ALPS ELECTRIC CO., LTD.

Printed in Japan

2005 Annual Report

ALPS ELECTRIC CO., LTD.

For The Year Ended March 31, 2005

ALPS®

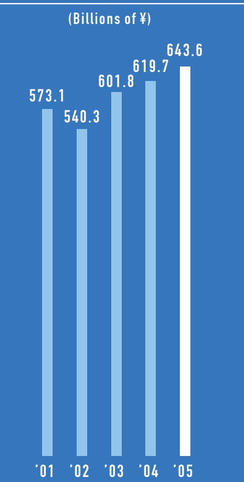
FINANCIAL HIGHLIGHTS

Years ended March 31, 2005, 2004 and 2003	Millions of yen 2005	2004	2003	Thousands of U.S. dollars (Note 1) 2005	Percent change
For the year:					
Net sales	¥643,631	¥619,676	¥601,816	$5,992,840	3.9%
Operating income	31,077	36,174	41,813	289,358	-14.1
Income before income taxes	33,453	33,895	35,153	311,480	-1.3
Income taxes	11,090	11,293	12,535	103,258	-1.8
Net income	16,315	16,943	17,513	151,909	-3.7
Capital expenditures	47,128	47,149	34,864	438,808	-0.0
At the year end:					
Current assets	¥310,868	¥284,242	¥298,845	$2,894,488	9.4%
Current liabilities	184,968	157,003	202,764	1,722,235	17.8
Working capital	125,900	127,239	96,081	1,172,251	-1.1
Stockholders' equity	176,908	160,000	148,881	1,647,188	10.6
Total assets	517,604	479,029	480,914	4,819,404	8.1

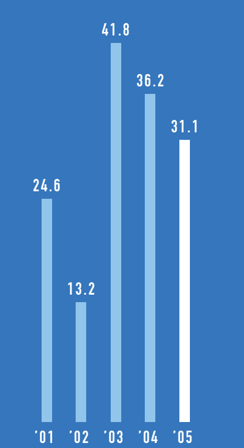
	Yen 2005	2004	2003	U.S. dollars 2005	Percent change
Amounts per share of common stock:					
Net income	¥ 89.72	¥ 93.27	¥ 96.27	$ 0.84	-3.8%
Cash dividends applicable to the year	16.00	12.00	12.00	0.15	33.3
Stockholders' equity	980.01	886.08	824.17	9.12	10.6
Price earnings ratio (times)	19.03	16.40	14.79	—	16.0
Price book value ratio (times)	1.74	1.73	1.73	—	0.9

Note:For convenience only, the accompanying Japanese yen amounts for 2005 have been translated into U.S. dollars at ¥107.40 = $1.00, the exchange rate prevailing on March 31, 2005.

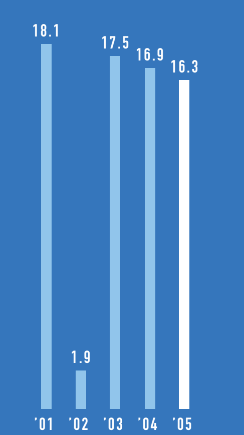
NET SALES (Billions of ¥)



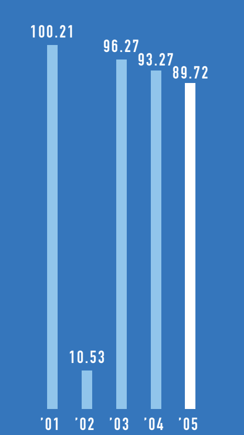
OPERATING INCOME (Billions of ¥)



NET INCOME (Billions of ¥)



NET INCOME PER SHARE (¥)



Contents

2005 ACTION POLICY

MONOZUKURI for Alps Evolution

Right

Lean Production, Fine Quality

The beauty of being highly balanced in terms of price, function, performance and quality.

Unique

Creativity and Originality

The beauty of containing not only a new and interesting look but also the originality that matches customer needs.

Green

Harmony with the Environment

The beauty of being friendly to the environment through the entire product life cycle.

With Speed...

"Monozukuri" refers to the creation of products with an emphasis on the spirit of manufacturing.

Evolving into a stronger Alps through *MONOZUKURI*

CONSOLIDATED RESULTS

In fiscal 2005, ended March 31, 2005, the world economy benefited from brisk business conditions in the United States, but inflationary fears grew with higher crude oil prices from the second half. China continued its strong growth, although the government tightened fiscal policies to prevent its economy from overheating. In Japan, the economy continued to advance and retreat, showing signs of a gentle recovery with an increase in private sector capital investment.

In the electronics industry, the Athens Olympics in August spurred strong sales of flat panel televisions and DVD recorders. In addition, digital cameras, camera-equipped mobile telephones, car navigation systems and other high-function digital devices originating from Japan began to make their mark on the world stage.

In the fiscal year ended March 31, 2005, Alps' consolidated net sales rose 3.9% from the previous year to ¥643.6 billion. Operating income, however, was affected by the appreciation of the yen, declining 14.1% to ¥31.1 billion, and net income edged down 3.7% to ¥16.3 billion.

Looking first at the electronic components segment, in the peripheral products business, printer sales expanded as steep growth in domestic and overseas digital camera markets brought with it a rise in demand for printing. In addition, liquid crystal display (LCD) sales increased as a result of the growing market overseas for color mobile telephone displays. In the communications business, the field of broadcasting saw higher sales of cable television tuners overseas, while sales of tuners for terrestrial digital broadcasting rose in Japan following the commencement of that service. Sales of personal handyphone system (PHS) modules in China and electronic toll collection (ETC) modules for vehicles were the force behind higher sales of modular products in the field of communications. In the components business, sales of switches and sensors for both the digital equipment and automotive markets improved on the previous year. The automotive electronics business was adversely affected by the discontinuation of some models. However, sales growth in unique products such as our passive keyless entry systems kept sales in the business on par with the previous fiscal year. In the magnetic devices business, sales decreased year on year due to factors that include damage caused by the Mid Niigata Prefecture Earthquake in the second half.

Net sales in the Alpine audio equipment segment rose as a result of higher sales to automakers in North America, who enjoyed robust sales of new cars preinstalled with car navigation systems, and strong demand for car navigation systems as dealer options in Japan.

In the logistics and others segment, the logistics business took on a new-look structure after Alps Logistics merged with TDK Logistics on October 1, 2004 as part of its strategy for further growth. The Company also worked to deploy a global logistics system, helping to achieve sales growth for the entire segment.

BUSINESS DIRECTION AND OVERSEAS DEVELOPMENT

In 2002, Alps began to implement management reforms in its electronic components segment. We focused on five core business fields-components, magnetic devices, communications, peripheral products and automotive electronics. Sales, manufacturing and technology have been integrated to facilitate prompt reaction to market change, and Alps continues to steadily expand these five core business fields. The automotive market has been designated the market of focus for the entire electronic components segment, and we are broadening our efforts to strengthen lateral ties among businesses also in the market for mobile phones and other mobile devices where we anticipate significant expansion.

Regarding the direction of technological development, Alps continues to pursue “Human Media Interactive” for user-friendly communication and relationships between people and media. The Company is engaged in research and development of products that embody the Alps spirit in the three technological domains of nanoprocessing technology, the most extreme of the microfabrication technologies; communications technology, which is essential to the information and communication networks; and human machine interfaces, which make it easier for people to cope in today’s high-tech world.

The new products and technologies born of these R&D efforts were presented at the ALPS Show 2004, held in May, 2004, which won high praise from our customers. Following this, we took the ALPS Show to our domestic and overseas customers right on their own premises. We believe the effects of these activities are steadily beginning to emerge in our businesses.

Regarding overseas developments, Alps designated fiscal 2005 as the start of the second stage of expansion in China and bolstered its production bases to meet strong demand for electronic components there.

In October 2004, Dalian Alps Electronics Co., Ltd. completed the final phase of construction at its plant, which will enable it to meet growing demand from the automobile market for automotive sensors, steering modules and other products. Tianjin Alps Electronics Co., Ltd. combined capabilities that had been dispersed among three plants at a new plant, which commenced operations last November as an integrated manufacturing system extending from mold machining through to assembly. In January 2005, Ningbo Alps Electronics Co., Ltd. held a groundbreaking ceremony for its new plant, which will be capable of producing multiple products utilizing the latest in molding and automation equipment. On top of that, a consignment manufacturing plant in Guangdong Province began operations in February 2005 after completing construction of enhanced facilities.

One major aim of these efforts is to establish integrated manufacturing systems that extend from the fabrication of molds and parts through to assembly to further raise the technological capability of the electronic components segment.

Our production bases in China each boast 10 years of history and we intend to continue our positive and steady steps forward there and in all other regions.

2005 ACTION POLICY

Our Action Policy for 2005 entitled “Monozukuri for Alps Evolution” consists of three key values: Right, Unique, and Green. These represent the essential nature of the “ultimate in fine electronic devices” as asserted under Alps’ business domain.

The first of these values, “Right,” we have taken to denote “lean production, fine quality.” We look to leverage inherent Alps strengths in pursuit of these optimal characteristics.

The second value, “Unique,” incorporates “creativity and originality” and refers to the need for our sense of uniqueness to permeate not only our products, but throughout the monozukuri process and into our marketing methods. We will also emphasize the appeal and mindset of doing things the Alps way.

ENVIRONMENTAL PROTECTION

The Kyoto Protocol entered into force in February 2005, calling for global-warming prevention measures worldwide. The protocol has been ratified by 141 countries and regions, setting off global environmental efforts to reduce CO_2 and other greenhouse gases.

Alps sees our planet as a ship floating through space. If we are to maintain “Spaceship Earth” through the years, the wisdom and efforts of the people who live on Earth must be directed into keeping the planet clean and maintaining balanced growth.

This means that Alps must achieve the extremely difficult task of reducing its total energy consumption while expanding its business operations. However, the Company believes that serious efforts to resolve this are tied to the development of next-generation technologies and products, and wants to continue attacking environmental problems head on.

LESSONS LEARNED FROM THE MID NIIGATA PREFECTURE EARTHQUAKE

On October 23, 2004, an earthquake rated as high as seven on the Japanese severity scale struck the Chuetsu region of Niigata Prefecture. The Nagaoka and Koide Plants of Alps’ Magnetic Devices Division sustained severe damage.

When the Company heard of the disaster, it immediately established a crisis response headquarters in the area and at headquarters, and commenced recovery activities. No one among Alps’ employees and their families fell victim to the quakes, but some homes were partially or completely destroyed, and those families were forced to evacuate to temporary shelters. At the plants, damage was not limited to ultraprecision machinery. There was also structural cracking and other damage to buildings, and it was thought that this would delay the restarting of operations for a significant period of time.

However, with the warm support and cooperation of all concerned, employees came together and pressed forward swiftly with recovery efforts, and both plants were able to resume full operation at an early stage. Alps acknowledges its debt to everyone involved, and extends its deep gratitude.

There is no way to predict natural disasters, but this earthquake has reminded us of the importance of having risk management measures in place and conducting regular disaster-response training, and it taught us the extreme importance of maintaining good relationships with business associates.

The third value, “Green,” can be stated as “harmony with the environment” as is the easiest to understand, but at the same time the most difficult to accomplish. For companies, environmental initiatives must encompass every facet of business activity. Energy conservation in the home is another key concern and we will work to heighten the environmental awareness of each employee.

This Action Policy is not difficult to understand, but if we can achieve the measures swiftly and early on, we will be able to increase Alps’ value.

On August 1, 2005, Alps will reduce the trading unit of its stock from 1,000 shares to 100. The trading unit reduction will not only increase the liquidity of shares on the stock market, but will also improve the investment environment by making it easier for individual investors to acquire Alps’ stock.

We have also declared a year-end cash dividend of ¥10, an increase of ¥4 in comparison to the previous fiscal year. This brought total dividends for the year to ¥16. For fiscal 2006, an interim dividend of ¥10 and total dividends of ¥20 are planned.

In the electronics industry, demand for increasing multifunctionality and higher performance in mobile telephones and other digital devices is expected to bring further expansion. Many regions of the world are introducing digital broadcasting, and the advantages of digital broadcasting are creating new demand for flat panel televisions and related devices on a global scale. While recognizing the promise represented by this environment, we cannot become complacent, but must push vigorously for the Company’s further evolution.

In closing, I would like to thank our stockholders for their continued support and encouragement.

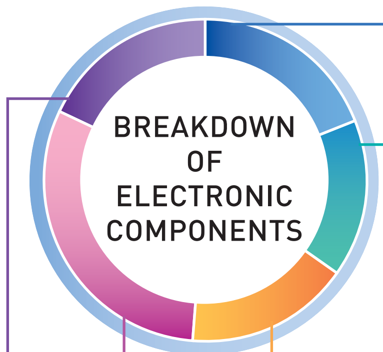
June 2005

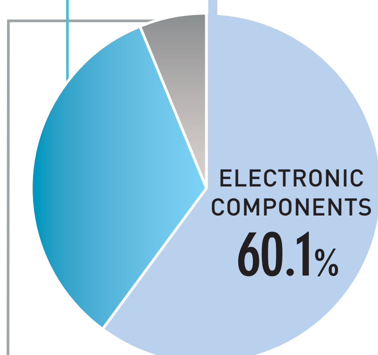
Masataka Kataoka President

ALPS GROUP AT A GLANCE

TOTAL SALES FROM ELECTRONIC COMPONENTS

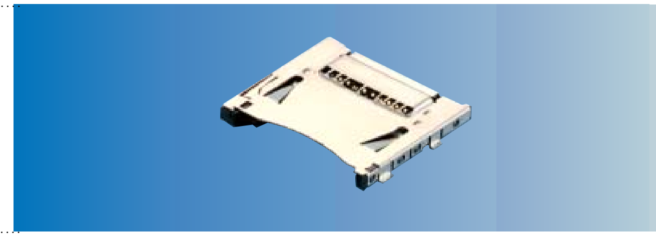
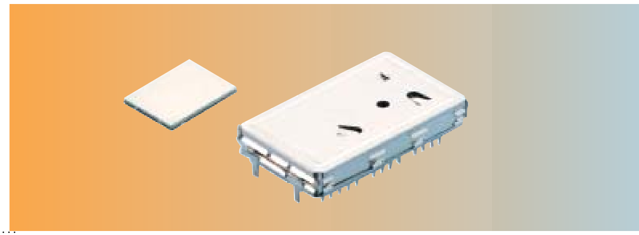
¥387.0 billion



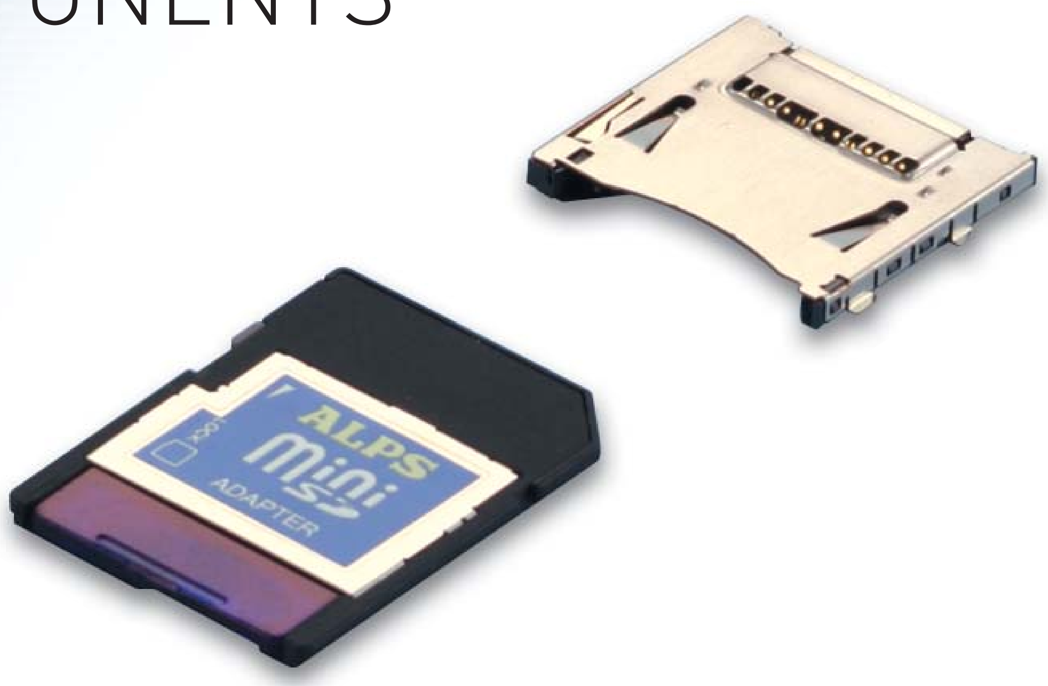


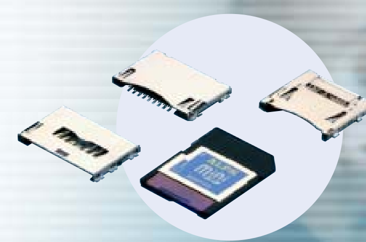
TOTAL SALES FROM ALL PRODUCTS CATEGORIES

¥643.6 billion

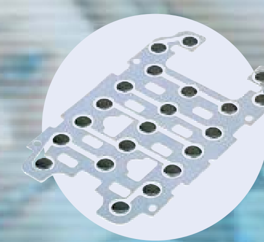
	SALES BY PRODUCT CATEGORY	SHARE IN TOTAL SALES		KEY LINE OF BUSINESS
COMPONENTS	¥73.3 billion	11.4%		• Switches • Connectors • Potentiometers • Encoders • Sensors
MAGNETIC DEVICES	¥61.2 billion	9.5%		• GMR thin-film heads for HDDs • Magnetic heads for audio applications • Magnetic heads for VCRs • Electromagnetic suppression sheets
COMMUNICATIONS	¥63.6 billion	9.9%		• Analog tuners for TVs • Tuners for digital broadcasting and broadcasting satellites • Communication network modules • Optical communication modules • Camera modules
PERIPHERAL PRODUCTS	¥119.5 billion	18.5%		• Photo printers • Color LCDs • Data input devices • Remote control units
AUTOMOTIVE ELECTRONICS	¥69.4 billion	10.8%		• Air conditioner operation units • Door modules • Steering modules • Remote keyless entry systems
AUDIO EQUIPMENT	¥217.1 billion	33.7%		• Car audio systems • Car AV systems • Car navigation systems
LOGISTICS AND OTHERS	¥39.6 billion	6.2%		• General logistics services

COMPONENTS





CONNECTOR FOR SMALL MEMORY CARDS
Features: Thin and high reliability achieved using our unique contact structure. Broad product line-up for use with various types of small memory cards connectors for RS-MMC™ and mini SD™ cards with an adapter.



CONTACT SHEET™
Features: Long operating life and good operational feel available for mobile phones, even with non-magnetic stainless steel type. Smaller pitch type without a change in click feeling. Excellent dust-resistance achieved by using dimple domes.

EGR VALVE POSITION SENSOR
Features: Contact type valve position sensor for Exhaust Gas Recirculation (EGR) in automobiles. Original resistive element materials developed with wide operation temperature range and abrasion proof properties.

INCREASE THE BUSINESS THROUGH CLOSE CONTACT WITH CUSTOMERS

FY2005 RESULTS

In the midst of global growth of the market for high-performance digital devices such as digital cameras and mobile phones, sales of compact TACT switches used in such devices grew dramatically. In addition, automobile sensors saw strong sales, supported by the rapidly progressing trend toward equipping automobiles with more electronic components. Based upon these factors, this segment was able to secure a year on year increase in sales.

As a result, sales in the components business reached ¥ 73.3 billion, an increase of 7%.

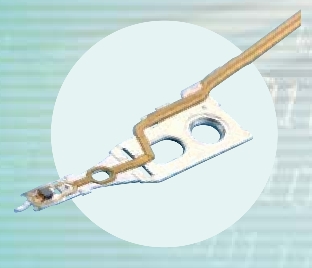
BUSINESS OUTLINE

Alps' components business is a major pillar and one of the core business divisions supporting the Company, which concentrates its operations on making devices thinner, lighter and more compact through higher precision mold processing and mass production technologies.

Recently demand for potentiometers has declined, so the components business is shifting its focus to sensors for automobiles based on resistor printing technologies. Through our materials and development technologies we are able to guarantee a long life span for contact sensors that use resistors. The circuits are extremely simple, so there is absolutely no problem with cost, stability or quality. The Company wants to expand the range of applications for this technology.

In switches, Alps has a dominant market share in TACT switches and Contact Sheets™. The tactile feel of TACT switches effectively conveys feedback to users, ensuring that these input devices will stay around for a long time. Production of Alps' switches still has room to grow. The Company can boast a wide variety of switch products that are extremely reliable. Alps' connectors are unique in that they combine the contact technology of switches with mechatronics and molding technologies.

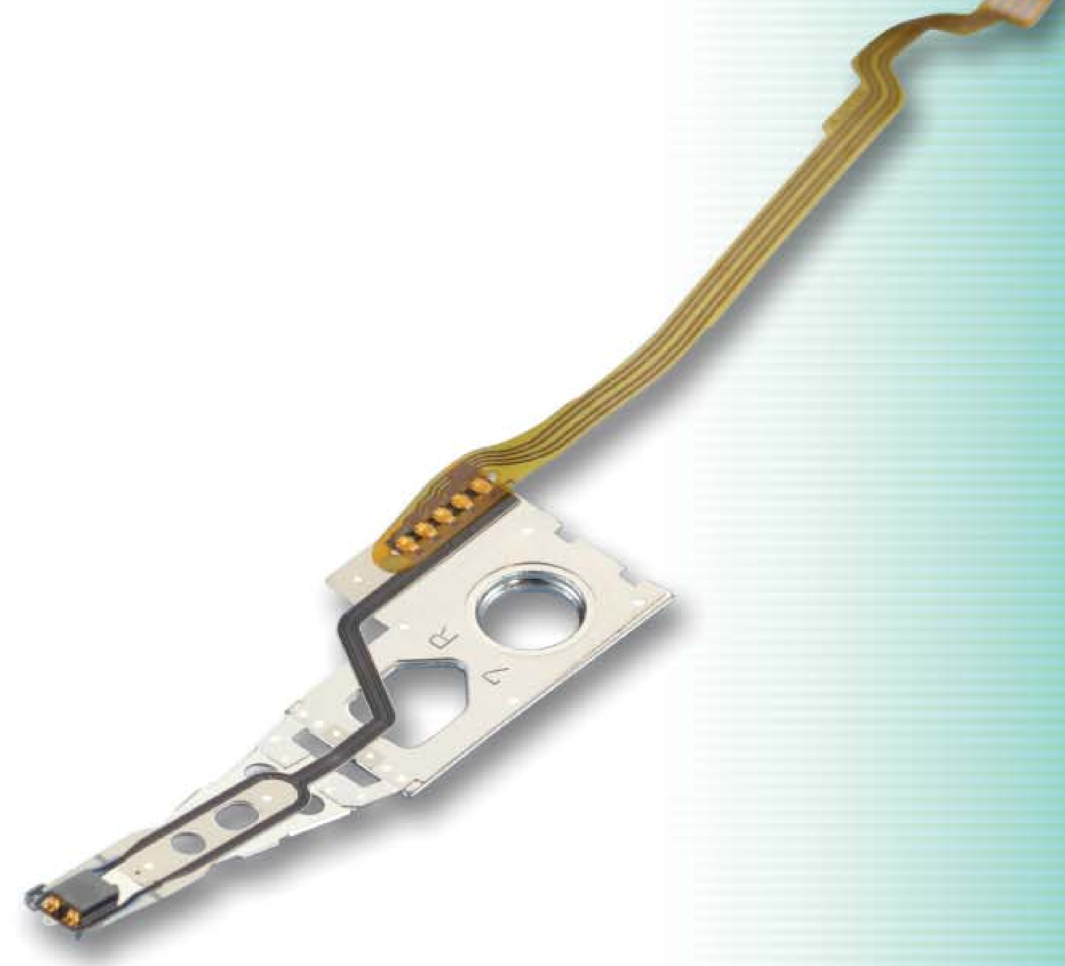
MAGNETIC DEVICES



GMR THIN-FILM HEAD FOR HDDs
Features: Improved tractability with media undulations for HDDs of PCs, HDD recorders and portable HDD devices. Reduced weight provides improved crashproof quality. Reduced power consumption by minimized windage loss.

MAGNETIC HEADS FOR VIDEO APPLICATIONS
Features: High output, low noise and long life heads for VCRs. Alps' unique materials have realized high output characteristics and reliability.

LIQUALLOY™ SHEET
Features:Suitable for electromagnetic suppression in high-frequency electronic equipment.Development of amorphous alloy and other high performance magnetic materials has led to a soft magnetic glassy alloy, Liqualloy™.



MOVE FORWARD WITH BUSINESS STRUCTURE REFORMS, LINK WITH DEVICE EVOLUTION

FY2005 RESULTS

Sales of magnetic heads for VCRs and other consumer equipment decreased, as the market for such products contracted with the accelerating shift to DVDs and other media.

Sales of giant magneto-resistive (GMR) heads for HDDs dropped from the previous fiscal year, hit by the appreciation of the yen against the U.S. dollar and the temporary suspension of operations after the Mid Niigata Prefecture Earthquake on October 23, 2004.

As a result, sales in the magnetic devices business were ¥61.2 billion, down 26%.

BUSINESS OUTLINE

The magnetic devices business produces heads for audio, video applications and HDDs. Especially today's HDDs are increasingly found in not only computers but also portable audio equipment, DVD recorders and car navigation systems.

In GMR heads for HDDs, some of the Company's top priorities are to further improve quality, streamline production and increase yields. Alps aims to be a leading manufacturer that can boast stable quality and higher production coefficients.

This business continues to develop and launch new technologies aggressively, such as heads that use the current-perpendicular-to-plane (CPP) GMR replay method, and heads that take advantage of the tunnel magneto-resistance (TMR) effect.

On the other hand, while audio and video heads suffer from their market shrinks, the magnetic device business is constantly challenging to create new businesses in these areas. Liqualloy™ is one such unique creation, which is able to prevent interference from high-frequency noise in electronic equipment.

The Company believes that its superior development of materials, thin-film and precision processing technologies could help manufacturers produce advanced equipment.

COMMUNICATIONS

TUNER UNITS FOR DIGITAL TERRESTRIAL BROADCASTING
Features: Excellent performance in a compact package for home use. Low power consumption tuner for mobile equipment. Stable reception even when moving at high speeds for automobiles.

WIRELESS LAN COMMUNICATION MODULES
Features: Compact, low-profile achieved by adopting a highly efficient substrate and RF bare chip bonding for mobile phones. Supporting IEEE802.11a/b/g wireless LAN modes with one product for notebook PCs.

MOBILE PHONE CAMERA MODULE
Features: Employing proprietary optical design and aspherical molded glass lens technologies. High image quality achieved through optical and mechanical design that elicits the full capabilities of the CMOS sensor.

ESTABLISH THE BUSINESS STRUCTURE BY TRANSFORMING PRODUCT LINEUP

FY2005 RESULTS

Sales of tuners for cable television broadcasts in the North American market and for terrestrial digital television broadcasts which have also started in some areas of Japan increased.

The Company began mass production of camera modules developed for mobile phones in the second half of the fiscal year.

In addition, sales of transceiver units for the expanding PHS market in China remained solid in the first half of the fiscal year. Sales of automotive modules for the electronic toll collection (ETC) system grew through the second half.

As a result, sales in the communications business reached ¥63.6 billion, a rise of 9%.

BUSINESS OUTLINE

Alps' communications business is currently making a great effort amid significant changes in product mix and manufacturing methods. The product mix has changed from analog TV tuners and FM tuners to wideband and antenna products, including Radio Frequency (RF) units for mobile telephones, Bluetooth™ modules and IEEE802.11 modules.

The manufacturing methods in this business area have also changed from making components with leads to using surface mount technology, and are advancing toward both ball grid arrays and bare chip mounting.

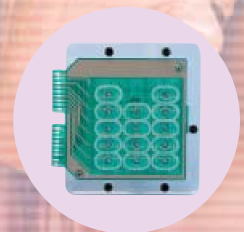
The Company believes the related RF business will be around for a long time. Communication technologies require certain know-how, and by working through the issues this business can create products that the competition cannot imitate.

Camera modules are an emerging product. They have been mainly used in mobile telephones, but will be applied to a variety of devices such as image recognition sensors incorporated into automobiles. The Company's proprietary glass lens line and assembly technologies are applied here.

PERIPHERAL PRODUCTS

COLOR LCD FOR MOBILE PHONES
Features:Optical waveguide ensures superior color reproduction and clear LCD contrast, even under sunlight. Pursuit of brightness and whiteness.

PHOTO PRINTER
Features: High-speed printing achieved by compact mechanism. Borderless printing with high-resolution photographic quality. Overcoat finish makes prints as durable as conventional prints.



GLIDE SENSOR™
Features: Capacitance type coordinate detection sensor with low operating force and a long operating life. Low-voltage driving makes it ideal for mobile phones and portable equipment.

TRANSFORM THE BUSINESS STRUCTURE TO BE MORE RESPONSIVE TO CUSTOMER NEEDS

FY2005 RESULTS

While falling prices led to a drop in sales of amusement equipment, the rapid growth in the digital camera market overseas and in Japan ramped up demand for printing and increased photo printer sales. In addition, sales of LCD devices continued to grow as a result of the shift to color displays for mobile phones in overseas markets.

As a result, net sales in the peripheral products business rose 25% to ¥ 119.5 billion.

BUSINESS OUTLINE

The peripheral products business continues to be active in a promising market. Demand for photo printers compatible with digital cameras is growing sharply in accordance with the expanding digital camera market.

Alps' unique technologies for printing are the wealth of expertise and know-how that the Company has accumulated over time.

With regard to the development of photo printers, this business takes advantage of the special characteristics of the thermal transfer method, including its high color gradation, excellent black reproduction and compatibility with photocopier paper. This business will continue striving to create lighter, more energy-saving printer products from now on.

The LCD business has shown a strong growth, thanks to long time efforts in the development of panels, front lights, tablets and other components support the growth of the business.

Products such as tablets for LCDs, various controllers and sensors for digital mobile applications were created based on the “Human-Machine Interface” concept. The Company believes that innovation is still possible with the right ideas.

AUTOMOTIVE ELECTRONICS

HAPTIC COMMANDER™ ROTARY TYPE
Features: Multifunctionality with a single knob realized by giving haptic control capability to an air conditioning unit ensured space-saving.

STEERING MODULE
Features: The "block concept" ensures applications to various types of products. Ignition switch, column shaft lock and angle sensor combined in one integrated module.

BATTERYLESS TPMS
Features: A system to measure tire pressure for automobiles. Real-time detection is possible. Use of a transponder without using battery allowed realization of an unlimited lifespan.

CONTINUALLY IMPROVE GLOBAL "GET THE BUSINESS" ACTIVITIES

FY2005 RESULTS

New car sales, primarily in the North American market, remained solid. Given the market conditions, sales of front control panels and steering switches grew, as the Company responded to customer demands for higher performance, multifunctionality and user-friendly design. Sales of specialty products such as passive keyless entry systems also increased.

However, sales dipped from the previous fiscal year, suffering effects from the appreciation of the yen and from the decrease in door-switch module sales following the discontinuation of some models.

As a result, sales in the automotive electronics business fell 1% to ¥ 69.4 billion.

BUSINESS OUTLINE

The Company expects the stable market growth of automotive electronics as more electronics are incorporated in automobiles. Now automobiles have applied to many electronics devices and systems such as locking and unlocking doors, running air conditioning and controlling airbags for safety.

On the other side an issue for the automotive electronics business will be more important to create the platforms that respond to customer requests. Accordingly as the platforms become more reliable, Alps will nurture a stronger reputation as an automotive products manufacturer.

The Company believes that how the automotive electronics business leverages its synergy in collaboration with other businesses is the key issue to growth. The communication business began incorporating Bluetooth™ technologies for hands-free phone into automobiles. Alps' tire pressure monitoring system (TPMS) is also a product that uses RF technologies as well as keyless entry systems.

Moreover, in the area of "Human - Machine Interface," the components and the peripheral products business will also work more closely with the automotive electronics business.

FISCAL 2004 PLAN AND RESULTS

Midterm Report on the Fourth Medium-Term Voluntary Action Plan for Environmental Protection

In FY2002 Alps established its Medium-Term Voluntary Action Plan for Environmental Protection, covering the 2003-2005 fiscal years and applicable to its bases in Japan. This plan sets concrete, numerical targets for continuous reductions of CO_2, greenhouse gases and wastes.

In FY2004 we achieved our zero-emissions goal for waste.

As for pursuing green product designs, we are promoting green procurement to eliminate hazardous substances from our products.

The table below sums up results of activities in FY2004 and our self-assessment of them.

Progress Report on the Fourth Medium-Term Voluntary Action Plan for Environmental Protection

Progress toward meeting the targets of the Fourth Medium-Term Voluntary Action Plan for Environmental Protection is good overall, but Alps is behind schedule on a few items.

Alps began its efforts to earn ISO 14001 certifications in 1995; presently, we have earned it at all sites except one overseas base. We anticipate that all bases will be certified by the end of FY2005.

Alps is assessing its suppliers as green procurement sources to meet its goal of eco-friendly design, and is constantly updating and expanding its Database for Chemical Substance Management. We have successfully removed all the substances targeted for elimination in 2004, except for some, for which replacements still face technical problems.

The results of our efforts to prevent global warming have been set back by our expansion of energy-intensive manufacturing processes (especially in clean rooms), production cutbacks, and very hot weather.

However, thanks to the efforts of each division, the whole company was able to achieve zero-emission targets. At the same time, we have reduced the total amount of waste discharged.

Alps reached its goal of eliminating HCFCs in 2003 by switching to alternatives. We were also able to reach our FY2010 targets for PFCs and HFCs.

We will step up our efforts, not only for the targets where Alps is behind schedule, but also for those we have nearly accomplished.

The Fourth Medium-Term Voluntary Action Plan for Environmental Protection and FY2004 Results

Objective		Action target (FY2003–FY2005)	Results of activities in FY2004	FY2004 self-evaluation
Management Develop an appropriate organizational structure and foster environmental awareness in each employee to achieve effective environmental management.	Environmental Management System	1. Acquirement of ISO 14001 certification at overseas bases 2. Promotion of information exchange with overseas operations	1. Two overseas bases newly acquired ISO 14001 certification. Twelve out of 13 bases have been certified Ningbo Alps Electronics (June 2004), Tianjin Alps Electronics (December 2004) 2. Head office staff used e-mail to exchange information with production bases	B B
	Environmental communication (External)	1. Periodical publication of environmental reports 2. Information distributions on the website	1. Environmental Report published (June 2004) 2. Information distributions on the website	B B
	Environmental education	Enhancement of environmental education programs for managers/engineers	Held chemical control study sessions (Japan)	B
	Environmental accounting	Establishment of environmental accounting	Aggregated costs and effects. Ran trial evaluation on overall environmental performance	B
Environmental initiatives through our products Reduce the environmental load with environmentally conscious development and engineering.	Design for environment	1. Promotion of environmentally conscious engineering and development 2. Development of chemical substance database	1. Continued performing product assessment 2. Began using the Database for Chemical Substance Management (October 2003)	B B
	Reduction of hazardous substances	1. Complete elimination of banned substances Completely eliminate the use of lead, cadmium and hexavalent chromium by the end of 2004 2. Reduction of restricted substances	We have successfully abolished all use of cadmium and hexavalent chromium. We have also completed the abolition of lead, except for surface treatment of narrow pitches in line with measures to deal with whiskers.	B
	Green procurement	Prioritizing purchases from environmentally conscious business partners	Performed evaluations on vendors. Gave training sessions to concerned departments overseas	B
Environmental initiatives in our plants and offices Reduce the environmental load in production process and office operation.	Prevention of global warming	1. Reduction of CO_2 emissions Reduce FY2005 CO_2 emissions from energy consumption per unit of output (Note 1) by 20% from FY2001 level 2. Reduction of greenhouse gas (aside from CO_2) emissions Reduce the use of PFCs and HFCs (Note 2) at the end of FY2010 by 60% from FY1998 level	1. CO_2 emissions per unit output:44.7t/100 million yen 7.4% reduction from FY2001 level (progress) 13.3% increase from FY2003 level (fallback) 2. PFCs/HFCs Purchases (GWP (Note 4) conversion bases) per unit output: 35,000t 62.6% reduction from FY1998 level (progress) 3.2% reduction from FY2003 level (progress)	C A
	Recycling	1. Complete achievement of zero-emissions Completely achieve zero-emissions by FY2004 2. Reduction of total amount of waste Reduce the amount of waste per unit of output (Note 1) in FY2005 by 20% from FY2001 level	1. Zero-emissions achieved domestically 2. Waste emissions per unit output: 4.16t/100 million yen 16.0% reduction from FY2001 level (progress) 12.6% reduction from FY2003 level (progress)	A B
	Management and reduction of chemical substances	1. Management of chemical substances Reduce the risk of contamination by promoting appropriate management of chemical substances 2. Complete elimination of ozone-layer depleting substances Completely eliminate the use of HCFCs (Note3) by the end of 2003	1. Learned emergency risks, installed equipment to prevent leaks and gave training 2. HCFCs Purchases: 0t Completely eliminated usage in December 2003	B A
	Green purchasing	Promotion of green purchasing for office supplies and company-owned cars	Prepared for green purchasing of office supplies in head office area and some divisions	B
	Logistics	Promotion of environmentally conscious logistics	Reduced hazardous substances in packaging materials. Made shipping systems more efficient	B
	Social service activities	Promotion of activities in society supporting environmental protection	Performed cleanups around various work sites	B

Notes: 1. Amount per unit of output: A value found by dividing the amount of CO_2 emissions or waste emissions by the value of production
2. PFCs and HFCs: Perfluorocarbons and Hydrofluorocarbons
3. HCFCs: Hydrochlorofluorocarbons
4. GWP: Global Warming Potential. Index describing the relative warming of a unit mass of a greenhouse gas in comparison to the same mass of CO_2.
5. Fiscal years indentified on pages 18 through 21 are for the years ended March 31 of the following year.

Self-evaluation
A: Achieved
B: Efforts proceeding well
C: Efforts behind schedule

ISO 14001 AND ENVIRONMENTAL AUDITS

Alps believes that the Environmental Management System of ISO 14001 is a crucial tool and is endeavoring to earn this certification group-wide.

All of our divisions in Japan, including our Process Technology Development Center and 12 of our overseas affiliates have completed certification so far. Alps UK was certified in FY 2005 and we plan to complete this process at all our manufacturing bases.

Our qualified facilities perform internal environmental audits one or two times a year, in keeping with ISO 14001 regulations.

ISO 14001 certification status listing

Target bases: 20 Certified bases: 19 Percent certified: 95%

	Business division	Registration date	Business areas
Japan	Communication Devices Division	August 14, 1998	Development and production of communications and broadcasting products
	Mechatronic Devices Division	October 30, 1998	Development and production of mechatronic components and devices
	Automotive Products Division		Development and production of automotive electronics
	Production Engineering Development Center		Production technology development, esp. die design and production, superprecision processing technology and advanced mounting technology
	Peripheral Products Division	November 27, 1998	Development and production of input, output and display devices
	Magnetic Devices Division	December 24, 1999	Development and production of magnetic recording heads
	Process Technology Development Center	March 17, 2000	R&D on new technology and new materials based on established process technologies
Overseas	Alps Electric (Ireland) Limited	April 9, 1997	Production of automotive electronics
	Alps Electric Europa GmbH Dortmund Plant	July 3, 2000	Production of component products, automotive electronics and display devices
	Alps Electric (Malaysia) Sdn. Bhd. Jengka Plant	September 12, 2000	Production of broadcasting products and input devices
	Alps Electric Korea Co., Ltd.	June 18, 2001	Production of automotive electronics, communications/broadcasting products, input devices and magnetic recording heads
	Alcom Electronicos De Mexico, S.A. de C.V.	December 6, 2001	Production of automotive electronics
	Wuxi Alps Electronics Co., Ltd.	March 20, 2002	Production of component products and magnetic recording heads
	Dalian Alps Electronics Co., Ltd.	June 14, 2002	Production of component products and automotive electronics
	Alps Electric (Malaysia) Sdn. Bhd. Nilai Plant	August 12, 2002	Production of component products, magnetic recording heads and input devices
	Alps Electric Czech, s.r.o.	January 15, 2003	Production of broadcasting products and input devices
	Shanghai Alps Electronics Co., Ltd.	January 6, 2004	Production of communications/broadcasting products
	Ningbo Alps Electronics Co., Ltd.	June 1, 2004	Manufacture of magnetic recording heads, cylinder units and TACT switches.
	Tianjin Alps Electronics Co., Ltd.	December 11, 2004	Manufacture of computer keyboards and mobile phone LCDs

ENVIRONMENTAL ACCOUNTING

Alps introduced our environmental accounting [Note 1] system in 2000, following the guidelines of the Ministry of the Environment, to monitor our environmental costs and associated economic benefits.

The investment expenditure on FY 2004 environmental costs [Note 2] was in line with last year's, and the cost expenditure has fallen slightly. This drop was due to the completion of green procurement and the Database for Chemical Substance Management systems. The economic benefits [Note 3] derived in FY 2004 were roughly the same as in FY 2003.

Notes: 1. Environmental accounting covers only Alps Electric Co., Ltd. in Japan, and not the Group as a whole.
2. Environmental costs are the total of all investments and costs whose chief purpose is protection of the environment. The total of each such investment or cost is used; the total is not allocated between environmental purposes and other purposes.
3. Economic benefits include sales of wastes that have been separated, recovered and recycled, and electric, fuel and other cost savings resulting from energy conservation. Economic benefits do not include expected effects, e.g. increases in sales resulting from making products lead-free.

Environment Costs in FY2004

(Unit: Millions of yen)

Classification	Main Objective	Investment [Note1] (FY2003)	Cost [Note2] (FY2003)
Operation costs	Pollution prevention, waste product recycling	216.3 (164.2)	537.3 (531.0)
Upstream and downstream production costs	Green procurement, supply chain management	12.2 (15.1)	135.2 (270.8)
Management activities costs	ISO 14001-certified maintenance	0.0 (0.3)	131.3 (160.1)
R&D costs	Developing lead-free products	10.0 (0.0)	32.3 (22.2)
Social activity costs	Community cleanup activities	0.0 (0.0)	11.4 (17.4)
Cost of rehabilitating environmental damage	Groundwater remediation	12.0 (66.3)	180.0 (190.2)
Others	–	0.0 (0.0)	0.0 (0.0)
Total		250.4 (245.8)	1,027.6 (1,191.6)

Notes: 1. Investment includes both capital investment and total leasing expenses.
2. Costs include maintenance and administration costs, depreciation and amortization costs, and lease costs for relevant fiscal year.

Economic Benefits of Environmental Protection Measures in FY2004

(Unit: Millions of yen)

Classification	Value (FY 2003)
Profit on sales of resources with monetary value	1,163.0 (1,239.4)
Cost reduction as a result of energy saving	49.4 (41.3)
Total	1,212.3 (1,280.7)

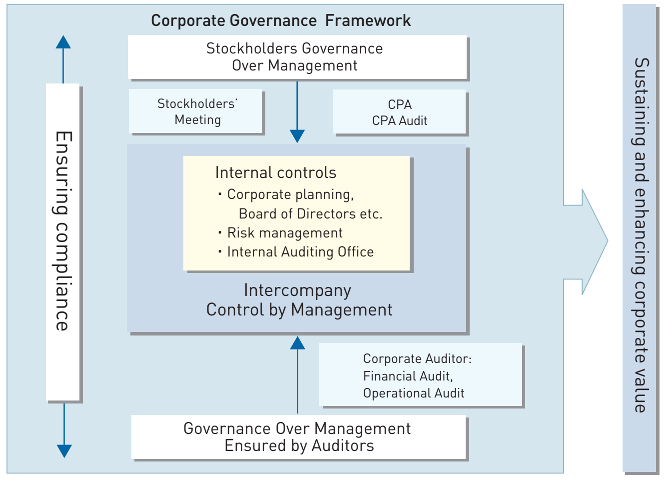
CORPORATE GOVERNANCE

FUNDAMENTAL APPROACH TO CORPORATE GOVERNANCE

— Corporate governance

At the Company, corporate governance is defined as the establishment and operation of structures and processes that provide motivation for, and encourage, management-level decision making and expeditious reporting to stakeholders, with the objective of enhancing corporate value.

The most important issue in corporate governance is to have effective internal control by management, to complement a strong legal framework that involves oversight by the Board of Directors of both operational decision-making in the Company and of director performance; audits of director performance by the corporate auditors; and audits of the Company's accounts by CPAs. Alps regards management planning and other administrative processes, as well as internal audits and all other included elements of its Companywide framework, as internal controls. These are made more effective by building risk management elements into all procedures. Ensuring strong concern for compliance in all operations further strengthens the companywide framework.



INTERNAL CONTROL SYSTEMS

The Company has always obeyed the law and participated in activities to protect the environment, contribute to communities, and manage crises. The Company now faces diversifying risks and greater expectations from society. Acknowledging once more the importance of compliance, the Company established the Risk Management & Compliance Committee (RC Committee) in October 2004, as well as an independent compliance office in May 2005.

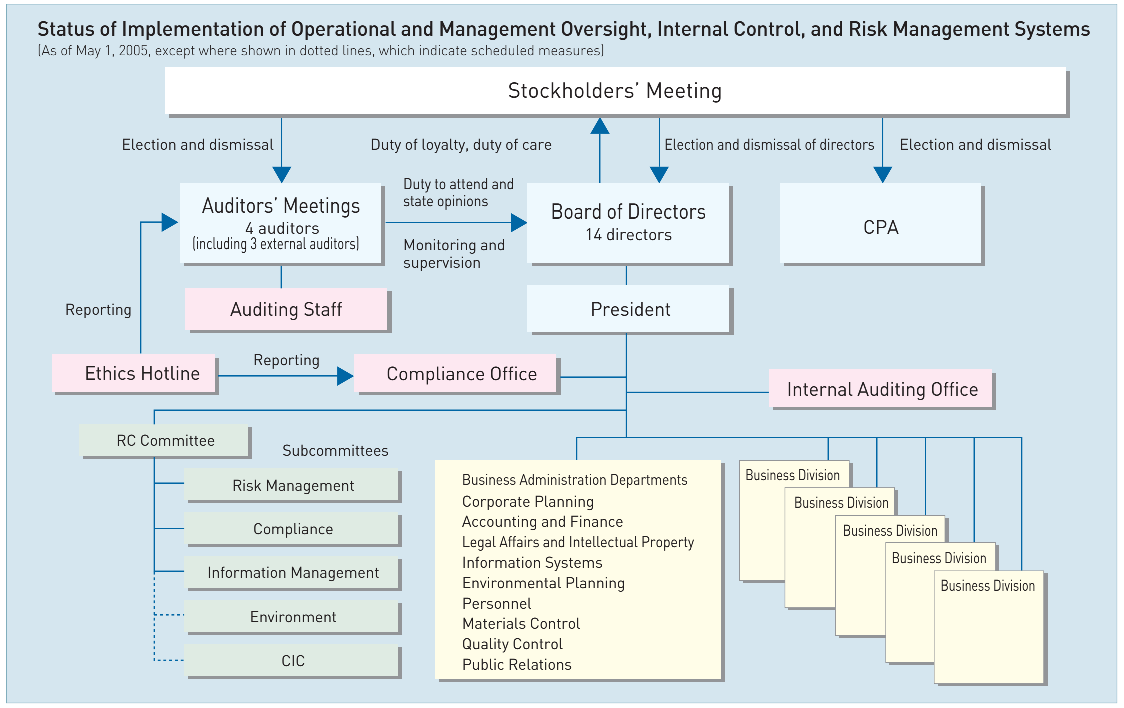
— Compliance Office

Previously the Compliance Department was positioned under the Corporate Intellectual Property & Legal function, and promoted internal administration and risk management that complied with laws, regulations and Company rules. Now it has been reorganized to fall under the direct supervision of the Company president, and its scope expanded to cover all corporate governance activities and society. It promotes compliance with corporate ethics and social norms, as well as conduct in line with the Alps Vision, and aims to ensure lawful management.

— RC Committee

The RC Committee is the body that deliberates and decides on fundamental policies and important issues concerning risk management and compliance, focusing on the broad array of risks involved in our corporate activities. The role of chairperson for this committee is filled by the director in charge of Corporate Planning, and the vice-chairperson role is filled by a director in charge of one of the related departments. The activities of each subcommittee are reported to the Board of Directors when necessary, and are verified against the activities of other subcommittees, which are mutually complementary.

We also plan to consolidate corporate CSR functions by establishing subcommittees to oversee matters relating to the environment and communications with stakeholders.



Mobile Media Solutions

ALPINE ELECTRONICS, INC.

FY2005 RESULTS

Established in 1967, Alpine Electronics, Inc. (Alpine) is a mobile electronics manufacturer. Core businesses include automotive audio, information and communications devices (car navigation and AV systems).

In the fiscal year ended March 31, 2005, Alpine's automotive audio business led other companies in introducing to the European and U.S. consumer markets attractive new products capable of connecting and operating with the latest digital devices. Sales in this business decreased, however, as the consumer market continued to shrink and price competition intensified. Sales to vehicle manufacturers also were affected by the continued evolution of the integration of car audio equipment with automotive AV and navigation systems. Alpine's continuing transition to information and communications devices also influenced sales in the audio equipment segment.

Sales grew in the information and communications devices business. Sales of products for vehicle manufacturers were buoyed by strong sales of new cars equipped with products integrating automotive AV and car navigation systems in the North American market; and by the solid sales of products as dealer options and other products in the domestic market.

As a result, consolidated net sales of Alpine rose 4 % from the previous year to ¥217.1 billion and operating income was dropped 10 % to ¥10.1 billion.

FOR FUTURE GROWTH

In order to enhance the Alpine brand appeal and to secure new orders, the company took part in domestic and overseas engineering expositions and events for automobile makers. In addition, in order to strengthen R&D capabilities and efficiency, full-scale operation of the Alpine China Development Center began in Dalian, China. In response to burgeoning Chinese automobile demand, operations commenced at Taicang Alpine Electronics Co., Ltd., the third production base in China. Moreover, in an effort to win new business, the company expanded manufacturing facilities and operations in Thailand, where automobile production is expected to grow. Alpine continued to reform our profit and cost framework and made efforts to strengthen the management structure.

Since the start of the fiscal year beginning April 1, 2005, in response to a dramatically changing business environment, Alpine formulated its Corporate Vision 2015, in which it decided upon business targets and areas to focus the efforts on with a view towards creating future business. With this year as the first year to begin the fulfillment of that vision, the company is making proactive R&D investment and striving to improve efficiency. At the same time, it's expanding the global sales, production and R&D structures and strengthening the business base.

ALPS LOGISTICS CO., LTD

FY2005 RESULTS

Established in 1964, Alps Logistics Co., Ltd. (Alps Logistics) is a specialized total logistics company. In the electronic component logistics field, Alps Logistics supplies high-quality distribution services in two ways. First, the company strives to achieve revolutionary changes in logistics based on supply chain management (SCM) expertise oriented toward its primary customers in the electronic component and equipment manufacturing industry. Second, Alps Logistics continues to strengthen and expand its network of domestic and overseas logistics bases in response to global distribution needs.

In the consumer logistics field, a business environment marked by logistics restructuring by customers to meet changing consumer needs and growing outsourcing demand, the company provides services that utilize its expanding network of logistics bases and its improving logistics processes and operational methodologies.

During the fiscal year ended March 31, 2005, the business climate in the domestic distribution sector remained severe, hit by the continued shift of Japan-based production operations to overseas locations. On the other hand, international cargo shipments remained strong, with rises in imports and exports. In this sort of business environment, Alps Logistics promoted operational efficiency by strengthening system management capabilities and implementing thorough revenue management and breakeven point oversight. At the same time, the company made efforts to enhance its business structure, upgrading its global distribution system.

As a result, sales in the logistics and others rose 13% year on year, reaching ¥39.6 billion, and operating income rose 1% to ¥5.8 billion.

FOR FUTURE GROWTH

On October 1, 2004, Alps Logistics merged with TDK Logistics. By expanding its base cargo, Alps Logistics has stabilized its business base and strengthened its business structure. Through the improved efficiency and reinforced competitiveness that come with the enlarged scale of its business, Alps Logistics has set itself up for further growth.

In the logistics business, customer consciousness of SCM has risen, and diversifying distribution needs have emerged from logistics streamlining efforts such as reducing inventory and shifting production overseas. These diversified needs require greater responsiveness. Against this backdrop, Alps Logistics will continue to expand the scope of its operations domestically and overseas, and to develop and market distribution products tailored to customer needs in the specialized logistics field.

SIX-YEAR FINANCIAL SUMMARY

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2005, 2004, 2003, 2002, 2001 and 2000

	Millions of yen, except for per share data					
	2005	2004	2003	2002	2001	2000
For the years ended March 31:						
Net sales	¥643,631	¥619,676	¥601,816	¥540,268	¥573,064	¥546,941
(Overseas sales)	479,715	460,641	439,387	382,252	373,883	338,136
Cost of sales	529,561	502,359	477,995	451,210	476,910	449,456
SG&A expenses	82,993	81,143	82,008	75,809	71,600	73,614
Operating income	31,077	36,174	41,813	13,249	24,554	23,871
Income (loss) before income taxes	33,453	33,895	35,153	8,695	24,931	(10,133)
Income taxes	11,090	11,293	12,535	3,415	4,210	8,351
Net income (loss)	16,315	16,943	17,513	1,902	18,111	(20,611)
Cash flows *	54,940	47,321	45,466	33,197	46,860	11,467
Amounts per share of common stock:						
Net income (loss)	¥ 89.72	¥ 93.27	¥ 96.27	¥ 10.53	¥ 100.21	¥ (114.41)
Cash dividends applicable to the year	16.00	12.00	12.00	5.00	12.00	10.00
As of March 31:						
Current assets	¥310,868	¥284,242	¥298,845	¥293,636	¥289,283	¥308,258
Current liabilities	184,968	157,003	202,764	190,878	230,288	223,033
Working capital	125,900	127,239	96,081	102,758	58,995	85,225
Long-term debt	74,882	90,261	62,415	87,851	54,789	108,818
Stockholders' equity	176,908	160,000	148,881	137,513	131,901	122,485
Total assets	517,604	479,029	480,914	484,831	479,032	499,836
Sales by product category **:						
Electric components:	¥386,995	¥375,746	¥348,688	¥317,342	¥367,595	¥357,667
	60.1	60.7	57.9	58.7	64.2	65.4
Components	73,318	68,804	69,667	68,090 (**)	99,516	92,018
	11.4	11.1	11.6	12.6	17.4	16.8
Magnetic devices	61,155	82,748	83,317	46,288	54,783	63,583
	9.5	13.4	13.8	8.6	9.5	11.6
Communications	63,607	58,110	50,892	65,101	89,737	81,427
	9.9	9.4	8.5	12.0	15.7	14.9
Peripheral products	119,540	95,976	76,596	75,826 (**)	73,711	78,522
	18.5	15.5	12.7	14.0	12.9	14.4
Automotive electronics	69,375	70,108	68,216	62,037	49,848	42,117
	10.8	11.3	11.3	11.5	8.7	7.7
Audio equipment	217,077	209,005	221,439	194,845	179,663	168,833
	33.7	33.7	36.8	36.1	31.3	30.9
Logistics and others	39,559	34,925	31,689	28,081	25,806	20,441
	6.2	5.6	5.3	5.2	4.5	3.7
Total	¥643,631	¥619,676	¥601,816	¥540,268	¥573,064	¥546,941
Percentage of sales	100.0	100.0	100.0	100.0	100.0	100.0
Sales by area:						
Japan	¥231,793	¥211,405	¥197,989	¥195,587	¥199,181	¥208,805
	36.0	34.1	32.9	32.5	34.8	38.2
North America	126,048	124,951	136,833	133,446	129,880	118,671
	19.6	20.2	22.8	22.2	22.7	21.7
Europe	135,518	134,858	133,737	121,170	112,569	110,445
	21.0	21.8	22.2	20.1	19.6	20.2
Asia	148,543	146,509	131,309	87,847	124,436	106,072
	23.1	23.6	21.8	14.6	21.7	19.4
Others	1,729	1,953	1,948	2,218	6,998	2,948
	0.3	0.3	0.3	0.4	1.2	0.5
Total	¥643,631	¥619,676	¥601,816	¥540,268	¥573,064	¥546,941
Percentage of sales	100.0	100.0	100.0	100.0	100.0	100.0

* "Cash flows" is calculated by subtracting "cash dividends paid" and "bonuses to directors" from the total of "net income (loss)" and "depreciation and amortization."
** These are results of recategorization in which the Company reclassified the net sales of the components sub-segment and of the peripheral products sub-segment for the year ended March 31, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

Future-oriented statements contained herein are based on Alps' best judgment as of the date of these financial statements (June 29, 2005).

1. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Alps Electric's consolidated financial statements are prepared in conformity with accounting principles and practices generally accepted and applied in Japan.

In the preparation of these consolidated financial statements, it was necessary to use estimates that are affected by the values of assets, liabilities, income, and expenses for the reporting period. These estimates are based on rational consideration of past performance and various primary causes. Actual results may differ as a result of the uncertainties inherent in these estimates. Alps considers that the following significant policies have had a great impact on the preparation of these consolidated financial statements.

(1) Evaluation of losses on inventories and marketable securities

Inventories and marketable securities without market value are generally valued at cost method. Marketable securities with market value are stated at market value. If these assets lose 50% or more of their book value, they are written off. If they lose between 30% and less than 50% of their book value, they are written off according to the possibility of recovery.

It is sometimes necessary to post losses on revaluation of inventory assets when they lose salability as a result of reduced demand or other cause, or if future market changes affect the stock of subsidiaries and render performance unstable.

(2) Deferred tax assets

Alps records a valuation allowance for its deferred income taxes in order to reduce what it judges to be the most likely recovered amount. In determining the recovered amount necessary for the valuation allowance, we consider future income tax and other factors.

If we determine that the total or partial amount of deferred income taxes will not be recovered in the future, the difference is recorded as a tax expense for the period. Likewise, if we determine that it is likely that the deferred income taxes will exceed the recorded net amount, tax expense is decreased for the period.

(3) Employees' severance and pension costs

In order to provide retirement benefits for its employees, the Alps records employees' severance and pension costs and accrued employees' severance and pension costs, based on its forecasts for projected benefit obligation and plan assests for the end of the fiscal year. Employees' severance and pension costs and projected benefit obligation are calculated using assumptions established by mathematical accounting principles. These assumptions include discount rates, retirement rates, death rates and resignation rates, and the expected rate of return.

Changes to these assumptions would affect future employees' severance and pension costs.

2. PERFORMANCE

(1) Overview

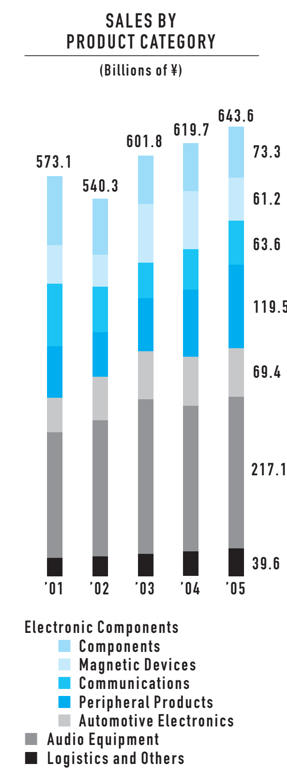
During the fiscal year under review, the world economy began to show signs of a recovery. In the United States, inflationary fears grew with higher crude oil prices from the second half. In China, amid continued strong expansion, the government tightened fiscal policies to prevent its economy from overheating. In Japan, the economy continued to advance and retreat, showing signs of a gentle recovery with an increase in private-sector capital investment.

In the electronics industry, the Athens Olympics spurred strong sales of flat panel televisions and DVD recorders. In addition, digital cameras, mobile telephones with cameras, car navigation systems and other high-function digital devices developed in Japan began to make their mark on the world stage.

In this business environment, Alps' consolidated net sales rose 3.9%, or ¥24.0 billion, to ¥643.6 billion. Operating income, however, declined 14.1%, or ¥5.1 billion, to ¥31.1 billion, and net income edged down 3.7%, or ¥0.6 billion, to ¥16.3 billion.

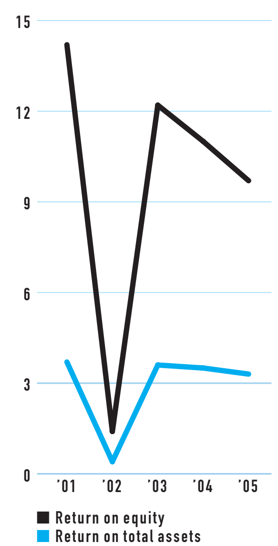
(2) Consolidated net sales

Consolidated net sales rose 3.9%, to ¥643.6 billion. Breaking this down by segment, net sales in the electronic components segment rose 3.0%, or ¥11.2 billion, to ¥387.0 billion.



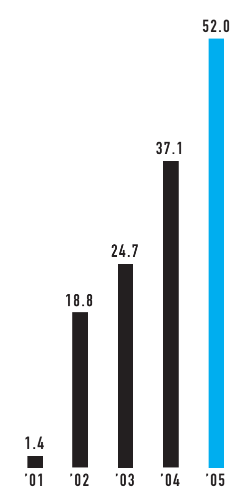
PROFITABILITY RATIOS

(%)



INTEREST COVERAGE

(Times)



*Net cash provided by operating activities÷ Payments for interest expense

Within the electronic components segment, see “Five Strategic Business Domains” as already mentioned for more detail.

At the ALPS SHOW 2004 held in May 2004, the new products and technologies showcased to customers were highly praised, and Alps expects this to gradually lead to new business opportunities in the electronic components segment.

Alps positioned fiscal 2005 as the first year of the second stage of growth in China, and expanded its production bases to meet strong demand for electronic components there. Alps aims to further improve our technological expertise in the electronic components segment while striving toward our ultimate objective of introducing an integrated production structure from molding and component processing to assembly.

With 10 years of history behind production bases of the electronic components segment in China, Alps will take positive and steady steps forward in other regions as well.

Net sales of the Alpine audio equipment segment grew 3.9%, or ¥8.1 billion, to ¥217.1 billion. In the information and communications devices field, sales to automakers in North America expanded on account of robust sales of new cars preinstalled with car navigation systems, and strong demand for car navigation systems as dealer options in Japan.

In the audio equipment segment, Alpine made concerted efforts to secure new orders and appeal to users of the Alpine brand by holding exhibitions that showcased its technologies to major automakers and other events in Japan and abroad.

In the logistics and others segment, net sales grew 13.3%, or ¥4.6 billion, to ¥39.6 billion. In the logistics business, Alps Logistics aimed to bolster the business structure by promoting higher efficiency in operations and expanding forwarding operations.

On October 1, 2004, Alps Logistics merged with TDK Logistics, setting the logistics business off on a new start.

(3) Operating income

Operating income declined 14.1% to ¥31.1 billion. The fall of the dollar against the yen had an impact on operating income.

By segment, operating income in the electronic components segment dropped 20.7% to ¥14.7 billion, and in the audio equipment segment fell 10.4% to¥10.1 billion. In the logistics and others segment, though, operating income edged up 0.7% to ¥5.8 billion. In addition, ¥0.4 billion in intersegment transactions was posted for fiscal 2005.

(4) Other income (expense)

Other income increased ¥4.7 billion to ¥2.4 billion. The main reason behind this was an increase in exchange gains to ¥5.5 billion.

(5) Income before income taxes

Income before income taxes declined 1.3% to ¥33.5 billion. The Company recorded an extraordinary gain of ¥10.4 billion on return of substitutional portion of employees’ pension fund plans beyond ¥5.6 billion in extraordinary gains from amortization of prior service costs posted in the previous fiscal year.

The Company, however, recorded extraordinary depreciation of ¥5.0 billion in accordance with the implementation of non-recurring after reducing the residual value of property, machinery and equipment, also recorded a settlement loss of ¥2.0 billion on certain pension plans.

(6) Income taxes

The effective income tax rate, at 33.2% of income before income taxes, was virtually unchanged from last fiscal year’s 33.3%.

(7) Minority interests in income of consolidated subsidiaries

Minority interests in income of consolidated subsidiaries, primarily the Company’s minority interests in the income of Alpine and Alps Logistics, increased from last fiscal year’s ¥5.7 billion to ¥6.0 billion in the fiscal year under review.

(8) Net income

Net income declined from ¥16.9 billion in the previous fiscal year to ¥16.3 billion. Net income per share dropped from ¥93.27 to ¥89.72.

Net income per share (diluted) was ¥79.12 in fiscal 2005, owing to the issuance of zero coupon convertible bonds with warrants in the previous fiscal year.

3. LIQUIDITY AND SOURCES OF FUNDS

(1) Cash flows

Net cash provided by operating activities expanded by 16.1%, or ¥7.9 billion, to ¥56.9 billion. Although a decrease in cash resulted from the recording of long-term prepaid pension costs and an increase of inventories in the electronic components segment and audio equipment segment, this increase in cash flows was caused by an increase in deprecation in the electronic components segment and a decline of the increase in notes and account receivable.

Net cash used in investing activities increased 4.5%, or ¥1.8 billion, to ¥43.1 billion. This was chiefly in connection with the acquisition of property, plant and equipment, mainly in the electronic components segment.

Net cash used in financing activities dropped 88.0%, or ¥13.8 billion, to ¥1.9 billion. Principal factors behind this decline included the absence of the application of income from the issue of convertible bonds with warrants to the redemption of domestic bond in the electronic components segment, and a substantial repayment of short-term borrowings in the previous fiscal year.

These activities and the effect of the changing currency exchange rate on the yen value of cash and cash equivalents at overseas subsidiaries caused cash and cash equivalents at the end of the year to increase 20.4%, or ¥13.4 billion, to ¥79.0 billion.

(2) Assets, liabilities and stockholders’ equity

Total assets at the end of the fiscal year were ¥517.6 billion, up ¥38.6 billion from a year earlier. Stockholders’ equity grew ¥16.9 billion to ¥176.9 billion, and the stockholders’ equity ratio rose 0.8 percentage points to 34.2%.

Current assets grew ¥26.6 billion from the end of the previous fiscal year, to ¥310.9 billion. The main reasons was an increase in cash and time deposits and inventories.

Fixed assets were ¥206.7 billion, ¥11.9 billion higher than a year earlier. This was primarily the result of the Company recording long-term prepaid pension costs and an increase in construction in progress.

Current liabilities at the end of the fiscal year had risen by ¥28.0 billion, to ¥185.0 billion. Principal factors were the transferring of long-term debt due within one year with bank loans, as well as an increase in notes and accounts payable.

Non-current liabilities declined by ¥14.4 billion to ¥93.4 billion, chiefly as a result of the transferring of long-term debt due within one year with bank loans.

From a point of financial indices, return on equity (ROE) was 9.7% and return on assets (ROA) was 3.3%. Equity per share of common stock advanced ¥886.08 to ¥980.01 and debt/equity ratio was 73.7%, interest coverage was 52.0 times at their best levels in the past five years.

(3) Financial policy and funding requirements

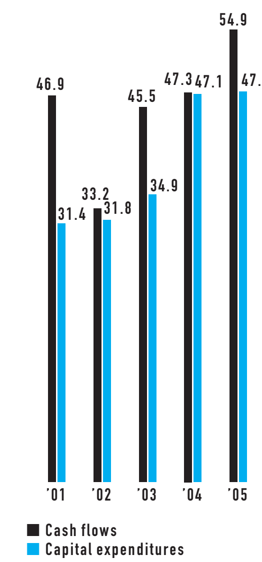
To strengthen its financial position, the Company is increasing profitability by improving its business portfolio, and enhancing management efficiency by reducing inventories and other measures, while working to reduce interest-bearing liabilities.

In the electronic components segment’s core activities, the Company is stepping up efforts to broaden and strengthen lateral ties between segments in the important automotive electronics market, as well as the market for portable devices such as mobile telephones.

In addition, based on expectations for market expansion in Greater China, the Company is proceeding to introduce an integrated production system, spanning from molds and component processing to assembly, at its production bases as the second stage of growth in China. The Company is also expanding business capabilities in Greater China. These activities go beyond manufacturing and sales to the establishment of a technical support system for customers.

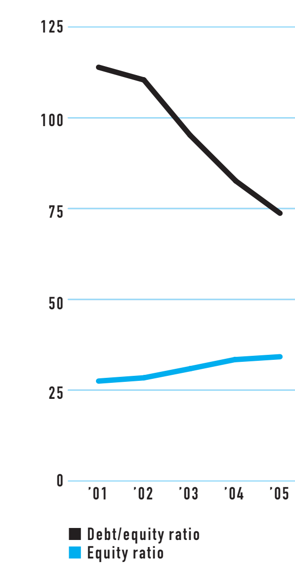
CASH FLOWS AND CAPITAL EXPENDITURES

(Billions of ¥)



CAPITAL STRUCTURE

(%)



Of matters relating to business and accounting conditions, the following risks may have a material impact on investors' decisions.

Forward-looking statements are based on information available on June 29, 2005.

WORLD ECONOMIC CONDITIONS

The Company relies principally on markets outside of Japan, with overseas net sales accounting for 74.5% of the Company's total net sales for the year ended March 31, 2005. Any economic slowdown in the U.S., European and/or Asian markets involving the slowing of consumer demand and corporate spending will adversely impact the Company's business, financial condition and results of operations.

In particular, as most of the Company's products are components to be sold to manufacturers of end products, the level of their production, which may experience fluctuations caused by consumer demand and corporate spending, has a significant effect on its business.

There can be no assurance that the Company's business, financial condition and results of operations will not be affected by the continuation of such economic conditions or decreases in production levels of its customers.

COMPETITION

Given the wide range of its products and the breadth of its international operations, the Company competes with various manufacturers. While the Company intends to continue new product introductions and competitive pricing, there can be no assurance that it will be able to maintain its market share or competitive edge.

CUSTOMER REQUIREMENTS AND THE FREQUENT INTRODUCTION OF NEW TECHNOLOGIES

The markets in which the Company operates are subject to rapidly changing technology, changes in customers' requirements and the frequent introduction of new products and services, with the development of new technologies, products and services often making existing products or services obsolete or unmarketable, or significantly reducing their prices within a relatively short time frame.

The process of developing new products can be lengthy and costly and may also require the Company to commit a significant amount of resources in advance of any sales. The Company may not be successful in identifying new technologies, or developing new products in response to technological changes or changes in customers' requirements. Moreover, technology levels may advance while the Company is engaged in the development of a product, rendering such product uncompetitive before its introduction in the market. In addition, the Company's anticipation may differ from the product's actual customer and revenue realization.

Failure to anticipate or respond rapidly to advances or changes in technology and to adapt the Company's products to customer requirements and to timely introduce new products could adversely affect the Company's business, operating results and financial condition.

CUSTOMERS' PRODUCTION PLANS

The Company's business is directly affected by the production plans of its customers which are generally manufacturers of end products. Customers' production plans are subject to their demand forecasts which vary with the cyclical and seasonal trends of consumers, the introduction of new lines and types of products, the development of new specifications, the rate of technological progress, the commencement of self production of components of their products and the introduction of new regulations, as well as general economic conditions and other factors.

The unpredictability of such plans and orders may make it difficult for the Company to draw up its production, sales, research and development and capital expenditure plans in the mid and long-term.

RISKS INHERENT TO OVERSEAS OPERATIONS

The Company conducts production and sales activities in the United States, Europe, China and other Asian countries. There are risks inherent to operating in these overseas markets, such as unforeseen changes in laws and taxation, disadvantageous political and economic factors, as well as terrorism, war and other social disruption. Accordingly, if they occur, these incidents would have a grave impact on the operations of the Company.

SUPPLY STRUCTURE FOR SPECIFIC COMPONENTS

The Company makes every effort to manufacture critical components within the Group. Some critical components, however, are supplied by external companies. Accordingly, due to natural disasters or other causes, these suppliers may be unable to provide the necessary volume of components on schedule to the Company. These circumstances would lead to production delays and lost sales opportunities, and may adversely affect the performance and financial position of the Company.

FLUCTUATING OPERATING RESULTS

The Company's business operating results have varied in the past and may fluctuate from year to year in the future due to a number of factors, many of which are outside the Company's control.

The Company's business and operating results have at times in the past been negatively affected by, and are expected to continue to be subject to the risk of, the following factors: changes in general economic and business conditions, success or failure in introducing new products meeting consumers' needs, the cyclical nature of its customers' industries, changes in customers' strategies, changes in the specifications for or termination of orders for the Company's products by its larger customers, the rescheduling and cancellation of large orders.

Due to the factors noted above and other risks, many of which are beyond the Company's control, year-on-year comparisons may not be reliable to predict the Company's future performance. Unfavourable changes in any of the above factors could harm the Company's business, financial condition and operating results.

INTELLECTUAL PROPERTY

Patents and other intellectual property are an important competitive factor because of the emphasis on product innovation in the markets for many of the Company's products, many of which are subject to frequent technological innovations. The Company relies to a large extent on technology it has developed, and it seeks to protect such technology through a combination of patents, trademarks and other intellectual property rights.

Although the Company is not aware of any actual or potential significant impairment of, or adverse claim to, its intellectual property rights, any interference in the Company's exercise of such rights could have a material adverse effect on the Company's financial condition and operating results.

In the course of its business, the Company is subject to claims by third parties alleging that the Company's products or processes infringe upon their intellectual property rights. If these claims were successful, the Company may incur substantial licensing or settlement costs and there is a risk that the Company may not be able to obtain a licence at a reasonable cost.

Furthermore, the Company may need to engage in a costly and time-consuming legal action in order to enforce its intellectual property rights, to protect its trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement.

Moreover, the Company's products incorporate intellectual property rights developed by third parties. The Company maintains many licences to use Japanese and foreign patents. There can be no assurance that, in the future, the owners of such patents will continue to maintain their patents or extend such patents to the Company on the same basis as at the present or at all. The Company's business could be adversely affected by any of these developments.

FOREIGN EXCHANGE RISKS

The Company operates in many parts of the world and, as a result, is affected by fluctuations in foreign exchange rates. The Company's results of operations are particularly affected by fluctuations in the exchange rates of the U.S. dollar and/or euro against the Japanese yen.

The Company engages in foreign exchange hedging activities by entering into foreign exchange forward contracts and takes measures to minimize foreign exchange risks. However, there can be no assurance that such hedging activities or measures will significantly limit the impact of movements in exchange rates on the Company's results of operations.

In addition, these fluctuations can affect the Japanese yen value of the Company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. Despite the Company's measures to reduce, or hedge against, foreign currency exchange risks, foreign exchange rate fluctuations may harm its business, financial condition and results of operations.

PUBLIC LAWS AND REGULATIONS

In the countries in which it operates, the Company is subject to various government laws and regulations, including business and investment permits, as well as customs duties and other import/export regulations. These laws and regulations may restrict the business activities of the Company and lead to an increase in costs. Accordingly, these laws and regulations may adversely affect the performance and financial position of the Company.

NATURAL DISASTERS

The Company's manufacturing facilities and research and development in Japan are located in regions which are subject to risks of relatively frequent seismic activity or other natural disasters.

If any of the Company's facilities were to experience a catastrophic loss, it would materially disrupt the Company's operations, delay production and delivery, require the incurrence of large expenses to repair or replace the damaged facilities, and adversely affect its financial condition and results of operations, shipments and revenue, and result in large expenses to repair or replace facilities. No assurance can be made that the Company's insurance would cover all or a substantial part of catastrophic losses.

CONSOLIDATED BALANCE SHEETS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2005	2004	2005
Current assets:			
Cash and time deposits (Note 13)	¥ 79,017	¥ 65,996	$ 735,726
Investment securities (Notes 3 and 13)	136	117	1,266
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliated companies	701	181	6,527
Trade	113,749	106,876	1,059,115
Allowance for doubtful accounts	(1,361)	(1,472)	(12,672)
Inventories (Note 4)	84,976	78,614	791,210
Deferred tax assets (Note 9)	12,375	12,204	115,223
Other current assets	21,275	21,726	198,093
Total current assets	310,868	284,242	2,894,488
Property, plant and equipment (Note 5):			
Land	30,478	30,353	283,780
Buildings and structures	110,950	104,693	1,033,054
Machinery and equipment	261,591	238,023	2,435,670
Construction in progress	6,496	3,514	60,485
	409,515	376,583	3,812,989
Less accumulated depreciation	(256,722)	(229,421)	(2,390,335)
	152,793	147,162	1,422,654
Investments and other assets:			
Intangible assets, net	13,010	12,882	121,136
Investments in and advances to unconsolidated subsidiaries and affiliated companies	6,905	6,930	64,292
Investment securities (Note 3)	14,438	13,302	134,432
Deferred tax assets (Note 9)	6,762	7,820	62,961
Deferred tax assets on land revaluation (Notes 9 and 10)	—	564	—
Other assets	12,828	6,127	119,441
	53,943	47,625	502,262
Total assets	¥ 517,604	¥ 479,029	$ 4,819,404

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND STOCKHOLDERS' EQUITY	2005	2004	2005
Current liabilities:			
Bank loans (Note 5)	¥ 42,724	¥ 31,110	$ 397,803
Long-term debt due within one year (Note 5)	12,846	7,967	119,609
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliated companies	882	352	8,212
Trade	69,438	64,495	646,536
Accrued income taxes	7,684	3,914	71,546
Accrued expenses	32,040	32,770	298,324
Deferred tax liabilities (Note 9)	357	242	3,324
Other current liabilities	18,997	16,153	176,881
Total current liabilities	184,968	157,003	1,722,235
Non-current liabilities:			
Long-term debt (Note 5)	74,882	90,261	697,225
Accrued employees' severance and pension costs (Note 8)	13,369	12,145	124,479
Deferred tax liabilities (Note 9)	2,818	2,828	26,238
Other non-current liabilities	2,367	2,558	22,039
Total non-current liabilities	93,436	107,792	869,981
Total liabilities	278,404	264,795	2,592,216
Minority interests	62,292	54,234	580,000
Contingent liabilities (Note 11)			
Stockholders' equity (Note 6):			
Common stock:			
Authorized—500,000,000 shares			
Issued—180,727,015 shares in 2005 and 2004	22,913	22,913	213,343
Additional paid-in capital	44,876	44,876	417,840
Retained earnings	116,124	102,685	1,081,229
Land revaluation reserve (Note 10)	(647)	(387)	(6,024)
Unrealized net gains on investment securities	3,273	2,838	30,475
Foreign currency translation adjustments	(9,134)	(12,518)	(85,047)
	177,405	160,407	1,651,816
Less treasury stock, at cost—339,899 shares in 2005, 278,425 shares in 2004	(497)	(407)	(4,628)
Total stockholders' equity	176,908	160,000	1,647,188
Total liabilities and stockholders' equity	¥517,604	¥479,029	$4,819,404

CONSOLIDATED STATEMENTS OF INCOME

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Net sales	¥643,631	¥619,676	¥601,816	$5,992,840
Costs and expenses:				
Cost of sales	529,561	502,359	477,995	4,930,735
Selling, general and administrative expenses	82,993	81,143	82,008	772,747
	612,554	583,502	560,003	5,703,482
Operating income	31,077	36,174	41,813	289,358
Other income (expenses):				
Interest and dividend income	623	591	813	5,801
Interest expense	(1,105)	(1,282)	(1,962)	(10,289)
Exchange gains (losses), net	301	(5,204)	(4,305)	2,803
Other, net (Note 7)	2,557	3,616	(1,206)	23,807
	2,376	(2,279)	(6,660)	22,122
Income before income taxes	33,453	33,895	35,153	311,480
Income taxes (Note 9):				
Current	10,418	8,699	10,348	97,001
Deferred	672	2,594	2,187	6,257
	11,090	11,293	12,535	103,258
Income before minority interests	22,363	22,602	22,618	208,222
Minority interests in income of consolidated subsidiaries	(6,048)	(5,659)	(5,105)	(56,313)
Net income	¥ 16,315	¥ 16,943	¥ 17,513	$ 151,909

	Yen			U.S. dollars (Note 1)
	2005	2004	2003	2005
Amounts per share of common stock:				
Net income	¥ 89.72	¥ 93.27	¥ 96.27	$ 0.84
Diluted net income	79.12	85.91	—	0.74
Cash dividends applicable to the year	16.00	12.00	12.00	0.15

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2005, 2004 and 2003

		Millions of yen					
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Land revaluation reserve	Unrealized net gains on investment securities	Foreign currency translation adjustments
Balance at March 31, 2002	180,727,015	¥22,913	¥44,876	¥ 72,570	¥(378)	¥3,005	¥ (5,456)
Net income				17,513			
Cash dividends paid (¥11.00 per share)				(1,987)			
Bonuses to directors				(59)			
Effect of tax rate change on land revaluation					(9)		
Change in unrealized net gains on investment securities						(1,198)	
Change in foreign currency translation adjustments							(2,575)
Other				(2)			
Balance at March 31, 2003	180,727,015	22,913	44,876	88,035	(387)	1,807	(8,031)
Net income				16,943			
Cash dividends paid (¥12.00 per share)				(2,166)			
Bonuses to directors				(125)			
Change in unrealized net gains on investment securities						1,031	
Change in foreign currency translation adjustments							(4,487)
Other				(2)			
Balance at March 31, 2004	180,727,015	22,913	44,876	102,685	(387)	2,838	(12,518)
Increase due to inclusion of consolidated subsidiaries				222			
Decrease due to sale of consolidated subsidiaries				(799)			
Net income				16,315			
Cash dividends paid (¥12.00 per share)				(2,165)			
Bonuses to directors				(109)			
Change in unrealized net gains on investment securities						435	
Change in foreign currency translation adjustments							3,384
Other				(25)	(260)		
Balance at March 31, 2005	180,727,015	¥22,913	¥44,876	¥116,124	¥(647)	¥3,273	¥ (9,134)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Land revaluation reserve	Unrealized net gains on investment securities	Foreign currency translation adjustments
Balance at March 31, 2004	$213,343	$417,840	$ 956,099	$(3,603)	$26,425	$(116,555)
Increase due to inclusion of consolidated subsidiaries			2,067			
Decrease due to sale of consolidated subsidiaries			(7,439)			
Net income			151,909			
Cash dividends paid ($0.11 per share)			(20,158)			
Bonuses to directors			(1,015)			
Change in unrealized net gains on investment securities					4,050	
Change in foreign currency translation adjustments						31,508
Other			(234)	(2,421)		
Balance at March 31, 2005	$213,343	$417,840	$1,081,229	$(6,024)	$30,475	$ (85,047)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Cash flows from operating activities:				
Income before income taxes	¥ 33,453	¥ 33,895	¥ 35,153	$ 311,480
Depreciation and amortization	40,899	32,669	29,999	380,810
Amortization of goodwill	109	(176)	(339)	1,015
Decrease in allowance for doubtful accounts	(75)	(663)	(253)	(698)
Increase (decrease) in accrued employees' severance and pension costs	847	(247)	(661)	7,886
Increase in long-term prepaid pension costs	(7,057)	—	—	(65,708)
Decrease in allowance for directors' severance costs	(88)	(323)	(600)	(819)
Interest and dividend income	(623)	(591)	(813)	(5,801)
Interest expense	1,105	1,282	1,962	10,289
Equity in earnings of affiliated companies	(393)	(115)	(155)	(3,659)
Write-offs of specified money in trust	606	1,154	—	5,642
Gain on sale of property, plant and equipment	(159)	(167)	(462)	(1,480)
Loss on sale and disposal of property, plant and equipment	1,287	1,539	1,455	11,983
Gain on sale of investment securities	(268)	(479)	(119)	(2,495)
Write-offs of investment securities	178	248	538	1,657
Increase in notes and accounts receivable	(3,201)	(11,301)	(5,840)	(29,804)
(Increase) decrease in inventories	(4,845)	856	(3,075)	(45,112)
Increase in notes and accounts payable	2,026	3,438	4,548	18,864
Other, net	919	(337)	(855)	8,557
Subtotal	64,720	60,682	60,483	602,607
Proceeds from interest and dividend income	707	589	1,013	6,583
Payments for interest expense	(1,094)	(1,319)	(2,059)	(10,186)
Payments for income taxes	(7,463)	(10,969)	(8,506)	(69,488)
Net cash provided by operating activities	56,870	48,983	50,931	529,516
Cash flows from investing activities:				
Payments for purchases of property, plant and equipment	(40,277)	(38,420)	(30,598)	(375,019)
Proceeds from sale of property, plant and equipment	747	659	934	6,955
Payments for purchases of intangible assets	(3,804)	(4,326)	(2,984)	(35,419)
Payments for purchases of investment securities	(51)	(840)	(430)	(475)
Proceeds from sale of investment securities	485	5,302	244	4,516
Payments for purchase of a consolidated subsidiary	—	—	(1,615)	—
Payments for investment in an affiliated company	—	(4,199)	—	—
Decrease from sale of consolidated subsidiaries	(87)	—	—	(810)
Other	(97)	576	313	(903)
Net cash used in investing activities	(43,084)	(41,248)	(34,136)	(401,155)
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	7,379	(20,021)	7,421	68,706
Proceeds from issuance of long-term debt	1,490	5,996	8,693	13,873
Repayment of long-term debt	(7,333)	(8,951)	(28,202)	(68,277)
Proceeds from issuance of convertible bonds	—	30,450	—	—
Redemption of domestic bonds	—	(20,000)	—	—
Cash dividends paid	(2,165)	(2,166)	(1,987)	(20,158)
Cash dividends paid to minority interests	(1,234)	(988)	(837)	(11,490)
Other	(12)	36	(493)	(112)
Net cash used in financing activities	(1,875)	(15,644)	(15,405)	(17,458)
Effect of exchange rate changes on cash and cash equivalents	968	(2,574)	(1,918)	9,012
Net increase (decrease) in cash and cash equivalents	12,879	(10,483)	(528)	119,915
Cash and cash equivalents at beginning of year	65,597	76,080	76,608	610,773
Cash and cash equivalents at beginning of year held by newly consolidated subsidiaries	185	—	—	1,723
Cash and cash equivalents at the date of merger held by the merged company	350	—	—	3,259
Cash and cash equivalents at end of year (Note 13)	¥ 79,011	¥ 65,597	¥ 76,080	$ 735,670

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2005

1. BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Alps Electric Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirement of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchanges Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, at the prevailing exchange rate on March 31, 2005, which was ¥107.4 to U.S.$1.00. The translation should not be construed as a representation that the Japanese yen could be converted into U.S. dollar at the above or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and substantially all of its subsidiaries (collectively, the "Companies"). All significant intercompany transactions and accounts are eliminated in consolidation.

(b) Equity method

Investments in affiliated companies are accounted for by the equity method.

(c) Cash equivalents

In preparing the consolidated statements of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(d) Investment securities

The Company classifies investments in securities into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized gain or loss, net of income taxes, included directly in stockholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on collection. The allowance consists of the estimated uncollectible amounts with respect to specific receivables plus a percentage based on historical credit losses.

(f) Inventories

Inventories held by the Company, its domestic consolidated subsidiaries and its foreign consolidated subsidiaries in Asia are principally stated at cost determined by the weighted average method. Inventories held by its foreign consolidated subsidiaries in the United States and Europe are stated at the lower of moving average cost or market.

(g) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. The Company and its domestic consolidated subsidiaries compute depreciation of property, plant and equipment, except for certain buildings, by the declining-balance method at rates based on their estimated useful lives, while its foreign consolidated subsidiaries apply the straight-line method over the estimated useful lives of the respective assets. Depreciation of buildings purchased after March 31, 1998 is computed by the straight-line method by the Company and its domestic consolidated subsidiaries.

The estimated useful lives are summarized as follows:

Buildings and structures	2–60 years
Machinery	2–15 years
Equipment	1–20 years

(h) Foreign currency translation

Foreign currency transaction

All receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date.

Foreign currency financial statements

The assets and liabilities of the foreign consolidated subsidiaries are translated into Japanese yen at the rates of exchange prevailing at the balance sheet date. Revenue and expense accounts are translated at the average exchange rate prevailing during the year. Foreign currency translation adjustments are included in stockholders' equity and minority interests in consolidated subsidiaries.

(i) Accrued employees' bonuses

Accrued employees' bonuses at the balance sheet date are based on an estimate of the amounts to be paid as bonuses for services rendered by that date by the Company and certain of its consolidated subsidiaries.

(j) Accrued warranty costs

Certain subsidiaries provide accrued warranty costs based on historical experience of actual warranty claims.

(k) Accrued employees' severance and pension costs

The Company and its domestic consolidated subsidiaries accrue employees' severance and pension costs at an amount calculated based on the pension benefit obligation and the fair value of the plan assets as adjusted for the unrecognized net pension benefit obligation at transition, unrecognized actuarial gain or loss and unrecognized prior service cost. Actuarial gain or loss is amortized by the straight-line method over the average remaining years of service of the employees. Prior service cost is being amortized by the straight-line method over one or thirteen years which is the average remaining years of service of the employees.

(l) Accrued directors' severance costs
The Company and its domestic consolidated subsidiaries provide accrued directors' severance costs based on their internal corporate policy.

(m) Leases
Finance leases, except for those leases for which the ownership of the leased assets is transferred to the lessees, are accounted for as operating leases.

(n) Income taxes
Deferred tax assets and liabilities are recorded based on the temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using the enacted tax rates in effect for the year in which the temporary differences are expected to reverse. Deferred tax assets are also recognized for the estimated future tax effects attributable to operating loss carryforwards. A valuation allowance is recorded to reduce deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized.

(o) Bonuses to directors
Bonuses to directors, which are subject to approval by the stockholders at the annual stockholders' meeting, are accounted for as an appropriation of retained earnings.

(p) Amounts per share of common stock
Until the year ended March 31, 2002, basic net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year, and diluted net income per share was computed based on the net income reported and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. Amounts per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share. In accordance with the new accounting standard, basic net income per share is computed based on the net income available for distribution to stockholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share is computed based on the net income available for distribution to the stockholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

Cash dividends per share of common stock reflect the actual amounts declared for each of the fiscal years ended March 31.

(q) Derivative financial instruments
In the normal course of business, the Company and certain of its consolidated subsidiaries enter into various derivative transactions to manage their exposure to risks arising from fluctuations in foreign currency exchange rates and interest rates. The Company and its domestic consolidated subsidiaries generally recognize all derivatives in the balance sheet at fair value.

Changes in the fair value of derivatives
Changes in the fair value of forward foreign exchange contracts, currency swaps, currency options and coupon swaps designated as hedges of recognized assets or liabilities are recognized in earnings. Changes in the fair value of these derivatives which are designated as hedge of forecasted transactions are deferred until the hedged transaction is recognized in earnings.

Interest rate swap agreements
Interest rate swap agreements are not recognized at fair value if the agreements meet the exception criteria for the recognition of derivatives at fair value. The differential to be paid or received relating to the interest rate swap agreements is recognized as interest over the life of each of the agreements.

(r) Reclassifications
Certain prior year amounts have been reclassified to conform to the 2005 presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

3. INVESTMENT SECURITIES

Marketable securities classified as other securities at March 31, 2005 and 2004 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Cost	Fair value	Unrealized gains (losses)	Cost	Fair value	Unrealized gains (losses)
Securities for which fair value exceeds cost:						
Equity securities	¥3,538	¥12,812	¥9,274	$32,942	$119,292	$86,350
Securities for which cost exceeds fair value:						
Equity securities	11	10	(1)	102	93	(9)
Total	¥3,549	¥12,822	¥9,273	$33,044	$119,385	$86,341

	Millions of yen		
	2004		
	Cost	Fair value	Unrealized gains (losses)
Securities for which fair value exceeds cost:			
Equity securities	¥3,504	¥11,286	¥7,782
Securities for which cost exceeds fair value:			
Equity securities	251	211	(40)
Total	¥3,755	¥11,497	¥7,742

Proceeds from sales of securities classified as other securities totaled ¥485 million ($4,516 thousand), ¥114 million and ¥244 million for the years ended March 31, 2005, 2004 and 2003, respectively. Gross realized gains and losses were ¥268 million ($2,495 thousand) and ¥54 million ($503 thousand), respectively, for the year ended March 31, 2005. Gross realized gains were ¥103 million for the year ended March 31, 2004, and gross realized gains and losses were ¥90 million and ¥2 million, respectively, for the year ended March 31, 2003.

Significant components of securities recorded at cost at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Other securities:			
Non-marketable equity securities	¥1,599	¥1,800	$14,888
Government bonds	0	0	0
Non-marketable foreign bonds	—	4	—
Other	153	118	1,425
Subsidiaries' and affiliates' stocks:			
Unconsolidated subsidiaries and affiliated companies	2,009	2,218	18,706
Total	¥3,761	¥4,140	$35,019

4. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products	¥46,250	¥39,811	$430,633
Work in process	19,314	18,675	179,832
Raw materials and supplies	19,412	20,128	180,745
	¥84,976	¥78,614	$791,210

5. BANK LOANS AND LONG-TERM DEBT

Bank loans consisted primarily of overdrafts with banks at interest rates ranging from 0.28% to 5.54% and 0.39% to 4.43% at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans principally from banks and insurance companies due through 2018 at interest rates ranging from 0.00% to 5.00% and 0.00% to 5.00% at March 31, 2005 and 2004, respectively	¥36,592	¥46,423	$340,707
Zero coupon convertible bonds due 2010	30,000	30,000	279,330
1.07% domestic bonds due 2007	10,000	10,000	93,110
0.0% domestic convertible debenture bond of consolidated subsidiary due 2007	11,136	11,805	103,687
	87,728	98,228	816,834
Less amounts due within one year	12,846	7,967	119,609
	¥74,882	¥90,261	$697,225

At March 31, 2005 and 2004, the following assets were pledged as collateral for bank loans and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Property, plant and equipment, at book value	¥7,879	¥8,079	$73,361

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥12,846	$119,609
2007	34,306	319,423
2008	7,174	66,797
2009	863	8,035
2010	30,485	283,845
2011 and thereafter	2,054	19,125
Total	¥87,728	$816,834

6. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares is required to be designated as common stock. The portion which is not transferred to common stock is determined by resolution of the Board of Directors. Proceeds not transferred to common stock are credited to additional paid-in capital. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and additional paid-in capital account equals 25% of the common stock account. The Code also provides that, to the extent that the sum of additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of the excess (if any) is available for appropriations by resolution of the stockholders.

In accordance with the Code, the appropriation of retained earnings for the year ended March 31, 2005 will be proposed for approval at the annual general meeting of the stockholders to be held on June 29, 2005, and will subsequently be recorded in the Company's statutory books of account.

7. OTHER INCOME (EXPENSE)

The components of other, net, in the accompanying consolidated statements of income for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Loss on disposal of property, plant and equipment	¥ (1,287)	¥(1,539)	¥(1,455)	$(11,983)
Reversal of allowance for doubtful accounts	—	296	1,041	—
Prior years' royalty expense	(195)	(96)	(628)	(1,816)
Gain on sales of investment securities	268	479	119	2,495
Write-off of investment securities	(178)	(248)	(538)	(1,657)
Write-off of inventories	—	—	(445)	—
Directors' severance costs	—	(126)	(549)	—
Equity in earnings of affiliated companies	393	115	155	3,659
Gain on sale of tooling	753	922	862	7,011
Write-off of specified money in trust ("Tokkin")	(606)	(1,154)	—	(5,642)
Amortization of prior service cost	—	5,560	—	—
Gain on return of substitutional portion of Employees' Pension Fund plans	10,418	—	—	97,002
Insurance revenue due to disasters	2,506	—	—	23,333
Settlement gain (loss) on lawsuit	919	—	(161)	8,557
Restructuring charges	—	(1,130)	—	—
Extraordinary depreciation	(4,971)	—	—	(46,285)
Settlement loss on certain pension plans	(1,989)	—	—	(18,520)
Loss due to disasters	(1,773)	—	—	(16,508)
Other	(1,701)	537	393	(15,839)
	¥ 2,557	¥ 3,616	¥(1,206)	$ 23,807

As a result of evaluating residual value of property, plant and equipment, the Company changed the estimation of residual value from 10% of acquisition cost to ¥1,000 and, accordingly recorded extraordinary depreciation of ¥4,971 million ($46,285 thousand) for the year ended March 31, 2005.

8. EMPLOYEES' SEVERANCE AND PENSION COSTS

The Company and certain of its domestic consolidated subsidiaries have defined benefit pension plans, i.e., Employees' Pension Fund plans ("EPFs"), comprising of substitutional portion related to the government-sponsored benefit and a corporate portion related to employer-sponsored benefit. The Company and certain of its domestic consolidated subsidiaries have tax-qualified pension plans and lump-sum retirement plans. Under these defined benefit pension plans, employees are generally entitled to lump-sum payments and/or pension payments, the amounts of which are determined by reference to their basic salary, length of service, and the conditions under which termination occurs. Certain of the foreign consolidated subsidiaries have defined contribution pension plans.

On September 1, 2004, the Company and certain of its domestic consolidated subsidiary received an approval from the Japanese government to return the substitutional portion of EPFs and recognized a gain of ¥10,418 million ($97,002 thousand) included in other income for the year ended March 31, 2005.

On February 28, 2005, the Company and certain of its domestic consolidated subsidiary changed pension plans from employer-sponsored defined benefit pension plans and lump-sum payment plans to cash balance plans and defined contribution pension plans or prepaid severance benefit plans. As a result of the implementation of cash balance plans, pension benefit obligation was decreased by ¥8,441 million ($78,594 thousand) and unrecognized negative prior service cost was increased by the same amount. Amortization of unrecognized prior service cost amounting to ¥1,405 million ($13,082 thousand) was deducted from cost of sales and selling, general and administrative expenses. Transfer from employer-sponsored defined benefit pension plans and lump-sum retirement plans to defined contribution pension plans and prepaid severance benefit plans is treated as settlement of the pension plans under Japanese GAAP. The Companies recognized a loss on the settlement of the pension plans amounting to ¥1,989 million ($18,520 thousand).

The following table sets forth the funded and accrued status of the defined benefit pension plans, and the amounts recognized in the consolidated balance sheets at March 31, 2005 and 2004 for the Company and its consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥(94,135)	¥(127,164)	$(876,490)
Plan assets at fair value	79,935	77,404	744,274
Unfunded projected benefit obligation	(14,200)	(49,760)	(132,216)
Unrecognized actuarial net loss	15,064	37,761	140,261
Unrecognized prior service cost	(7,097)	(68)	(66,080)
Amounts recognized in the consolidated balance sheets, net	(6,233)	(12,067)	(58,035)
Prepaid pension cost	7,136	78	66,444
Accrued employees' severance and pension costs	¥(13,369)	¥ (12,145)	$(124,479)

Substitutional portion of EPFs related to the government-sponsored benefit has been included in the amounts shown in the above table. Certain of the consolidated subsidiaries have adopted the conventional method in calculating their pension benefit obligation as set forth in the accounting standard for employees' severance and pension costs.

The components of employees' severance and pension expenses for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service cost	¥ 3,091	¥ 3,104	¥ 5,081	$ 28,780
Interest cost	2,244	3,016	3,347	20,894
Expected return on plan assets	(1,436)	(1,683)	(2,121)	(13,371)
Amortization of actuarial loss	2,247	3,492	2,955	20,922
Amortization of prior service cost	(1,411)	(5,566)	(5,519)	(13,138)
Additional accrued severance cost	17	12	17	158
Other	233	225	206	2,170
Sub-total	4,985	2,600	3,966	46,415
Gain on return of substitutional portion of Employees' Pension Fund plans	(10,418)	—	—	(97,002)
Settlement loss on certain pension plans	1,989	—	—	18,520
Total	¥ (3,444)	¥ 2,600	¥ 3,966	$ (32,067)

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Discount rates	2.0%–2.5%	2.5%	2.5%
Expected return on plan assets	2.0%–2.5%	2.5%	2.5%

9. INCOME TAXES

The Company is subject to a number of taxes in Japan based on income, which, in the aggregate, results in a statutory rate of approximately 40.3% for the year ended March 31, 2005, and 41.5% for the years ended March 31, 2004 and 2003.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2005, 2004 and 2003:

	2005	2004	2003
Statutory tax rate	40.3%	41.5%	41.5%
Tax credit on R&D costs and other	(3.4)	(2.0)	—
Lower tax rate at foreign subsidiaries	(4.6)	(3.7)	(3.4)
Other	0.9	(2.5)	(2.4)
Effective tax rates	33.2%	33.3%	35.7%

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Net operating loss carryforwards	¥ 1,077	¥ 1,044	$ 10,028
Accrued employees' severance and pension costs	2,686	4,625	25,009
Intercompany profit	2,962	3,014	27,579
Write-off of specified money in trust ("Tokkin")	3,163	2,918	29,451
Depreciation	5,897	4,151	54,907
Accrued employees' bonuses	3,107	3,035	28,929
Write-off of investment securities	988	1,066	9,199
Accrued warranty costs	956	849	8,901
Land revaluation reserve	—	564	—
Foreign tax credit	1,362	2,128	12,682
Other	4,918	4,613	45,792
Total deferred tax assets	27,116	28,007	252,477
Valuation allowance	(3,617)	(3,420)	(33,678)
Less deferred tax liabilities in the same tax jurisdiction	(4,362)	(3,999)	(40,615)
Deferred tax assets, net	19,137	20,588	178,184
Deferred tax liabilities:			
Unrealized gain on investment securities	3,757	3,139	34,981
Tax deductible reserve	448	651	4,171
Loss on investment in limited partnership	804	664	7,486
Accelerated depreciation of property, plant and equipment	750	345	6,983
Intercompany loss	130	130	1,210
Unappropriated retained earnings of foreign subsidiaries and affiliated companies	255	324	2,374
Revaluation of subsidiaries' assets and liabilities on consolidation	384	512	3,575
Other	1,009	1,304	9,397
Total deferred tax liabilities	7,537	7,069	70,177
Less deferred tax assets in the same tax jurisdiction	(4,362)	(3,999)	(40,615)
Deferred tax liabilities, net	3,175	3,070	29,562
Net deferred tax assets	¥15,962	¥17,518	$148,622

10. REVALUATION OF LAND

On March 31, 2002, a domestic consolidated subsidiary revalued its land held for business purposes in accordance with the "Law on Land Revaluation." The method followed for this land revaluation was determined in accordance with the "Enforcement Act Concerning Land Revaluation." Differences arising from the land revaluation have been accounted for as land revaluation reserve under stockholders' equity, net of tax effect, and allocation to minority interests.

The difference between the carrying value of this land after the revaluation and its fair value as of March 31, 2005 and 2004 were ¥558 million ($5,196 thousand) and ¥386 million, respectively.

11. CONTINGENT LIABILITIES

The Company was contingently liable for trade accounts receivable sold to banks in the amounts of ¥5,966 million ($55,549 thousand) and ¥7,067 million at March 31, 2005 and 2004, respectively.

The Company and certain of its consolidated subsidiaries were contingently liable as guarantors for loans of other companies and employees in the aggregate amount of ¥531 million ($4,944 thousand) and ¥610 million at March 31, 2005 and 2004, respectively.

The Company and certain of its consolidated subsidiaries have entered into loan commitment agreements amounting to ¥24,500 million ($228,119 thousand) with financial institutes. The loans payable outstanding was zero, and therefore, the unused balances was ¥24,500 million ($228,119 thousand) under the credit facilities as of March 31, 2005.

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and certain of its consolidated subsidiaries have entered into forward foreign exchange contracts, currency swaps and coupon swaps with banks to hedge transactions and balances denominated in foreign currencies. In addition, to hedge their exposure to fluctuations in interest rates, the Company and certain of its consolidated subsidiaries have entered into interest rate swap agreements to effectively change the floating rates on the principal balance of their debt to fixed interest rates.

These derivative transactions are utilized solely for hedging purposes under the Company's internal control rules and are subject to oversight by the Board of Directors. The Company does not anticipate any credit loss from nonperformance by the counterparties to the forward foreign exchange contracts and interest rate swap agreements.

The notional amounts and estimated fair value of the derivative instruments outstanding at March 31, 2005 and 2004 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)
Forward foreign exchange contracts:						
Sell:						
U.S. dollars	¥28,929	¥29,677	¥(748)	$269,357	$276,322	$(6,965)
Euro	8,010	8,044	(34)	74,581	74,898	(317)
Foreign currency swap:						
Receipt-Euro						
Payment-STG £	613	606	(7)	5,708	5,643	(65)
Receipt-Yen						
Payment-Euro	300	300	0	2,793	2,793	0

	Millions of yen		
	2004		
	Notional amounts	Fair value	Unrealized gains (losses)
Forward foreign exchange contracts:			
Sell:			
U.S. dollars	¥32,197	¥31,570	¥627
Euro	5,073	4,863	210
Buy:			
U.S. dollars	38	37	(1)
Euro	325	325	(0)
Yen	1	1	(0)
Foreign currency swap:			
Receipt-Euro			
Payment- STG £	585	583	(2)
Coupon swap:			
Receipt-Malaysia ringgit			
Payment- U.S. dollars	1,691	1,691	0

Note: With regard to interest rate swap agreements, the notional amounts and the estimated fair value have been excluded since hedge accounting has been applied.

13. CASH AND CASH EQUIVALENTS

Reconciliation between cash and time deposits in the consolidated balance sheets, and cash and cash equivalents in the statements of cash flows at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥79,017	¥65,996	$735,726
Investment securities	136	117	1,266
Total	79,153	66,113	736,992
Less:			
Time deposits with a maturity of more than three months when purchased	(409)	(703)	(3,808)
Investment securities with a maturity within one year	(104)	(90)	(968)
Add:			
Repurchase agreement with period within three months	371	277	3,454
Cash and cash equivalents	¥79,011	¥65,597	$735,670

Assets acquired and liabilities assumed in conjunction with a merger of a subsidiary of the Company and TDK Logistics Corp. for the year ended March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Assets acquired		
Current assets	¥ 1,109	$ 10,326
Non-current assets	1,510	14,059
Total assets	¥ 2,619	$ 24,385
Liabilities assummed		
Current liabilities	¥ 714	$ 6,648
Non-current liabilities	337	3,138
Total liabilities	¥ 1,051	$ 9,786

14. LEASES

As lessees:

The Company and certain of its consolidated subsidiaries lease certain machinery, vehicles, equipment, tools and other assets. These lease agreements have been accounted for as operating leases.

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2005 and 2004, which would have been reflected in the consolidated balance sheets if these agreements had been accounted for as financing leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition costs of machinery and vehicles	¥2,652	¥2,732	$24,693
Accumulated depreciation of machinery and vehicles	1,588	1,422	14,786
Net book value	¥1,064	¥1,310	$ 9,907
Acquisition costs of equipment and tools	¥ 911	¥ 941	$ 8,482
Accumulated depreciation of equipment and tools	341	556	3,175
Net book value	¥ 570	¥ 385	$ 5,307
Acquisition costs of intangible assets	¥ 66	¥ 69	$ 614
Accumulated depreciation of intangible assets	46	32	428
Net book value	¥ 20	¥ 37	$ 186

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2005 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 603	$ 5,615
2007 and thereafter	1,052	9,795
	¥1,655	$15,410

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements totaled ¥697 million ($6,490 thousand), ¥744 million and ¥1,034 million for the years ended March 31, 2005, 2004 and 2003, respectively. The pro forma depreciation of the assets leased under finance leases accounted for as operating leases for the years ended March 31, 2005, 2004 and 2003 amounted to ¥697 million ($6,490 thousand), ¥744 million and ¥1,034 million, respectively.

The Company's future minimum lease payments subsequent to March 31, 2005 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 605	$ 5,633
2007 and thereafter	929	8,650
	¥1,534	$14,283

As lessor:

Certain domestic subsidiaries of the Company lease certain machinery, vehicles, equipment and tools.

The following amounts represent the acquisition costs, accumulated depreciation and the net book value of the leased assets under finance leases accounted for as operating leases at March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition costs of machinery and vehicles	¥2,326	¥2,580	$21,657
Accumulated depreciation of machinery and vehicles	1,697	1,927	15,800
Net book value	¥ 629	¥ 653	$ 5,857
Acquisition costs of equipment and tools	¥ 641	¥ 624	$ 5,968
Accumulated depreciation of equipment and tools	431	468	4,013
Net book value	¥ 210	¥ 156	$ 1,955
Acquisition costs of intangible assets	¥ 6	¥ —	$ 56
Accumulated depreciation of intangible assets	1	—	9
Net book value	¥ 5	¥ —	$ 47

The future minimum lease income subsequent to March 31, 2005 under finance leases accounted for as operating leases is summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥268	$2,495
2007 and thereafter	565	5,261
	¥833	$7,756

Lease income, depreciation and interest portion of lease income on finance leases accounted for as operating leases for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Lease income	¥319	¥352	¥441	$2,970
Depreciation	281	274	337	2,616
Interest portion of lease income	44	46	62	410

15. SEGMENT INFORMATION

Business segments

The Companies are primarily engaged in the manufacturing and sales of (1) electronic components, (2) audio equipment, and (3) logistics and others. The business segment information of the Companies for the years ended March 31, 2005, 2004 and 2003 was summarized as follows:

	Millions of yen				
Year ended March 31, 2005	Electronic components	Audio equipment	Logistics and others	Eliminations	Consolidated
Net sales					
Outside customers	¥386,995	¥217,077	¥39,559	¥ —	¥ 643,631
Inter-segment sales and transfers	7,814	5,703	29,023	(42,540)	—
Total	394,809	222,780	68,582	(42,540)	643,631
Costs and expenses	380,063	212,632	62,814	(42,955)	612,554
Operating income	14,746	10,148	5,768	415	31,077
Identifiable assets	329,921	156,507	79,798	(48,622)	517,604
Depreciation and amortization	30,995	7,332	2,677	(105)	40,899
Capital expenditures	33,066	10,402	3,664	(4)	47,128

Year ended March 31, 2004	Millions of yen Electronic components	Audio equipment	Logistics and others	Eliminations	Consolidated
Net sales					
Outside customers	¥375,746	¥209,005	¥34,925	¥ —	¥619,676
Inter-segment sales and transfers	6,406	4,015	27,264	(37,685)	—
Total	382,152	213,020	62,189	(37,685)	619,676
Costs and expenses	363,548	201,700	56,463	(38,209)	583,502
Operating income	18,604	11,320	5,726	524	36,174
Identifiable assets	310,520	145,127	65,311	(41,929)	479,029
Depreciation and amortization	23,985	6,481	2,283	(80)	32,669
Capital expenditures	30,763	8,895	7,494	(3)	47,149

Year ended March 31, 2003	Millions of yen Electronic components	Audio equipment	Logistics and others	Eliminations	Consolidated
Net sales					
Outside customers	¥348,688	¥221,439	¥31,689	¥ —	¥601,816
Inter-segment sales and transfers	5,792	929	25,303	(32,024)	—
Total	354,480	222,368	56,992	(32,024)	601,816
Costs and expenses	330,551	210,061	52,315	(32,924)	560,003
Operating income	23,929	12,307	4,677	900	41,813
Identifiable assets	314,241	150,230	57,411	(40,968)	480,914
Depreciation and amortization	22,417	5,723	1,931	(72)	29,999
Capital expenditures	23,925	8,218	2,721	—	34,864

Year ended March 31, 2005	Thousands of U.S. dollars Electronic components	Audio equipment	Logistics and others	Eliminations	Consolidated
Net sales					
Outside customers	$3,603,306	$2,021,201	$368,333	$ —	$5,992,840
Inter-segment sales and transfer	72,755	53,101	270,233	(396,089)	—
Total	3,676,061	2,074,302	638,566	(396,089)	5,992,840
Costs and expenses	3,538,761	1,979,814	584,860	(399,953)	5,703,482
Operating income	137,300	94,488	53,706	3,864	289,358
Identifiable assets	3,071,890	1,457,235	742,998	(452,719)	4,819,404
Depreciation and amortization	288,594	68,268	24,926	(978)	380,810
Capital expenditures	307,877	96,853	34,115	(37)	438,808

Geographical segments

The geographic segment information of the Companies for the years ended March 31, 2005, 2004 and 2003 was summarized as follows:

Year ended March 31, 2005	Millions of yen Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
Net sales							
Outside customers	¥231,793	¥126,048	¥135,518	¥148,543	¥1,729	¥ —	¥643,631
Inter-segment sales and transfers	326,745	3,331	34,564	138,315	4	(502,959)	—
Total	558,538	129,379	170,082	286,858	1,733	(502,959)	643,631
Costs and expenses	531,551	126,245	167,175	279,187	1,782	(493,386)	612,554
Operating income	26,987	3,134	2,907	7,671	(49)	(9,573)	31,077
Identifiable assets	415,306	51,337	59,705	118,728	495	(127,967)	517,604

Year ended March 31, 2004	Millions of yen Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
Net sales							
Outside customers	¥211,405	¥124,951	¥134,858	¥146,509	¥1,953	¥ —	¥619,676
Inter-segment sales and transfers	286,763	1,168	29,366	100,992	4	(418,293)	—
Total	498,168	126,119	164,224	247,501	1,957	(418,293)	619,676
Costs and expenses	464,346	124,051	162,464	240,814	1,899	(410,072)	583,502
Operating income	33,822	2,068	1,760	6,687	58	(8,221)	36,174
Identifiable assets	406,228	45,567	57,996	108,392	1,127	(140,281)	479,029

Year ended March 31, 2003	Millions of yen Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
Net sales							
Outside customers	¥197,989	¥136,833	¥133,737	¥131,309	¥1,948	¥ —	¥601,816
Inter-segment sales and transfers	242,317	968	23,493	93,153	7	(359,938)	—
Total	440,306	137,801	157,230	224,462	1,955	(359,938)	601,816
Costs and expenses	399,433	134,016	156,118	217,845	1,879	(349,288)	560,003
Operating income	40,873	3,785	1,112	6,617	76	(10,650)	41,813
Identifiable assets	391,297	49,198	56,002	74,481	1,180	(91,244)	480,914

Year ended March 31, 2005	Thousands of U.S. dollars Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
Net sales							
Outside customers	$2,158,222	$1,173,631	$1,261,806	$1,383,082	$16,099	$ —	$5,992,840
Inter-segment sales and transfer	3,042,318	31,015	321,825	1,287,849	37	(4,683,044)	—
Total	5,200,540	1,204,646	1,583,631	2,670,931	16,136	(4,683,044)	5,992,840
Costs and expenses	4,949,264	1,175,465	1,556,564	2,599,506	16,592	(4,593,909)	5,703,482
Operating income	251,276	29,181	27,067	71,425	(456)	(89,135)	289,358
Identifiable assets	3,866,909	477,998	555,912	1,105,475	4,609	(1,191,499)	4,819,404

Overseas sales

Overseas sales of the Companies by geographic area for the years ended March 31, 2005, 2004 and 2003 were as follows:

Year ended March 31, 2005	Millions of yen North America	Europe	Asia	Other area	Total
Overseas sales	¥138,952	¥144,413	¥189,640	¥6,710	¥479,715
Net sales					¥643,631
Ratio of overseas sales (%)	22%	22%	30%	1%	75%

Year ended March 31, 2004	Millions of yen North America	Europe	Asia	Other area	Total
Overseas sales	¥129,657	¥140,990	¥184,377	¥5,617	¥460,641
Net sales					¥619,676
Ratio of overseas sales (%)	21%	23%	29%	1%	74%

Year ended March 31, 2003	Millions of yen North America	Europe	Asia	Other area	Total
Overseas sales	¥134,309	¥135,342	¥164,553	¥5,183	¥439,387
Net sales					¥601,816
Ratio of overseas sales (%)	22%	23%	27%	1%	73%

Year ended March 31, 2005	Thousands of U.S. dollars North America	Europe	Asia	Other area	Total
Overseas sales	$1,293,780	$1,344,628	$1,765,735	$62,477	$4,466,620
Net sales					$5,992,840
Ratio of overseas sales (%)	22%	22%	30%	1%	75%

16. SUBSEQUENT EVENTS

Appropriations of retained earnings for the year ended March 31, 2005 were duly approved at the annual general meeting of the stockholders of the Company held on June 29, 2005 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥10 ($0.09) per share	¥1,804	$16,797
Bonuses to directors	50	466

ERNST & YOUNG SHINNIHON

Certified Public Accountants
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Chiyoda-ku, Tokyo, Japan 100-0011
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Tel: 03 3503 1191
Fax: 03 3503 1277

Report of Independent Auditors

The Board of Directors
Alps Electric Co., Ltd.

We have audited the accompanying consolidated balance sheets of Alps Electric Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alps Electric Co., Ltd. and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon

June 29, 2005

DIRECTORS & AUDITORS

(As of June 29, 2005)

Masataka Kataoka
President

Isao Tanimoto
Senior Managing Director
General Manager, Business Development Headquarters and Quality Control

Takahide Sato
Senior Managing Director
General Manager, Corporate Planning, Corporate Intellectual Property and Legal, Corporate Export and Import Administration

Kazuya Yoshikoshi
Managing Director
General Manager, Automotive Products Division

Hideharu Kogashira
Managing Director
General Manager, China Planning and Materials Control

Yozo Yasuoka
Managing Director
General Manager, Sales and Marketing Headquarters

DIRECTORS
Seizo Ishiguro
Koichi Yamazaki
Katsumi Tobita
Yasuhiro Fujii
Seishi Kai
Toshihiro Kuriyama
Nobuhiko Komeya
Motohiro Shimaoka

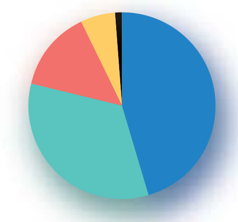
AUDITORS
Koji Hotta
Mitsunori Narisako
Takeo Tominaga
Kenji Yoshino

CORPORATE DATA

PRINCIPAL STOCKHOLDERS
(As of March 31, 2005)

	Percentage of total shares outstanding
Japan Trustee Services Bank, Ltd. (Trust account)	11.2%
The Master Trust Bank of Japan, Ltd. (Trust account)	8.9%
Nippon Life Insurance Company	2.3%
Mitsui Sumitomo Insurance Co., Ltd.	2.3%
The Sumitomo Trust and Banking Co., Ltd. (Trust account B)	2.2%

CLASSIFICATION OF STOCKHOLDERS



ALPS ELECTRIC CO., LTD.
(As of June 29, 2005)

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1-7, Yukigaya-otsuka-cho,
Ota-ku, Tokyo
145-8501, Japan
Phone: +81 (3) 3726-1211
Fax: +81 (3) 3728-1741

BUSINESS DEVELOPMENT HEADQUARTERS
Process Technology Development Center
Production Engineering Development Center
Technical Master Training Center

BUSINESS DIVISIONS
Mechatronic Devices Division
Magnetic Devices Division
Communication Devices Division
Peripheral Products Division
Automotive Products Division

DATE OF ESTABLISHMENT
November 1, 1948

PAID-IN CAPITAL
¥23,116 million (US$215.2 million)
(As of May 31, 2005)

NUMBER OF EMPLOYEES
32,869 (As of March 31, 2005)

COMMON STOCK
Authorized: 500,000,000 shares
Issued: 180,964,998 shares
(As of May 31, 2005)
Number of Stockholders: 15,718
(As of March 31, 2005)

STOCK EXCHANGE LISTING
Tokyo Stock Exchange

TRANSFER AGENT FOR COMMON STOCK
The Mitsubishi Trust and Banking Corporation
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo
100-8212, Japan

Alps Web Site
http://www.alps.com

6 ALPS ELECTRIC EUROPA GmbH

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10 ALPS ELECTRIC (IRELAND) LIMITED

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11 ALPS ELECTRIC CZECH, s.r.o.

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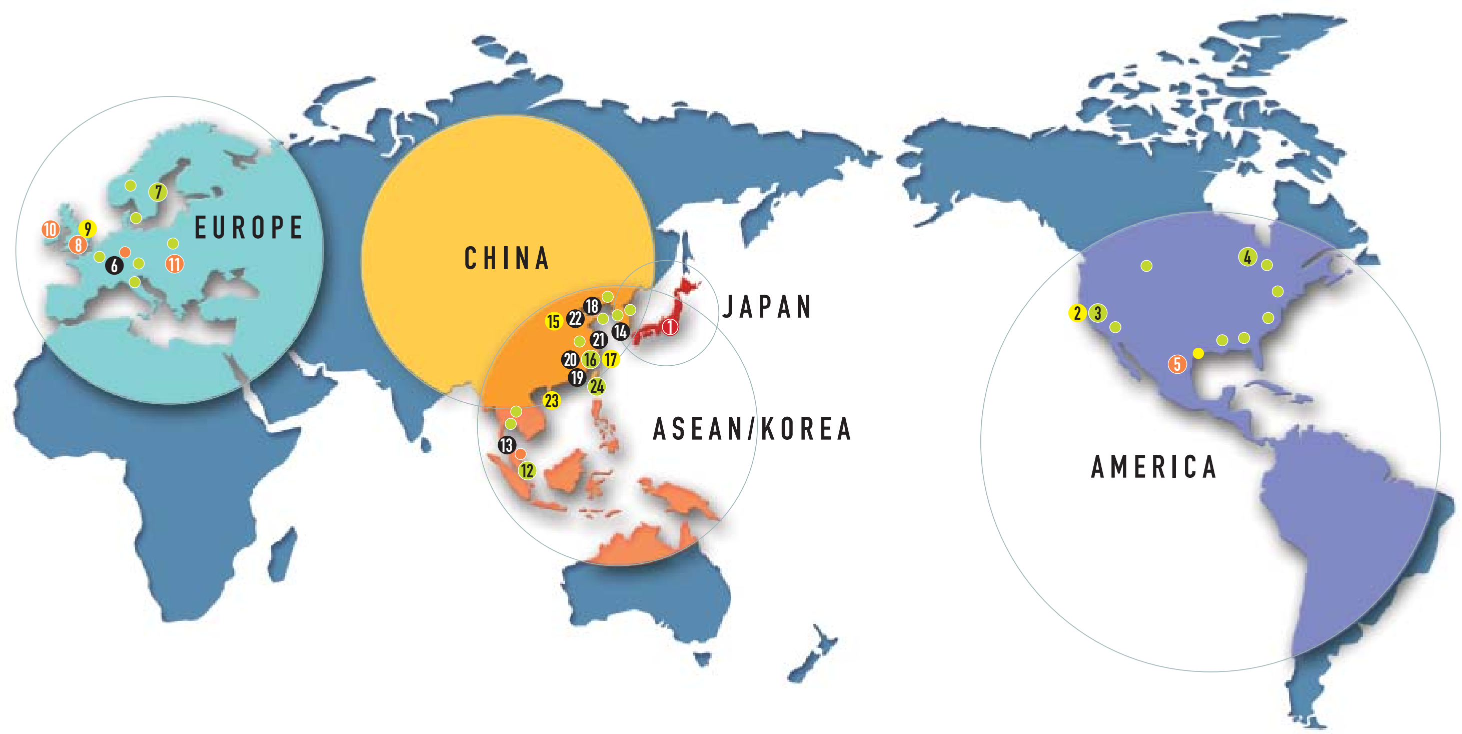

1 ALPS ELECTRIC HEAD OFFICE

2 ALPS ELECTRIC (NORTH AMERICA)
3 ALPS ELECTRIC (USA)
4 ALPS AUTOMOTIVE
5 ALCOM ELECTRONICOS DE MEXICO

6 ALPS ELECTRIC EUROPA
7 ALPS NORDIC
8 ALPS ELECTRIC (UK)
9 ALPS ELECTRIC TECHNOLOGY CENTER (UK)
10 ALPS ELECTRIC (IRELAND)
11 ALPS ELECTRIC CZECH

12 ALPS ELECTRIC (S)
13 ALPS ELECTRIC (MALAYSIA)
14 ALPS ELECTRIC KOREA

15 ALPS (CHINA)
16 ALPS (SHANGHAI) INTERNATIONAL TRADING
17 ALPS COMMUNICATION DEVICES TECHNOLOGY (SHANGHAI)
18 DALIAN ALPS ELECTRONICS
19 NINGBO ALPS ELECTRONICS
20 SHANGHAI ALPS ELECTRONICS
21 WUXI ALPS ELECTRONICS
22 TIANJIN ALPS ELECTRONICS
23 ALPS ELECTRONICS HONG KONG
24 ALPS ELECTRONICS TAIWAN

● Manufacturing and sales base ● Manufacturing base
● Sales base ● Holding company, R&D center, etc.

2 3 ALPS ELECTRIC (NORTH AMERICA), INC./ ALPS ELECTRIC (USA), INC.

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12 ALPS ELECTRIC (S), PTE. LTD.

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13 ALPS ELECTRIC (MALAYSIA) SDN. BHD.

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14 ALPS ELECTRIC KOREA CO., LTD.

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