ALPS®

www.alps.co.jp

Annual Report

For the year ended March 31, 2006

2006

ALPS ELECTRIC CO., LTD.

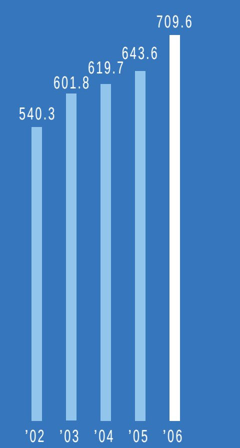
FINANCIAL HIGHLIGHTS

Years ended March 31, 2006, 2005 and 2004	Millions of yen 2006	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note) 2006	Percent change
For the year:					
Net sales	**¥ 709,613**	¥643,631	¥619,676	**$6,039,260**	10.3%
Operating income	**45,472**	31,077	36,174	**386,996**	46.3
Income before income taxes	**36,164**	33,453	33,895	**307,779**	8.1
Income taxes	**11,689**	11,090	11,293	**99,481**	5.4
Net income	**18,870**	16,315	16,943	**160,596**	15.7
Capital expenditures	**50,062**	47,128	47,149	**426,060**	6.2
At the year end:					
Current assets	**¥ 317,604**	¥310,868	¥284,242	**$2,703,013**	2.2%
Current liabilities	**203,808**	184,968	157,003	**1,734,536**	10.2
Working capital	**113,796**	125,900	127,239	**968,477**	–9.6
Stockholders' equity	**201,750**	176,908	160,000	**1,717,021**	14.0
Total assets	**543,267**	517,604	479,029	**4,623,549**	5.0

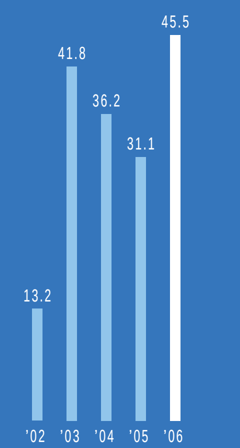
	Yen 2006	Yen 2005	Yen 2004	U.S. dollars 2006	Percent change
Amounts per share of common stock:					
Net income	**¥ 103.74**	¥ 89.72	¥ 93.27	**$ 0.88**	15.6%
Cash dividends applicable to the year	**20.00**	16.00	12.00	**0.17**	25.0
Stockholders' equity	**1,113.44**	980.01	886.08	**9.48**	13.6
Price earnings ratio (times)	**18.29**	19.03	16.40	**—**	–3.9
Price book value ratio (times)	**1.70**	1.74	1.73	**—**	–2.3

Note: For convenience only, the accompanying Japanese yen amounts for 2006 have been translated into U.S. dollars at ¥117.5 = $1.00, the exchange rate prevailing on March 31, 2006.

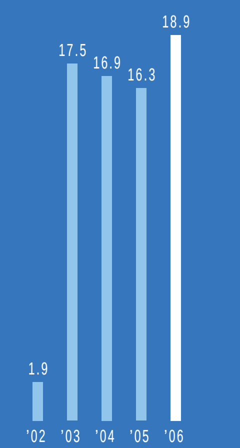
NET SALES
(Billions of ¥)



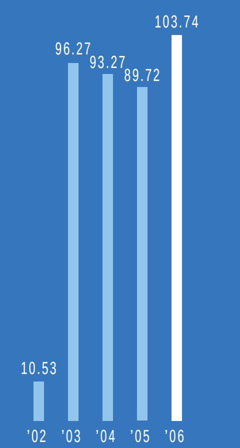
OPERATING INCOME
(Billions of ¥)



NET INCOME
(Billions of ¥)



NET INCOME PER SHARE
(¥)



Contents

Perfecting the Art of Electronics

Environmental consciousness, high performance and longevity.
The refined appearances of electronic devices come from core and proprietary technologies that are beautiful inside and out.

CONSOLIDATED RESULTS

In fiscal 2006, ended March 31, 2006, the world economy made the most of steady U.S. economic conditions centered around vigorous consumer spending and housing investment, despite damages caused by a spate of severe hurricanes and inflated crude oil prices. China also continued its rapid pace of growth led by healthy exports, while Japan began to show signs of a recovery including increases in private sector capital investment and employment rates, supported by improvements in corporate earnings.

The electronic components industry was influenced by soaring costs for raw materials on top of a decrease in prices for digital devices. Further industry growth, however, was largely prompted by the expansion of market demand for automobile and portable devices.

It was under these circumstances that Alps' consolidated net sales for fiscal 2006 rose 10.3% above those in the previous fiscal year to ¥709.6 billion. Operating income, which benefited from a reduction in fixed costs and a weak yen, surged 46.3% year on year, to ¥45.5 billion. Net income was also up 15.7% compared to the last fiscal year, to ¥18.9 billion, despite registering extraordinary losses.

Business in Alps' electronic components segment was strong overall, with sales reaching their highest levels to date. Segment operating income also exceeded that of the previous fiscal year, taking a huge leap upward.

In individual business fields, sales of magnetic devices expanded substantially as a result of large-scale, rapid growth in the market for digital devices with built-in hard disk drives (HDDs), utilizing our HDD heads. Sales in the automotive electronic business also grew for specialized products such as multifunctional steering modules in response to meet automobile manufacturer demand in line with new car sales primarily in Europe and Japan. The components business

Accelerating business structural reforms as we approach our 60th anniversary

field also saw increases in sales, particularly for switches and other such components targeting small digital devices, including mobile phones and components used increasingly in car electronics.

On the other hand, the communications business experienced a decline in sales of cable TV broadcasting tuners in the North American market, as did the peripheral products business with its color liquid crystal displays (LCDs), affected by customers switching their mobile phone models.

Sales in the audio equipment segment expanded, owing to standard installation of car navigation systems as an automobile core feature, and healthy new car sales experienced by automobile manufacturer clients.

Furthermore, as with reforms in our revenue and cost structure, we are also continuing with active investment in developing mobile and multifunctional media merchandise.

The outcome of these factors led to a mixed performance in this segment, with sales rising and operating income falling slightly due to an increase in development investment costs.

In our logistics and others segment, Alps Logistics Co., Ltd. continued with efforts to expand and ready its logistics distribution structure, while making advances in air freight business development, as exemplified by the completion of its new warehouse in the Narita International Airport area in April of last year. Furthermore, subsequent to our merger with TDK Logistics Corp. in October 2004, we have completed integration of our export distribution networks and logistics distribution bases. The advantages of this merger are beginning to take hold as resources of both companies are being utilized for business expansion.

Business performance stemming from these activities resulted in increases on the previous fiscal year in both sales and operating income in both logistics and other consolidated subsidiaries.

BUSINESS DIRECTION AND OVERSEAS DEVELOPMENT

With regard to the May announcement of our performance forecasts for the fiscal year ending March 31, 2007, we regret to anticipate severer conditions than the previous fiscal year. Our estimates reflect the December announcement of a merger between Seagate Technology LLC and Maxtor Corporation, a U.S. patron of our magnetic devices business, and whose final decision was scheduled for fall 2006 and instead concluded in May.

Alps will focus specifically on the following three markets as part of its 5th Mid-Term Business Plan, which began April 1, 2006 and which will continue until March 31, 2009. The three areas of focus are the mobile market, where mobile phones and other portable devices are becoming increasingly multifunctional, the automotive market, where progress is being made in the utilization of car electronics, and the home market, where digital devices are being applied more and more.

Furthermore, we will continue to cultivate a well-balanced business structure among our five businesses, while stepping up collaborative efforts among related divisions in order to maximize the resulting synergistic effects.

May of this year was marked by the success of the ALPS SHOW 2006, where we presented our new technologies and products. With an attendance of 7,800 people over a three-day span, we proudly drew the curtains on a triumphant event. We presented many diverse and interactive exhibits, such as proprietary product proposals aimed at Alps' three focus markets, and the evolution of our development concept, Alps' System-in-Package.

Taking this enthusiasm closer to our customers, we also conduct the Alps "Show-in-Customer," our client-based domestic and overseas "road show" where we take our new product exhibits on the road and make special presentations for individual clients. Establishing this kind of close contact with our customers is sure to create new business opportunities.

In regards to overseas business, we will work to further fortify the relationship that we've built between our domestic mother plants and our overseas affiliates. By the same token, we will also work to strengthen cooperative efforts among sales divisions, while simultaneously advancing efforts toward business expansion.

In China, where the domestic market's large appetite for electronic components continues unsatiated, Alps has progressed with production base expansion to meet local demands for electronic components. In February this year, we established our seventh production base in China, and operations at this new base, Dandong Alps Electronics, Co., Ltd., commenced in May. At

A CREW MEMBER OF SPACESHIP EARTH

Along with the rising awareness of environmental issues that encompasses air pollution and global warming, we have arrived at a time in which our world can no longer afford the inconsideration of its inhabitants, and particularly of corporations.

With "creating new values that satisfy stakeholders and are friendly to the earth" as Alps' Philosophy, we consider that the world's inhabitants, symbolically aboard a ship floating in space, must be wise and studious in preserving Spaceship Earth's limited resources.

Accordingly, Alps not only develops new and environmentally conscious technologies and products in line with its corporate activity, but it also believes in the importance of raising employees' environmental awareness, thereby resulting in energy and resource conservation practices in the home.

As part of these efforts, Alps has committed itself to the thorough implementation of "*MOTTAINAI* — respect and fulfillment" as a key concept of its 5th Mid-Term Action Policy. The notion of *MOTTAINAI* has long been a part of Japan's culture and view of nature. Furthermore it is a concept that all Japanese people can relate to. Generally, the word refers to conservation, but even more importantly, it embodies a certain essence of the Japanese culture, combining such ideas as treating things with respect, utilizing them effectively and developing a fondness for them. We believe that by taking the essence of the *MOTTAINAI* concept and sharing it with all of Alps' employees worldwide, we will be able to link it to concrete actions toward further environment preservation.

SHARING OUR CORPORATE CULTURE GLOBALLY

One of the Alps Precepts states, "We shall create top-quality products, always remembering to contribute to society." Since Alps' founding, we have based managerial operations on the philosophy that corporations should maintain a conscientious presence within society and a belief in public contribution.

This founding spirit is the origin propelling the Alps Group's corporate social responsibility (CSR) pursuits, as well as providing a basis for the development of our corporate activities. We are aware of the importance of sharing Alps' corporate philosophy on social contribution with all of our employees at all of our bases around the world along with the significance of acting as "one Alps."

Achieving smooth and effective communication across many borders, regardless of ethnicity, language, or country of domicile, along with promoting a collaborative and unique group corporate culture, defined as ALPS-ISM, are tremendously important to Alps' concept of globalization. Consistent with this belief, Alps is hosting its first Alps World event this year, the first sports event of this scale to be held in 14 years. With a planned attendance of employee participants from our bases around the world, we look forward to taking this opportunity to further deepen cultural understanding among Alps employees worldwide.

Dalian Alps Electronics Co., Ltd., which has also just completed its final phase of construction, and at other Chinese subsidiaries alike, our aim is to establish integrated manufacturing systems that cover mold fabrication, parts processing and assembly, allowing production of a variety of products within a single plant, to meet the diverse needs of our customers. All of these factors will contribute to bolstering and furthering business growth.

In fiscal 2006, Alps declared a year-end cash dividend of ¥10, for a total dividend of ¥20 for the year. For fiscal 2007, we again plan to provide a total dividend of ¥20.

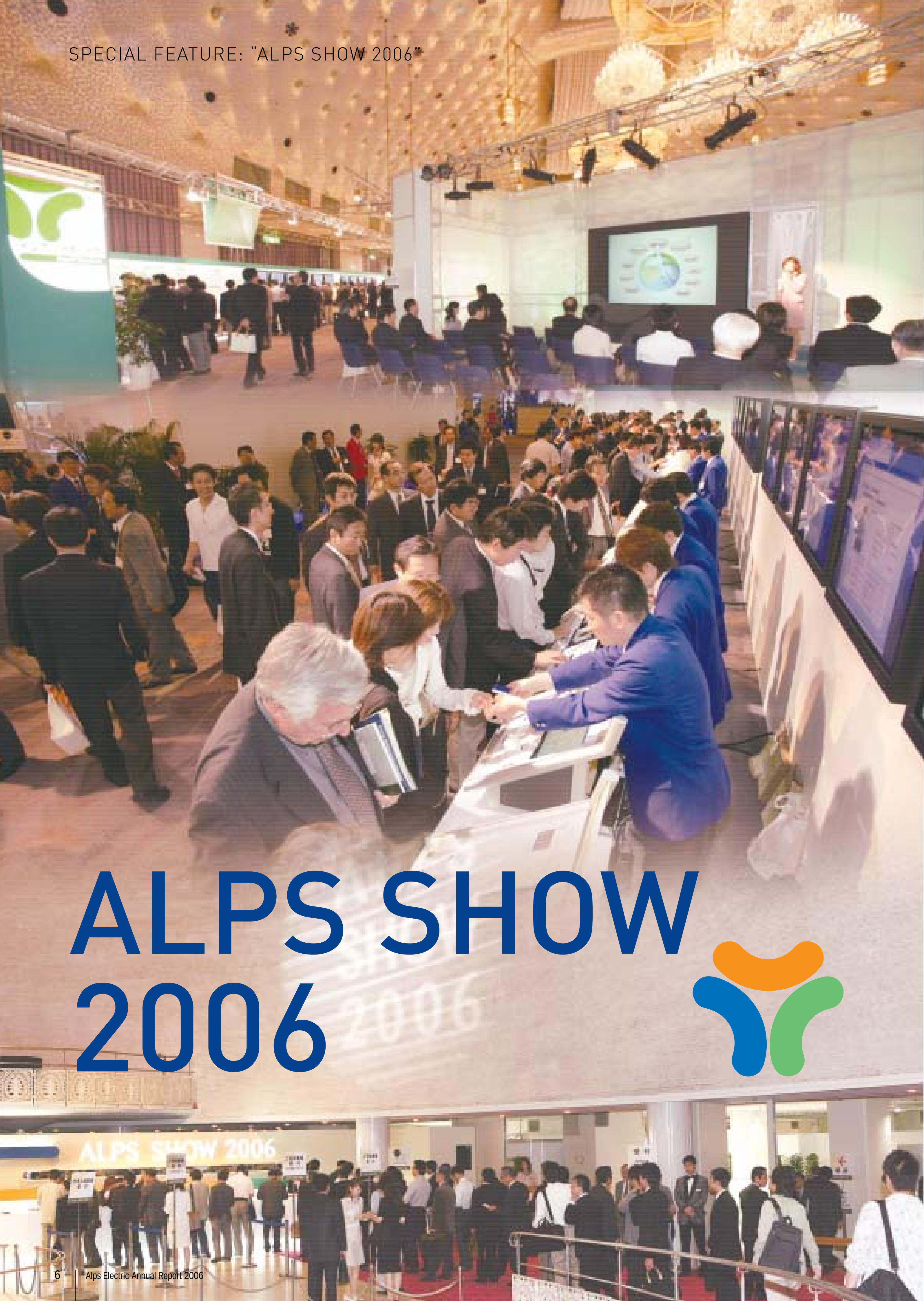
In the electronics industry, demand for increasing multifunctionality and higher performance in products such as mobile phones with cameras and TV tuners is expected to bring further expansion. In addition, many regions of the world are spurring new demand for flat-panel televisions compatible with digital terrestrial broadcasting, along with electronically equipped automobiles that contribute to safety and lower fuel consumption. The environment is, therefore, revealing definite optimism.

Still, while we are unable to predict how long conditions in the U.S. will remain favorable, and exchange rate trends remain uncertain, Alps, as a united entity, must brace itself and push vigorously onward to not only meet its expected targets but also to ensure the Company's future evolution.

In conclusion, I would like to thank our stockholders for their ongoing support and encouragement.

June 2006

Masataka Kataoka, President



ALPS SHOW 2006

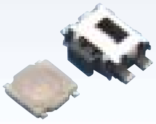
"ALPS SHOW" is a biannual exhibition of the newest products and original technologies developed by Alps.

"ALPS SHOW 2006" ran successfully for a period of 3 days, beginning on May 24.

We introduced new Alps' products and core technologies that promise greater pleasure and comfort for people and the Earth. Among the 800 exhibits on display including some 400 new products were several new technologies. The Show was a huge success, attending with some 7,800 visitors.

The Show also helped a large number of visitors to see our advanced environmental efforts and achievements by presenting a broad perspective covering our business domain—Perfecting the Art of Electronics.

INPUT DEVICES



Compact TACT Switch / Low-Profile Side-Push™ Switch
Robust switch with wide sweet spot responds to the need for smaller, thinner components.

Analog Input Device with Center Push Switch
Includes center-push and center-return functions for omni-direction analog input.

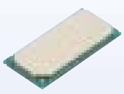
Glide Sensor™ / Touch Motion™ Sensor
Input device using electrostatic capacitance detection; positionable inside the casing.

SENSING DEVICES

Electronic Compass
The world's smallest three-axis electronic compass, with angle compensation functions that enhances layout freedom through the application of GMR.

AUTOMOTIVE

Camera for Automotive Use
Camera with wide angle lens (190°) for monitoring inside and outside vehicles.

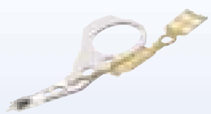


Bluetooth™ Module (All-in-One Type)
All-in-one type equipped with high performance HF and AV, and voice analog circuit for automotive audio.

HAPTIC COMMANDER™
Further miniaturization of HAPTIC COMMANDER™ for automotive use; improved operation and feel.

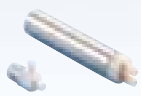
Batteryless Tire Pressure Monitoring System
System for vehicles posture control using Alps' unique devices and systems.

MAGNETIC DEVICES



TuMR Head for HDD
TuMR thin film head for achieving 160 Gb/in^2; employs Alps' unique thin film processing technology.

ACTUATOR

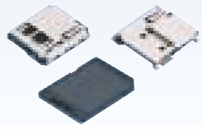


Micro-Pump / Micro-Valve
A variety of flow pumps and small volume-adjustable valves for controlling liquid and gas.

Stabilizer Module for Hand Blurring
Module integrating Alps' original shake detection sensor.

CONNECTOR

Contactor for Connecting Circuit Boards
Board to board connector employing Micro-Contact technology



Connector and Adapter for microSD™ Card
Connector and adapter with small sized and low-profile push-push ejection mechanism.

PRINTER

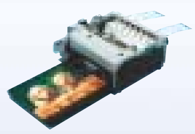
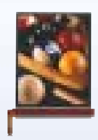


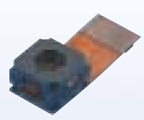
Photo Printers
Improved usability with borderless, high-speed (30 seconds) printing and increased ribbon cassette capacity.

DISPLAY DEVICES



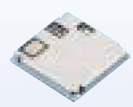
Color LCD for Mobile Phones
Optical waveguide ensures superior color reproduction and clear LCD contrast, even under sunlight.

OPTICAL DEVICES

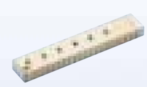


Camera Module for 3 Mpixel Auto Focus Type
Camera module with Alps' original auto focus actuator.

RF DEVICES



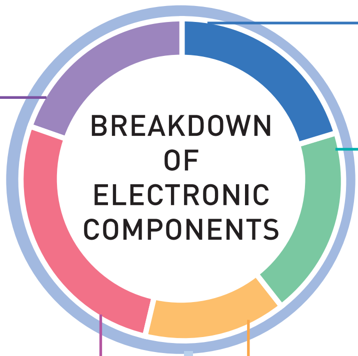
Wireless LAN Module
Small size and thinness achieved through high density and flip-chip mounting.

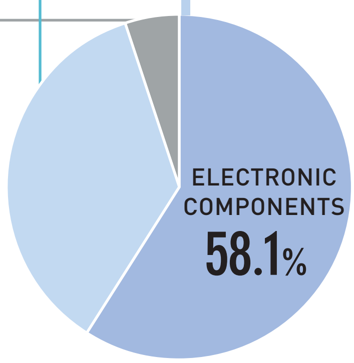


Antenna for DVB-H
Antenna in the industry's smallest class; can be installed into mobile device substrates.

TOTAL SALES FROM
ELECTRONIC COMPONENTS

¥412.6 billion





TOTAL SALES FROM
ALL PRODUCTS CATEGORIES

¥709.6 billion

	SALES BY PRODUCT CATEGORY	SHARE IN TOTAL SALES
COMPONENTS	¥83.7 billion	11.8%
MAGNETIC DEVICES	¥78.7 billion	11.1%
COMMUNICATIONS	¥58.7 billion	8.3%
PERIPHERAL PRODUCTS	¥110.1 billion	15.5%
AUTOMOTIVE ELECTRONICS	¥81.4 billion	11.4%
AUDIO EQUIPMENT	¥251.1 billion	35.4%
LOGISTICS AND OTHERS	¥45.9 billion	6.5%

KEY LINES OF BUSINESS

- Switches
- Connectors
- Potentiometers
- Encoders
- Sensors

- TuMR thin-film heads for HDDs
- GMR thin-film heads for HDDs
- Electromagnetic suppression sheets

- Tuners for digital broadcasting and broadcasting satellites
- Analog tuners for TVs
- Communication network modules
- Camera modules
- Optical communication modules

- Photo printers
- Data input devices for PCs
- Control units
- Color LCDs

- Car air conditioning panel units
- Door modules
- Steering wheel modules
- Remote keyless entry systems

ALPINE
Mobile Media Solutions

- Car audio systems
- Car AV systems
- Car navigation systems

ALPS

- General logistics services

COMPONENTS

GAIN A FIRMER FOOTHOLD IN OUR *MONOZUKURI* STRUCTURE AND LAY THE GROUNDWORK FOR THE DEVELOPMENT OF NEW PRODUCTS AND TECHNOLOGIES

FY2006 Results

Sales of switches and connectors used in mobile phones and small audio devices grew significantly owing to the widespread diffusion of such small portable devices. Additionally, sales of sensors and switches used to improve automobile safety and fuel efficiency also increased.

As a result, the components business experienced a 14.1% rise in sales to ¥83.7 billion in comparison to the previous fiscal year.

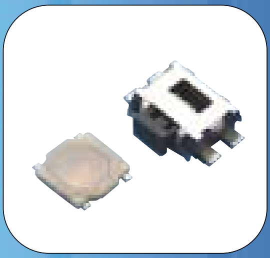
Business Outline

In its components business, Alps boasts a rich variety of products that cover various fields of the electronics industry. Alps' proprietary materials and molding technologies, along with its manufacturing technology, are amalgamated and applied to these products, and this empowers the Company to optimally respond to diversified requirements from its customers.

Alps recognizes in-house development of its own production facilities, especially in the field of molding technology, as one of its mainstay technologies. With high-end production engineering realized through such in-house development, Alps is advancing the manufacture of products full of originality and creativity. The Company is making concentrated efforts to strengthen its in-house molding development technology and know-how, while endeavoring to pass this expertise on to younger generations.

Employing leading-edge technologies such as 3D-CAD and liquidity analysis on resins used for molds, the Company is making optimal use of its fast-track precision metal engineering capabilities. Furthermore, by bringing the finishing and processing processes in-house, Alps has succeeded in manufacturing ultra-precision molding, thereby realizing high-precision products.

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

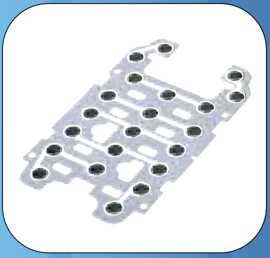


COMPACT TACT SWITCH/ LOW-PROFILE SIDE-PUSH™ SWITCH FOR MOBILE PHONES

Features: Robust switch with wide sweet spot response to the need for smaller, thinner 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.

MAGNETIC DEVICES

ACCELERATE BUSINESS STRUCTURE REFORM AND BRING DEVICE BUSINESS EVOLUTION TOGETHER

FY2006 Results

Sales of HDD heads expanded on a broad scale owing to a slight weakening of the yen compared to the previous fiscal year, as well as to the sudden growth of the market for HDD-loaded digital devices.

Sales results in the magnetic devices business amounted to ¥78.7 billion, a significant increase of 28.7% over last fiscal year's results.

Business Outline

Over the years, Alps has developed and accumulated a multitude of materials technology and precision processing engineering expertise through the production of magnetic recording heads for audio and video devices. Today, this long-nurtured technology and know-how are utilized in key devices for media storage products that are indispensable for the digital age.

With giant magneto resistive (GMR) heads as its core product, the Company is also expanding its presence in the field of HDDs that are increasingly being installed in various equipment such as personal computers, audio and video devices and car navigation systems. Looking toward the future, Alps is aiming to steadily develop the next-generation TuMR heads, while taking up the challenge of discovering new applications for magneto-resistance (MR) technology in uncultivated fields. For example, Liqualloy™—a soft magnetic glassy alloy that is drawing much industry attention these days—has been created out of the accumulated experience of research and development and production activities in relation to high-performance magnetic materials, including amorphous alloy, nanocrystalline alloy and mono- and multicrystalline ferrite.

In addition, by fully utilizing its unique materials engineering technology, Alps will aim to further raise its processing capability with regard to the application of amorphous alloy's superior soft magnetism to diversely shaped products, thereby helping to secure higher energy efficiency and reliability in electronic devices that have recently become an instrumental part of the trend toward higher frequency response devices.

TuMR THIN-FILM HEAD FOR HDDs

Features: TuMR thin film head for achieving 160 Gb/in^2 employs Alps' unique thin film processing technology.

PIEZOELECTRIC PUMP FOR LIQUID-COOLING SYSTEM

Features: Piezoelectric elements based lightweight, compact, low-profile structure. Ensuring longer service life and high reliability by our original actuator technology.

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™.

COMMUNICATIONS

REBUILD THE BASIC BUSINESS WHILE ESTABLISHING PROFIT-DRIVEN BUSINESSES

FY2006 Results

Sales of camera modules and communications modules, such as those compatible with Bluetooth™ technology used to make mobile phone hands-free communication possible, were up. Unfortunately, due to a decline in the sales of PHS modules targeting the Chinese market and cable TV broadcasting tuners for the North American market, performance fell below that of the previous fiscal year.

The result was communications business sales of ¥58.7 billion, down 7.7% compared to results in the previous fiscal year.

Business Outline

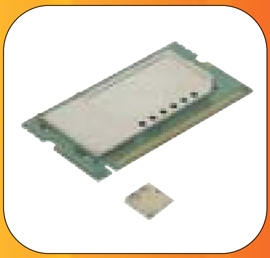
Alps is also active in the information and communications field, boasting a broad range in its product lineup. In this field today, next-generation standards and specifications are emerging in rapid succession with the advent of terrestrial digital broadcasting, still evolving and highly popular mobile phones and wireless LAN communications.

Terrestrial digital broadcasting is spreading rapidly nationwide. It allows viewers to enjoy high-quality, interactive information exchange via multiple functions. Meanwhile, mobile phones have taken root as a new personal communications tool, while wireless LAN, which enables ubiquitous access to the Internet, has also contributed to technological advancement. Under such circumstances, Alps is swiftly responding to these changes, improving its products in step with more stringent standards and specifications. Furthermore, through the development of its optical communications devices, the Company is participating in the movement toward the establishment of a future information infrastructure.

As systems involved in the use of electromagnetic waves evolve and expand, heightened demand for compatibility with even higher frequency bandwidths is accelerating the development of technology that realizes more sophisticated control of electromagnetic waves. With its thorough knowledge of various frequency bands, acquired through efforts that date back to the analog age, Alps aims to continue its development of high-quality products that are compatible with any frequency band by making full use of its proprietary technology.

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 for automobiles even when moving at high speeds.



WIRELESS LAN COMMUNICATION MODULES

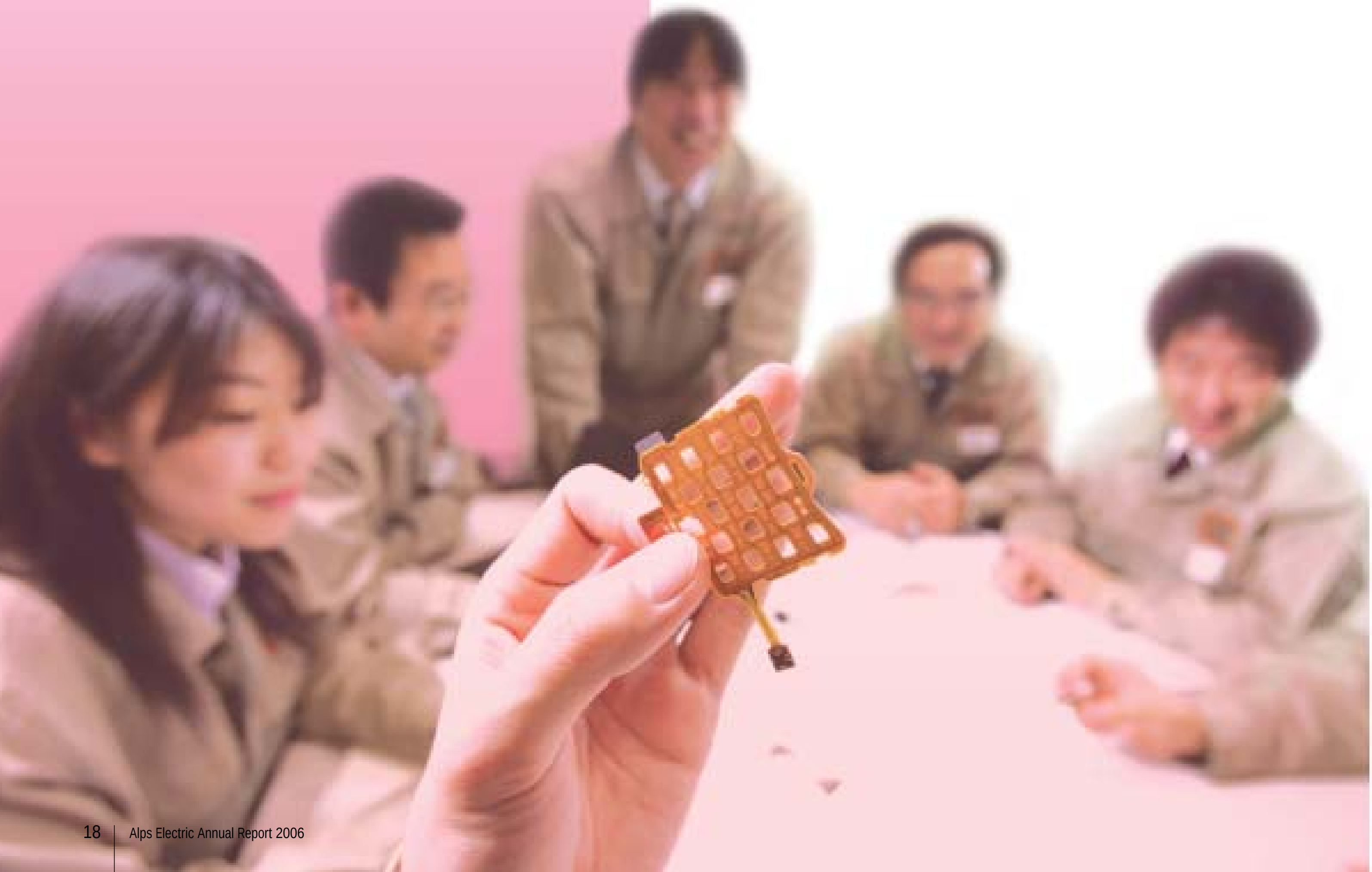
Features: Compact, low-profile achieved by adopting a highly efficient substrate and RF bare chip bonding for mobile phones. Supporting IEEE802.11a/b/g wireless LAN modes with one product for notebook PCs.

CAMERA MODULE FOR MOBILE PHONES

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.

PERIPHERAL PRODUCTS

AIM FOR BUSINESS DEVELOPMENT THAT CONTINUES TO GENERATE FORWARD-LOOKING SCHEMES



FY2006 Results

On one hand, the widespread diffusion of digital camera use overseas and domestically helped boost photo printer sales. On the other hand, sales for peripheral products suffered overall due to a sales decline in color LCDs for mobile phones, which was caused by customers switching mobile phone models. Sales therefore dropped below results of the previous fiscal year.

The outcome was a 7.9% decline compared to the previous fiscal year, amounting to a sales figure of ¥110.1 billion.

Business Outline

Combining its various proprietary technologies, Alps is constantly introducing diversified products with human-machine interfaces that support smoother interaction between people and information devices. These products include input devices that have been created by the Company's pursuit of ultimate usability through the utilization of its expert simulation technology, display-related devices that have superior display qualities and energy efficiency realized through proprietary precision processing engineering, and high-performance output devices that have been developed on the basis of the Company's world-class printer technology. Alps is also providing solutions at higher levels in responding to the increasing requests for customization through full-fledged application of its software technology, with which the Company develops device drivers in-house.

One example is Alps' GlidePoint™, which employs Alps' proprietary electrostatic capacity sensing technology. This pointing device, which is fitted on increasingly smaller and thinner notebook computers, satisfies users' demands for thinner, lighter and more compact input devices with reliable input functionalities. GlidePoint™ senses the slightest changes in electrostatic capacity that occurs when a finger of the user moves on the touchpad and converts the acquired data using Alps' unique algorithm. It is this processing capability that makes the input device a high-precision pointing device with excellent reliability.

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

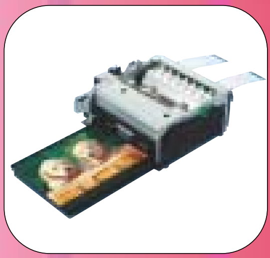


PHOTO PRINTER
Features: High-speed printing achieved by compact mechanism. Borderless printing with high-resolution photographic quality. Overcoat finish makes prints as durable as conventional prints.

ILLUMINATED GLIDE POINT™
Features: Multifunctional, illuminated touchpad capabilities. Advanced pointing mechanism and electrostatic sensing provides ease of use and accuracy.

AUTOMOTIVE ELECTRONICS

GENERATION OF NEW PRODUCTS AND TECHNOLOGIES AND REFORMATION FOR A SUSTAINABLE PROFIT STRUCTURE

FY2006 Results

Despite the incidence of a particular automobile-related manufacturer filing for bankruptcy in North America, new car sales—centered around automobile manufacturers in Japan and Europe—were bullish. On the back of these sales, Alps' sales of special-feature products such as steering and door modules, able to respond to demands for multifunctionalization, increased. These factors, along with a weakened yen, contributed to an overall expansion of sales in this business sector.

In the end, automotive electronics sales amounted to ¥81.4 billion, a 17.3% rise over performance in the previous fiscal year.

Business Outline

Alps has established secure partnerships with domestic and overseas automobile manufacturers through the provision of devices and systems that demonstrate safe and easy operability, ultimate precision and high reliability. The automobile industry is currently going through a transitional phase accompanied by many innovations. These include digitalization in the move toward an intelligent transport system (ITS) society, increased applications of electronic control for Drive By Wire (DBW), and technological advances aimed at minimizing the environmental burden.

By fully demonstrating its collective strengths nurtured through the research and development, engineering and production of various electronic components, the Company is providing the automotive products market with sensors, tuners and communications modules. The sensors are being developed based on advanced technologies honed through the components business, while the tuners and communications modules are being manufactured utilizing the Company's high-frequency wave technologies cultivated through the communications business. Through these efforts, Alps is responding to wide-ranging requirements from the automotive industry.

HAPTIC COMMANDER™
Features: Programmable force feedback device. Various force patterns are stored in the device that are called by program in any combination.

Touchsense Technology™
Licensed by Immersion Corporation

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 this battery-less transponder contributed to the realization of an unlimited lifespan.

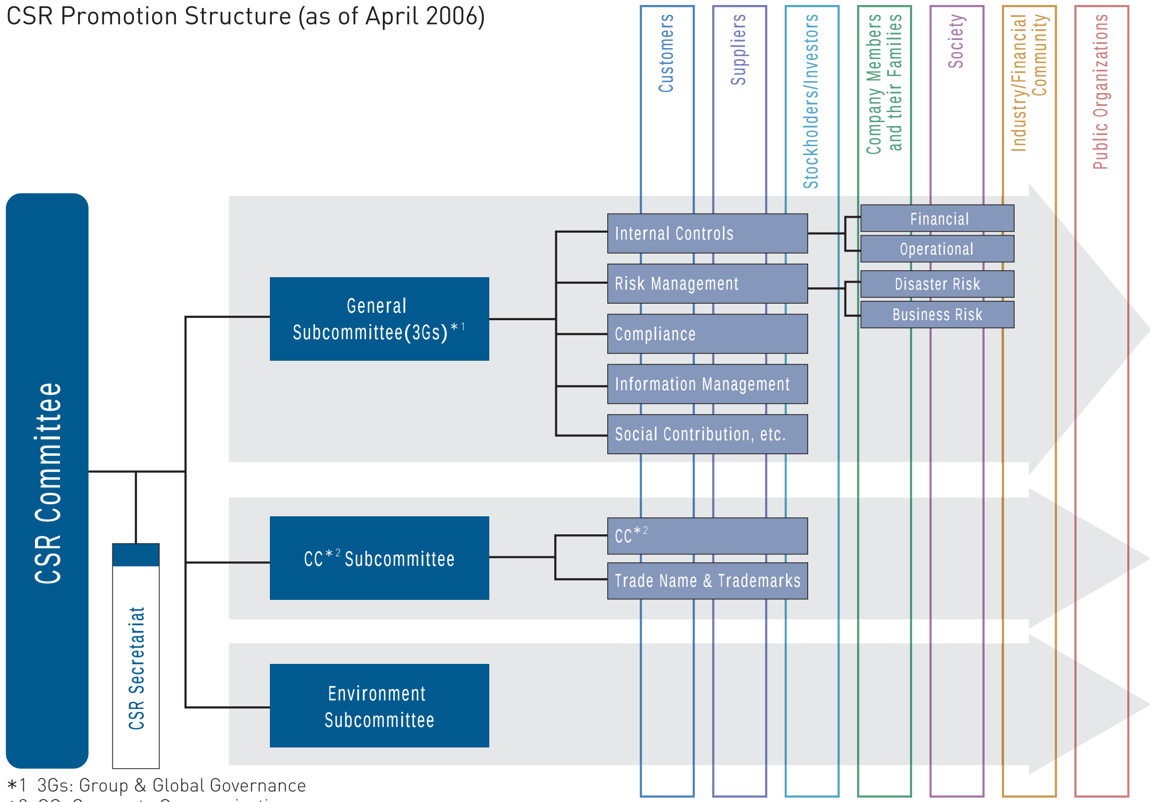
CSR MANAGEMENT

The 2006—2008 CSR Mid-Term Plan is the initial step for Alps Electric Group's CSR campaign. The plan was drawn up through discussions held by a working group composed of 20 representatives from CSR-related departments. From the perspective of all stakeholders' expectations, we analyzed the current business practices of the company, and consequently decided to prioritize areas that did not fulfill these expectations. We set three year targets for the plan, aiming to achieve fulfillment in all areas. Every individual employee from corporate and all other departments will play their part in promoting Alps' CSR based upon this Mid-Term Plan.

CSR Promotion Structure

The Risk Management & Compliance (RC) Committee, which was composed of four subcommittees — the Compliance, Risk Management, Information Management, and Corporate Communication (CC) Subcommittees, was active until April 2006 when the committee was newly reorganized to form the CSR Committee. This new committee is expected to play a central role in CSR management and is composed of three subcommittees — the General (3Gs: Group & Global Governance), CC, and Environment Subcommittees, which have been embodied with the added functions of environmental preservation, social contribution and internal controls. Under the new administration, Alps seeks to promote comprehensive and effective CSR initiatives both globally and across the entire Group.

CSR Promotion Structure (as of April 2006)

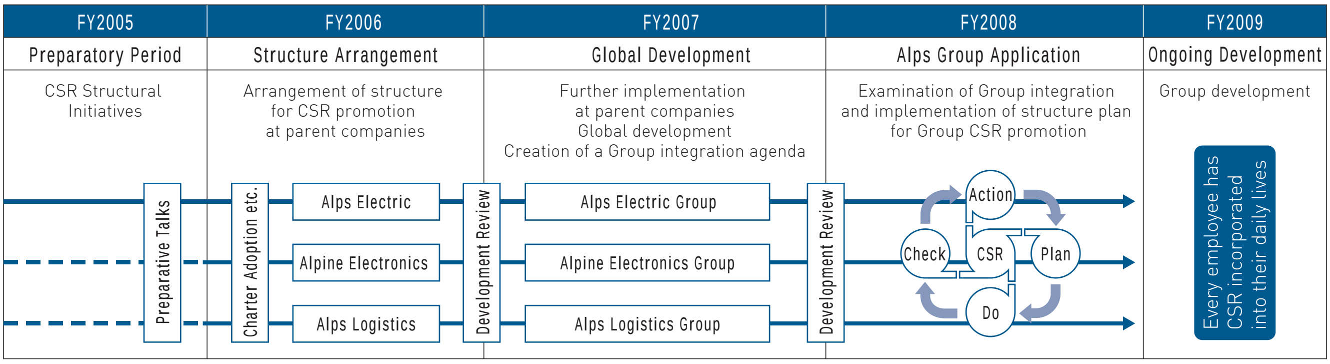


*1 3Gs: Group & Global Governance
*2 CC: Corporate Communication

General Subcommittee (3Gs)*1	In order to promote CSR initiatives in a prompt and integrated way, this subcommittee tackles themes other than those dealt with by the CC and Environment Subcommittees. In addition, the General Subcommittee also coordinates and cooperates with other Group companies including Alpine Electronics and Alps Logistics for themes such as internal controls, etc. that require Group consistency, hence, strengthening group and global governance.
CC*2 Subcommittee	This subcommittee plans and creates corporate messages that are disseminated both internally and externally, and now include CSR activity. It also has a role in implementing communication measures to disseminate a favorable corporate image and to obtain reliance and trust.
Environment Subcommittee	This subcommittee is in charge of deliberating and examining company-wide policies that involve environmental management.
CSR Secretariat	The secretariat plans and promotes company-wide policies and strategies for CSR activities, while establishing CSR management structure. In addition, it serves as an information desk, responding to both internal and external CSR inquiries, while planning and promoting CSR educational and developmental programs.

CSR Mid-Term Basic Policy of the Alps Group

With fiscal 2006 as our CSR campaign's year of inception, and with focusing on group and global governance, the Alps Group aims to establish a CSR structure throughout the electronic components, audio equipment and logistics business areas by fiscal 2008.



Alps Electric Global 2006—2008 CSR Mid-Term Plan

Management Goals		1. Reorganize the RC Committee into the CSR Committee, made up of three subcommittees: the General Subcommittee (3Gs), CC Subcommittee and Environment Subcommittee, and establish a secretariat for CSR promotion. 2. Appoint a CSR officer at each business location in Japan and overseas, and establish a group and global CSR management system. 3. Plan and promote educational and developmental programs for CSR to be incorporated into the daily lives of every employee.
Social Goals (for stakeholders)	Customers	1. Establish a Group CSR system enabling flexible and prompt response to increased and diverse CSR needs and procurement requirements from customers; and establish a concurrent framework for accurate response to CSR surveys and audits. 2. Enable response to a wide range of questions from customers concerning PDCA performance of our CSR system covering the electronic components business area.
	Suppliers	1. Create a guidebook for CSR infiltration. 2. Encourage CSR of suppliers through ascertaining their performance according to the above guidebook.
	Stockholders/ Investors	Provide clear and satisfying PR and information disclosure services to stockholders and investors in Japan and overseas.
	Company Members and their Families	Overseas locations are particularly targeted for the following goals: 1. Ascertain working environment conditions as the first step and establish standards necessary for relative human resource management. 2. Discuss working environments of cooperating company employees and establish rules to maintain conditions.
	Society	1. Ascertain how global business locations are communicating with their local communities. 2. Set policies and goals for each business location and promote them. 3. Communicate Alps' CSR initiatives to all stakeholders.
	Industry/ Financial Community	Contribute to the continuous development of CSR in the electronic devices industry.
	Public Organizations	Contribute to the continuous development of CSR through cooperation with public organizations.
Environmental Goals		The following environmental goals are set to realize an environmental management system: 1. Work on establishing a global environmental management system. 2. Familiarize our personnel in the electronic components business area with the 5th Medium-Term Action Plan for Environmental Preservation (FY2006—FY2008), and establish and promote plans for each business location accordingly. For further information, see the 5th Medium-Term Action Plan for Environmental Preservation (FY2006—FY2008)

Note: Each fiscal year identified on pages 22 through 29 is for the year ended March 31 of the following year.

TRUSTWORTHY MANAGEMENT AND ITS STRUCTURE

In striving to fulfill our own corporate social responsibility, the Alps Group originates its Group management style from its founding spirit — the Alps Precepts — and seeks to develop and strengthen this management structure to ensure sound and efficient corporate activities throughout the entire Group.

Alps Group Management

The Alps Group deals in three main lines of business: electronic components, audio equipment and logistics. A parent company exists for each business: Alps Electric Co., Ltd. for electronic components, Alpine Electronics, Inc. for audio equipment, and Alps Logistics Co., Ltd. for logistics. In addition, Alps Electric serves as the headquarters of the entire Alps Group.

With our founding spirit (Alps Precepts) as the foundation of Group management and the CSR campaign, we at the Alps Group established a management paradigm in May 2006 based on Alps Group Management Regulations, the Group Compliance Charter and the Group Environmental Charter, thereby seeking to develop and strengthen our management structure throughout the Group organization.

Approach to Global Governance

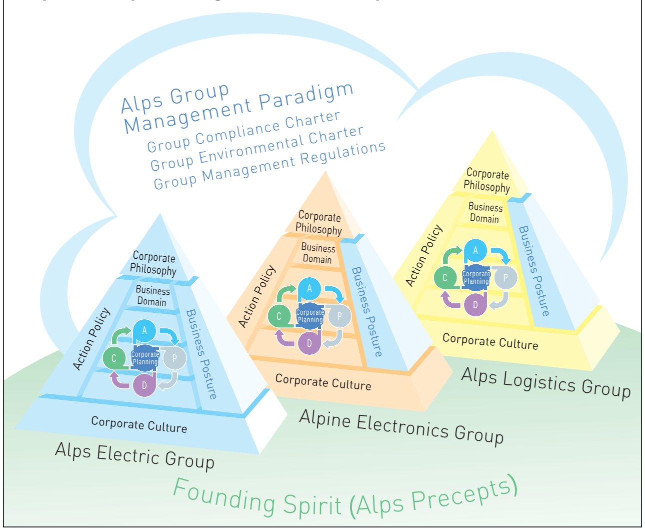
As stipulated in Group regulations, the Board of Directors at Alps Electric, which serves as the headquarters for the Alps Group, deliberates and reports on important matters concerning Group companies. The Compliance Office examines their legality, and the Corporate Accounting Department assesses investment/loan strategies and performance. In addition, collaboration with auditors is strengthened and audited information is shared through the Group Auditors Liaison Committee.

Corporate Governance Structure

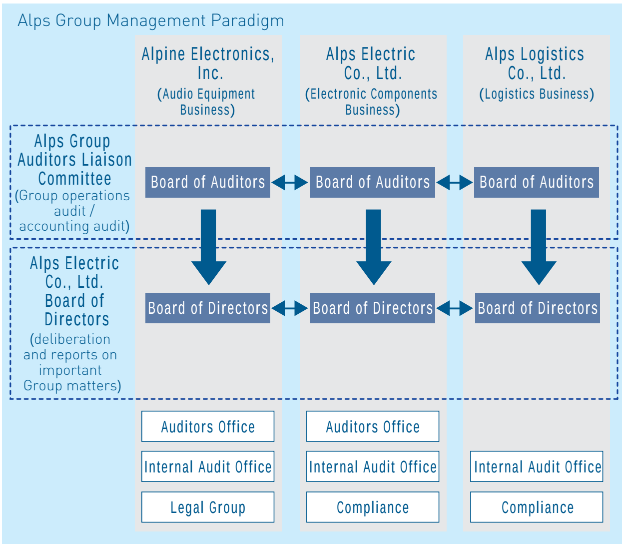
Alps Electric seeks to develop and strengthen its corporate governance by ensuring sound and efficient management through a corporate auditor system.

In April 2006, we reorganized the Risk Management and Compliance (RC) Committee to form the CSR Committee so that we could comprehensively promote CSR initiatives throughout the Alps Group.

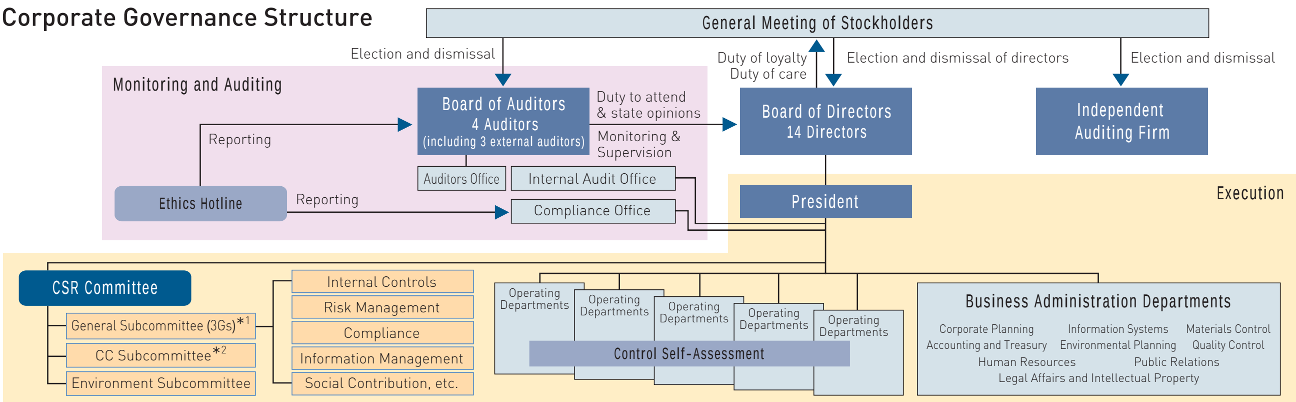
Alps Group Management Concept



Alps Group Internal Controls



Corporate Governance Structure



*1 3Gs: Group & Global Governance *2 CC: Corporate Communication

Initiatives in Compliance

Alps Electric has made the Compliance Office independent from the other existing business administration organizations. The office is in charge of developing regulations and promoting educational programs relating to compliance with laws and corporate ethics, as well as monitoring operations.

In addition, Alps is promoting management based upon Group and global compliance through appointing compliance officers at each of its regional core companies in North America, Europe, and China. These officers coordinate systems for regional compliance while being in liaison with the Compliance Office at headquarters.

In fiscal 2005 Alps established the Alps Group Compliance Charter, enabling globalization of its original Compliance Charter. This Group charter was signed by the President of Alps and representatives from overseas affiliates in the electronic components business, enabling global unification of Alps' fundamental approach to compliance. Moreover, an internal report system (Ethics Hotline) was set up, which assists in prevention, early detection and correction of violations of corporate ethics, regulations and legislation.

Educational programs for compliance include workshops for new employees, current and future managers, and overseas affiliate-bound employees. Such educational programs will continue to be strengthened and developed with full use of e-learning and the Company's intranet.

Alps Group Compliance Charter

Fundamental Philosophy

As a member of the global community, Alps is committed to displaying fairness in its corporate activities, as well as to taking responsible and sensible action, in order that Alps may continue to develop with society while making a valuable social contribution.

Initiatives in Risk Management

Until fiscal 2005 decisions on basic policies and important matters related to risk management and compliance were made by the Risk Management and Compliance (RC) Committee. In fiscal 2006 however, we reorganized the committee into the CSR Committee and accordingly risk management initiatives are now formulated by the General Subcommittee (group and global governance).

Learning from experiences suffered at the Nagaoka and Koide Plants caused by the Mid-Niigata Prefecture earthquake in 2004, we developed and strengthened our risk management system in fiscal 2005 enabling swifter action in the event of a disaster. As part of those activities, under the supervision of the RC Committee's Risk Management Subcommittee, we reviewed the company-wide standardized risk management manual and created individual manuals for business locations according to their individual conditions. In addition, individuals are now pre-assigned with certain roles to carry out in the time of disaster, composing a crisis management system that is always prepared.

Practical disaster response drills using mobile phone text messaging and e-mail to confirm employee safety etc. comprise further preparatory efforts for fiscal 2006.

Overseas business locations are also preparing risk management procedures and guidelines to respond to the type of disasters expected in their areas.

In terms of BCM*, we aim to perform a comprehensive examination of not only disaster risk, but also business-related risk, and will work toward a risk management system that is fully integrated company-wide.

* BCM: Business Continuity Management (a method of risk management that involves specifying essential business that at the very least must still continue even in the case of a disaster or emergency situation; and preparing for such an eventuality in advance)

Initiatives in Information Management

Regulations for information management were established at Alps Electric in fiscal 2005. We defined information confidentiality levels, and according to document type, stipulated managing departments, storage periods, and ranges of disclosure and distribution for corresponding documents. To this end, we have also assigned an information management officer at each department. This system is fully underway in fiscal 2006. We are also reinforcing information security measures to prevent information leaks and other accidents by strengthening authentication procedures for intranet access from employees' computers, and requiring users to pre-register their names when planning to use their computers outside the company.

FISCAL 2005 PLAN AND RESULTS

This report presents the fiscal 2005 results of the 4th Medium-Term Voluntary Action Plan for Environmental Protection.

Report on the 4th Medium-Term Voluntary Action Plan for Environmental Protection

In fiscal 2002 Alps Electric formulated its 4th Medium-Term Voluntary Action Plan for Environmental Protection, which covered the 2003—2005 fiscal years and mainly domestic business locations. This plan set concrete, numerical targets for continuous reduction of greenhouse gases and waste.

By fiscal 2005, the plan's final year, we had achieved all of our targets, with the exception of specific CO_2 emission-reducing goals. With Alps Electric (UK)'s acquisition of ISO 14001 certification in the same year, all of our production facilities around the world are now certified — a goal we had been working toward since 1995.

Environmental initiatives in relation to products include green procurement, an initiative involving steady

The 4th Medium-Term Voluntary Action Plan for Environmental Protection and Fiscal 2005 Results

Objectives		Action Targets (FY2003-FY2005)
Management Develop an appropriate organizational structure to achieve effective environmental management while fostering environmental awareness among all employees	Environmental management system	1. Acquirement of ISO 14001 certification at overseas production- based facilities 2. Promotion of information exchange with overseas operations
	Environmental communication (external)	1. Periodical publication of environmental reports 2. Information distribution via the internet
	Environmental education	Enhancement of environmental education programs for managers/engineers
	Environmental accounting	Establishment of environmental accounting
Environmental initiatives through our products Reduce the environmental impact of products through environmentally conscious design and development	Design for the environment	1. Promotion of environmentally conscious design and development 2. Development of a chemical substance database
	Reduction of hazardous substances	1. Total elimination of banned substances Completely eliminate the use of lead, cadmium and hexavalent chromium by the end of 2004 2. Reduction of restricted substances
	Green procurement	Prioritizing purchases from environmentally conscious suppliers
Environmental initiatives at production bases Reduce the environmental impact of production processes 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[1] by 20% of FY2001 level 2. Reduction of greenhouse gas (other than CO_2) emissions Reduce the use of PFCs and HFCs[2] by 60% from FY1998 level by the end of FY2010
	Recycling	1. Complete achievement of zero-emissions Completely achieve zero-emissions by FY2004 2. Reduction of total waste volume Reduce waste per unit of FY2005 output[1] by 20% of FY2001 level
	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[3] by the end of 2003
	Green purchasing	Promotion of green purchasing for office supplies and company-owned cars
	Logistics	Promotion of environmentally conscious logistics
	Social contribution activities	Promotion of activities in society supporting environmental protection

Notes: 1. Amount per unit of output: value obtained 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

progression of supplier evaluation, and the daily updating and expansion of our Database for Chemical Substance Management. In addition, we have begun life cycle assessment (LCA) trials.

We have also made progress in global warming prevention through initiatives at production bases. However, we did not achieve our target for reduction of CO_2 emissions due to the increase of energy-intensive facilities such as clean rooms at these bases. We reached our total emission targets of greenhouse gases (PFCs) reduction, as well as with total discharged waste.

The table below summarizes our fiscal 2005 results and our assessments of them.

FY2005 Results	FY2005 Self-Evaluation
1. One overseas base newly acquired ISO 14001 certification. Alps Electric (UK) (November 2005) All 13 production-based facilities have now been certified. 2. E-mail used to exchange information with production bases	✓ ✓
1. Social & Environmental Report published (June 2005) 2. Relative information posted on the website	✓ ✓
Held chemical control study sessions (Japan)	✓
Aggregated costs and effects	✓
1. Continuous product assessment, and LCA trials 2. Database for Chemical Substance Management in full operation (since October 2003)	✓ ✓
Successfully abolished all use of lead, cadmium and hexavalent chromium	✓
Implemented supplier evaluations and training sessions for overseas suppliers	✓
1. CO_2 emissions per unit output: 42.1t/100 million yen 12.9% reduction from FY2001 level (improvement) 5.1% reduction from FY2004 level (improvement) 2. PFC/HFC purchases (GWP[4] conversion bases) per unit output: 19,887t 78.7% reduction from FY1998 level (improvement) 43.2% reduction from FY2004 level (improvement)	× ✓
1. Zero-emissions achieved domestically (March 2004) 2. Waste emissions per unit output: 3.94t/100 million yen 20.5% reduction from FY2001 level (improvement) 5.2% reduction from FY2004 level (improvement)	✓ ✓
1. Ascertained emergency risks, installed leakage preventative equipment and implemented training 2. HCFC purchases: 0t (Completely eliminated usage in December 2003)	✓ ✓
Commenced green purchasing of office supplies for headquarters area and all divisions	✓
Reduced hazardous substances in packaging materials and made shipping systems more efficient	✓
Performed cleanups around various production/business locations	✓

Self-evaluation
✓ : Achieved
× : Not yet achieved

THE 5TH MEDIUM-TERM ACTION PLAN FOR ENVIRONMENTAL PRESERVATION

We have formulated the 5th Medium-Term Action Plan for Environmental Preservation for the fiscal 2006—2008 period in order to actualize environmental management.

Formulating the 5th Medium-Term Action Plan for Environmental Preservation

For the new plan beginning in fiscal 2006, we aim to strengthen collaboration with overseas production bases in order to establish a global management system, and also to reorganize our environmental education system so that environmental awareness is enhanced among employees. This 5th plan is a series progression from the 4th plan described on pp. 26-27.

We plan to totally eliminate greenhouse gases other than CO_2, which are used in our production processes, by fiscal 2010. In addition, the new plan includes reducing volatile organic compounds, and life cycle assessment (LCA) trials for quantitatively ascertaining the impact that products have on the environment.

The 5th Medium-Term Action Plan for Environmental Preservation

Objective		Action Targets (FY2006-FY2008)
Management Develop an appropriate organizational structure to achieve effective environmental management while fostering environmental awareness among all employees	Environmental management system	Strengthen collaboration with overseas production bases
	Environmental communication	1. Publish periodical environmental reports 2. Distribute information via the internet
	Environmental education	1. Promote organized environmental education 2. Promote educational activities related to the home environment
	Environmental accounting	Further environmental accounting
Environmental initiatives through our products Reduce the environmental impact of products through environmentally conscious design and development	Design for the environment	1. Promote environmentally conscious design and development 2. Perform LCA trials
	Reduction of hazardous substances	1. Maintain non-use of banned substances 2. Reduce environmentally hazardous substances
	Green procurement	Propagate green procurement
Environmental initiatives in our plants and offices Reduce the environmental impact of production processes and office operation	Prevention of global warming	1. Reduce CO_2 emissions Reduce FY2010 CO_2 emissions from energy consumption per unit of output[1] by 15% of FY2004 level 2. Reduce greenhouse gas (apart from CO_2) emissions Abolish the use of PFCs and HFCs[2] (for production) by the end of FY2010
	Recycling	1. Maintain and improve zero-emissions performance 2. Reduce total waste volumes Reduce total waste per unit of FY2008 output[1] by 15% of FY2004 level 3. Reduce paper use Reduce FY2008 paper use by 20% of FY2004 level
	Management and reduction of chemical substances	1. Perform appropriate management of chemical substances Reduce contamination risk by promoting appropriate management of chemical substances at production facilities including overseas locations 2. Reduce VOC emission volumes Reduce FY2010 VOC[3] emissions by 30% of FY2000 level
	Green purchasing	Promote green purchasing for office supplies and company-owned cars
	Logistics	Promote environmentally conscious logistics
	Greening	Promote greening campaigns
	Social contribution activities	Promote activities that contribute to the social wellbeing of local communities

Notes: 1. Amount per unit of output: value obtained by dividing the amount of CO_2 emissions or waste emissions by the value of production
2. PFCs and HFCs: perfluorocarbons and hydrofluorocarbons
3. VOC: volatile organic compound that is required to be reduced on a voluntary basis pursuant to the Air Pollution Control Act

Overseas production bases are making advances in quantifying environmental impact in conjunction with global expansion of our operations.

Material Balance

Alps Electric has been providing overseas-inclusive material balance (input and output) reports since fiscal 2003. However, quantitative data from overseas has taken longer to obtain due to differences in laws and environmental assessment procedures. Overseas data is consequently presented as an independent category from the domestic information, of which we have a comprehensive understanding. The environmental impact generated by our overseas activities becomes more significant as we expand abroad. In light of this, we will continue our efforts in reducing environmental impact by increasing the range of categories for which we collect and utilize this data.

INPUT

Electrical energy (thousand kWh)	Japan	176,070
	Overseas	161,560
Fuel (crude-oil equivalent: kl)	Japan	9,995
	Overseas	1,972
Mains water supply (t)	Japan	843,823
	Overseas	1,461,718
Groundwater (t)		1,615,834

Overseas groundwater is not included.

Electrical & non-mechanical parts (semiconductors, etc.)
Mechanical parts (molded parts, etc.)
Raw materials (metals, plastics, etc.)

Alps Electric Global

Japan (11 facilities)

- Mechatronic Devices Division
- Magnetic Devices Division
- Communication Devices Division
- Peripheral Products Division
- Automotive Products Division
- Others

Overseas (13 facilities)

- America (1 facility)
- Europe (4 facilities)
- ASEAN/Korea (3 facilities)
- Greater China (5 facilities)

OUTPUT

Products: Components for TVs, computers, printers, cameras, mobile phones, automobiles, etc.

Total waste volumes (t)	Japan	10,090
	Overseas	11,147
Exhaust emissions released into the atmosphere (t)	CO_2	100,589
	NO_x	218
	SO_x	79
Discharge to bodies of water (t)		769,765

Emissions from overseas facilities are not included.

Discharge from overseas facilities is not included.

Environmental Accounting

Alps Electric introduced its environmental accounting system in fiscal 2000 in accordance with the Ministry of the Environment guidelines, to monitor its environmental costs and associated economic benefits.

The investments and expenditures for fiscal 2005 environmental costs[1] exceeded those of the previous year's due to the implementation of bioremediation for treating soil and groundwater.

The economic benefits[2] derived in fiscal 2005 increased from those in fiscal 2004 due to higher profit from sales of materials as a result of increased production.

Alps Electric

FY2005 Environmental Costs

(Unit: Million yen)

Classification	Main Objective	Investment[3] (FY2004)	Cost[4] (FY2004)
Operation costs	Pollution prevention, recycling of waste products	243.6 (216.3)	518.0 (537.3)
Upstream and downstream production costs	Green procurement, Database for Chemical Substance Management	2.5 (12.2)	158.1 (135.2)
Administration costs	ISO 14001 certification maintenance	6.5 (0.0)	141.9 (131.3)
R&D costs	Developing lead-free products	0.0 (10.0)	12.3 (32.3)
Social contribution costs	Community cleanup activities	13.6 (0.0)	25.3 (11.4)
Cost of restoring the environment after damage	Groundwater remediation	126.0 (12.0)	517.5 (180.0)
Other costs	–	0.0 (0.0)	0.0 (0.0)
Total		392.2 (250.4)	1,373.1 (1,027.6)

FY2005 Economic Benefits from Environmental Preservation Measures

(Unit: Million yen)

Classification	Value (FY2004)
Profit on material sales	1,589.3 (1,163.0)
Cost reduction as a result of energy saving	48.5 (49.4)
Total	1,637.8 (1,212.3)

Notes:
1. Environmental costs comprise all investments and expenses incurred solely for environment preservation purposes. They do not include partially related expenses.
2. Economic benefits include sales of wastes that have been separated, recycled and recovered, as well as electric, fuel and other cost savings resulting from energy conservation. Economic benefits do not include deemed benefits.
3. Investment comprises both capital investment and leasing expense totals.
4. Costs include maintenance administration and depreciation expenses, as well as lease costs for the relevant fiscal year.

ALPINE
Mobile Media Solutions

ALPINE ELECTRONICS, INC.

FY2006 Results

Established in 1967, Alpine Electronics, Inc. (Alpine) is a mobile electronics manufacturer. Core businesses include automotive audio products, information and communications equipment.

In the fiscal year ended March 31, 2006, Alpine's automotive audio business took part in exhibitions both in Japan and overseas showcasing its technologies to principal customers in an effort to secure new orders. By participating in the Consumer Electronics Show, Alpine is working to increase brand awareness and expand sales.

In addition, Alpine actively invested in the development of new products, targeting the mobile multimedia market, where significant growth is expected. Complementing these efforts, Alpine implemented Group-wide initiatives with the aim of reforming its earnings and cost structure.

As a result, consolidated net sales of Alpine rose 15.7% from the previous year to ¥251.1 billion and operating income dropped 4.7% to ¥9.7 billion.

For Future Growth

In an effort to become a mobile media solutions company that creates future value through the next decade to 2015, Alpine is formulating mid-term management policies that emphasize creativity, passion and challenge in the manufacturing process, and strive to create industry-leading products under a low cost structure.

To achieve these mid-term management policies, Alpine is promoting measures based on the following strategies in order to expand corporate value, cultivate new business fields, strengthen operations and enhance earnings.

1) Alpine aims to establish a business foundation by promoting the development of advanced technologies and large-scale system products while further polishing its core technologies through aggressive R&D investment in the information communications equipment market, which is expanding in scale.

2) Alpine aims to strengthen price competitiveness by promoting a fully integrated production structure, from local component procurement to component processing and finished products, at its global manufacturing bases, while striving to reform its product design systems to secure unrivalled product quality in response to intensifying price competition.

3) Alpine is making every effort to reform its earnings and cost structure as well as improve customer satisfaction by expanding its four-point global business structure in Japan, the U.S., Europe and Asia in terms of sales, procurement, production and development.

Alpine Products
Above: CDA-9857Ji/DVA-9861Ji
CD and DVD units, featuring Alpine's iPod® Link system, offer total enjoyment of state-of-the-art media.

Below: Blackbird
A portable navigation system marketed in North America, boasting innovative design and superior operability.

ALPS LOGISTICS CO., LTD.

FY2006 Results

Established in 1964, Alps Logistics Co., Ltd. is a specialized, total logistics company.

In the domestic logistics business, Alps Logistics has promoted sales expansion activities in the electronic component logistics field, taking advantage of the ongoing growth trends in the electronic components manufacturing industry. The sales increase due to expanded logistics and warehousing businesses resulting from the merger with TDK Logistics also had a positive impact on the total sales in this field.

In the international logistics business, Alps Logistics advanced its sales expansion activities through the upgrading of its global distribution network, initiatives for which included the establishment of a new sales base near Narita international airport.

Through its customer-needs-oriented sales expansion activities in Japan and overseas, sales in the materials sales business also expanded, primarily in China.

As a result, sales in logistics and others rose 16.1% year on year, reaching ¥45.9 billion, and operating income rose 18.0% to ¥6.8 billion.

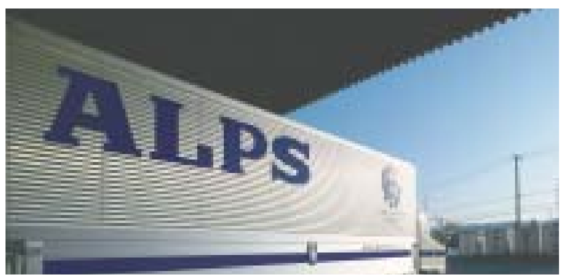
For Future Growth

Alps Logistics' mid-term basic policy is to "expand the scope of business through the global development of its total logistics business specializing in the electronic components field."

Alps Logistics aims to create brand-new distribution services by further reinforcing the capabilities of Alps Logistics' employees at the frontlines, developing unique distribution products that embody the distribution technologies and know-how accumulated within, and by streamlining and expanding its global distribution network. With these initiatives as a base of its operations, Alps Logistics will accelerate its sales expansion activities based on the concepts of "customer-oriented" and "marketing-driven" operations, thereby targeting sales growth. To this end, Alps Logistics will nurture and manage its human resources with a forward-looking attitude.

In the consumer logistics field, Alps Logistics looks toward the future, by streamlining and maximizing its domestic distribution structure, providing high-quality logistics services.

On October 1, 2004, Alps Logistics merged with TDK Logistics. By expanding our base cargo operations, we have stabilized our business base and strengthened our business structure. Through the improved efficiency and reinforced competitiveness that come with the enlarged scale of our business activities, we have established new parameters for further growth.



SIX-YEAR FINANCIAL SUMMARY

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2006, 2005, 2004, 2003, 2002 and 2001

	Millions of yen, except for per share data					
	2006	2005	2004	2003	2002	2001
For the years ended March 31:						
Net sales	¥709,613	¥643,631	¥619,676	¥601,816	¥540,268	¥573,064
(Overseas sales)	544,063	479,715	460,641	439,387	382,252	373,883
Cost of sales	581,016	529,561	502,359	477,995	451,210	476,910
SG&A expenses	83,125	82,993	81,143	82,008	75,809	71,600
Operating income	45,472	31,077	36,174	41,813	13,249	24,554
Income before income taxes	36,164	33,453	33,895	35,153	8,695	24,931
Income taxes	11,689	11,090	11,293	12,535	3,415	4,210
Net income	18,870	16,315	16,943	17,513	1,902	18,111
Cash flows (*1)	52,058	54,940	47,321	45,466	33,197	46,860
Amounts per share of common stock:						
Net income (*2)	¥ 103.74	¥ 89.72	¥ 93.27	¥ 96.27	¥ 10.53	¥ 100.21
Cash dividends applicable to the year	20.00	16.00	12.00	12.00	5.00	12.00
As of March 31:						
Current assets	¥317,604	¥310,868	¥284,242	¥298,845	¥293,636	¥289,283
Current liabilities	203,808	184,968	157,003	202,764	190,878	230,288
Working capital	113,796	125,900	127,239	96,081	102,758	58,995
Long-term debt	41,561	74,882	90,261	62,415	87,851	54,789
Stockholders' equity	201,750	176,908	160,000	148,881	137,513	131,901
Total assets	543,267	517,604	479,029	480,914	484,831	479,032
Sales by product category (*3):						
Electronic components:	¥412,561	¥386,995	¥375,746	¥348,688	¥317,342	¥367,595
	58.1	60.1	60.7	57.9	58.7	64.2
Components	83,651	73,318	68,804	69,667	68,090 (*3)	99,516
	11.8	11.4	11.1	11.6	12.6	17.4
Magnetic devices	78,683	61,155	82,748	83,317	46,288	54,783
	11.1	9.5	13.4	13.8	8.6	9.5
Communications	58,728	63,607	58,110	50,892	65,101	89,737
	8.3	9.9	9.4	8.5	12.0	15.7
Peripheral products	110,095	119,540	95,976	76,596	75,826 (*3)	73,711
	15.5	18.5	15.5	12.7	14.0	12.9
Automotive electronics	81,404	69,375	70,108	68,216	62,037	49,848
	11.4	10.8	11.3	11.3	11.5	8.7
Audio equipment	251,128	217,077	209,005	221,439	194,845	179,663
	35.4	33.7	33.7	36.8	36.1	31.3
Logistics and others	45,924	39,559	34,925	31,689	28,081	25,806
	6.5	6.2	5.6	5.3	5.2	4.5
Total	¥709,613	¥643,631	¥619,676	¥601,816	¥540,268	¥573,064
Percentage of sales	100.0	100.0	100.0	100.0	100.0	100.0
Sales by area:						
Japan	¥251,188	¥231,793	¥211,405	¥197,989	¥195,587	¥199,181
	35.4	36.0	34.1	32.9	32.5	34.8
North America	143,600	126,048	124,951	136,833	133,446	129,880
	20.2	19.6	20.2	22.8	22.2	22.7
Europe	153,768	135,518	134,858	133,737	121,170	112,569
	21.7	21.0	21.8	22.2	20.1	19.6
Asia	159,859	148,543	146,509	131,309	87,847	124,436
	22.5	23.1	23.6	21.8	14.6	21.7
Others	1,198	1,729	1,953	1,948	2,218	6,998
	0.2	0.3	0.3	0.3	0.4	1.2
Total	¥709,613	¥643,631	¥619,676	¥601,816	¥540,268	¥573,064
Percentage of sales	100.0	100.0	100.0	100.0	100.0	100.0

(*1) "Cash flows" is calculated by subtracting "cash dividends paid" and "bonuses to directors" from the total of "net income" and "depreciation and amortization".

(*2) Until the year ended March 31, 2002, 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. Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share. In accordance with the new accounting standard, 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.

(*3) These are results of recategorization in which the Company reclassified the net sales of the mechatronic devices sub-segment and of the peripheral products sub-segment for the year ended March 31, 2002.

Future-oriented statements contained herein are based on Alps' best judgment as of the date of these financial statements (June 29, 2006).

1. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Alps' consolidated financial statements are prepared in conformity with accounting principles generally accepted 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. 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 tax assets 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 tax assets 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 tax assets 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, Alps records employees' severance and pension costs and accrued employees' severance and pension costs, based on its forecasts for projected benefit obligation and plan assets 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.

(4) Changes of useful life

The Company changed the useful life of machinery from "5 to 10 years" to "4 to 7 years" at the beginning of this fiscal year because the Company confirmed that useful life of the assets should be shorter than the former useful life, considering the situations under which machinery is used.

(5) Introduction of accounting for impairment

According to the requirements of accounting principles generally accepted in Japan, the Company and its domestic consolidated subsidiaries introduced impairment accounting from this fiscal year.

The amount of accumulated impairment losses was included in that of accumulated depreciation and accumulated impairment losses in the Consolidated Balance Sheet.

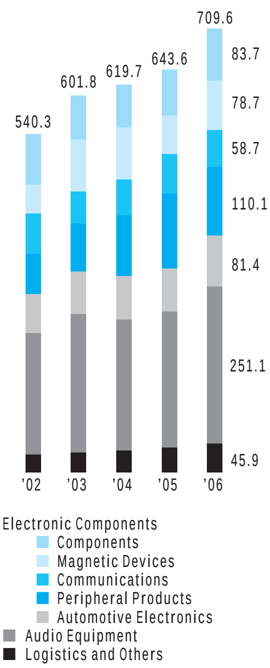
2. PERFORMANCE

(1) Overview

Looking at the world economy during the fiscal year under review, although the United States was affected by lingering high crude oil prices on top of damages incurred through a severe hurricane season, housing investments and vigorous personal consumption allowed for strong and steady advancement. In China, export-led expansion and other related factors continued to spur on high rates of economic growth. Meanwhile the economy in Japan began to show signs of a moderate recovery owing to an improvement in employment rates and an increase in private capital investment that provided the context for a boost in corporate earnings.

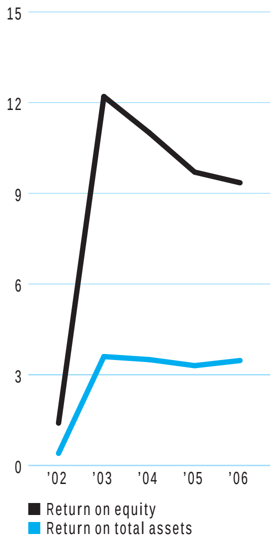
In the electronics industry, despite the impact on performance caused by inflated raw material costs, coupled with a drop in prices for digital devices, the shift toward car electronics-loaded automobiles progressed steadily, while market demand for portable multifunctional devices also showed significant growth.

SALES BY PRODUCT CATEGORY
(Billions of ¥)



In this business environment, Alps' consolidated net sales rose 10.3%, or ¥66.0 billion, to ¥709.6 billion. Operating income increased 46.3%, or ¥14.4 billion, to ¥45.5 billion, and net income grew 15.7%, or ¥2.6 billion, to ¥18.9 billion.

PROFITABILITY RATIOS
(%)



(2) Consolidated net sales

Consolidated net sales rose 10.3%, to ¥709.6 billion. Breaking this down by segment, net sales in the electronic components segment rose 6.6%, or ¥25.6 billion, to ¥412.6 billion.

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

Alps emphasizes the importance of achieving well-balanced growth among its five electronic components businesses that comprise the components, magnetic devices, communications, peripheral products and automotive electronics businesses. Accordingly, the Alps' 5th Mid-Term Business Plan (a three-year plan) that was launched in the fiscal year under review focuses on the advancement of the standardization of electronics-loaded cars in the automotive market, the multi-funtionalization of mobile phones and other portable devices in the market for mobile equipment, as well as the dissemination of home-use digital equipment and devices in the home market. In addition to efforts undertaken in these three markets, Alps is working to strengthen collaboration among each of its businesses.

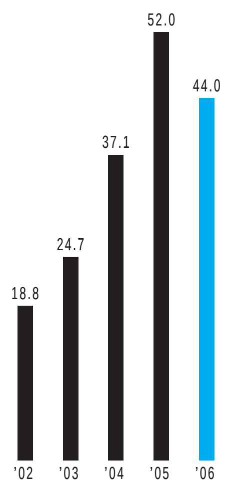
Net sales of the audio equipment segment ("Alpine") grew 15.7%, to ¥251.1 billion in fiscal 2006. In this segment, Alpine experienced robust sales growth in the fiscal year under review, thanks to the highly evaluated operability and sound quality of iPod®-compatible CD players that entered the market. Information and communications device sales also increased with the help of growth in the standard installation of car navigation systems, as well as the favorable progress in new car sales made by client automobile manufacturers.

Seeking to realize its corporate vision of becoming a "mobile media solution company that creates visionary value," Alpine is promoting its management plan based on "creative, passionate, challenging *MONOZUKURI*, FIRST ONE products and winning cost creation," as medium-term management policies. In order to accomplish these goals, Alpine is also promoting the development of leading technologies and large-scale system products, while working to strengthen its management structure and increase its earnings.

In the logistics and others segment ("Alps Logistics"), net sales grew 16.1% to ¥45.9 billion. Alps Logistics progressed with ongoing efforts toward fortifying its logistics business structure and made advances in the expansion of its airfreight business in line with the completion of its new warehouse in the Narita International Airport area. At the same time, expansion and improvement of our global logistics distribution structure progressed steadily.

Alps Logistics maintains a basic medium-term policy that strives for the expansion of its specially designed electronic components globally integrated logistics business and operations. Making the most of its know-how in the development of logistics products to generate new logistics services, Alps Logistics is promoting thorough sales expansion activities looking at customer trends and adopting an advanced "marketing mind." Through these efforts, we are dedicated to the expansion of sales.

INTEREST COVERAGE
(Times)



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

(3) Operating income

Operating income increased 46.3% to ¥45.5 billion, owing to various factors such as an increase in profits on the back of a rise in sales, a weak yen exchange rate against the dollar, and a decrease in pension costs caused by a decline in prior service costs in accordance with changes in severance and pension fund plans.

By segment, operating income in the electronic components segment jumped 92.9% to ¥28.4 billion, while in the audio equipment segment it fell 4.7% to ¥9.7 billion. In the logistics and others segment, though, operating income increased 18.0% to ¥6.8 billion.

(4) Other income (expenses)

Other expenses increased ¥11.7 billion to ¥9.3 billion, mainly due to a decline in gains on the return of substitutional portion of Employees' Pension Fund plans compared to the previous fiscal year.

(5) Income before income taxes

Income before income taxes increased 8.1% to ¥36.2 billion, due to a significant increase in operating income in the fiscal year under review, although other expenses were recorded.

(6) Income taxes

The effective income tax rate, at 32.3% of income before income taxes, was almost the same level as the previous fiscal year's 33.2%.

(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, declined from the previous fiscal year's ¥6.0 billion to ¥5.6 billion in the fiscal year under review.

(8) Net income

Net income increased from ¥16.3 billion in the previous fiscal year to ¥18.9 billion. Net income per share increased from ¥89.72 to ¥103.74.

Net income per share (diluted) was ¥94.40 in fiscal 2006, 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 16.6%, or ¥9.4 billion, to ¥66.3 billion. This surge was largely attributable to the following factors: recording of ¥36.2 billion in income before income taxes, an increase in capital due to depreciation and amortization of ¥36.9 billion, a decrease of ¥10.9 billion in employees' severance and pension costs and a decrease in capital as a result of payments for income taxes of ¥12.6 billion.

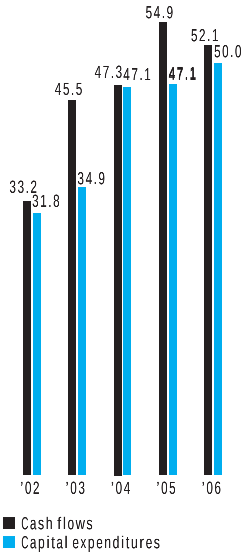
Net cash used in investing activities increased 9.3% to ¥47.1 billion. This was chiefly in connection with the acquisition of property, plant and equipment, mainly in the electronic components segment, that resulted in a decrease in capital equal to ¥45.0 billion.

Net cash used in financing activities jumped 692.5%, or ¥13.0 billion, to ¥14.9 billion. The principal factor behind this increase was the repayment of long-term borrowings of ¥13.6 billion.

These activities caused cash and cash equivalents at the end of the year to increase 10.8%, or ¥8.5 billion, to ¥87.5 billion.

CASH FLOWS AND CAPITAL EXPENDITURES

(Billions of ¥)



(2) Assets, liabilities and stockholders' equity

Total assets at the end of the fiscal year were ¥543.3 billion, up ¥25.7 billion from a year earlier. Stockholders' equity grew ¥24.8 billion to ¥201.8 billion, and the stockholders' equity ratio rose 2.9 percentage points to 37.1%.

Current assets grew ¥6.7 billion from the end of the previous fiscal year, to ¥317.6 billion. This was mainly due to an increase in cash and time deposits and notes and accounts receivable, in line with the expansion of net sales.

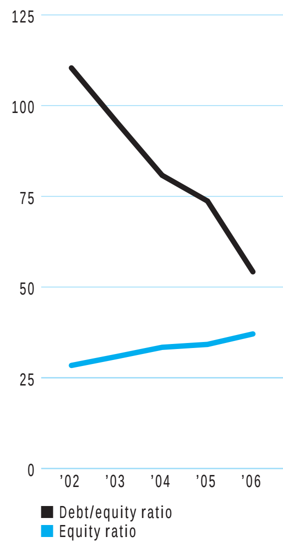
Fixed assets were ¥225.7 billion, ¥18.9 billion higher than a year earlier. This was primarily the result of an increase in investment securities, machinery and equipment, and vehicles.

Current liabilities at the end of the fiscal year rose by ¥18.8 billion, to ¥203.8 billion. Principal factors were the transferring of debenture bonds due within one year with redeemable debentures, as well as an increase in accrued expenses.

Non-current liabilities declined by ¥39.3 billion to ¥54.1 billion, chiefly as a result of the transferring of long-term debt due within one year with short-term borrowings. From the point of financial indices, return on equity (ROE) was 10.0% and return on assets (ROA) was 3.6%. Equity per share of common stock advanced from ¥980.01 to ¥1,113.44. The debt/equity ratio was 54.2%, compared with 73.7% the previous fiscal year, and interest coverage was 44.0 times.

CAPITAL STRUCTURE

(%)



(3) Financial policy and funding requirements

Aiming to bolster its financial structure, the Company is enhancing management efficiency with inventory reductions and other such measures and is working to boost profitability through the efficient utilization of its assets.

In the electronic components segment's core activities, the Company is focusing on the three markets of mobile devices, home appliances and automotive electronics, while simultaneously promoting efforts aimed at sales expansion.

Within the Company's global expansion efforts, Alps has its sights set on actively contributing to the electronics industries in each country of the world and of acquiring businesses in each of those regions in the future. While working on improving the cooperation between its mother plant and overseas subsidiaries, Alps endeavors to display the synergistic effects gained through these efforts and targeted for business expansion.

In addition, based on expectations for market expansion in China, the Company is proceeding to introduce an integrated production system, ranging from molds and component processing to assembly, at its production bases as part of the second stage of growth in China. Alps is advancing this multi-production system that also takes into consideration customer needs and will allow the manufacture of various products within a single production base. Overall, Alps will continue to aim for greater strength and expansion in its business development.

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, 2006.

WORLD ECONOMIC CONDITIONS

The Company relies principally on markets outside of Japan, with overseas net sales accounting for 76.7% of the Company's total net sales for the year ended March 31, 2006. 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 consumer 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 ever 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 license 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 licenses 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 earthquakes 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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2006	2005	2006
Current assets:			
Cash and time deposits (Note 14)	¥ 88,063	¥ 79,017	$ 749,472
Investment securities (Notes 4 and 14)	573	136	4,877
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliated companies	932	701	7,932
Trade	120,276	113,749	1,023,626
Allowance for doubtful accounts	(2,149)	(1,361)	(18,289)
Inventories (Note 5)	83,725	84,976	712,553
Deferred tax assets (Note 13)	9,804	12,375	83,438
Other current assets	16,380	21,275	139,404
Total current assets	317,604	310,868	2,703,013
Property, plant and equipment (Note 6):			
Land (Note 10)	29,005	30,478	246,851
Buildings and structures	112,102	110,950	954,060
Machinery and equipment	288,642	261,591	2,456,528
Construction in progress	6,494	6,496	55,268
	436,243	409,515	3,712,707
Less accumulated depreciation and accumulated impairment losses	(278,249)	(256,722)	(2,368,077)
	157,994	152,793	1,344,630
Investments and other assets:			
Intangible assets, net	14,223	13,010	121,047
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 4)	7,179	6,905	61,098
Investment securities (Note 4)	20,464	14,438	174,162
Deferred tax assets (Note 13)	7,672	6,762	65,294
Other assets (Note 7)	18,131	12,828	154,305
	67,669	53,943	575,906
Total assets	¥ 543,267	¥ 517,604	$ 4,623,549

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Bank loans (Note 6)	¥ 44,652	¥ 42,724	$ 380,017
Long-term debt due within one year (Note 6)	23,159	12,846	197,098
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliated companies	728	882	6,196
Trade	68,405	69,438	582,170
Accrued income taxes	6,937	7,684	59,038
Accrued expenses	36,516	31,939	310,774
Deferred tax liabilities (Note 13)	446	357	3,796
Other current liabilities	22,965	19,098	195,447
Total current liabilities	203,808	184,968	1,734,536
Non-current liabilities:			
Long-term debt (Note 6)	41,561	74,882	353,711
Accrued employees' severance and pension costs (Note 7)	2,494	13,369	21,226
Deferred tax liabilities (Note 13)	3,480	2,818	29,617
Other non-current liabilities	6,562	2,367	55,846
Total non-current liabilities	54,097	93,436	460,400
Total liabilities	257,905	278,404	2,194,936
Minority interests	83,612	62,292	711,591
Contingent liabilities (Note 8)			
Stockholders' equity (Note 9):			
Common stock:			
Authorized—500,000,000 shares			
Issued—181,559,956 shares in 2006, 180,727,015 shares in 2005	23,624	22,913	201,055
Additional paid-in capital	45,587	44,876	387,974
Retained earnings	131,310	116,124	1,117,532
Land revaluation reserve (Note 10)	(569)	(647)	(4,843)
Unrealized net gains on investment securities	4,863	3,273	41,387
Foreign currency translation adjustments	(2,525)	(9,134)	(21,488)
	202,290	177,405	1,721,617
Less treasury stock, at cost—364,423 shares in 2006, 339,899 shares in 2005	(540)	(497)	(4,595)
Total stockholders' equity	201,750	176,908	1,717,022
Total liabilities and stockholders' equity	¥ 543,267	¥ 517,604	$ 4,623,549

CONSOLIDATED STATEMENTS OF INCOME

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Net sales	¥709,613	¥643,631	¥619,676	$6,039,260
Costs and expenses:				
Cost of sales	581,016	529,561	502,359	4,944,817
Selling, general and administrative expenses	83,125	82,993	81,143	707,447
	664,141	612,554	583,502	5,652,264
Operating income	45,472	31,077	36,174	386,996
Other income (expenses):				
Interest and dividend income	1,007	623	591	8,570
Interest expense	(1,509)	(1,105)	(1,282)	(12,843)
Exchange gains (losses), net	943	301	(5,204)	8,026
Other, net (Notes 11 and 12)	(9,749)	2,557	3,616	(82,970)
	(9,308)	2,376	(2,279)	(79,217)
Income before income taxes	36,164	33,453	33,895	307,779
Income taxes (Note 13):				
Current	11,356	10,418	8,699	96,647
Deferred	333	672	2,594	2,834
	11,689	11,090	11,293	99,481
Income before minority interests	24,475	22,363	22,602	208,298
Minority interests in net income of consolidated subsidiaries	(5,605)	(6,048)	(5,659)	(47,702)
Net income	¥ 18,870	¥ 16,315	¥ 16,943	$ 160,596

	Yen			U.S. dollars (Note 1)
	2006	2005	2004	2006
Amounts per share of common stock:				
Net income	¥ 103.74	¥ 89.72	¥ 93.27	$ 0.88
Diluted net income	94.40	79.12	85.91	0.80
Cash dividends applicable to the year	20.00	16.00	12.00	0.17

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2006, 2005 and 2004

	Number of shares of common stock	Millions of yen: Common stock	Additional paid-in capital	Retained earnings	Land revaluation reserve	Unrealized net gains on investment securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2003	180,727,015	¥22,913	¥44,876	¥ 88,035	¥(387)	¥1,807	¥ (8,031)	¥(332)
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)				(75)
Balance at March 31, 2004	180,727,015	22,913	44,876	102,685	(387)	2,838	(12,518)	(407)
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)			(90)
Balance at March 31, 2005	180,727,015	22,913	44,876	116,124	(647)	3,273	(9,134)	(497)
Conversion of convertible bonds	832,941	711	711					
Increase due to inclusion of consolidated subsidiaries				54				
Net income				18,870				
Cash dividends paid (¥16.00 per share)				(3,610)				
Bonuses to directors				(127)				
Change in unrealized net gains on investment securities						1,590		
Change in foreign currency translation adjustments							6,609	
Other			0	(1)	78			(43)
Balance at March 31, 2006	181,559,956	¥23,624	¥45,587	¥131,310	¥(569)	¥4,863	¥ (2,525)	¥(540)

	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	Treasury stock, at cost
Balance at March 31, 2005	$195,004	$381,923	$ 988,289	$(5,506)	$ 27,855	$(77,736)	$(4,230)
Conversion of convertible bonds	6,051	6,051					
Increase due to inclusion of consolidated subsidiaries			460				
Net income			160,596				
Cash dividends paid ($0.14 per share)			(30,723)				
Bonuses to directors			(1,081)				
Change in unrealized net gains on investment securities					13,532		
Change in foreign currency translation adjustments						56,248	
Other		0	(9)	663			(365)
Balance at March 31, 2006	$201,055	$387,974	$1,117,532	$(4,843)	$ 41,387	$(21,488)	$(4,595)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Cash flows from operating activities:				
Income before income taxes	¥ 36,164	¥ 33,453	¥ 33,895	$ 307,779
Depreciation and amortization	36,925	40,899	32,669	314,255
Impairment losses on fixed assets	7,476	—	—	63,626
Amortization of goodwill	114	109	(176)	970
Increase (decrease) in allowance for doubtful accounts	489	(75)	(663)	4,162
Increase in allowance for cancellation cost of resort membership contract	206	—	—	1,753
Increase (decrease) in accrued employees' severance and pension costs	(10,915)	847	(247)	(92,894)
Increase in long-term prepaid pension costs	(4,234)	(7,057)	—	(36,034)
Decrease in accrued directors' severance costs	(75)	(88)	(323)	(638)
Increase in allowance for environmental preservation costs	318	—	—	2,706
Interest and dividend income	(1,007)	(623)	(591)	(8,570)
Interest expense	1,509	1,105	1,282	12,843
Equity in earnings of affiliated companies	(186)	(393)	(115)	(1,583)
Write-offs of specified money in trust	—	606	1,154	—
Loss on redemption of specified money in trust	892	—	—	7,591
Gain on sale of fixed assets	(661)	(159)	(167)	(5,626)
Loss on sale and disposal of fixed assets	2,026	1,287	1,539	17,243
Loss from changes in ownership rate of subsidiaries	629	33	3	5,353
Gain on sale of investment securities	(261)	(268)	(479)	(2,221)
Write-offs of investment securities	289	178	248	2,460
Restoration expense for soil pollution	779	—	—	6,630
(Increase) decrease in notes and accounts receivable	957	(3,201)	(11,301)	8,145
(Increase) decrease in inventories	4,798	(4,845)	856	40,834
Increase (decrease) in notes and accounts payable	(8,519)	2,026	3,438	(72,502)
Increase (decrease) in accrued expenses	3,780	(899)	1,722	32,170
Increase in long-term other payable	3,806	—	—	32,391
Other, net	3,926	1,785	(2,062)	33,412
Subtotal	79,225	64,720	60,682	674,255
Proceeds from interest and dividend income	1,211	707	589	10,306
Payments for interest expense	(1,508)	(1,094)	(1,319)	(12,834)
Payments for income taxes	(12,611)	(7,463)	(10,969)	(107,327)
Net cash provided by operating activities	66,317	56,870	48,983	564,400
Cash flows from investing activities:				
Payments to deposit money in bank	(1,733)	(364)	(578)	(14,749)
Payments for purchases of property, plant and equipment	(44,970)	(40,277)	(38,420)	(382,723)
Proceeds from sale of property, plant and equipment	2,337	747	659	19,889
Payments for purchases of intangible assets	(5,463)	(3,804)	(4,326)	(46,494)
Payments for purchases of investment securities	(797)	(51)	(840)	(6,783)
Proceeds from sale of investment securities	281	485	5,302	2,391
Payments for investment in an affiliated company	—	—	(4,199)	—
Decrease from sale of consolidated subsidiaries	—	(87)	—	—
Proceeds from redemption of specified money in trust	2,340	—	—	19,915
Other	911	267	1,154	7,754
Net cash used in investing activities	(47,094)	(43,084)	(41,248)	(400,800)
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	916	7,379	(20,021)	7,796
Proceeds from issuance of long-term borrowings	2,881	1,490	5,996	24,519
Repayment of long-term borrowings	(13,575)	(7,333)	(8,951)	(115,532)
Proceeds from issuance of convertible bonds	—	—	30,450	—
Redemption of domestic bonds	—	—	(20,000)	—
Cash dividends paid	(3,610)	(2,165)	(2,166)	(30,723)
Cash dividends paid to minority interests	(1,390)	(1,234)	(988)	(11,830)
Other	(81)	(12)	36	(690)
Net cash used in financing activities	(14,859)	(1,875)	(15,644)	(126,460)
Effect of exchange rate changes on cash and cash equivalents	3,984	968	(2,574)	33,907
Net increase (decrease) in cash and cash equivalents	8,348	12,879	(10,483)	71,047
Cash and cash equivalents at beginning of year	79,011	65,597	76,080	672,434
Cash and cash equivalents at beginning of year held by newly consolidated subsidiaries	179	185	—	1,523
Cash and cash equivalents at the date of merger held by the merged company	—	350	—	—
Cash and cash equivalents at end of year (Note 14)	¥ 87,538	¥ 79,011	¥ 65,597	$ 745,004

See accompanying notes.

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, 2006, which was ¥117.5 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 investment 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 method.

(g) Property, plant and equipment and depreciation

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

The estimated useful lives are summarized as follows:

Buildings and structures	2–60 years
Machinery	2–13 years
Equipment	1–20 years

(h) Intangible assets and amortization

Intangible assets consist of software and goodwill. Goodwill means the net excess of the acquisition cost of the Company's investments in consolidated subsidiaries over the fair value of the net assets of those companies and is amortized by the straight-line method for 5 years. Software for internal use is amortized by the straight-line method over the estimated useful lives of 5 years.

(i) 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 current exchange rate 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.

(j) 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.

(k) Accrued warranty costs

The Company provides accrued warranty cost for any specific claims on the goods sold. Certain subsidiaries provide accrued warranty costs for goods sold based on historical experience of actual warranty claims.

(l) Allowance for cancellation cost of resort membership contract

The Company and certain of its domestic consolidated subsidiaries provide allowance for cancellation cost of resort membership contract at an estimated amount of cost incurred for cancellation of the contract before its maturity.

(m) Reserve for losses on purchase of inventories

The Company provides reserve for losses on purchase of inventories at an amount sufficient to cover possible losses on open purchase order.

(n) Accrued employees' severance and pension costs

The Company and certain of its domestic and foreign consolidated subsidiaries accrue employees' severance and pension costs at an amount calculated based on the projected benefit obligation and the fair value of plan assets as adjusted for 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 (13 to 17 years, 5 years for certain of its domestic consolidated subsidiaries). Prior service cost is being amortized by the straight-line method over 1 or 13 years within the average remaining years of service of the employees.

(o) Accrued directors' severance costs

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

(p) Allowance for environmental preservation costs

Allowance for environmental preservation costs is provided at an estimated amount to restore from soil pollution and to dispose polluted soil and poisonous material.

(q) 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.

(r) 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 years 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.

(s) 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.

(t) Amounts per share of common stock

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.

(u) 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 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 and losses. 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 and losses.

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.

(v) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

3. ACCOUNTING CHANGES

(a) Change in depreciation method

Effective April 1, 2005, the Company changed its depreciation method for property, plant and equipment, except for certain buildings, from the declining-balance method to the straight-line method because it is more reasonable to allocate investment costs equally over the useful lives of the assets as frequency in use of the assets and maintenance and repair costs of the assets were almost same during the useful lives of the assets.

As a result, depreciation expense was decreased by ¥2,730 million ($23,234 thousand), and operating income and income before income taxes were increased by ¥2,264 million ($19,268 thousand), respectively.

(b) Change in useful life

Effective April 1, 2005, the Company changed the useful life of machinery from "5 to 10 years" to "4 to 7 years" as a result of the reconsideration of the useful life of machinery.

As a result, depreciation expense was increased by ¥4,689 million ($39,906 thousand), and operating income and income before income taxes was decreased by ¥3,629 million ($30,885 thousand) and ¥4,033 million ($34,323 thousand), respectively.

(c) Adoption of accounting for the impairment of fixed assets

Effective April 1, 2005, the Company has adopted a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs and (2) the present value of future cash flows arising ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets are grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

As a result of the adoption of this new accounting standard, impairment losses on fixed assets in the amount of ¥7,476 million ($63,626 thousand) was recognized and income before income taxes decreased by the same amount for the year ended March 31, 2006 as compared with the corresponding amount under the previous method. The effect of this adoption on segment information is described in 17. SEGMENT INFORMATION.

4. INVESTMENT SECURITIES

Marketable securities classified as other securities at March 31, 2006 and 2005 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
	Cost	Fair value	Unrealized gains (losses)	Cost	Fair value	Unrealized gains (losses)
Securities for which fair value exceeds cost:						
Equity securities	¥4,203	¥19,092	¥14,889	$35,770	$162,485	$126,715
Securities for which cost exceeds fair value:						
Equity securities	16	14	(2)	136	119	(17)
Total	¥4,219	¥19,106	¥14,887	$35,906	$162,604	$126,698

	Millions of yen		
	2005		
	Cost	Fair value	Unrealized gains (losses)
Securities for which fair value exceeds cost:			
Equity securities	¥3,538	¥12,812	¥9,274
Securities for which cost exceeds fair value:			
Equity securities	11	10	(1)
Total	¥3,549	¥12,822	¥9,273

Proceeds from sales of securities classified as other securities for the years ended March 31, 2006, 2005 and 2004 were ¥281 million ($2,391 thousand), ¥485 million and ¥114 million, respectively. Gross realized gains and losses for the year ended March 31, 2006 were ¥261 million ($2,221 thousand) and ¥5 million ($43 thousand), respectively. Gross realized gains and losses for the year ended March 31, 2005 were ¥268 million and ¥54 million, respectively. Gross realized gains and losses for the year ended March 31, 2004 were ¥103 million and nil, respectively.

Significant components of securities recorded at cost at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2006	2005	2006
Other securities:			
Non-marketable equity securities	¥1,349	¥1,599	$11,480
Government bonds	0	0	3
Other	582	153	4,952
Subsidiaries' and affiliates' stocks:			
Unconsolidated subsidiaries and affiliated companies	1,682	2,009	14,314
Total	¥3,613	¥3,761	$30,749

5. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products	¥46,809	¥46,250	$398,374
Work in process	17,230	19,314	146,638
Raw materials and supplies	19,686	19,412	167,541
	¥83,725	¥84,976	$712,553

6. BANK LOANS AND LONG-TERM DEBT

Bank loans consisted primarily of overdrafts with banks at interest rates ranging from 0.47% to 5.44% and 0.28% to 5.54% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans principally from banks and insurance companies due through 2018 at interest rates ranging from 0.00% to 5.34% and 0.00% to 5.00% at March 31, 2006 and 2005, respectively	¥26,120	¥36,592	$222,299
Zero coupon convertible bonds due 2010	28,600	30,000	243,404
1.07% domestic bonds due 2007	10,000	10,000	85,106
0.0% domestic convertible debenture bond of consolidated subsidiary due 2007	—	11,136	—
	64,720	87,728	550,809
Less amounts due within one year	23,159	12,846	197,098
	¥41,561	¥74,882	$353,711

At March 31, 2006 and 2005, the following assets were pledged as collateral for bank loans and long-term debt:

	Millions of Yen		Thousands of U.S. dollars
	2006	2005	2006
Property, plant and equipment, at book value	¥7,719	¥7,879	$65,694

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥23,159	$197,098
2008	7,261	61,796
2009	1,226	10,434
2010	30,076	255,966
2011	1,429	12,162
2012 and thereafter	1,569	13,353
Total	¥64,720	$550,809

7. EMPLOYEES' SEVERANCE AND PENSION COSTS

The Company and certain of its domestic and foreign 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 subsidiaries received an approval from the Japanese government to return the substitutional portion of EPFs and recognized a gain of ¥10,418 million included in other income for the year ended March 31, 2005. The Company and certain of its domestic consolidated subsidiaries repaid the substitutional portion to Japanese government on June 27, 2005 and recognized a gain of ¥79 million ($672 thousand) included in other income for the year ended March 31, 2006.

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, projected benefit obligation was decreased by ¥8,441 million and unrecognized negative prior service cost was increased by the same amount at the date. Amortization of unrecognized prior service cost for the years ended March 31, 2006 and 2005 were ¥7,036 million and ¥1,405 million, respectively, and were deducted from cost of sales and selling, general and administrative expenses for the years ended March 31, 2006 and 2005. Transfer from employer-sponsored defined benefit pension plans and lump-sum retirement plans to defined contribution pension plans and prepaid severance benefit plans was treated as settlement of the pension plans under accounting principles generally accepted in Japan. The Companies recognized a loss on the settlement of the pension plans amounting to ¥1,989 million for the year ended March 31, 2005.

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, 2006 and 2005 for the Company and its consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(53,270)	¥(94,135)	$(453,362)
Plan assets at fair value	55,390	79,935	471,405
Unfunded projected benefit obligation	2,120	(14,200)	18,043
Unrecognized actuarial net loss	6,812	15,064	57,974
Unrecognized prior service cost	(56)	(7,097)	(477)
Amounts recognized in the consolidated balance sheets, net	8,876	(6,233)	75,540
Prepaid pension cost	11,370	7,136	96,766
Accrued employees' severance and pension costs	¥ (2,494)	¥(13,369)	$ (21,226)

Substitutional portion of EPFs related to the government-sponsored benefit was included in the amounts shown in the above table at March 31, 2005.

Certain of the Company's consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation as set forth in the accounting standard for employees' severance and pension costs. Certain of the company's domestic or foreign consolidated subsidiaries adopt multi-employer defined benefit pension plans. Plan assets for those plans at March 31, 2006 in the amount of ¥2,334 million ($19,864 thousand) were not included in plan assets at fair value in the above table.

The components of employees' severance and pension expenses for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost	¥ 2,227	¥ 3,091	¥ 3,104	$ 18,953
Interest cost	1,235	2,244	3,016	10,511
Expected return on plan assets	(1,153)	(1,436)	(1,683)	(9,813)
Amortization of actuarial loss	1,358	2,247	3,492	11,557
Amortization of prior service cost	(7,042)	(1,411)	(5,566)	(59,932)
Additional accrued severance cost	20	17	12	170
Other	905	233	225	7,703
Sub-total	(2,450)	4,985	2,600	(20,851)
Gain on return of substitutional portion of Employees' Pension Fund plans	(79)	(10,418)	—	(672)
Settlement loss on certain pension plans	—	1,989	—	—
Expenses for the change from conventional method to principle method	169	—	—	1,438
Total	¥(2,360)	¥(3,444)	¥ 2,600	$(20,085)

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Discount rates	1.0%–2.5%	2.0%–2.5%	2.5%
Expected return on plan assets	2.0%–2.5%	2.0%–2.5%	2.5%

8. CONTINGENT LIABILITIES

The Company was contingently liable for trade accounts receivable sold to banks in the amounts of ¥5,689 million ($48,417 thousand) at March 31, 2006.

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 ¥366 million ($3,115 thousand) at March 31, 2006.

The Company and certain of its consolidated subsidiaries have entered into loan commitment agreements amounting to ¥21,000 million ($178,723 thousand) with financial institutes at March 31, 2006. The loans payable outstanding was ¥4,000 million ($34,042 thousand), and therefore, the unused balances was ¥17,000 million ($144,681 thousand) under the credit facilities as of March 31, 2006.

9. 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, 2006 will be proposed for approval at the annual general meeting of the stockholders to be held on June 29, 2006, and will subsequently be recorded in the Company's statutory books of account.

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 carrying value of this land after the revaluation exceeded its fair value as of March 31, 2006 and 2005 by ¥873 million ($7,430 thousand) and ¥558 million, respectively.

11. OTHER INCOME (EXPENSES)

The components of other, net, in the accompanying consolidated statements of income for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Loss on sale and disposal of fixed assets	¥(2,026)	¥(1,287)	¥(1,539)	$(17,243)
Gain on sale of fixed assets	661	159	167	5,626
Reversal of allowance for doubtful accounts	—	—	296	—
Prior years' royalty expense	—	(195)	(96)	—
Gain on sale of investment securities	261	268	479	2,221
Write-offs of investment securities	(289)	(178)	(248)	(2,460)
Gain on sale of subsidiaries' and affiliates' interests	294	—	—	2,502
Directors' severance costs	—	—	(126)	—
Equity in earnings of affiliated companies	186	393	115	1,583
Gain on sale of tooling	836	753	922	7,115
Write-offs of specified money in trust ("Tokkin")	—	(606)	(1,154)	—
Loss on redemption of specified money in trust ("Tokkin")	(892)	—	—	(7,591)
Amortization of prior service cost	—	—	5,560	—
Gain on return of substitutional portion of Employees' Pension Fund plans	79	10,418	—	672
Insurance revenue due from disasters	932	2,506	—	7,932
Settlement gain on lawsuit	—	919	—	—
Restructuring charges	—	—	(1,130)	—
Extraordinary depreciation	(405)	(4,971)	—	(3,447)
Settlement loss on certain pension plans	—	(1,989)	—	—
Loss due to disasters	—	(1,773)	—	—
Impairment losses on fixed assets	(7,476)	—	—	(63,626)
Loss from changes in ownership rate of subsidiaries	(629)	(33)	(3)	(5,353)
Restoration expense for soil pollution	(779)	—	—	(6,630)
Provision for environmental preservation costs	(318)	—	—	(2,706)
Provision for cancellation cost of resort membership contract	(206)	—	—	(1,753)
Other	22	(1,827)	373	188
	¥(9,749)	¥ 2,557	¥ 3,616	$(82,970)

(Note) 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 for the year ended March 31, 2005.

12. IMPAIRMENT LOSSES ON FIXED ASSETS

To adopt accounting for the impairment of fixed assets, the Companies determined asset group based on the categories used for their managerial accounting considering the relevance of product categories and production processes. With respect to idle assets and rented assets, each asset is treated as an individual unit to apply the accounting for the impairment because cash inflows and outflows can be measured by the asset.

The Companies recognized impairment losses on the asset group for the year ended March 31, 2006 as follows:

Asset group	Asset kind	Location	Millions of yen	Thousands of U.S. dollars
			2006	
AV-Head business	Building, machinery etc.	(Note 1)	¥ 1,528	$13,004
LCD business	Building, machinery etc.	(Note 2)	4,100	34,894
Idle assets	Land, building etc.	Japan	904	7,693
	Land, building etc.	Japan	724	6,162
	Land	Japan	122	1,038
	Land	Japan	52	443
	Land	Japan	12	102
	Land	Japan	3	26
			1,817	15,464
Rented assets	Building etc.	Japan	31	264
Total			¥ 7,476	$63,626

(Note 1) Japan, China, South Korea, Malaysia
(Note 2) Japan, China, Germany

With respect to assets categorized in AV-Head business group and LCD business group, the Companies reduced the book value of these assets to the recoverable amount and recognized impairment losses of ¥5,628 million ($47,898 thousand) as other expenses because business environment deteriorated mainly due to the related market shrink. The impairment losses were recorded for building at ¥1,534 million ($13,055 thousand), for machinery at ¥3,613 million ($30,749 thousand) and for other assets at ¥481 million ($4,094 thousand). Discounted future cash flows at 5.3% was used for the recoverable amount for those assets.

With respect to the idle assets whose fair value declined, since the future use of those assets has not yet been determined, the Companies reduced the book value of those assets to the recoverable amount and recognized impairment losses of ¥1,817 million ($15,464 thousand) as other expenses. The impairment losses were recorded for land at ¥1,398 million ($11,898 thousand), for buildings at ¥363 million ($3,089 thousand) and for other assets at ¥56 million ($477 thousand). Net realizable value computed based on property tax value was used for the recoverable value of the idle assets.

With respect to the rented assets whose profitability dropped due to the decline of rental income and so on, the Companies reduced the book value of those assets to the recoverable amount and recognized impairment losses of ¥31 million ($264 thousand) as other expenses. The impairment losses were recorded for building at ¥30 million ($255 thousand) and for other assets at ¥1 million ($9 thousand). Net realizable value computed based on property tax value was used for the recoverable amount of the rented assets.

13. 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 years ended March 31, 2006 and 2005, and 41.5% for the year ended March 31, 2004.

The following table summarizes the significant differences between the statutory tax rates and the Company's effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006, 2005 and 2004:

	2006	2005	2004
Statutory tax rates	40.3%	40.3%	41.5%
Tax credit on R&D costs and other	(3.0)	(3.4)	(2.0)
Lower tax rate at foreign subsidiaries	(7.0)	(4.6)	(3.7)
Other	2.0	0.9	(2.5)
Effective tax rates	32.3%	33.2%	33.3%

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Net operating loss carryforwards	¥ 1,096	¥ 1,077	$ 9,328
Accrued employees' severance and pension costs	737	2,686	6,272
Intercompany profit	2,613	2,962	22,238
Write-offs of specified money in trust ("Tokkin")	—	3,163	—
Depreciation	9,626	5,897	81,923
Accrued employees' bonuses	3,310	3,107	28,170
Write-offs of investment securities	1,032	988	8,783
Accrued warranty costs	1,197	956	10,187
Foreign tax credit	889	1,362	7,566
Other	5,721	4,918	48,690
Total deferred tax assets	26,221	27,116	223,157
Valuation allowance	(3,638)	(3,617)	(30,961)
Less deferred tax liabilities in the same tax jurisdiction	(5,107)	(4,362)	(43,464)
Deferred tax assets, net	17,476	19,137	148,732
Deferred tax liabilities:			
Unrealized gain on investment securities	6,029	3,757	51,311
Tax deductible reserve	261	448	2,221
Loss on investment in limited partnership	18	804	153
Accelerated depreciation of property, plant and equipment	683	750	5,813
Intercompany loss	74	130	630
Unappropriated retained earnings of foreign subsidiaries and affiliated companies	871	255	7,413
Revaluation of subsidiaries' assets and liabilities on consolidation	256	384	2,179
Other	841	1,009	7,157
Total deferred tax liabilities	9,033	7,537	76,877
Less deferred tax assets in the same tax jurisdiction	(5,107)	(4,362)	(43,464)
Deferred tax liabilities, net	3,926	3,175	33,413
Net deferred tax assets	¥13,550	¥15,962	$115,319

14. 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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits	¥88,063	¥79,017	$749,472
Investment securities	573	136	4,877
Total	88,636	79,153	754,349
Less:			
Time deposits with a maturity of more than three months when purchased	(1,344)	(409)	(11,439)
CD with a maturity of more than three months when purchased	(417)	(104)	(3,549)
Add:			
Repurchase agreement with period within three months	663	371	5,643
Cash and cash equivalents	¥87,538	¥79,011	$745,004

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
	2005
Assets acquired	
Current assets	¥1,109
Non-current assets	1,510
Total assets	¥2,619
Liabilities assumed	
Current liabilities	¥ 714
Non-current liabilities	337
Total liabilities	¥1,051

15. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and certain of its consolidated subsidiaries have entered into forward foreign exchange contracts, currency option contracts, currency swaps agreements and coupon swaps agreements 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, 2006 and 2005 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)
Forward foreign exchange contracts:						
Sell:						
U.S. dollars	¥18,671	¥18,800	¥(129)	$158,902	$160,000	$(1,098)
Euro	5,034	5,059	(25)	42,843	43,055	(212)
Buy:						
U.S. dollars	6,476	6,487	11	55,115	55,209	94
Euro	4,662	4,673	11	39,677	39,771	94
Currency option contracts:						
Sell:						
Call–U.S. dollars	4,396	75	(7)	37,413	638	(59)
Option premium	68			579		
Call–Euro	4,102	51	3	34,911	434	26
Option premium	54			460		
Buy:						
Put–U.S. dollars	4,396	67	(1)	37,413	570	(9)
Option premium	68			579		
Put–Euro	4,102	36	(18)	34,911	306	(154)
Option premium	54			460		

	Millions of yen		
	2005		
	Notional amounts	Fair value	Unrealized gains (losses)
Forward foreign exchange contracts:			
Sell:			
U.S. dollars	¥28,929	¥29,677	¥(748)
Euro	8,010	8,044	(34)
Foreign currency swap:			
Receipt–Euro			
Payment–STG £	613	606	(7)
Receipt–Yen			
Payment–Euro	300	300	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. Option premiums are not given and received because all currency option contracts are zero cost option contracts.

16. LEASES

As lessees:

The Company and certain of its consolidated subsidiaries lease certain machinery, vehicles, equipment, tools and other assets. These lease agreements are financing leases but have been accounted for as operating leases as permitted under accounting principles generally accepted in Japan.

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2006 and 2005, 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
	2006	2005	2006
Acquisition costs of machinery and vehicles	¥2,230	¥2,652	$18,979
Accumulated depreciation of machinery and vehicles	1,435	1,588	12,213
Net book value	¥ 795	¥1,064	$ 6,766
Acquisition costs of equipment and tools	¥ 756	¥ 911	$ 6,434
Accumulated depreciation of equipment and tools	335	341	2,851
Net book value	¥ 421	¥ 570	$ 3,583
Acquisition costs of intangible assets	¥ 25	¥ 66	$ 213
Accumulated depreciation of intangible assets	20	46	170
Net book value	¥ 5	¥ 20	$ 43

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 469	$ 3,991
2008 and thereafter	753	6,409
	¥1,222	$10,400

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements totaled ¥528 million ($4,494 thousand), ¥697 million and ¥744 million for the years ended March 31, 2006, 2005 and 2004, respectively. The pro forma depreciation of the assets leased under finance leases accounted for as operating leases for the years ended March 31, 2006, 2005 and 2004 amounted to ¥528 million ($4,494 thousand), ¥697 million and ¥744 million, respectively.

The Company's future minimum lease payments subsequent to March 31, 2006 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 686	$ 5,838
2008 and thereafter	926	7,881
	¥1,612	$13,719

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 as permitted under accounting principles generally accepted in Japan at March 31, 2006 and 2005:

	Millions of Yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition costs of machinery and vehicles	¥2,254	¥2,326	$19,183
Accumulated depreciation of machinery and vehicles	1,512	1,697	12,868
Net book value	¥ 742	¥ 629	$ 6,315
Acquisition costs of equipment and tools	¥ 519	¥ 641	$ 4,417
Accumulated depreciation of equipment and tools	329	431	2,800
Net book value	¥ 190	¥ 210	$ 1,617
Acquisition costs of intangible assets	¥ 7	¥ 6	$ 60
Accumulated depreciation of intangible assets	3	1	26
Net book value	¥ 4	¥ 5	$ 34

The future minimum lease income subsequent to March 31, 2006 under finance leases accounted for as operating leases is summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥283	$2,409
2008 and thereafter	663	5,642
	¥946	$8,051

Lease income, depreciation and interest portion of lease income on finance leases accounted for as operating leases for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Lease income	¥339	¥319	¥352	$2,885
Depreciation	298	281	274	2,536
Interest portion of lease income	51	44	46	434

17. 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, 2006, 2005 and 2004 was summarized as follows:

	Millions of yen				
Year ended March 31, 2006	Electronic components	Audio equipment	Logistics and others	Eliminations	Consolidated
Net sales					
Outside customers	¥412,561	¥251,128	¥45,924	¥ —	¥709,613
Inter-segment sales and transfers	4,068	2,855	32,427	(39,350)	—
Total	416,629	253,983	78,351	(39,350)	709,613
Costs and expenses	388,187	244,312	71,542	(39,900)	664,141
Operating income	28,442	9,671	6,809	550	45,472
Total assets	340,866	169,553	79,475	(46,627)	543,267
Depreciation and amortization	25,387	8,616	2,998	(76)	36,925
Impairment losses on fixed assets	7,476	—	—	—	7,476
Capital expenditures	37,170	10,760	2,356	(224)	50,062

	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
Total 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

	Millions of yen				
Year ended March 31, 2004	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
Total 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, 2006	Electronic components	Audio equipment	Logistics and others	Eliminations	Consolidated
	Thousands of U.S. dollars				
Net sales					
Outside customers	$3,511,157	$2,137,260	$390,843	$ —	$6,039,260
Inter-segment sales and transfer	34,622	24,298	275,974	(334,894)	—
Total	3,545,779	2,161,558	666,817	(334,894)	6,039,260
Costs and expenses	3,303,719	2,079,252	608,868	(339,575)	5,652,264
Operating income	242,060	82,306	57,949	4,681	386,996
Total assets	2,900,988	1,443,004	676,383	(396,826)	4,623,549
Depreciation and amortization	216,059	73,328	25,515	(647)	314,255
Impairment losses on fixed assets	63,626	—	—	—	63,626
Capital expenditures	316,341	91,574	20,051	(1,906)	426,060

* The effect of the changes in accounting policies and procedures on the segment information is as follows;

(1) In connection with Note 3 (a), the effect of the change in "electronic components" for the year ended March 31, 2006 was to decrease operating income by ¥2,264 million ($19,268 thousand).

(2) In connection with Note 3 (b), the effect of the change in "electronic components" for the year ended March 31, 2006 was to decrease operating income by ¥3,629 million. ($30,885 thousand).

Geographical segments

The geographic segment information of the Companies for the years ended March 31, 2006, 2005 and 2004 was summarized as follows:

Year ended March 31, 2006	Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
	Millions of yen						
Net sales							
Outside customers	¥251,188	¥143,600	¥153,768	¥159,859	¥1,198	¥ —	¥709,613
Inter-segment sales and transfers	351,536	2,232	36,597	158,430	3	(548,798)	—
Total	602,724	145,832	190,365	318,289	1,201	(548,798)	709,613
Costs and expenses	569,032	143,137	185,961	307,171	1,212	(542,372)	664,141
Operating income	33,692	2,695	4,404	11,118	(11)	(6,426)	45,472
Total assets	414,421	54,052	69,791	145,189	442	(140,628)	543,267

Year ended March 31, 2005	Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
	Millions of yen						
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
Total assets	415,306	51,337	59,705	118,728	495	(127,967)	517,604

Year ended March 31, 2004	Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
	Millions of yen						
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
Total assets	406,228	45,567	57,996	108,392	1,127	(140,281)	479,029

Year ended March 31, 2006	Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
	Thousands of U.S. dollars						
Net sales							
Outside customers	$2,137,770	$1,222,128	$1,308,664	$1,360,502	$10,196	$ —	$6,039,260
Inter-segment sales and transfer	2,991,796	18,995	311,464	1,348,341	25	(4,670,621)	—
Total	5,129,566	1,241,123	1,620,128	2,708,843	10,221	(4,670,621)	6,039,260
Costs and expenses	4,842,826	1,218,187	1,582,647	2,614,221	10,315	(4,615,932)	5,652,264
Operating income	286,740	22,936	37,481	94,622	(94)	(54,689)	386,996
Total assets	3,526,987	460,017	593,966	1,235,651	3,762	(1,196,834)	4,623,549

* The effect of the changes in accounting policies and procedures on the segment information is as follows;

(1) In connection with Note 3 (a), the effect of the change in "Japan" for the year ended March 31, 2006 was to decrease operating income by ¥2,264 million ($19,268 thousand).

(2) In connection with Note 3 (b), the effect of the change in "Japan" for the year ended March 31, 2006 was to decrease operating income by ¥3,629 million ($30,885 thousand).

Overseas sales

Overseas sales of the Companies by geographic area for the years ended March 31, 2006, 2005 and 2004 were as follows:

Year ended March 31, 2006	North America	Europe	Asia	Other area	Total
	Millions of yen				
Overseas sales	¥159,339	¥161,318	¥218,270	¥5,136	¥544,063
Net sales					¥709,613
Ratio of overseas sales (%)	22%	23%	31%	1%	77%

Year ended March 31, 2005	North America	Europe	Asia	Other area	Total
	Millions of yen				
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	North America	Europe	Asia	Other area	Total
	Millions of yen				
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, 2006	North America	Europe	Asia	Other area	Total
	Thousands of U.S. dollars				
Overseas sales	$1,356,077	$1,372,919	$1,857,616	$43,711	$4,630,323
Net sales					$6,039,260
Ratio of overseas sales (%)	22%	23%	31%	1%	77%

18. SUBSEQUENT EVENTS

(a) Appropriations of retained earnings

Appropriations of retained earnings for the year ended March 31, 2006 were duly approved at the annual general meeting of the stockholders of the Company held on June 29, 2006 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥10 ($0.09) per share	¥1,812	$15,421
Bonuses to directors	60	511

(b) Repurchase of treasury stock

On May 19, 2006, acting on the Corporation Law of Japan, the Company's Board of Directors decided to repurchase the Company's common stock of within 2 million shares (1.1 percentage points of total issued stock) for within ¥3,000 million during the period from May 22, 2006 to August 31, 2006 in the Tokyo Stock Exchange to enable the Company's management to flexibly respond to the changes in the market. The Company repurchased 1,963,000 shares for ¥2,988 million by May 30, 2006.

ERNST & YOUNG SHINNIHON

Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

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, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As discussed in Note 3 (c) to the consolidated financial statements, effective April 1, 2005, Alps Electric Co., Ltd. and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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, 2006

A MEMBER OF ERNST & YOUNG GLOBAL

DIRECTORS & AUDITORS

(As of June 29, 2006)

Masataka Kataoka
President

Isao Tanimoto
Senior Managing Director

Takahide Sato
Senior Managing Director

Kazuya Yoshikoshi
Managing Director

Hideharu Kougashira
Managing Director

Yozo Yasuoka
Managing Director

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

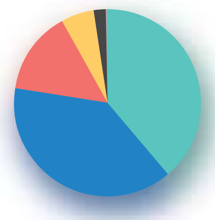
AUDITORS
Koji Hotta
Mitsunori Narisako
Kenji Yoshino
Hiroshi Akiyama

CORPORATE DATA

PRINCIPAL STOCKHOLDERS
(As of March 31, 2006)

	Percentage of total shares outstanding
Japan Trustee Services Bank, Ltd. (Trust account)	7.5%
The Master Trust Bank of Japan, Ltd. (Trust account)	7.0%
Deutsche Bank AG London-PB Irish Residents 619	3.6%
The Sumitomo Trust and Banking Co., Ltd. (Trust account B)	3.0%
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	2.6%

CLASSIFICATION OF STOCKHOLDERS
(As of March 31, 2006)



Foreign Investors
38.8%

Financial Institutions
38.7%

Individual Investors
14.4%

Corporations
5.7%

Securities Companies
2.1%

Others
0.3%

ALPS ELECTRIC CO., LTD.
(As of June 29, 2006)

Head Office/Sales and Marketing
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
¥23,624 million (US$201.1 million)
(As of March 31, 2006)

NUMBER OF EMPLOYEES
34,655 (As of March 31, 2006)

COMMON STOCK
Authorized: 500,000,000 shares
Issued: 181,559,956 shares
(As of May 31, 2006)
Number of Stockholders: 24,232
(As of March 31, 2006)

STOCK EXCHANGE LISTING
Tokyo Stock Exchange

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

Alps Web Site
http://www.alps.co.jp/index_e.htm
http://www.alps.com

OUTLINE OF GLOBAL NETWORK

❻ ALPS ELECTRIC EUROPA GmbH

HEAD OFFICE: Hansaallee 203, D-40549, Düsseldorf, Germany

9 ALPS ELECTRIC (IRELAND) LIMITED

HEAD OFFICE & PLANT: Clara Road, Millstreet Town, County Cork, Ireland

10 ALPS ELECTRIC CZECH, s.r.o.

HEAD OFFICE & PLANT: Drevarska 17, Boskovice 680 01, Czech Republic

14 ALPS (CHINA) CO., LTD.

HEAD OFFICE: Unit 903, IBM Tower, Pacific Century Place, 2A Gong Ti Bei Lu, Chaoyang District, Beijing, P.R. of China

18 NINGBO ALPS ELECTRONICS CO., LTD.

HEAD OFFICE & PLANT: No.299, Jin Yuan Road, Zhenhai District, Ningbo City, Zhejiang, P.R. of China

20 WUXI ALPS ELECTRONICS CO., LTD.

HEAD OFFICE & PLANT: No.5, Xing Chuang 4 Road Wuxi-Singapore Industrial Park, Wuxi, Jiangsu, P.R. of China

1 ALPS ELECTRIC HEAD OFFICE

---

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

---

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

---

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

---

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

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

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

HEAD OFFICE: 910 E. Hamilton Avenue, Suite #500, Campbell, California 95008, U.S.A.

3 ALPS AUTOMOTIVE, INC.

HEAD OFFICE: 1500 Atlantic Boulevard, Auburn Hills, Michigan 48326, U.S.A.

5 ALCOM ELECTRONICOS DE MEXICO, S.A. de C.V.

HEAD OFFICE & PLANT: Av. Industrial Del Norte Lote 5-1, Parque Industrial, Del Norte C. P. 88730, Reynosa, Tam., Mexico

11 ALPS ELECTRIC (S) PTE. LTD.

HEAD OFFICE: 10 Anson Road, #29-15, International Plaza, Singapore 079903

12 ALPS ELECTRIC (MALAYSIA) SDN. BHD.

HEAD OFFICE & PLANT: P. T. 10643, Nilai Industrial Estate, 71800 Nilai, Negeri Sembilan Darul Khusus, Malaysia

13 ALPS ELECTRIC KOREA CO., LTD.

HEAD OFFICE & PLANT: 970-1, Jangduk-dong, Gwangsan-gu, Gwangju, Korea 506-732

ALPS®

Alps Electric Co., Ltd.
1-7, Yukigaya-otsuka-cho, Ota-ku, Tokyo, Japan 145-8501
Phone: +81(3)3726-1211
http://www.alps.co.jp/index_e.htm
http://www.alps.com

R100 PRINTED WITH SOY INK Printed on recycled paper.

Printed in Japan