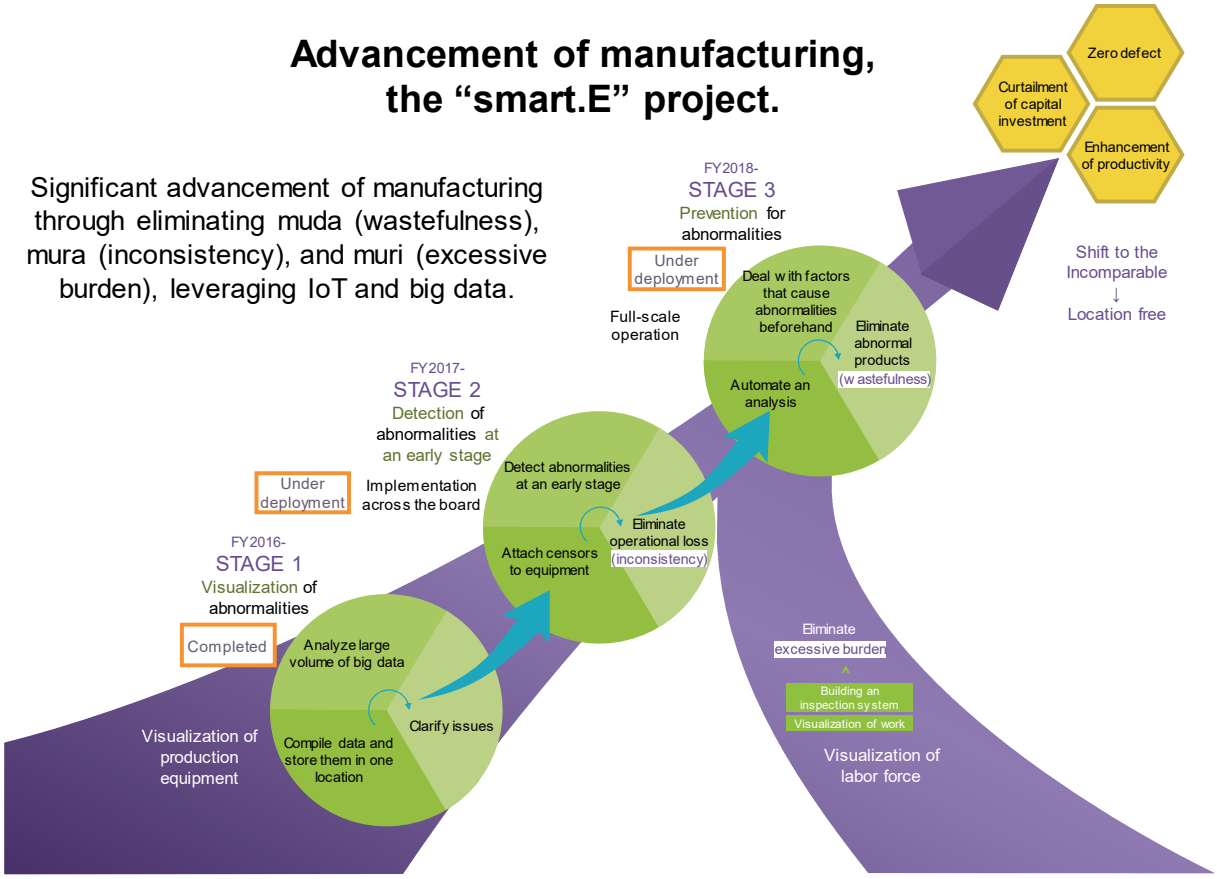
**Measures to meet the rising demand for electronic components**

The Group will execute the following 3 measures to meet the rising demand for electronic components due to technological advancements such as IoT, 5G (fifth generation telecommunication systems), and spread of automotive electrical systems.

The first initiative is to expand sales for automobile and information infrastructure markets. Since the automobile and information infrastructure markets that the Company should focus on are unlikely to be affected by demand fluctuations, the Company is making every effort to expand sales for such markets that can be expected to show sustainable growth, and will increase the sales composition ratio from current 39% to 50%.

The second initiative is to make investments for future growth. The Company will make capital investments worth an accumulated total of approx. ¥150.0 billion for three years (fiscal 2018 to fiscal 2020), focusing mainly on multilayer ceramic capacitors, to strengthen our production capabilities domestically and overseas, and the Company will also make every effort to carry out R&D for development of new products and new businesses, and accelerate the advancement of technology.

The third initiative is to promote advancement in manufacturing by the Smart.E Project. The Company aims at expanding visualization at production site to the entire processes, and eliminating wastefulness, inconsistency and excessive burden of equipment and people by making use of IoT and big data to significantly improve productivity.



## 2. Current Status of the TAIYO YUDEN Group

(1) Review of operations and results

During the fiscal year under review (from April 1, 2018 to March 31, 2019), the business environment in which the Group operates was supported by the continued recovery at a moderate pace of the global economy as a whole. Looking forward, attention shall be paid to, among others, the impact of trade issues on the global economy, fluctuation in the Chinese economy, and exchange rate trends.

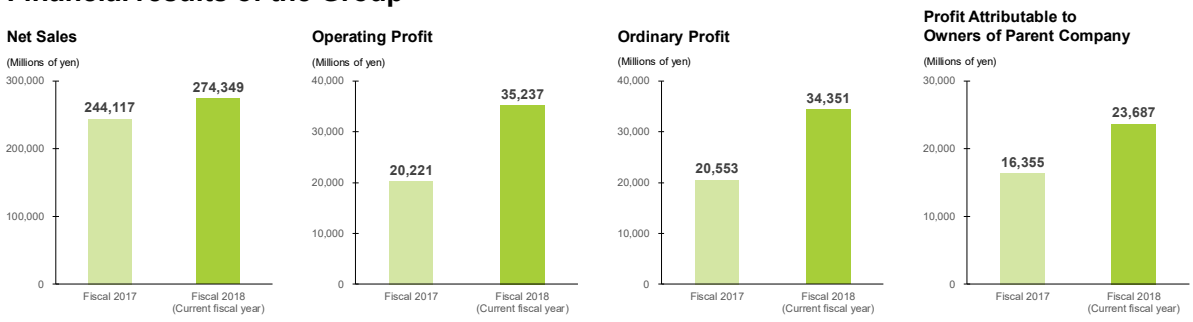
The Group aims to achieve its medium-term targets and management vision by capturing focus markets, such as automobiles, information infrastructure, industrial equipment, healthcare, environmental and energy, centered on the solution business that leverages the Group's core technologies, in addition 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 advanced underlying technologies and innovative production methods.

Demand for large, high-voltage resistant, high-reliability components increased in the automotive market where further advances of electronic components and increasing use of electrical equipment are in progress, and in market for information infrastructure such as base station communications devices and data centers where increasingly higher performance is required due to the advancement of communications systems and the evolution of IoT. For the communication device market centering on smartphones, demand grew for cutting-edge products due to increasingly higher functionality and performance of devices. As a result, sales of capacitors expanded significantly, leading to growth in sales and profit.

Consolidated net sales for the fiscal year under review totaled ¥274,349 million, which is an increase of 12.4% compared to the previous fiscal year. Operating profit was ¥35,237 million, an increase of 74.3% compared to the previous fiscal year, and ordinary profit was ¥34,351 million, an increase of 67.1% compared to the previous fiscal year. The Company also recognized an impairment loss of ¥4,614 million on mainly non-current assets of domestic subsidiaries and business structure improvement expenses of ¥2,235 million for structural reform of overseas subsidiaries as extraordinary losses. As a result, profit attributable to owners of parent amounted to ¥23,687 million, up by 44.8% from the previous fiscal year.

The average exchange rate during the fiscal year under review of ¥110.49 per US dollar represents an appreciation of ¥0.95 compared with the average value of the yen in the previous fiscal year of ¥111.44 per US dollar.

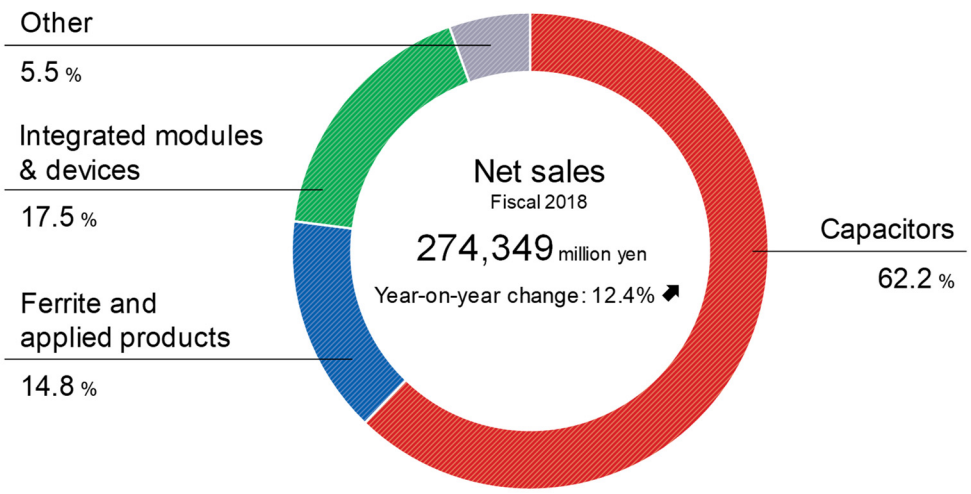
**Financial results of the Group**



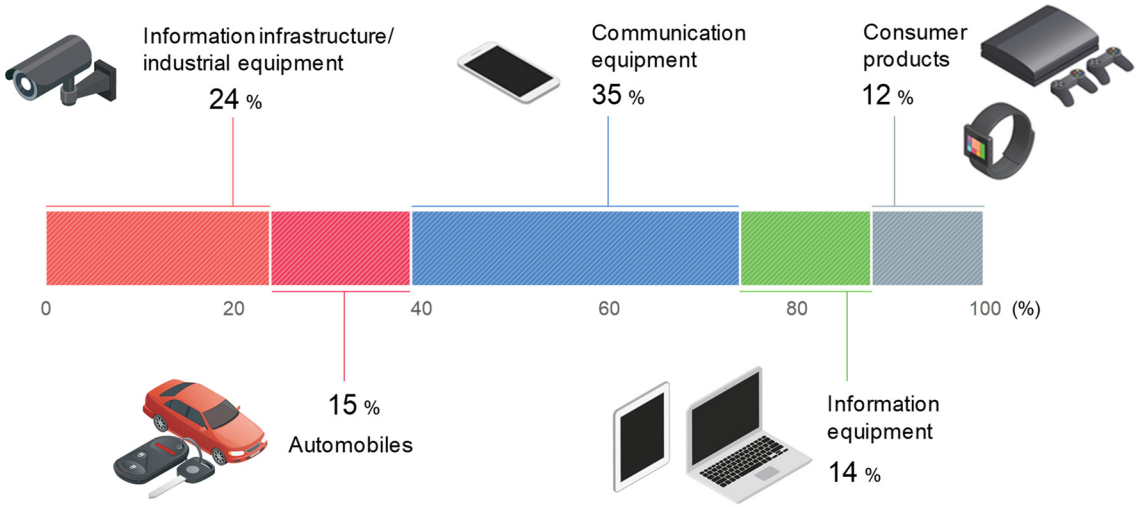
(2) Principal business activities (as of March 31, 2019)

**Consolidated Sales by Product**

**Breakdown of consolidated sales by product**




**Breakdown of sales by area of use**

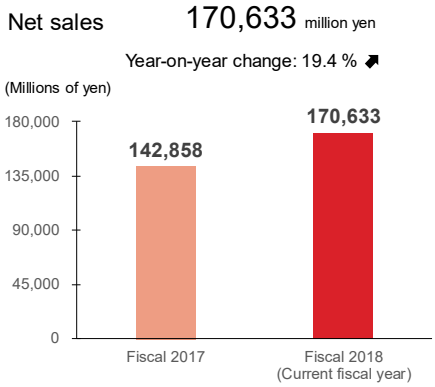


### Capacitors

#### Main products

- Multilayer ceramic capacitors

Net sales totaled ¥170,633 million, which is an increase of 19.4% compared to the previous fiscal year. This was due to a year-on-year increase in sales for use in all applications.

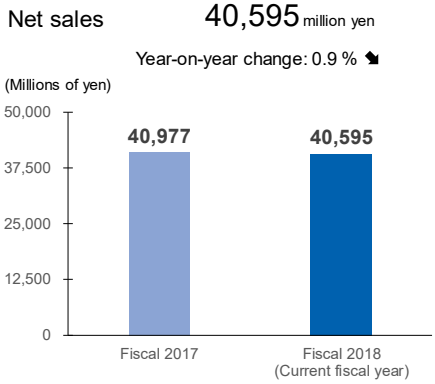



### Ferrite and applied products

#### Main products

- Winding inductors
- Multilayer chip inductors

Net sales decreased by 0.9% to ¥40,595 million as compared to the previous fiscal year. Product sales for consumer products and automobiles were higher as compared to the previous fiscal year. This was offset by a decrease in sales for information equipment and communication equipment.

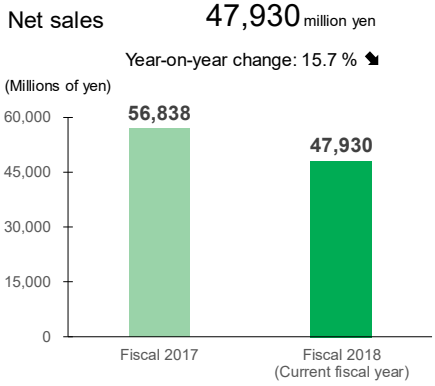



### Integrated modules & devices

#### Main products

- Mobile communications devices (FBAR/SAW)
- Power supply modules
- High-frequency modules
- Embedded-parts multilayer wiring substrate “EOMIN™”
- Device mounting business conducted by associates

Sales for FBAR/SAW devices for mobile communications and power supply modules decreased year over year. This resulted in a 15.7% decrease in net sales for this product classification year on year to ¥47,930 million.

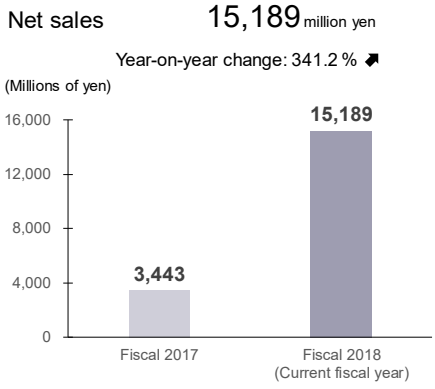



### Other

#### Main products

- Aluminum electrolytic capacitors
- Energy devices

With the addition in the second quarter of the sales of aluminum electrolytic capacitors, etc. by ELNA Co., Ltd., a newly consolidated subsidiary, net sales in this product classification amounted to ¥15,189 million, up 341.2% from the previous fiscal year.



(3) Summary of assets and profit or loss

| Business terms | Fiscal 2014 (74th Term) | Fiscal 2015 (75th Term) | Fiscal 2016 (76th Term) | Fiscal 2017 (77th Term) | Fiscal 2018 (78th Term) (current fiscal year) |
|---|---|---|---|---|---|
| Net sales (Millions of yen) | 227,095 | 240,385 | 230,716 | 244,117 | 274,349 |
| Operating profit (Millions of yen) | 13,153 | 23,370 | 12,385 | 20,221 | 35,237 |
| Operating margin (%) | 5.8 | 9.7 | 5.4 | 8.3 | 12.8 |
| Ordinary profit (Millions of yen) | 15,653 | 22,263 | 11,200 | 20,553 | 34,351 |
| Profit attributable to owners of parent (Millions of yen) | 10,919 | 14,751 | 5,428 | 16,355 | 23,687 |
| Comprehensive income (Millions of yen) | 23,421 | 3,571 | 3,092 | 18,245 | 21,084 |
| Total assets (Millions of yen) | 265,454 | 268,380 | 271,149 | 287,170 | 328,861 |
| Net assets (Millions of yen) | 150,856 | 153,381 | 154,150 | 170,118 | 205,953 |
| Basic earnings per share (Yen) | 92.74 | 125.27 | 46.08 | 138.80 | 189.93 |
| Net assets per share (Yen) | 1,278.07 | 1,299.75 | 1,305.96 | 1,440.79 | 1,609.72 |
| Equity ratio (%) | 56.7 | 57.1 | 56.8 | 59.1 | 62.5 |
| Rate of return on equity (%) | 7.8 | 9.7 | 3.5 | 10.1 | 12.6 |
| Price-earnings ratio (Times) | 18.9 | 8.8 | 30.5 | 13.0 | 11.5 |
| Dividend payout ratio (%) | 10.8 | 12.0 | 43.4 | 14.4 | 11.1 |
| Cash flows from operating activities (Millions of yen) | 24,896 | 38,278 | 29,692 | 33,944 | 42,967 |
| Cash flows from investing activities (Millions of yen) | (20,964) | (35,374) | (28,806) | (26,918) | (33,581) |
| Cash flows from financing activities (Millions of yen) | (21,249) | (2,050) | (4,342) | 953 | (1,603) |
| Cash and cash equivalents at end of period (Millions of yen) | 41,476 | 39,944 | 36,094 | 43,837 | 51,654 |
| Research and development expenses (Millions of yen) | 8,237 | 9,024 | 10,008 | 10,574 | 13,039 |
| Capital investment (Millions of yen) | 18,773 | 41,261 | 33,161 | 24,549 | 38,570 |
| Depreciation (Millions of yen) | 21,813 | 23,767 | 24,908 | 25,589 | 26,547 |

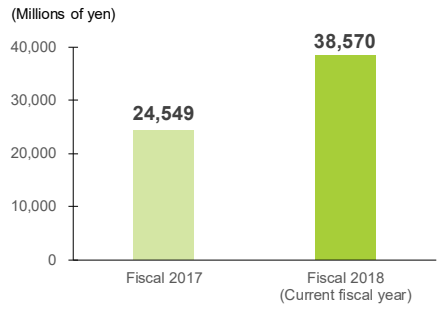
Note: The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the consolidated fiscal year under review. The major management indicators for the previous consolidated fiscal year reflect the effects of this retrospective application of the aforementioned standard, etc.

(4) Capital investment, financing and major creditors

i) Capital investment

Capital investment during the fiscal year under review amounted to approximately ¥38,570 million at the acceptance and inspection (previous fiscal year: ¥24,549 million). Major investments were primarily to enhance production capacity for multilayer ceramic capacitors, which are seeing continued strong demand for automotive applications, information infrastructure, and smartphones. In addition, in the next fiscal year, the Group will conduct large-scale capital investments associated with the construction of a new factory building, etc. at subsidiary NIIGATA TAIYO YUDEN CO., LTD. The Group intends to continue actively making capital investments, in anticipation of further development in automotive electrification and information infrastructure with spread of 5G (fifth generation telecommunication systems).

**Capital investment**




ii) Financing

During the fiscal year under review, the Company procured funds of ¥22.0 billion through long-term loans. For the purpose of financial stability, a commitment line of ¥10.0 billion effective for three (3) years has been established. However, the Company had not used the line as of March 31, 2019.

iii) Major creditors (as of March 31, 2019)

| Creditor | Loan outstanding (Millions of yen) |
|---|---|
| Sumitomo Mitsui Banking Corporation | 18,700 |
| MUFG Bank, Ltd. | 9,055 |
| The Iyo Bank, Ltd. | 8,400 |
| Mizuho Bank, Ltd. | 5,700 |
| The Gunma Bank, Ltd. | 3,875 |

Note: The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its trade name to MUFG Bank, Ltd. on April 1, 2018.

(5) Status of research & development

Research and development expenses in the fiscal year under review were ¥13,039 million.

The Group believes in commercializing products from the material development stage and is committed to research and development to create an electronic component that contributes to the technical evolution of electronic equipment based on the original underlying technology nurtured since its foundation. The Group also intends to develop and stably supply “smart products” that provide high quality and reduce environmental burdens. By realizing smart products at a higher level through its research and development activities, the Group aims to realize the management vision “to be an excellent company that enjoys the trust and highest regard from our customers.”

We strive to develop high-reliability products and solution-oriented products for focus markets such as automotive, information infrastructure, industrial equipment, healthcare, and environmental and energy. The Company focuses on the development of large, high-voltage resistant, high-reliability components for the automotive market where further advances of electronic components and increasing use of electrical equipment are in progress, and for information infrastructure such as base station communications devices and data centers where increasingly higher performance is required due to the evolution of IoT. For the communication device market centering on smartphones, we promote the development of cutting-edge products that contribute to a higher functionality and performance, as well as dense packaging of modules.

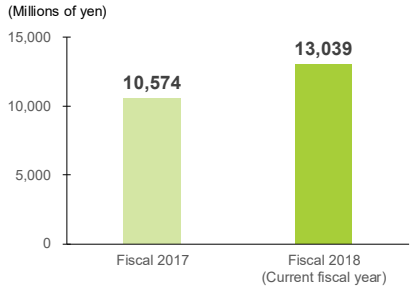
For capacitors, our focus is on developing compact, low-profile, high-value and high-reliability multilayer ceramic capacitors. We are continuously working to develop cutting-edge, multilayer ceramic capacitors by sophisticating dielectric materials technologies, thin-film and high-capacitance technologies, production technology for ultra-small capacitors.

For ferrite and applied products, the Group is working to develop small, thin inductors with high current ratings, and also large, high-reliability inductors targeting the automotive and information infrastructure markets. We are sharpening our competitive edge through advances in material development as well as wire-winding and multilayer process technologies.

For integrated modules and devices, we are focusing on developing new products drawing on the advancement of technologies for FBAR/SAW devices for mobile communications, next-generation products for 5G (fifth generation telecommunication systems), as well as solution-based products in combination with our core technologies for focus markets.

In addition, the Group is focusing on developing energy devices for focus markets.

**Research and development expenses**




**[Reference] Research & Development Policy "Shift to the Incomparable"**

| | |
|---|---|
| Anticipation | Technical development precedes product development and goes beyond the common level. |
| Reproducibility | The reproducibility of developed technology is logically proved. |
| Versatility | Developed technology is versatile and can be applied not only to specific products. |
| Reasonable Environmental Compliance | Developed technology is reasonably acceptable for production and environment-friendly. |

(6) Acquisitions or disposal of the stock, equity interests, or share acquisition rights of other companies

Effective January 1, 2019, the Company carried out a simplified share exchange transaction to make ELNA Co., Ltd. its wholly-owned subsidiary. As a result, ELNA Co., Ltd. became a wholly-owned subsidiary of the Company on the same day.

(7) Issues to be addressed

In the focus markets of automotive, information infrastructure, industrial equipment, healthcare, and environmental and energy, demand for electronic components has increased and higher quality and/or reliability are increasingly requested. Meanwhile, as communication devices such as smartphones have come to be equipped with high functionality and performance, evolving transmission methods and dense packaging of modules, there is an increasing requirement for cutting-edge compact/slim electronic components that have such attributes.

The Company quickly develops cutting-edge products with a competitive edge that should contribute to technical evolution of devices in the aforementioned markets. Positioning the markets of automobiles, information infrastructure, industrial equipment, healthcare, and environmental and energy as focus markets, we strive to promote sales of high-reliability products, reinforce system solution proposals and expand and diversify distribution channels. In addition, in response to vigorous demand and to ensure steady supply, we intend to bolster our production capacity in Japan and overseas in anticipation of further sales increases. Furthermore, we will streamline our operating structure to be less susceptible to cost reductions and foreign exchange fluctuations through high-efficiency production and improved manufacturing capabilities and by maximally leveraging our overseas production bases.

The Company intends to raise its community value by meeting the requests and expectations of interested parties to fulfill its social responsibility while also enhancing its economic value. Thus, the

Company's activities comply with its responsible attitude in terms of the safety and quality of products, as well as initiatives in such fields as labor and human rights, safety and health, the environment and corporate ethics.

(8) Basic policy regarding dividends of surplus, etc.

The Company considers one of the most important issues for management to be the distribution of plentiful returns to its shareholders and has set a target for the total return ratio, including the purchase of treasury shares, of 30% under the policy to strive to realize a steady increase of dividend.

| Business terms | Fiscal 2014 (74th Term) | Fiscal 2015 (75th Term) | Fiscal 2016 (76th Term) | Fiscal 2017 (77th Term) | Fiscal 2018 (78th Term) (current fiscal year) |
|---|---|---|---|---|---|
| Dividend per share (Yen) | 10.00 | 15.00 | 20.00 | 20.00 | 21.00 |
| Total dividends (Millions of yen) | 1,177 | 1,766 | 2,356 | 2,356 | 2,680 |
| Total return ratio (%) | 10.8 | 12.0 | 43.4 | 14.4 | 24.0 |

(9) Basic policy of cross-shareholdings

i) Policy of holding cross-shareholdings

The Company holds shares only if the Board of Directors determines that such shareholdings are conducive to sustainable growth and increases in the social and economic value of the Company, as part of management strategies, such as business partnership and stable procurement of raw materials, and/or smooth business operations through the creation of a good relationship with our business partners.

ii) Method of verifying the reasonableness of shareholding, and verification by the Board of Directors, etc.

The Board of Directors annually examines all such cross-shareholdings to verify the reasonability of holding them based on comprehensive judgment from the perspective of their holding purposes and economic rationality. The Company will reduce any shareholdings that are determined to be unreasonable by selling such shares. As a result of such verification by the Board of Directors, the Company sold shares of ten companies (all of the shares for nine companies thereof) during the fiscal year under review.

iii) Exercise of voting rights

The Company appropriately exercises its voting rights of the cross-shareholdings based on comprehensive judgment on several factors such as non-infringement of any laws and/or regulations, non-involvement in any antisocial actions and the fact that the relevant proposal can be judged to have sound content.

iv) Total amount of the cross-shareholdings in the balance sheet (as of March 31, 2019)

| Classification / Business terms | Fiscal 2017 (77th Term) | Fiscal 2018 (78th Term) |
|---|---|---|
| Number of issues | 24 | 15 |
| Total amount of the carrying value in the balance sheet (Millions of yen) | 5,093 | 1,701 |
| Ratio thereof accounted for in the balance sheet accounting (%) | 1.8 | 0.5 |

v) The ten largest stock names of the cross-shareholdings (as of March 31, 2019)

| Stock name | Number of shares (Shares) | Amount of the carrying value in the balance sheet (Millions of yen) | Purpose for holding | Holding of the Company stock |
|---|---|---|---|---|
| KYOCERA Corporation | 105,000 | 683 | As we purchase from this company mainly parts and materials used for our main products, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |
| Sumitomo Metal Mining Co., Ltd. | 135,500 | 443 | As we purchase from this company mainly electronic materials used for our main products, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |
| NICHICON CORPORATION | 160,500 | 163 | After examining the reasonableness of shareholding including the status of transactions with this company, the Company sold part of its shares. | Yes |
| Ryosan Company, Limited | 45,600 | 135 | As we have transactions with this company including purchase of materials and sale of our products, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |
| Sakai Chemical Industry Co., Ltd. | 37,800 | 92 | As we purchase from this company mainly electronic materials used for our main products, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |
| The Iyo Bank, Ltd. | 142,000 | 83 | As we have financial transactions with this company, in consideration of the factual relationship, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |
| NIHON DEMPA KOGYO CO., LTD. | 98,800 | 39 | As we purchase from this company mainly parts and materials used for our main products, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |
| The Towa Bank, Ltd. | 38,600 | 27 | As we have financial transactions with this company, in consideration of the factual relationship, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |
| Nisshinbo Holdings Inc. | 19,500 | 19 | As we purchase from this company mainly parts and materials used for our main products, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |
| DAIICHI JITSUGYO CO., LTD. | 4,800 | 15 | As we purchase from this company mainly manufacturing equipment for our main products, we continue to hold shares in this company to maintain and fortify a good relationship with it. | Yes |

(10) Status of principal subsidiaries (as of March 31, 2019)

i) Principal subsidiaries

| Name | Location | Capital stock | Percentage of equity participation of the Company (%) | Principal business |
|---|---|---|---|---|
| TAIWAN TAIYO YUDEN CO., LTD. | Taiwan | NT$333 million | 100.0 | Sale of Electronic Components |
| KOREA TAIYO YUDEN CO., LTD. | South Korea | 10,000 million WON | 100.0 | Sale of Electronic Components |
| KOREA KYONG NAM TAIYO YUDEN CO., LTD. | South Korea | 61,884 million WON | 100.0 | Production of Electronic Components |
| HONG KONG TAIYO YUDEN CO., LTD. | Hong Kong | HK$20,400 thousand | 100.0 | Sale of Electronic Components |
| TAIYO YUDEN (GUANGDONG) CO., LTD. | China | US$85,550 thousand | 100.0 (9.3) | Production of Electronic Components |
| TAIYO YUDEN (SHANGHAI) TRADING CO., LTD. | China | US$223 thousand | 100.0 (10.3) | Sale of Electronic Components |
| TAIYO YUDEN (SINGAPORE) PTE. LTD. | Singapore | S$18,555 thousand | 100.0 | Sale of Electronic Components |
| TAIYO YUDEN (PHILIPPINES), INC. | The Philippines | P.P.490 million | 100.0 | Production of Electronic Components |
| TAIYO YUDEN (SARAWAK) SDN. BHD. | Malaysia | MYR100 million | 100.0 | Production of Electronic Components |
| TAIYO YUDEN (U.S.A.) INC. | U.S.A. | US$3,154 thousand | 100.0 | Sale of Electronic Components |
| TAIYO YUDEN EUROPE GmbH | Germany | EUR 1,000 thousand | 100.0 | Sale of Electronic Components |
| NIIGATA TAIYO YUDEN CO., LTD. | Niigata | ¥1,000 million | 100.0 | Production of Electronic Components |
| TAIYO YUDEN CHEMICAL TECHNOLOGY CO., LTD. | Gunma | ¥100 million | 100.0 | Production and Sale of Electronic Components |
| FUKUSHIMA TAIYO YUDEN CO., LTD. | Fukushima | ¥100 million | 100.0 | Production of Electronic Components |
| WAKAYAMA TAIYO YUDEN CO., LTD. | Wakayama | ¥100 million | 100.0 | Production of Electronic Components |
| TAIYO YUDEN Mobile Technology Co., Ltd. | Tokyo | ¥100 million | 100.0 | Production of Electronic Components |
| ELNA CO., LTD. | Kanagawa | ¥6,511 million | 100.0 | Development and Sales of Electronic Components |

Notes: 1. Figures in parentheses shown under “Percentage of equity participation of the Company” is the percentage of indirect ownership.

2. The Company has 34 consolidated subsidiaries including the 17 companies listed in “Status of principal subsidiaries” above, 1 equity-method company, and 3 associate not accounted for by the equity method.

3. The consolidated business performance in this fiscal year under review is as described in the above “(1) Review of operations and results.”

ii) Specified wholly owned subsidiaries

Not applicable

(11) Principal offices and plants (as of March 31, 2019)

i) Principal business locations of the Company

| Site type | Office/Plant name | Location |
|---|---|---|
| Main offices | Head Office | Chuo-ku, Tokyo |
| | Takasaki Global Center | Takasaki-shi, Gunma |
| Sales offices | Sendai | Sendai-shi, Miyagi |
| | Metropolitan | Chuo-ku, Tokyo |
| | Gunma | Takasaki-shi, Gunma |
| | Nagoya | Nagoya-shi, Aichi |
| | Kansai | Osaka-shi, Osaka |
| | Fukuoka | Fukuoka-shi, Fukuoka |
| Production sites | Haruna Plant | Takasaki-shi, Gunma |
| | Nakanojo Plant | Agatsuma-gun, Gunma |
| | Tamamura Plant | Sawa-gun, Gunma |
| Development site | Yawatabara Plant | Takasaki-shi, Gunma |
| | R&D Center | Takasaki-shi, Gunma |
| | Akashi Device R&D Center | Akashi-shi, Hyogo |

ii) Principal business locations of subsidiaries

Described in the above "(10) Status of principal subsidiaries."

(12) Employees (as of March 31, 2019)

i) Employees of the TAIYO YUDEN Group

| Number of employees | Increase (decrease) from the previous fiscal year |
|---|---|
| 21,300 persons | Increase of 2,289 persons |

ii) Employees of the Company

| Number of employees | Increase (decrease) from the previous fiscal year | Average age | Average years of service |
|---|---|---|---|
| 2,681 persons | Increase of 91 persons | 42.8 years old | 18.3 years |

Notes: 1. The number of employees is the number currently at work and does not include temporary employees.

2. The main reasons for increase in the number of employees of the Group shown in i) above are the conversion of ELNA Co., Ltd. into a consolidated subsidiary and increases in production volume of overseas subsidiaries.

(13) Other important matters concerning the current status of the TAIYO YUDEN Group

Not applicable

## 3. Shares of the Company (as of March 31, 2019)

(1) Total number of shares authorized to be issued: 300,000,000 shares

(2) Total number of shares issued: 130,218,481 shares (including 2,555,996 shares of treasury shares)

(3) Number of shareholders: 29,106

(4) Major shareholders (Top 10)

| | Name | Number of shares held (shares) | Shareholding ratio (%) |
|---|---|---|---|
| 1 | The Master Trust Bank of Japan, Ltd. (Trust Account) | 25,949,700 | 20.3 |
| 2 | Japan Trustee Services Bank, Ltd. (Trust Account) | 16,297,100 | 12.7 |
| 3 | Sumitomo Mitsui Banking Corporation | 4,000,000 | 3.1 |
| 4 | Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account) | 3,915,500 | 3.0 |
| 5 | The Iyo Bank, Ltd. | 3,000,100 | 2.3 |
| 6 | Japan Trustee Services Bank, Ltd. (Trust Account 9) | 2,766,700 | 2.1 |
| 7 | J.P.MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SETT ACCT | 2,574,305 | 2.0 |
| 8 | Sato Traffic Orphan Welfare Fund | 1,916,640 | 1.5 |
| 9 | Japan Trustee Services Bank, Ltd. (Trust Account 5) | 1,746,700 | 1.3 |
| 10 | Nippon Life Insurance Company | 1,666,450 | 1.3 |

Notes: 1. The Company holds 2,555,996 shares of treasury shares, but it is excluded from the above-mentioned major shareholders.
2. Shareholding ratio is calculated excluding the number of treasury shares.
3. Figures are rounded down to one decimal place.

(5) Other important matters concerning shares of the Company

1) By the resolution of the Board of Directors meeting held on February 8, 2019, the Company acquired treasury shares as follows:

| | |
|---|---|
| Period of acquisition: | From February 12, 2019 to February 18, 2019 |
| Total number of shares acquired: | 1,264,200 shares |
| Total price of shares acquired: | ¥2,999,842,600 |

2) In the Board of Directors meeting held on May 13, 2019, the Board of Directors resolved to purchase the treasury shares prescribed in the provisions of Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to the provisions of Article 165, paragraph 3 of the said Act.

1. Reasons for purchase of treasury shares

To expand shareholders return and increase capital efficiency as well as to carry out flexible capital policy in response to future changes in the management environment.

2. Details of matters relating to purchase

(1) Type of shares to be purchased Common stock

(2) Total number of shares to be purchased 2,500,000 shares (upper limit)

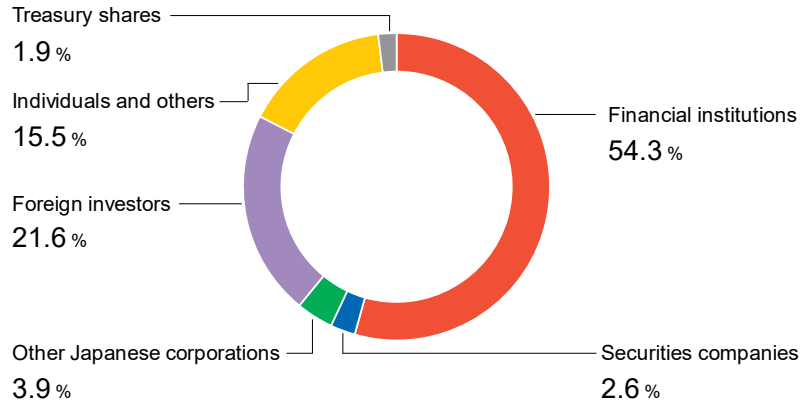
(Ratio to the total number of shares issued excluding treasury stock 2.0%)

(3) Total price of shares to be acquired ¥4,000,000,000 (upper limit)

(4) Period of acquisition May 27, 2019 - March 31, 2020

(5) Method of acquisition Open-market purchase on the Tokyo Stock Exchange

**Distribution of shares by shareholder type**




Note: Figures are rounded down to one decimal place.

## 4. Status of Share Acquisition Rights, etc.

Posted on the Company's website in accordance with laws and regulations and Article 14 of the Articles of Incorporation of the Company.

## 5. Corporate Officers (as of March 31, 2019)

(1) Directors and Audit & Supervisory Board Members

| Name | Position | Responsibilities in the Company and significant concurrent positions |
|---|---|---|
| Shoichi Tosaka | President and Chief Executive Officer | In charge of R&D/Engineering |
| Shinji Masuyama | Director and Senior Executive Operating Officer | In charge of Management Planning |
| Katsuya Sase | Director and Senior Executive Operating Officer | In charge of Electronic Components Business |
| Osamu Takahashi | Director and Executive Operating Officer | In charge of Integrated Module & Device Business<br>Chairman and Director, TAIYO YUDEN Mobile Technology Co., Ltd. |
| Masashi Hiraiwa | Outside Director (Independent Officer) | Attorney of OHHARA LAW OFFICE |
| Seiichi Koike | Outside Director (Independent Officer) | – |
| Takashi Tomaru | Audit & Supervisory Board Member (Full-time) | – |
| Katsushige Nakano | Audit & Supervisory Board Member (Full-time) | – |
| Hajime Yoshitake | Outside Audit & Supervisory Board Member (Full-time) (Independent Officer) | Adjunct Lecturer of Meiji University Professional Graduate School<br>General Manager of The Institute of Internal Auditors – Japan |
| Kazuhiro Yamakawa | Outside Audit & Supervisory Board Member (Independent Officer) | Professor Emeritus of Nihon University<br>Attorney of Azabu Kokusai Law Office |

Notes: 1. Directors Masashi Hiraiwa and Seiichi Koike are Outside Directors stipulated in Article 2, paragraph 15, of the Companies Act and registered as Independent Officers with the Tokyo Stock Exchange.

2. Audit & Supervisory Board Members Hajime Yoshitake and Kazuhiro Yamakawa are Outside Audit & Supervisory Board Members stipulated in Article 2, paragraph 16, of the Companies Act and registered as Independent Officers with the Tokyo Stock Exchange.

3. Audit & Supervisory Board Member Katsushige Nakano possesses considerable knowledge in finance and accounting, which was nurtured in his related business experience.

   Audit & Supervisory Board Member Hajime Yoshitake possesses considerable knowledge in finance and accounting, which was nurtured in his business experience at financial institutions.

4. The Company has no special interest relationship with the organizations where Outside Corporate Officers are concurrently serving.
5. Director Masashi Hiraiwa and Audit & Supervisory Board Member Kazuhiro Yamakawa are attorneys.
6. Changes of Directors during the fiscal year under review are as follows:

   Director Seiichi Koike was newly elected at the 77th Ordinary General Meeting of Shareholders held on June 28, 2018, and assumed position.

   Seiichi Tsutsumi and Hisaji Agata retired as Director upon the expiry of their term at the conclusion of the 77th Ordinary General Meeting of Shareholders held on June 28, 2018.
7. Effective June 28, 2018, the positions of the following Directors have been changed as follows: (The changes are underlined.)

| Name | Position |
|---|---|
| Shinji Masuyama | Director and Senior Executive Operating Officer |
| Katsuya Sase | Director and Senior Executive Operating Officer |

8. Director Osamu Takahashi retired as Chairman and Director of TAIYO YUDEN Mobile Technology Co., Ltd. on March 31, 2019.

(2) Remuneration paid to Directors and Audit & Supervisory Board Members

i) Policy to determine the remuneration paid to Corporate Officers and its contents

1. Policy to determine the remuneration paid to Corporate Officers

(1) The Company shall provide remuneration that emphasizes the linkage with financial results and medium- to long-term corporate value, to share the same value with shareholders.

(2) Remuneration shall be set at levels that can attract and retain excellent human resources with global competitiveness.

(3) Remuneration shall emphasize transparency and fairness to be able to fulfill accountability.

2. Process to determine remuneration paid to Corporate Officers and content of remuneration

In order to ensure the transparency and fairness of the process to determine remuneration for Officers, a Remuneration Committee has been established as an advisory panel to the Board of Directors.

The Remuneration Committee is composed of the President and CEO, Outside Directors, and an Audit & Supervisory Board Member and is chaired by an Independent Outside Director to ensure the objectivity of deliberations. It deliberates and reports on matters pertaining to remuneration for Officers such as remuneration policy, plan, calculation methods, and specific remuneration content of individual Officers.

After the Remuneration Committee has deliberated and reported, specific remunerations for Directors are deliberated at the Board of Directors meeting, and specific remunerations for Audit & Supervisory Board Members are discussed at the Audit & Supervisory Board meeting, within the limits of remunerations approved at the General Meeting of Shareholders, and with the amount of remunerations calculated based on rules and regulations established by the Company.

**Composition of remuneration by position**

| | |
|---|---|
| Executive Directors | • As Executive Directors are expected to achieve performance targets through business execution, their remuneration consists of "basic remuneration," "performance-based bonus," and "stock compensation-type stock options."<br>• If they achieve the targets underlying "performance-based bonus," their remuneration will consist of 40% of basic remuneration, 40% of performance-based bonus, and 20% of stock remuneration. |
| Outside Directors | In the interest of maintaining independence, Outside Directors receive only "basic remuneration," with no performance-based remuneration. |
| Audit & Supervisory Board Members | In the interest of promoting audits of legality, Audit & Supervisory Board Members receive only "basic remuneration." |

**Remuneration structure**

| Type of remuneration | Remuneration item | Description | Form of payment |
|---|---|---|---|
| Basic remuneration | Fixed remuneration | ・ Levels are determined in consideration of, among others, the economic climate and the growth potential of the Company.<br>・ Fixed remuneration based on roles and responsibilities. | Cash |
| Performance-based bonus | Performance-based remuneration (Single year) | ・ Given the responsibility of Executive Directors for meeting Group performance targets each year, consolidated profit is chosen as the relevant performance indicator to establish a clearer linkage between factor contributing to the enhancement of corporate/shareholder value and remuneration.<br>・ The amount of bonus for each position and rank is determined based on annual performance for the range of consolidated profit from zero yen (¥0) to the target amount set forth in the Medium-term Management Plan.<br>・ The amount of bonus for individual Directors is determined by multiplying the bonus amount for each position/rank by evaluation factor, which is determined based on performance evaluation of the business units in their charge and evaluation of strategic behavior on an individual basis. This is designed to raise motivation for the execution of business strategies. | Cash |
| Stock compensation-type stock options | Stock remuneration (Medium- to long-term) | ・ Introduced as an incentive toward medium- to long-term enhancement of corporate value, and to nurture shared value with shareholders and Directors' awareness to stock price.<br>・ The number of share acquisition rights granted to each Director is determined based on his or her position and rank. | Shares (Share acquisition rights) |

ii) Total remuneration paid to Directors and Audit & Supervisory Board Members for the fiscal year under review

| | Number of persons paid and total amount of remuneration | | Content | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Basic remuneration | | Performance-based bonus | | Stock compensation-type 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 | 8 | 324 | 8 | 147 | 5 | 95 | 5 | 81 |
| Audit & Supervisory Board Members (persons) | 4 | 81 | 4 | 81 | – | – | – | – |
| Total | 12 | 405 | 12 | 228 | 5 | 95 | 5 | 81 |
| (Outside Corporate Officers) | (5) | (48) | (5) | (48) | (–) | (–) | (–) | (–) |

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

2. The limit of remunerations paid to Directors was resolved to be ¥450 million or less per year at the 66th Ordinary General Meeting of Shareholders held on June 28, 2007. The limit of remunerations paid to Audit & Supervisory Board Members was resolved to be ¥8 million or less per month at the 75th Ordinary General Meeting of Shareholders held on June 29, 2016.

3. Figures are rounded down to the nearest million yen.

(3) Summary of contents of Liability Limitation Agreements

Pursuant to the provisions of Article 427, paragraph 1, of the Companies Act, the Company has established in its Articles of Incorporation the right to enter into agreements with Directors (excluding

those who are Executive Directors) and Audit & Supervisory Board Members which limit the liability of such Directors and Audit & Supervisory Board Members for damages described in Article 423, paragraph 1, of the said Act.

The parties to the agreement and the outline of the agreement are provided below.

| Parties concerned | Overview of agreement |
|---|---|
| Outside Director Masashi Hiraiwa<br>Outside Director Seiichi Koike<br>Outside Audit & Supervisory Board Members Hajime Yoshitake<br>Outside Audit & Supervisory Board Members Kazuhiro Yamakawa | The Outside Director/Outside Audit & Supervisory Board Member shall be liable to the Company for damages caused in relation to a failure to perform his or her duty up to the minimum amount prescribed in the provision of Article 425, paragraph 1 of the Companies Act, as long as the Outside Director/Outside Audit & Supervisory Board Member performs his or her duty in good faith and without gross negligence. |

(4) Outside Directors and Outside Audit & Supervisory Board Members

i) Relationship between the Company and other organizations where significant concurrent positions are held

As described above in "(1) Directors and Audit & Supervisory Board Members."

ii) Kinship with an executive or an officer of the Company or specially designated companies

Not applicable

iii) Main activities of Outside Directors and Outside Audit & Supervisory Board Members in the fiscal year under review

| Classification, Name | Attendance at meetings of the Board of Directors | Attendance at meetings of the Audit & Supervisory Board | Main activities |
|---|---|---|---|
| Director Masashi Hiraiwa | 18/18 times (Attendance rate: 100%) | – | Mr. Hiraiwa serves as Chairman of the voluntary Nomination Committee and Remuneration Committee. Based on his professional perspective as an attorney, Mr. Hiraiwa has made appropriate comments as an Independent Outside Director with regard to significant directions such as corporate strategies and appropriate risk taking on the execution of important duties, to ensure the advisability and appropriateness of the Board of Directors. |
| Director Seiichi Koike | 13/13 times (Attendance rate: 100%) | – | Drawing on his extensive experience in corporate management, Mr. Koike made comments as an Independent Outside Director, from the perspective of an expert in corporate management, on business plans, business alliances, and other important business execution matters to ensure the advisability and appropriateness of the Board of Directors. |
| Audit & Supervisory Board Member Hajime Yoshitake | 18/18 times (Attendance rate: 100%) | 19/19 times (Attendance rate: 100%) | Mr. Yoshitake has expert knowledge and experience of auditing operations and internal control operations at financial institutions, and has made remarks with regard to the maintenance of legitimacy in the decision-making of meetings such as the Board of Directors, the establishment and maintenance, etc. of the compliance structure of the Company. In addition, as a full-time Audit & Supervisory Board Member, he has fully demonstrated his auditing capability in onsite audits of the Group. |
| Audit & Supervisory Board Member Kazuhiro Yamakawa | 18/18 times (Attendance rate: 100%) | 19/19 times (Attendance rate: 100%) | Mr. Yamakawa has made remarks on issues with regard to the maintenance of legitimacy in the decision-making of meetings such as the Board of Directors, the establishment and maintenance, etc. of the compliance structure of the Company based on his deep insight cultivated as a university professor and his professional perspective as an attorney. |

Note: The attendance record of Director Seiichi Koike is based on the number of Board of Directors meetings held since his appointment on June 28, 2018.

(5) Other important matters concerning Corporate Officers

Not applicable

## 6. Accounting Auditors

(1) Name of Accounting Auditors

KPMG AZSA LLC

(2) Amount of remuneration paid or payable to Accounting Auditors for the fiscal year under review

| | Amount (Millions of yen) |
|---|---|
| i) Remuneration payable to the Accounting Auditors by the Company | 68 |
| ii) Total amount of money or other property benefits payable to the Accounting Auditor by the Company and its subsidiaries | 72 |

Notes: 1. The Audit Contract between the Company and the Accounting Auditors does not separate the remuneration for audit under the Companies Act from the remuneration for audit under the Financial Instruments and Exchange Act. Accordingly, the amount of i) described above represents the total amount of these remunerations.

2. Certified public accountants or auditing firms other than KPMG AZSA LLC are in charge of auditing the principal foreign subsidiaries of the Company.

(3) Reasons for the accord of the Audit & Supervisory Board regarding the amount of remuneration paid or payable to Accounting Auditors

The Audit & Supervisory Board has given an accord, which is described in Article 399, paragraph 1 of the Companies Act, as a result of studying whether the amount of remuneration for the audit paid or payable to Accounting Auditors is at a reasonable level in view of the corporate scale, complexity and risks of the Company.

(4) Non-audit services

Not applicable

(5) Policy for determining the dismissal or non-reappointment of Accounting Auditors

Apart from the dismissal of the Accounting Auditors by the Audit & Supervisory Board for reasons of a circumstance falling under any of the items of Article 340, paragraph 1 of the Companies Act, or if it is deemed difficult for the Accounting Auditors to properly perform their duties, a proposal for the dismissal or non-reappointment of the Accounting Auditors shall be submitted to a General Meeting of Shareholders, upon a decision of the Audit & Supervisory Board.

(6) Matters concerning existing suspension of business

Not applicable

(7) Matters concerning suspensions of business over the last two (2) years that the Company deems should be included in the Business Report

Not applicable

(8) Summary of contents of Liability Limitation Agreements

Not applicable

(9) Matters concerning names and other information of Accounting Auditors who resigned or were dismissed during the fiscal year under review

Not applicable

**[Reference]**

**Standards for the selection and the evaluation of the Accounting Auditors**

The Audit & Supervisory Board of the Company formulates standard items for the selection and evaluation of the Accounting Auditors as follows, and evaluates them accordingly.

| Standards for the selection of the Accounting Auditors | Standards for the evaluation of the Accounting Auditors |
|---|---|
| i) Outline of the accounting auditor candidate<br>ii) Audit implementation system<br>iii) Remunerations for audits, etc. | i) Quality management system of Accounting Auditors<br>ii) Audit implementation system<br>iii) Remuneration for audits<br>iv) Communication with Audit & Supervisory Board Members, etc. |

**[Reference]**

**Policy for Constructive Dialogue with Shareholders**

In order to facilitate a constructive dialog with shareholders and investors, The Company conducts IR activities upon appointing a director in charge of IR.

In addition, the shareholders' and investors' opinions and requests gathered through IR activities are reported to the Board of Directors.

More specifically, the following efforts are being carried out to implement the following system:

1. Coordination and strengthening of collaboration between the division in charge of IR and the other related divisions by the director in charge of IR.
2. Holding meetings to explain financial results for analysts and institutional investors (quarterly).
3. Making efforts to implement individual meetings, short meetings, etc., with major institutional investors from Japan and overseas.
4. Holding presentations to major shareholders through proposals in the General Meeting of Shareholders.
5. Issuing integrated reports in order to deepen understanding towards how medium- to long-term value of the Company is created.
6. Using of outside research agencies to conduct surveys to identify shareholders.

In order to assure fair disclosure of information and prevent leaks of insider information, upon dialoguing with shareholders and investors, the Company determines the contents beforehand and only discloses the information within that range.

## 7. Summary of the Resolution for the Systems for Ensuring Appropriate Business Operations and Status of Their Operation

A summary of the resolution made at a meeting of the Board of Directors (the Basic Policy) for systems for the Company to ensure appropriate business operations and the status of their operation are as follows.

1. Systems to ensure the execution of duties by Directors, Operating Officers and employees complies with laws, regulations and the Articles of Incorporation, and other systems to ensure appropriate business operations of the Company and the Group

**Summary of the resolution on the Basic Policy**

(1) The Board of Directors shall resolve important matters in accordance with laws, regulations and the Articles of Incorporation, as well as the "Board of Directors Regulations" and other internal regulations.

(2) The Board of Directors shall strengthen the management system for risk factors surrounding the management and supervise the execution of duties by Directors.

(3) Audit & Supervisory Board Members shall monitor the appropriateness of resolutions by the Board of Directors, as well as the execution of duties by Directors and Operating Officers.

(4) An Internal Control Committee shall be established as a system to promote the Group's compliance activities. The committee shall designate a responsible person for each of the items set forth in the "TAIYO YUDEN Group CSR Code of Conduct" of the Company and conduct compliance activities on an ongoing basis in accordance with the compliance management system.

(5) A whistleblower system shall be operated for early detection of compliance-related problems of the Group. The detected problems shall be investigated and corrective measures shall be taken to prevent a recurrence.

(6) Corporate information and other materials relating to the Group shall be swiftly and appropriately disclosed to shareholders and investors.

(7) A firm and uncompromising stance will be taken on an organizational basis against antisocial movements or groups.

(8) Internal control shall be streamlined and operated for the purpose of ensuring the reliability of financial reports in accordance with the Financial Instruments and Exchange Act.

(9) As for the execution of business operations at subsidiaries, the relevant operating division/departments of the Company shall be the contact to grasp the circumstances thereof, and sufficient exchange of information and coordination of interests shall be conducted with regard to important information in accordance with the "Group Management Rules" to ensure appropriateness of business operations while respecting the management intentions of the respective subsidiaries.

**Summary of the status of operation**

An Internal Control Committee has been established as a system to promote compliance activities. The committee has designated a responsible person for each of the items set forth in the "TAIYO YUDEN Group CSR Code of Conduct" of the Company, and is making improvements on an ongoing basis while implementing the plan-do-check-act (PDCA) cycle, in accordance with the compliance management system.

In addition, the operational status of these measures is periodically evaluated and considered by the Internal Control Committee, and details thereof are reported to the Board of Directors as the Company works to strengthen internal controls.

2. System for the storage and management of information with regard to the execution of duties by Directors and Operating Officers of the Company

**Summary of the resolution on the Basic Policy**

(1) The Company shall record the statutory documents such as the minutes of the General Meetings of Shareholders and the minutes of the Meetings of the Board of Directors, and the minutes of other important meetings concerning the execution of duties by Directors and Operating Officers, in the form of documents or electromagnetic media, and store and manage them together with relevant materials, in accordance with laws and regulations, as well as the respective meeting rules.

(2) The Company shall maintain an environment that enables Directors and/or Audit & Supervisory Board Members to access said information at any time in accordance with the respective meeting rules.

**Summary of the status of operation**

The principal information concerning the execution of duties by Directors and Operating Officers is stored and managed in the form of documents or electromagnetic media, in accordance with laws and regulations as well as the respective meeting rules. Furthermore, encryption and other security measures are taken in regard to important items, such as the minutes of the General Meetings of Shareholders and the minutes of the Meetings of the Board of Directors recorded in electromagnetic media.

3. Rules for managing risks of loss with respect to the Company and other systems

**Summary of the resolution on the Basic Policy**

(1) An Internal Control Committee shall be established as a system to promote risk management activities. The committee shall designate a responsible person for each risk category. Risk management activities, which consist of risk identification, evaluation of risk levels, decision and execution of risk countermeasures and monitoring/review of the status of implemented countermeasures, shall be continuously performed as per the Group risk management system.

(2) As per the Company's Group Business Continuity and Risk Management Regulations, the effects on business activities resulting from the occurrence of any risks including natural disasters shall be anticipated, an emergency task force shall be formed depending on the scale of expected adverse effects and preventive measures shall be taken in advance during peacetime. In case a business continuity problem arises, countermeasures shall be taken in compliance with the BCP (Business Continuity Plan) put in place to enable the early resumption of business activities.

**Summary of the status of operation**

An Internal Control Committee has been established as a system to promote risk management activities. The committee has designated a responsible person for each risk category in the "TAIYO YUDEN Group CSR Code of Conduct" of the Company, and is making improvements on an ongoing basis while implementing the PDCA cycle, in accordance with the Group risk management system. In addition, the operational status of these measures is periodically evaluated and considered by the Internal Control Committee, and details thereof are reported to the Board of Directors as the Company works to strengthen internal controls. Furthermore, in addition to putting the BCP (Business Continuity Plan) in place and conducting drills to prepare for a disaster, etc. occurring, the Company is also taking measures to spread risk and have insurance as necessary.

4. System for ensuring the duties of Directors of the Company are efficiently performed

**Summary of the resolution on the Basic Policy**

(1) To ensure that decision making by the Board of Directors is appropriate and efficient, a collegial body to deliberate important matters regarding the execution of business operations and personnel affairs shall be established.

(2) To improve the efficiency of the execution of duties by Executive Directors, Operating Officers shall be in place.

(3) An Internal Control Committee shall be established as a collegial body that deliberates on the internal control system and evaluates its activities, and a person responsible for promotion shall be designated for each item set forth in this resolution. The Internal Control Committee shall regularly receive reporting from the aforementioned persons responsible for promotion on the activity achievements and report the achievements to the Board of Directors.

(4) The decision-making process shall be simplified and accelerated by proactively leveraging various computer systems for such applications as workflows, video conferences, the sharing of information and information management by leveraging IT technology.

**Summary of the status of operation**

To ensure the efficient execution of duties by Directors, the Management Implementation Committee shall duly discuss policy matters regarding business operations for Group management, whereas the TM (Top Management) Meeting shall duly discuss matters concerning personnel and remuneration for the entire Group, prior to submission to the Board of Directors. Both organs shall deliberate the legality, rationality and economics of matters delegated by the Board of Directors and report the results to the Board of Directors. In compliance with the purpose of Corporate Governance Codes, the Company works to provide materials of Meetings of the Board of Directors, promptly, summarize the points and brush up the quality of analysis or evaluation to ensure the effectiveness of operations. In addition, 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. Under the direction of the Chief Executive Officer, the Operating Officers shall conduct business flexibly and quickly as an executor responsible for the section he or she is in charge of, in accordance with management policies and strategies determined at meetings of the Board of Directors.

5. System for ensuring appropriate business operations within the TAIYO YUDEN Group

**Summary of the resolution on the Basic Policy**

(1) System for reporting to the Company on matters concerning the execution of duties by Directors of the subsidiaries of the Company and other persons with similar authority

1) The status of the performed business operations at subsidiaries shall be reported as per the Company's "Group Management Rules" to encourage the sharing of information with relevant departments of the Company.

2) The Company shall strive to understand the management circumstances of its subsidiaries by dispatching some of its Operating Officers and/or employees to serve as Directors of the relevant subsidiaries.

(2) Rules for managing risks of loss with respect to any subsidiary of the Company and other systems

1) As per the Group risk management system, the subsidiary shall continuously perform its risk identification, evaluation of risk levels, decision and execution of risk countermeasures and monitoring/review of the status of implemented countermeasures.

2) As per the Company's Group Business Continuity and Risk Management Regulations, the subsidiary shall anticipate circumstances in which effects on business activities could result from the occurrence of risks including natural disasters, determine the possible formation of an emergency task force depending on the scale of expected adverse effects and take preventive measures in advance during peacetime. In case a business continuity problem arises, the subsidiary shall take countermeasures in compliance with the BCP (Business Continuity Plan) put in place to enable the early resumption of business activities.

(3) System for ensuring the duties of Directors, etc., of any subsidiary of the Company are efficiently performed

1) The Company shall formulate its "Group Management Rules" to help subsidiaries handle their decision making efficiently, whereas the subsidiaries shall put the rules into practice.

2) The Internal Audit Office of the Company monitors whether business operations of subsidiaries are conducted appropriately and efficiently from an independent standpoint. The

monitoring results shall be provided appropriately as feedback to the relevant subsidiaries and to the President and CEO of the Company. The information therein also shall be shared with the Audit & Supervisory Board Members of the Company.

(4) System for ensuring that Directors and employees of any subsidiary of the Company perform their duties in accordance with laws, regulations and the Articles of Incorporation of said subsidiary

1) As for important matters, the system to ensure the appropriateness of business operations at subsidiaries shall be streamlined and maintained as per the Company's "Group Management Rules."

2) As a system to promote compliance activities, a responsible person for each of the items set forth in the "TAIYO YUDEN Group CSR Code of Conduct" shall be designated to conduct compliance activities on an ongoing basis in accordance with the compliance management system.

**Summary of the status of operation**

The execution of business operations at subsidiaries shall be reported in accordance with the "Group Management Rules" and prior discussion for approval shall be conducted with the relevant division/department of the Company with regard to decision-making of important information to ensure appropriateness of business operations. As for the operation of the Board of Directors Meetings of subsidiaries, the Company strives to strengthen control and management by revising or properly announcing the "Group Management Rules," and Audit & Supervisory Board Members monitor the status to ensure the appropriateness of the operations. The compliance and risk management matters of subsidiaries are managed in accordance with the "TAIYO YUDEN Group CSR Code of Conduct" as well as the compliance management system and the Group risk management system through the PDCA cycle and periodically reported to the Internal Control Committee to evaluate the status promptly, and this provides us with insights to establish a rational management system.

The Internal Audit Office develops a system for ensuring the Group's appropriate business operations and monitors the status of operations by conducting an internal audit on subsidiaries based on an annual plan. Development of internal control concerning financial results and evaluation results of the status of operations are audited by Accounting Auditors, and the details are reported to the President and CEO of the Company and shared with Audit & Supervisory Board Members.

6. System for ensuring effective audits by the Audit & Supervisory Board Members of the Company

**Summary of the resolution on the Basic Policy**

(1) Matters regarding the employees appointed to support Audit & Supervisory Board Members of the Company (Independence of said employees from Directors, ensuring effectiveness of the direction of Audit & Supervisory Board Members, etc.)

1) As dedicated staff who support Audit & Supervisory Board Members' auditing operations under the control of the Audit & Supervisory Board, employees who serve as secretariat members (the "Secretariat Staff") shall be in place.

2) Designation, transfer, performance evaluation, promotion, disciplinary actions, etc., of the Secretariat Staff shall be consulted with the Audit & Supervisory Board in advance to obtain its accord.

(2) Treatment of expenses that derive from the execution of duties by Audit & Supervisory Board Members of the Company

Unless otherwise recognized that such costs are not necessary with regard to the Audit & Supervisory Board Members' duties, the Company shall incur costs that have been caused in relation to the audits by Audit & Supervisory Board Members.

(3) Other systems for ensuring effective auditing by the Audit & Supervisory Board Members of the Company

1) The Board of Directors shall create a system that allows Audit & Supervisory Board Members to participate in important meetings on managerial matters and audit the decision-making of Directors, as well as the execution of duties by Directors and Operating Officers.

2) The Board of Directors shall create a system that allows Audit & Supervisory Board Members to collect information in a timely manner that is necessary for their audits through communication with Directors, Operating Officers, and employees, and also request, as necessary, reports therefrom regarding the execution of their duties and inspect the relevant documents.

3) The Board of Directors shall create a system that allows Audit & Supervisory Board Members to periodically exchange information with the Internal Audit Office, and take close cooperation therewith.

4) The Board of Directors shall create a system that allows Audit & Supervisory Board Members to periodically, or on an as needed-basis, exchange information with the Accounting Auditor, and request reporting therefrom, as necessary.

**Summary of the status of operation**

The Board of Directors has created a system that allows Audit & Supervisory Board Members to attend important meetings related to corporate management and check the process of Directors' corporate management and the status of the execution of their duties by collecting information. Moreover, a system has been created that allows Audit & Supervisory Board Members to grasp the circumstances of compliance or risk management-related challenges in the Internal Control Committee, and collect information required for audits by communicating with Directors, Operating Officers and employees, and reviewing related materials.

7. System for reporting to Audit & Supervisory Board Members of the Company

**Summary of the resolution on the Basic Policy**

(1) System for reporting to Audit & Supervisory Board Members of the Company by Directors, Operating Officers and employees of the Company

1) Directors, Operating Officers and employees of the Company, if any of them recognize a fact that violates any laws, regulations, the Articles of Incorporation and/or internal regulations, or a considerably improper fact that could be such a violating fact, or a fact that is feared to cause significant damage to the Company, shall immediately report thereof to the Audit & Supervisory Board Members.

2) The system that allows any Director, Operating Officer or employee of the Company to directly report to an Audit & Supervisory Board Member of the Company shall be streamlined and maintained as per the Company's internal whistleblowing rules.

(2) System for reporting to Audit & Supervisory Board Members of the Company by Directors and employees of any subsidiary of the Company

1) The subsidiaries of the Company shall streamline and maintain the system that allows Directors, etc., and employees of any subsidiary to directly report to Audit & Supervisory Board Members of the Company with regard to the violation of laws, regulations and/or internal regulations by Directors, etc., as per their respective internal whistleblowing rules.

2) The Board of Directors shall endeavor to facilitate communication with full-time Audit & Supervisory Board Members, Directors and employees of the subsidiaries, collect information and maintain the environment for audits.

(3) System for ensuring that anyone who has reported to an Audit & Supervisory Board Member does not suffer from detrimental treatment for the reason of having made said report

The Group shall stipulate a scheme to fully protect informants in its internal rules, and streamline and maintain a preventive system, under which anyone who has used the whistleblower system to

report to the Audit & Supervisory Board and/or the Audit & Supervisory Board Members shall not be unfavorably treated.

**Summary of the status of operation**

A system has been created whereby reports are made to Audit & Supervisory Board Members through the operation of the whistleblower system of the Company and the Group. In addition, a system has been created that allows Directors in the Boards of Directors of subsidiaries, etc. to communicate with Audit & Supervisory Board Members by making reports and exchanging views.

## 8. Basic Policy on the Control over the Company

Posted on the Company's website in accordance with laws and regulations and Article 14 of the Articles of Incorporation of the Company.

**[Reference] Corporate Governance**

1. Basic Policy of Corporate Governance

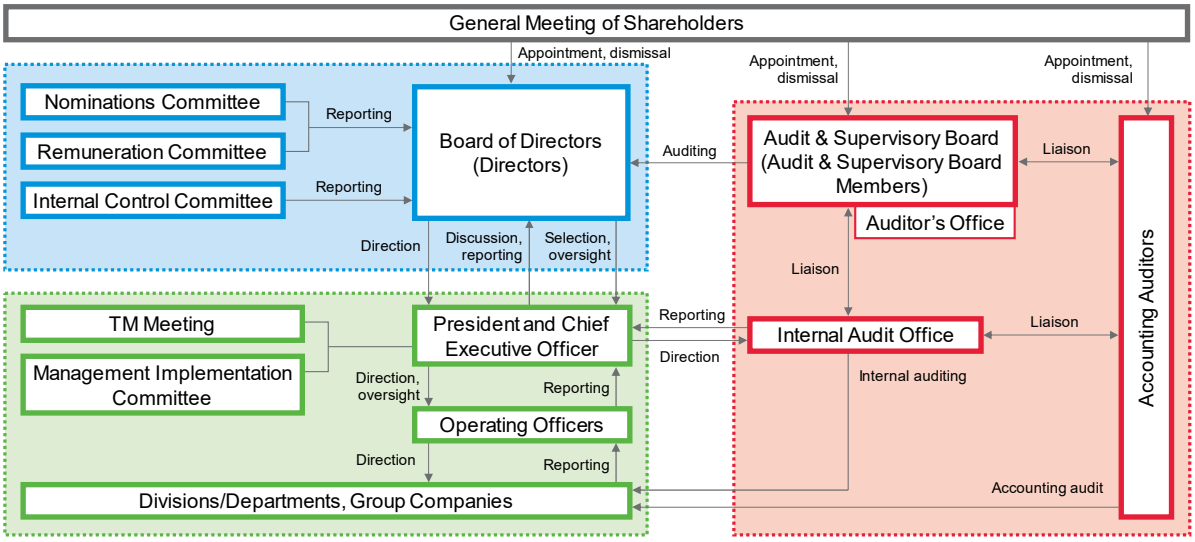
The management philosophy of the TAIYO YUDEN Group consists of the three principles of "employee well-being," "betterment of local communities" and "responsibility to provide returns to shareholders," and the vision of the Group is "to be an excellent company that enjoys the trust and highest regard from our customers." To put into practice the management philosophy and realize the vision, we are committed to corporate social responsibilities and the mission of management to develop businesses on an ongoing basis while fulfilling sociality, public interest and public nature of the Group from a global viewpoint.

With an emphasis on transparency and fairness of corporate management, the Company is making efforts to enhance corporate governance under the supervision of the Board of Directors, including the development of structures and mechanisms that enable timely and appropriate information disclosure, thorough compliance, and speedy decision making and execution of duties.

Basic Policy for Corporate Governance

https://www.yuden.co.jp/jp/ir/management/governance/

**Governance Structure**




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

2. Corporate governance structure

The Company is a company with an Audit & Supervisory Board and has the Board of Directors, the Audit & Supervisory Board, and the Accounting Auditors as governing bodies. In addition, the Company has adopted a corporate governance structure under which all the Outside Directors and Outside Audit & Supervisory Board Members are designated as Independent Officers for whom there is no possibility of conflicts of interest with general shareholders. Consequently, the Outside Directors and Outside Audit & Supervisory Board Members work closely with the Audit & Supervisory Board Members and the internal audit department, thereby enabling the effective utilization of the Audit & Supervisory Board Members' functions and enhancing the authority of management oversight.

**Board of Directors**

(1) Roles and responsibilities of the Board of Directors

i) 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.

ii) 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.

iii) 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.

(2) Delegation of authority by the Board of Directors to top management

i) To ensure the effective decision making by the Board of Directors, the Management Implementation Committee shall deliberate in advance policy matters regarding business operations 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.

ii) 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 as an executor responsible for the section he or she is in charge, under the direction of the President and Chief Executive Office, in accordance with management policies and strategies determined at meetings of the Board of Directors.

(3) Effectiveness of the Board of Directors

i) To ensure the fairness of meetings and strengthen the authority of management oversight, the Board of Directors shall be chaired by the Chairman of the Board of Directors or the President and Chief Executive Officer if the Chairman of the Board of Directors is absent.

ii) Directors and Audit & Supervisory Board Members conduct a self-evaluation of the effectiveness of the Board of Directors every year. The Board of Directors discloses issues to be addressed and others based on analysis results and works to resolve them.

**[Outline of evaluation of the effectiveness of the Board of Directors]**

1. Method of Evaluation

   Self-evaluation by questionnaire survey

| | |
|---|---|
| Subjects | Directors and Audit & Supervisory Board Members (including Outside Officers) |
| Implementation period | February 2019 |
| Evaluation items | 1) The operation of the Board of Directors, 2) The composition of the Board of Directors, 3) Aggressive governance, 4) Defensive governance, 5) Provision of information, 6) General evaluation |
| Answer form | Points evaluation from 5 (satisfied) to 1 (not satisfied), and free comments |
| Evaluation method | Evaluation was conducted by the Board of Directors after analysis and verification of the survey results by Directors and Audit & Supervisory Board Members. |

2. Outline of the Analysis and Evaluation Results

   In the survey, all evaluation items scored 3.5 or more points, and it was confirmed that the effectiveness of the Board of Directors has generally been ensured.

   Regarding the "diversity of the composition of the Board of Directors," which was identified as an issue in the previous fiscal year, candidates for Directors were selected based on the policy that the Company aims to achieve diversity in terms of skills, experience, and way of thinking through the long-term internal development as well as external recruitment of candidates. As for the "opportunities for Directors to learn knowledge and skills," which was also identified as an issue in the previous fiscal year, improvements have been recognized as a result of training provided to Directors as well as Operating Officers based on timely topics and case studies.

   As a result of the latest questionnaire survey conducted during the fiscal year under review, "improvement in reporting content on key measures" and "establishment of opportunities for discussion on business risks" have been recognized as issues. The Board of Directors will endeavor to enhance the effectiveness of the Board of Directors and further strengthen corporate governance by continuing to address these matters systematically.



Officer training session

**Directors**

i) The Board of Directors shall be composed of not more than ten (10) Directors, not less than one third (1/3) of whom shall be Independent Outside Directors.

ii) To clarify management responsibilities during a given fiscal year and increase shareholders' confidence, Directors' term of office is one (1) year.

iii) To ensure ample diversity in terms of gender and nationality and adequate balance in the composition of the Board of Directors, candidates for Executive Director are selected from among persons who have excellent personality and insight, have achieved a good track record to date in business areas of which they have been in charge, and have a thorough knowledge of management and business based on the "Officer Appointment and Dismissal Standards." Candidates for Outside Director are selected based on selection criteria including personality, experience, strong expertise, and the "Standards for the Independence of Outside Directors/Outside Audit & Supervisory Board Members."

iv) Except for Outside Directors, the Directors concurrently serve as Operating Officers who are in charge of both oversight and the execution of operations. Directors report to the Board of Directors with emphasis on the business performance and oversight operations of the divisions/departments of which they are in charge.

**Audit & Supervisory Board and Audit & Supervisory Board Members**

i) The Company has adopted an Audit & Supervisory Board Members system. The Audit & Supervisory Board meeting is held monthly, in principle.

ii) The Audit & Supervisory Board shall be composed of not more than five (5) Audit & Supervisory Board Members, a majority of whom shall be Independent Outside Audit & Supervisory Board Members. The Company elects persons who have adequate experience and skills as well as sufficient knowledge of finance, accounting, and legal affairs as Audit & Supervisory Board Members to ensure the effectiveness of audits.

iii) 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 Auditors and the internal audit department by meeting regularly, witnessing accounting audits as observers and conducting joint audits with the internal audit department.

iv) The Audit & Supervisory Board has its own dedicated staff to conduct highly effective auditing operations such as information communications and data management.

**Voluntary advisory panels**

To strengthen the independence and objectivity of the functions of the Board of Directors concerning the nomination and remuneration for Directors and Operating Officers and to fulfill its accountability, the Company has established two voluntary advisory panels: Nomination Committee and Remuneration Committee.

i) Nomination Committee

The Nomination Committee is composed of the President and Chief Executive Officer, Outside Directors, and an Audit & Supervisory Board Member and is chaired by an Independent Outside Director to ensure the objectivity of deliberation. The Nomination Committee deliberates on, among others, the nomination of candidates for Officer (including candidates for reappointment), any proposal for dismissal of Officers including the President and Chief Executive Officer, any proposal for the selection of a rank for or dismissal of each Operating Officer, and disciplinary matters based on the "Officer Appointment and Dismissal Standards" and reports the deliberation results to the Board of Directors. The consent of the Audit & Supervisory Board is obtained in advance for the nomination of a candidate for Audit & Supervisory Board Member or the dismissal of an Audit & Supervisory Board Member.

Status of activities

The Nomination Committee held four (4) meetings during the fiscal year under review. Main activities are as follows:

- Deliberations on candidates for Officer (including candidates for reappointment)
- Deliberations on the selection of a rank for each Operating Officer and the determination of the order of turns in acting as a chairman
- Deliberations on the abolition of Senior Advisor and Special Advisor positions
- Deliberations on the revision of "Officer Appointment and Dismissal Standards"

ii) Remuneration Committee

The Remuneration Committee is composed of the President and Chief Executive Officer, Outside Directors, and an Audit & Supervisory Board Member and is chaired by an Independent Outside Director to ensure the objectivity of deliberation. The Remuneration Committee deliberates on remuneration plans and amounts of Directors and Operating Officers and reports the deliberation results to the Board of Directors. Remuneration for Directors (excluding Outside Directors) and Operating Officers of the Company consists of "basic remuneration," "performance-based bonus," and "stock compensation-type stock options" under a remuneration system that takes into consideration performance-based incentives.

Status of activities

| |
|---|
| The Remuneration Committee held three (3) meetings during the fiscal year under review. Main activities are as follows:<br>・ Periodic verification of the levels of remuneration for Officers<br>・ Deliberations on the personnel evaluation and bonuses of individual Operating Officers<br>・ Deliberations on stock compensation-type stock options<br>・ Deliberations on the revision of “Operating Officer Remuneration Rules” |

Composition of Voluntary Advisory Panels

| | Total members (persons) | Internal Directors (persons) | Outside Directors (persons) | Audit & Supervisory Board Members (persons) | Head of committee |
|---|---|---|---|---|---|
| Nomination Committee | 5 | 1 | 3 | 1 | Independent Outside Director |
| Remuneration Committee | 5 | 1 | 3 | 1 | Independent Outside Director |

* The composition shown above is based on the assumption that Proposal No. 2 and Proposal No. 3 are approved.

## Consolidated Financial Statements

### CONSOLIDATED BALANCE SHEET

(Millions of yen)

| Account item | 78th Fiscal Term (as of March 31, 2019) | (Reference) 77th Fiscal Term (as of March 31, 2018) |
|---|---|---|
| **(ASSETS)** | | |
| **Current assets** | **185,858** | **164,326** |
| Cash and deposits | 56,430 | 49,700 |
| Notes and accounts receivable - trade | 62,745 | 56,933 |
| Merchandise and finished goods | 21,065 | 19,310 |
| Work in process | 25,907 | 21,118 |
| Raw materials and supplies | 13,974 | 11,666 |
| Other | 5,972 | 5,875 |
| Allowance for doubtful accounts | (238) | (278) |
| **Non-current assets** | **143,003** | **122,843** |
| **Property, plant and equipment** | **125,517** | **110,446** |
| Buildings and structures | 94,768 | 81,602 |
| Machinery, equipment and vehicles | 263,270 | 245,007 |
| Tools, furniture and fixtures | 26,089 | 22,661 |
| Land | 11,022 | 9,422 |
| Construction in progress | 10,468 | 6,501 |
| Accumulated depreciation | (280,102) | (254,749) |
| **Intangible assets** | **7,056** | **1,309** |
| Goodwill | 5,837 | – |
| Other | 1,219 | 1,309 |
| **Investments and other assets** | 10,428 | **11,087** |
| Investment securities | 4,760 | 7,169 |
| Net defined benefit asset | 16 | – |
| Deferred tax assets | 3,864 | 2,048 |
| Other | 2,119 | 2,188 |
| Allowance for doubtful accounts | (332) | (318) |
| **Total Assets** | **328,861** | **287,170** |

(Millions of yen)

| Account item | 78th Fiscal Term (as of March 31, 2019) | (Reference) 77th Fiscal Term (as of March 31, 2018) |
|---|---|---|
| **(LIABILITIES)** | | |
| **Current liabilities** | **81,997** | **77,467** |
| Notes and accounts payable - trade | 25,031 | 25,389 |
| Short-term loans payable | 23,152 | 20,737 |
| Current portion of long-term loans payable | 2,477 | 5,160 |
| Accounts payable - other | 13,405 | 12,792 |
| Income taxes payable | 5,085 | 1,684 |
| Provision for bonuses | 4,167 | 3,663 |
| Provision for directors' bonuses | 258 | 231 |
| Other | 8,420 | 7,808 |
| **Non-current liabilities** | **40,910** | **39,584** |
| Convertible bond-type bonds with share acquisition rights | – | 20,039 |
| Long-term loans payable | 28,415 | 8,882 |
| Deferred tax liabilities | 4,771 | 5,047 |
| Provision for directors' retirement benefits | 132 | 131 |
| Net defined benefit liability | 3,742 | 2,865 |
| Other | 3,847 | 2,617 |
| **Total Liabilities** | **122,907** | **117,052** |
| **(NET ASSETS)** | | |
| **Shareholders' equity** | **214,083** | **175,756** |
| Capital stock | 33,575 | 23,557 |
| Capital surplus | 49,904 | 41,518 |
| Retained earnings | 135,217 | 113,984 |
| Treasury shares | (4,613) | (3,302) |
| **Accumulated other comprehensive income** | **(8,583)** | **(5,980)** |
| Valuation difference on available-for-sale securities | 1,519 | 2,896 |
| Deferred gains or losses on hedges | 2 | (15) |
| Foreign currency translation adjustment | (9,703) | (9,028) |
| Remeasurements of defined benefit plans | (401) | 167 |
| **Share acquisition rights** | **453** | **342** |
| **Total Net Assets** | **205,953** | **170,118** |
| **Total Liabilities and Net Assets** | **328,861** | **287,170** |

## CONSOLIDATED STATEMENT OF INCOME

(Millions of yen)

| Account item | 78th Fiscal Term (from April 1, 2018 to March 31, 2019) | | (Reference) 77th Fiscal Term (from April 1, 2017 to March 31, 2018) | |
|---|---|---|---|---|
| **Net sales** | | **274,349** | | **244,117** |
| **Cost of sales** | | **192,084** | | **182,165** |
| **Gross profit** | | **82,264** | | **61,952** |
| **Selling, general and administrative expenses** | | **47,026** | | **41,730** |
| **Operating profit** | | **35,237** | | **20,221** |
| **Non-operating income** | | | | |
| Interest income | 382 | | 269 | |
| Dividend income | 142 | | 126 | |
| Foreign exchange gains | 190 | | – | |
| Subsidy income | 451 | | 2,058 | |
| Other | 329 | 1,496 | 345 | 2,799 |
| **Non-operating expenses** | | | | |
| Interest expenses | 349 | | 238 | |
| Share of loss of entities accounted for using equity method | 786 | | 264 | |
| Foreign exchange losses | – | | 1,649 | |
| Share issuance cost | 144 | | – | |
| Depreciation of inactive non-current assets | 194 | | 206 | |
| Plant shutdown expenses | 655 | | – | |
| Other | 252 | 2,382 | 108 | 2,467 |
| **Ordinary profit** | | **34,351** | | **20,553** |
| **Extraordinary income** | | | | |
| Gain on sales of non-current assets | 16 | | 21 | |
| Gain on sales of investment securities | 1,535 | | – | |
| Gain on step acquisitions | 249 | | – | |
| Other | 24 | 1,825 | – | 21 |
| **Extraordinary losses** | | | | |
| Loss on sales and retirement of non-current assets | 494 | | 358 | |
| Impairment loss | 4,614 | | 396 | |
| Loss on valuation of investment securities | 52 | | 0 | |
| Business structure improvement expenses | 2,235 | | – | |
| Head office transfer cost | – | | 95 | |
| Other | 668 | 8,066 | 0 | 850 |
| **Profit before income taxes** | | **28,110** | | **19,724** |
| Income taxes - current | 5,983 | | 4,113 | |
| Income taxes - deferred | (1,560) | 4,422 | (744) | 3,369 |
| **Profit** | | **23,687** | | **16,355** |
| **Profit attributable to owners of parent** | | **23,687** | | **16,355** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(from April 1, 2018 to March 31, 2019)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 23,557 | 41,518 | 113,984 | (3,302) | 175,756 |
| Changes of items during period | | | | | |
| Conversion of convertible bond-type bonds with share acquisition rights | 10,017 | 10,017 | | | 20,035 |
| Dividends of surplus | | | (2,454) | | (2,454) |
| Profit attributable to owners of parent | | | 23,687 | | 23,687 |
| Purchase of treasury shares | | | | (3,001) | (3,001) |
| Disposal of treasury shares | | (0) | | 59 | 59 |
| Change by share exchange | | (1,631) | | 1,631 | – |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (0) | | | (0) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | 10,017 | 8,386 | 21,233 | (1,310) | 38,326 |
| Balance at end of current period | 33,575 | 49,904 | 135,217 | (4,613) | 214,083 |

| | Accumulated other comprehensive income | | | | | Share acquisition rights | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of current period | 2,896 | (15) | (9,028) | 167 | (5,980) | 342 | 170,118 |
| Changes of items during period | | | | | | | |
| Conversion of convertible bond-type bonds with share acquisition rights | | | | | | | 20,035 |
| Dividends of surplus | | | | | | | (2,454) |
| Profit attributable to owners of parent | | | | | | | 23,687 |
| Purchase of treasury shares | | | | | | | (3,001) |
| Disposal of treasury shares | | | | | | | 59 |
| Change by share exchange | | | | | | | – |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | | (0) |
| Net changes of items other than shareholders' equity | (1,377) | 17 | (674) | (568) | (2,602) | 111 | (2,491) |
| Total changes of items during period | (1,377) | 17 | (674) | (568) | (2,602) | 111 | 35,835 |
| Balance at end of current period | 1,519 | 2 | (9,703) | (401) | (8,583) | 453 | 205,953 |

## Non-Consolidated Financial Statements

### NON-CONSOLIDATED BALANCE SHEET

(Millions of yen)

| Account item | 78th Fiscal Term (as of March 31, 2019) | (Reference) 77th Fiscal Term (as of March 31, 2018) |
|---|---|---|
| **(ASSETS)** | | |
| **Current assets** | **106,395** | **88,534** |
| Cash and deposits | 20,856 | 13,271 |
| Notes receivable - trade | 591 | 2,441 |
| Accounts receivable - trade | 51,113 | 47,238 |
| Merchandise and finished goods | 3,180 | 2,637 |
| Work in process | 8,265 | 6,395 |
| Raw materials and supplies | 2,838 | 2,670 |
| Prepaid expenses | 217 | 289 |
| Short-term loans receivable from subsidiaries and associates | 2,497 | 1,993 |
| Accounts receivable - other | 14,596 | 9,502 |
| Consumption taxes receivable | 2,101 | 2,034 |
| Other | 137 | 60 |
| **Non-current assets** | **142,281** | **112,346** |
| **Property, plant and equipment** | **28,165** | **27,841** |
| Buildings | 7,909 | 8,336 |
| Structures | 549 | 571 |
| Machinery and equipment | 10,175 | 11,183 |
| Vehicles | 15 | 19 |
| Tools, furniture and fixtures | 1,839 | 1,815 |
| Land | 4,164 | 4,193 |
| Construction in progress | 3,511 | 1,721 |
| **Intangible assets** | **875** | **941** |
| Patent right | 1 | 2 |
| Software | 800 | 850 |
| Other | 73 | 88 |
| **Investments and other assets** | **113,240** | **83,563** |
| Investment securities | 1,709 | 5,243 |
| Shares of subsidiaries and associates | 56,294 | 48,736 |
| Long-term loans receivable from employees | 106 | 125 |
| Long-term loans receivable from subsidiaries and associates | 52,779 | 28,947 |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 332 | 768 |
| Long-term prepaid expenses | 68 | 65 |
| Deferred tax assets | 2,019 | – |
| Other | 659 | 739 |
| Allowance for doubtful accounts | (730) | (1,063) |
| **Total Assets** | **248,677** | **200,881** |

(Millions of yen)

| Account item | 78th Fiscal Term (as of March 31, 2019) | (Reference) 77th Fiscal Term (as of March 31, 2018) |
|---|---|---|
| **(LIABILITIES)** | | |
| **Current liabilities** | **77,707** | **72,497** |
| Accounts payable - trade | 30,454 | 31,536 |
| Short-term loans payable | 22,420 | 20,737 |
| Current portion of long-term loans payable | 2,463 | 5,160 |
| Lease obligations | 14 | 15 |
| Accounts payable - other | 10,473 | 6,695 |
| Accrued expenses | 3,559 | 3,582 |
| Income taxes payable | 3,758 | 595 |
| Deposits received | 1,512 | 1,383 |
| Provision for bonuses | 2,171 | 1,920 |
| Provision for directors' bonuses | 258 | 231 |
| Other | 622 | 639 |
| **Non-current liabilities** | **29,007** | **29,493** |
| Convertible bond-type bonds with share acquisition rights | – | 20,039 |
| Long-term loans payable | 28,415 | 8,882 |
| Lease obligations | 135 | 137 |
| Deferred tax liabilities | – | 14 |
| Other | 455 | 419 |
| **Total Liabilities** | **106,715** | **101,990** |
| **(NET ASSETS)** | | |
| **Shareholders' equity** | **140,953** | **96,121** |
| Capital stock | 33,575 | 23,557 |
| Capital surplus | 52,020 | 41,497 |
| Legal capital surplus | 51,468 | 41,450 |
| Other capital surplus | 552 | 46 |
| Retained earnings | 59,970 | 34,369 |
| Legal retained earnings | 2,947 | 2,947 |
| Other retained earnings | 57,022 | 31,421 |
| Reserve for advanced depreciation of non-current assets | 1,328 | 1,330 |
| Retained earnings brought forward | 55,694 | 30,091 |
| Treasury shares | (4,613) | (3,302) |
| **Valuation and translation adjustments** | **556** | **2,427** |
| Valuation difference on available-for-sale securities | 553 | 2,442 |
| Deferred gains or losses on hedges | 2 | (15) |
| **Share acquisition rights** | **453** | **342** |
| **Total Net Assets** | **141,962** | **98,890** |
| **Total Liabilities and Net Assets** | **248,677** | **200,881** |

## NON-CONSOLIDATED STATEMENT OF INCOME

(Millions of yen)

| Account item | 78th Fiscal Term (from April 11, 2018 to March 31, 2019) | | (Reference) 77th Fiscal Term (from April 1, 2017 to March 31, 2018) | |
|---|---|---|---|---|
| **Net sales** | | **243,124** | | **228,657** |
| **Cost of sales** | | **190,292** | | **197,671** |
| **Gross profit** | | **52,831** | | **30,986** |
| **Selling, general and administrative expenses** | | **26,303** | | **25,705** |
| **Operating profit** | | **26,528** | | **5,281** |
| **Non-operating income** | | | | |
| Interest income | 286 | | 237 | |
| Dividend income | 3,648 | | 9,111 | |
| Other | 158 | 4,093 | 230 | 9,579 |
| **Non-operating expenses** | | | | |
| Interest expenses | 272 | | 237 | |
| Foreign exchange losses | 615 | | 1,181 | |
| Depreciation of inactive non-current assets | 61 | | 63 | |
| Other | 199 | 1,148 | 140 | 1,623 |
| **Ordinary profit** | | **29,473** | | **13,238** |
| **Extraordinary income** | | | | |
| Gain on sales of non-current assets | 31 | | 28 | |
| Gain on sales of investment securities | 1,535 | 1,566 | – | 28 |
| **Extraordinary losses** | | | | |
| Loss on sales and retirement of non-current assets | 166 | | 172 | |
| Impairment loss | 77 | | 124 | |
| Loss on valuation of investment securities | 52 | | 0 | |
| Head office transfer cost | – | | 95 | |
| Other | 14 | 311 | 3 | 397 |
| **Profit before income taxes** | | **30,729** | | **12,869** |
| Income taxes - current | 4,087 | | (127) | |
| Income taxes - deferred | (1,413) | 2,673 | (1,780) | (1,907) |
| **Profit** | | **28,055** | | **14,777** |

## NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(from April 1, 2018 to March 31, 2019)

(Millions of yen)

| | Shareholders' equity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | | | | |
| | | | | | | Other retained earnings | | | | |
| | Capital stock | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Reserve for advanced depreciation of non-current assets | Retained earnings brought forward | Total retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 23,557 | 41,450 | 46 | 41,497 | 2,947 | 1,330 | 30,091 | 34,369 | (3,302) | 96,121 |
| Changes of items during period | | | | | | | | | | |
| Conversion of convertible bond-type bonds with share acquisition rights | 10,017 | 10,017 | | 10,017 | | | | | | 20,035 |
| Dividends of surplus | | | | | | | (2,454) | (2,454) | | (2,454) |
| Reversal of reserve for advanced depreciation of non-current assets | | | | | | (2) | 2 | – | | – |
| Profit | | | | | | | 28,055 | 28,055 | | 28,055 |
| Purchase of treasury shares | | | | | | | | | (3,001) | (3,001) |
| Disposal of treasury shares | | | (0) | (0) | | | | | 59 | 59 |
| Change by share exchange | | | 505 | 505 | | | | | 1,631 | 2,137 |
| Net changes of items other than shareholders' equity | | | | | | | | | | |
| Total changes of items during period | 10,017 | 10,017 | 505 | 10,523 | – | (2) | 25,603 | 25,601 | (1,310) | 44,831 |
| Balance at end of current period | 33,575 | 51,468 | 552 | 52,020 | 2,947 | 1,328 | 55,694 | 59,970 | (4,613) | 140,953 |

| | Valuation and translation adjustments | | | Share acquisition rights | Total net assets |
|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Total valuation and translation adjustments | | |
| Balance at beginning of current period | 2,442 | (15) | 2,427 | 342 | 98,890 |
| Changes of items during period | | | | | |
| Conversion of convertible bond-type bonds with share acquisition rights | | | | | 20,035 |
| Dividends of surplus | | | | | (2,454) |
| Reversal of reserve for advanced depreciation of non-current assets | | | | | – |
| Profit | | | | | 28,055 |
| Purchase of treasury shares | | | | | (3,001) |
| Disposal of treasury shares | | | | | 59 |
| Change by share exchange | | | | | 2,137 |
| Net changes of items other than shareholders' equity | (1,889) | 17 | (1,871) | 111 | (1,760) |
| Total changes of items during period | (1,889) | 17 | (1,871) | 111 | 43,071 |
| Balance at end of current period | 553 | 2 | 556 | 453 | 141,962 |

**Audit Report**

**Certified Copy of the Independent Auditors' Report Concerning Consolidated Financial Statements**

# INDEPENDENT AUDITORS' REPORT

May 16, 2019

The Board of Directors
TAIYO YUDEN CO., LTD.

KPMG AZSA LLC

Kiyoshi Hirai, CPA (Seal)
Designated Limited Liability Partner,
Engagement Partner

Hideaki Takao, CPA (Seal)
Designated Limited Liability Partner,
Engagement Partner

Yoshiko Imai, CPA (Seal)
Designated Limited Liability Partner,
Engagement Partner

Pursuant to Article 444, Paragraph 4 of Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and notes to the consolidated financial statements of TAIYO YUDEN CO., LTD. for the fiscal term from April 1, 2018 to March 31, 2019.

*Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting standards generally accepted in Japan; this includes the development, implementation, and maintenance of internal control deemed necessary by management for the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Independent auditors' responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audits as independent auditors. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we 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 audit procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the entity's internal control. However, 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. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, 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 opinion.

*Audit opinion*

In our opinion, the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of the consolidated group consisting of TAIYO YUDEN CO.,

LTD. and its consolidated subsidiaries for the relevant term of the consolidated financial statements, in accordance with the business accounting principles generally accepted in Japan.

*Interests in the Company*

Our corporation and engagement partners have no interest in the Company which must be disclosed pursuant to the provisions of the Certified Public Accountants Act.

**Certified Copy of the Independent Auditors' Report Concerning Non-Consolidated Financial Statements**

# INDEPENDENT AUDITORS' REPORT

May 16, 2019

The Board of Directors
TAIYO YUDEN CO., LTD.

KPMG AZSA LLC

Kiyoshi Hirai, CPA (Seal)
Designated Limited Liability Partner,
Engagement Partner

Hideaki Takao, CPA (Seal)
Designated Limited Liability Partner,
Engagement Partner

Yoshiko Imai, CPA (Seal)
Designated Limited Liability Partner,
Engagement Partner

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements, that is, the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity and notes to the non-consolidated financial statements, and the supplementary schedules of TAIYO YUDEN CO., LTD. for the 78th fiscal term from April 1, 2018 to March 31, 2019.

*Management's responsibility for the non-consolidated financial statements, etc.*

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements and supplementary schedules in accordance with accounting standards generally accepted in Japan; this includes the development, implementation, and maintenance of internal control deemed necessary by management for the preparation and fair presentation of non-consolidated financial statements and supplementary schedules that are free from material misstatement, whether due to fraud or error.

*Independent auditors' responsibility*

Our responsibility is to express an opinion on the non-consolidated financial statements and supplementary schedules based on our audits as independent auditors. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and supplementary schedules are free from material misstatement.

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

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

*Audit opinion*

In our opinion, the above non-consolidated financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of TAIYO YUDEN CO., LTD. for the relevant term of the non-consolidated financial statements, in accordance with the business accounting principles generally accepted in Japan.

*Interests in the Company*

Our corporation and engagement partners have no interest in the Company which must be disclosed pursuant to the provisions of the Certified Public Accountants Act.

**Report of the Audit & Supervisory Board**

# AUDIT REPORT

The Audit & Supervisory Board, following deliberations on the reports made by each Audit & Supervisory Board Member concerning the audit of execution of duties by Directors of the Board for the 78th fiscal term from April 1, 2018, to March 31, 2019, has prepared this Audit Report as the unanimous opinion of all Audit & Supervisory Board Members and hereby submits it as follows:

1. Auditing Methods by Audit & Supervisory Board Members and Audit & Supervisory Board and the Content of the Audit

(1) The Audit & Supervisory Board established the audit plan for the current period (auditing policies, focused items, division of duties, etc.), and conducted a review of the deliberations of the Board of Directors, while receiving reports and explanations regarding the status of audits and the results thereof from each Audit & Supervisory Board Member, and making efforts to promote information-sharing. Also, we received reports and explanations from the Directors, Operating Officers and Accounting Auditors regarding the status of the execution of their duties, and requested further explanation as necessary.

(2) In accordance with the auditing standards for Audit & Supervisory Board Members determined by the Audit & Supervisory Board, and pursuant to the audit plan, making efforts to communicate with Directors, Operating Officers, the internal audit department and other employees, each Audit & Supervisory Board Member strove to collect information and improve the audit environment and performed audits by the following methods.

1) Each Audit & Supervisory Board Member conducted an examination of the status of operations and assets at the Company's head office and primary business locations by attending Board of Directors meetings, Management Implementation Committee meetings and other important meetings; receiving reports from Directors and Operating Officers, etc., regarding the status of execution of their duties and requesting further explanations as necessary; and inspecting important decision documents, etc. Audit & Supervisory Board Members also conducted an examination of the status of operations and assets at the Company's subsidiaries by maintaining communication and information sharing with their Directors and Audit & Supervisory Board Members, receiving business reports from the subsidiaries, and visiting the subsidiaries as necessary.

2) Each Audit & Supervisory Board Member verified the resolutions adopted by the Board of Directors Meetings regarding the establishment of the system for ensuring that the Directors' execution of duties described in the business report are performed in conformity of laws, regulations and the Company's Articles of Incorporation, and the establishment of other systems necessary to ensure proper business operations of the corporate group consisting of the Company and its subsidiaries set forth in Paragraphs 1 and 3 of Article 100 of Enforcement Regulations of the Companies Act, regularly received reports from Directors and employees regarding the status of establishment and operations of the system (internal control system) established in accordance with the relevant resolution of the Board of Directors, requested explanations as necessary and expressed opinions.

3) Audit & Supervisory Board Members also inspected the content of the basic policy set forth in Article 118, Item 3 (a) of Enforcement Regulations of the Companies Act, which is described in the business report.

4) Audit & Supervisory Board Members monitored and verified that Accounting Auditors maintained independence and conducted the audits appropriately. Each Audit & Supervisory Board Member received reports of the status of the execution of duties from Accounting Auditors and requested further explanation as necessary. In addition, we were informed of the arrangement of the "System for ensuring that duties are performed appropriately," based on Article 131 of the Corporate Calculation Regulations, as per the "Standards for the Quality Control of Audits" (Business Accounting Council) from the Accounting Auditor and requested explanations as necessary.

In accordance with the procedures mentioned above, we inspected the business report, its supplementary schedules, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity and notes to the non-consolidated

financial statements) and the supplementary schedules, as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and notes to the consolidated financial statements) for the year ended on March 31, 2019.

2. Results of Audit

(1) Results of audit of business report

i. The business report and supplementary schedules present fairly the current condition of the Company in conformity with related laws, regulations, and the Company's Articles of Incorporation;

ii. Regarding the execution of duties by Directors, no instances of misconduct or material matters in violation of laws, regulations, nor the Company's Articles of Incorporation were found;

iii. Resolutions of the Board of Directors regarding the internal control system are fair and reasonable. There are no matters to be pointed out about the execution of duties by Directors regarding the internal control system; and

iv. There are no matters to be pointed out with respect to the basic policies on control of the Company in the business report.

(2) Results of audit of non-consolidated financial statements and supplementary schedules

The auditing methods and results of the Accounting Auditor, KPMG AZSA LLC, are fair and reasonable.

(3) Results of audit of consolidated financial statements

The auditing methods and results of the Accounting Auditor, KPMG AZSA LLC, are fair and reasonable.

May 22, 2019

The Audit & Supervisory Board of TAIYO YUDEN CO., LTD.

Takashi Tomaru (Seal)
Audit & Supervisory Board Member (Full-time)

Katsushige Nakano (Seal)
Audit & Supervisory Board Member (Full-time)

Hajime Yoshitake (Seal)
Outside Audit & Supervisory Board Member (Full-time)

Kazuhiro Yamakawa (Seal)
Outside Audit & Supervisory Board Member