ALPS

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ALPS

Annual Report

Annual Report

For the year ended March 31, 2007

2007

ALPS ELECTRIC CO., LTD.

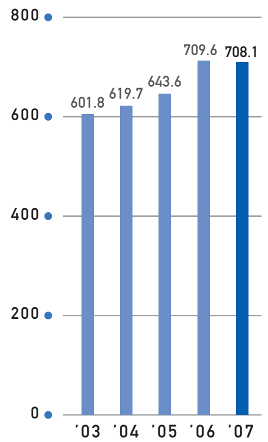
FINANCIAL HIGHLIGHTS

Years ended March 31, 2007, 2006 and 2005	Millions of yen 2007	2006	2005	Thousands of U.S. dollars (Note) 2007	Percent change
For the year:					
Net sales	**¥ 708,127**	¥ 709,613	¥ 643,631	**$ 5,995,995**	–0.2%
Operating income	**22,077**	45,472	31,077	**186,935**	–51.4
Income before income taxes	**20,817**	36,164	33,453	**176,266**	–42.4
Income taxes	**10,536**	11,689	11,090	**89,213**	–9.9
Net income	**4,918**	18,870	16,315	**41,643**	–73.9
Capital expenditures	**45,308**	50,062	47,128	**383,641**	–9.5
At the year end:					
Current assets	**¥ 321,400**	¥ 317,604	¥ 310,868	**$ 2,721,423**	1.2%
Current liabilities	**184,474**	203,808	184,968	**1,562,015**	–9.5
Working capital	**136,926**	113,796	125,900	**1,159,408**	20.3
Net assets	**294,018**	285,367	239,232	**2,489,568**	3.0
Total assets	**548,044**	543,267	517,604	**4,640,508**	0.9

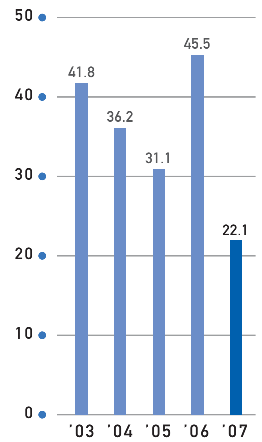
	Yen 2007	2006	2005	U.S. dollars 2007	Percent change
Amounts per share of common stock:					
Net income	**¥ 27.40**	¥ 103.74	¥ 89.72	**$ 0.23**	–73.6%
Cash dividends applicable to the year	**20.00**	20.00	16.00	**0.17**	0.0
Net assets (excluding minority interests)	**1,135.14**	1,112.76	980.01	**9.61**	2.0
Price earnings ratio (times)	**50.36**	18.29	19.03	**—**	175.3
Price book value ratio (times)	**1.22**	1.70	1.74	**—**	–28.2

Note: For convenience only, the accompanying Japanese yen amounts for 2007 have been translated into U.S. dollars at ¥118.1 = $1.00, the exchange rate prevailing on March 31, 2007.

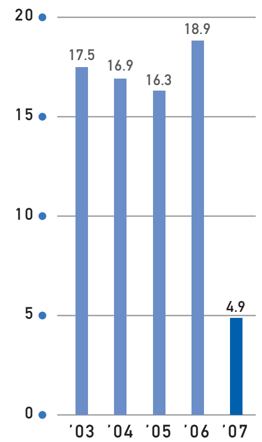
Net sales
(Billions of ¥)



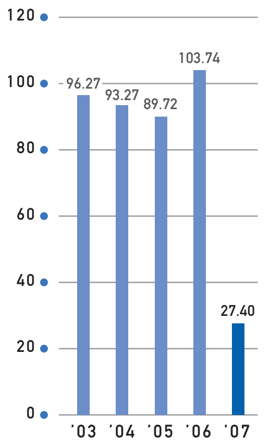
Operating income
(Billions of ¥)



Net income
(Billions of ¥)



Net income per share
(¥)



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Realizing a prosperous society, abound in electronics

Alps System in P ackage

We propose highly evolved devices with advanced functions by fusing a wide range of core and proprietary technologies.

Five businesses focused on three main markets

Cautionary Statement to Forward-Looking Statements

Statements in this annual report with respect to Alps Electric's strategies, plans, beliefs and other statements related to future trends and performance are not historical facts, and as such involve risks and uncertainties.

Projections may differ materially from actual results due to a number of factors. Key factors that could affect actual results include, but are not limited to, general economic conditions and social trends in Alps Electric's markets as well as fluctuations in Alps Electric's relative competitiveness due to changes in demand for products provided by Alps Electric.

Masataka Kataoka, President

Realizing a prosperous society, abound in electronics

Alps will accelerate company-wide efforts on developing sensor businesses, where performance is anticipated in a wide range of fields.

Fiscal 2007 Review

The world economy during fiscal 2007, ended March 31, 2007, was mostly robust given improved corporate earnings, increased capital investment, expanding global trade and healthy consumer spending. This was despite apprehension over exchange rate fluctuations, a decline in housing investment and inflated crude oil prices in the United States, Europe, China and other major regions. Japan's economy, meanwhile, continued on its gradual path to recovery, supported by robust corporate earnings, a rebound in private capital investment and consumption, and an upturn in employment.

The electronics industry was influenced by soaring raw material costs, coupled with a decline in product prices caused by intense market competition. However, digital products continue to span around the globe at a quickening pace, apparent in demand increases for electronic components destined for such areas as multifunctional mobile devices and the growing car electronics market.

Alps' electronic components segment did not perform as well as in the previous fiscal year. Despite aggressive sales promotion aimed at the automotive, mobile and home markets, efforts to compensate for contracted sales in our magnetic devices business were unable to bring about a recovery in profit. We experienced declines in both sales and operating income regarding this segment.

Individual businesses within this segment exhibited mixed results. Sales of switches and connectors for mobile phones, digital cameras and other portable electronic devices within our components business expanded in line with the increasing ubiquity of digital products worldwide. Robust sales in the automotive electronics business were supported by increasing electronic applications in cars. At the same time, however, the magnetic devices, communications and peripheral products businesses all suffered a decline in sales due to changes in market needs and customer composition, together with lower product prices.

Furthermore, the mainstay products from our magnetic devices business—MR heads for hard disk drives (HDDs)—ran a greater risk of underperformance due to a shrinking market and the need for large ongoing investments. In consideration of these circumstances, we have made the decision to sell assets relating to the HDD head business to TDK Corporation.

Displayed on the panel behind President Kataoka is the Alps philosophy—"Alps creates new values that satisfy stakeholders and are friendly to the earth."

Alps and TDK Corporation concluded a basic agreement on March 15, 2007 and procedures aimed at concluding a definitive contract within the current fiscal year are presently underway.

In the audio equipment segment, we have undertaken aggressive sales promotion, targeting the automotive aftermarket and the world's leading automakers, as we promote the Alpine brand—"Driving Mobile Media Solutions."

Within the logistics and others segment, we enhanced operational techniques and created systems aimed at expanding sales. Such efforts in improving on-site capability were combined with developing service products that are tailored to meet a wide variety of customer needs. Further improvements were also made to our global logistics framework.

Business Outlook

The Alps Group comprises electronic components, audio equipment, and logistics and other business segments, each centered around Alps Electric, Alpine Electronics, and Alps Logistics respectively. The Group aims to harness the synergistic effects of these businesses as it expands its global reach.

Alps creates new values that satisfy stakeholders and are friendly to the earth—this is the corporate philosophy of the Group's core electronic components segment. In this segment, our goal is to facilitate user-friendly communication and relationships between people and media, true to our policy of "perfecting the art of electronics." Alps pursues perfection in the electronic components it makes by leveraging a host of proprietary technologies, including micro-processing, nano-processing and RF technologies.

Businesses in automotive audio products, and information and communication products form pillars for the audio equipment segment, through which we strive to create markets for mobile multimedia. In the logistics and others segment, we are expanding our integrated and area-specific logistics services. Alps is fostering organic links among its own companies and businesses, aiming to maximize the enterprise value of the whole Group. These business activities and *monozukuri* are our way of contributing to society, helping to enrich the lives of people through electronics.

By perfecting the art of electronics within the electronic components segment, we are able to create products that boast multifaceted excellence—in functionality, quality and operating life. In terms of sales activities, we are concentrating on the automotive, mobile and home markets, and pushing for further cooperation among our businesses. In production,

Passing on the Spirit of *MONOZUKURI*

Today's Japanese youth are showing less and less interest in the manufacturing industry, and similarly fewer students are choosing career paths in science and mathematics fields. I think one influential factor is their having fewer opportunities to experience *monozukuri*. For example, TV programs with scientific themes are now becoming less common, and in the past children would often develop an interest for *monozukuri* by dissecting radios and other small appliances, intrigued by their inner workings. This sort of activity is less common today, as we are told it's too dangerous to dismantle most modern household appliances, and some manufacturers even make their products so that they cannot be taken apart, in an attempt to prevent their technologies from being known. In effect, parents, schools, corporations and society at large may be prematurely snatching the buds of *monozukuri* that may have otherwise bloomed within the minds of our youth. Recently, however, the Japanese government, corporations and local community groups have begun to provide "*monozukuri* classes" and other opportunities for kids to enjoy discovering the wonders of manufacturing. Alps is naturally an active supporter of this movement too. I am looking forward to this movement becoming an integral part of society, and encountering a new generation of *monozukuri* enthusiasts who will support our future industry.

With a global production framework for foundation, Alps will enhance coordination among its businesses, while focusing on the automotive, mobile and home markets.

Alps has made bold moves to enhance and expand its facilities in Japan and overseas as we target production technology improvements and the introduction of integrated production systems. Alps last year completed construction of two new plants in China, in Shanghai and Ningbo, more or less bringing to fruition a global production framework. And to better respond to the diverse needs of our customers, Alps is now focusing on boosting its contribution to electronics industries worldwide, for example by promoting a shift to multi-production plants, which are able to manufacture numerous products.

Alps is also directing energy into the early launch of a sensor business, which would potentially replace HDD MR heads as a pillar business. We will take full advantage of the human resources available, as well as the thin-film formation and nano-processing technologies and manufacturing facilities that have been developed over the years within our magnetic devices business. It will take some time before this business is able to contribute to profits, but during that time Alps will present a united front in bolstering sales of other products and reducing costs to offset the shortcomings of the current situation.

Looking again at the bullish global economy, I sense a gradual shift away from overdependence on the world's major economic powers. I have noticed during business trips overseas in the last few years the emergence of nations such as Russia, in the energy field, and some South American nations, which have been strengthening agricultural infrastructure. These countries have begun developing their own strengths to realize progress at home. Growth in emerging countries generates demand, stimulating a wide range of industries, and therefore I can't see why the world economy shouldn't continue on a steady curve. As digital products become more ubiquitous, the electronics industry, too, ought to be able to sustain its current strength amid such global development.

As well as making a company-wide effort to launch the new sensor business, Alps will in fiscal 2008 make renewed efforts to commercialize new products that we introduced at both the ALPS SHOW 2006 exhibition held in May last year, and our "ALPS SHOW in Customer," where we visited our major domestic and overseas customers. We will ensure these company-wide efforts make an early contribution to sales.

The year-end dividend for fiscal 2007 has been set at ¥10 per share, on a par with interim-period distributions, amounting to a full-year dividend of ¥20 per share. Alps plans to maintain this level of return in the current fiscal period.

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

June 2007

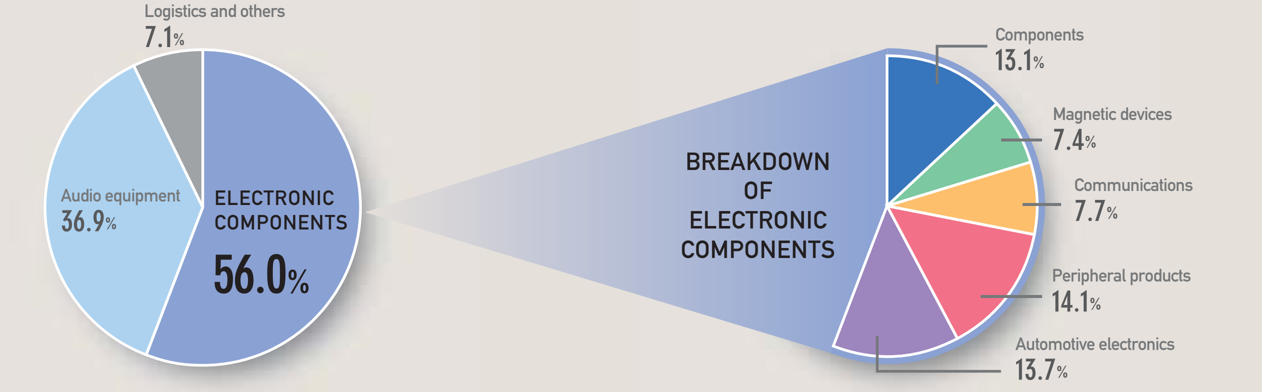
M. Kataoka

Masataka Kataoka, President

ALPS GROUP AT A GLANCE

TOTAL SALES FROM ALL PRODUCTS CATEGORIES ¥708.1 billion

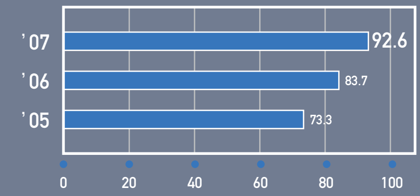
TOTAL SALES FROM ELECTRONIC COMPONENTS ¥396.4 billion



ELECTRONIC COMPONENTS

COMPONENTS

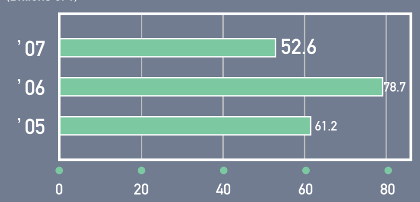
Sales by product category
(Billions of ¥)



- Switches
- Connectors
- Potentiometers
- Encoders
- Sensors

MAGNETIC DEVICES

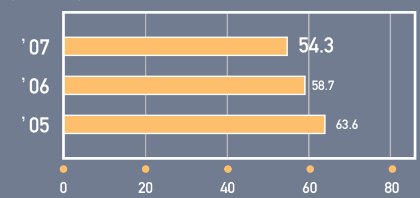
Sales by product category
(Billions of ¥)



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

COMMUNICATIONS

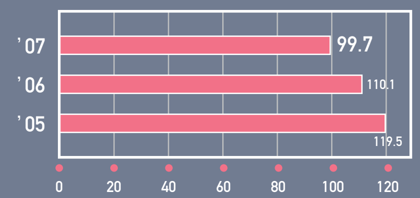
Sales by product category
(Billions of ¥)



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

PERIPHERAL PRODUCTS

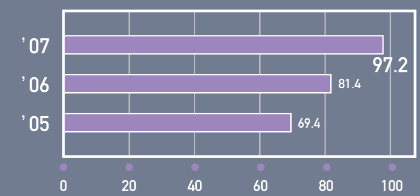
Sales by product category
(Billions of ¥)



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

AUTOMOTIVE ELECTRONICS

Sales by product category
(Billions of ¥)

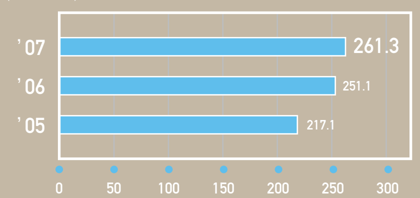


- Car air conditioning panel units
- Door modules
- Steering wheel modules
- Remote keyless entry systems

AUDIO EQUIPMENT

ALPINE
Mobile Media Solutions

Sales by product category
(Billions of ¥)

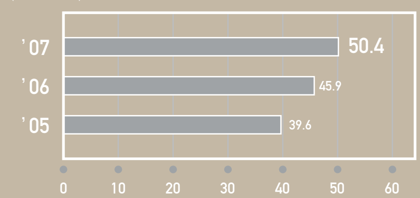


- Car audio systems
- Car AV systems
- Car navigation systems

LOGISTICS AND OTHERS

ALPS LOGISTICS CO., LTD.

Sales by product category
(Billions of ¥)



- General logistics services
- Others

ALPS' System in Package

We propose highly evolved devices with advanced functions by fusing a wide range of core and proprietary technologies.

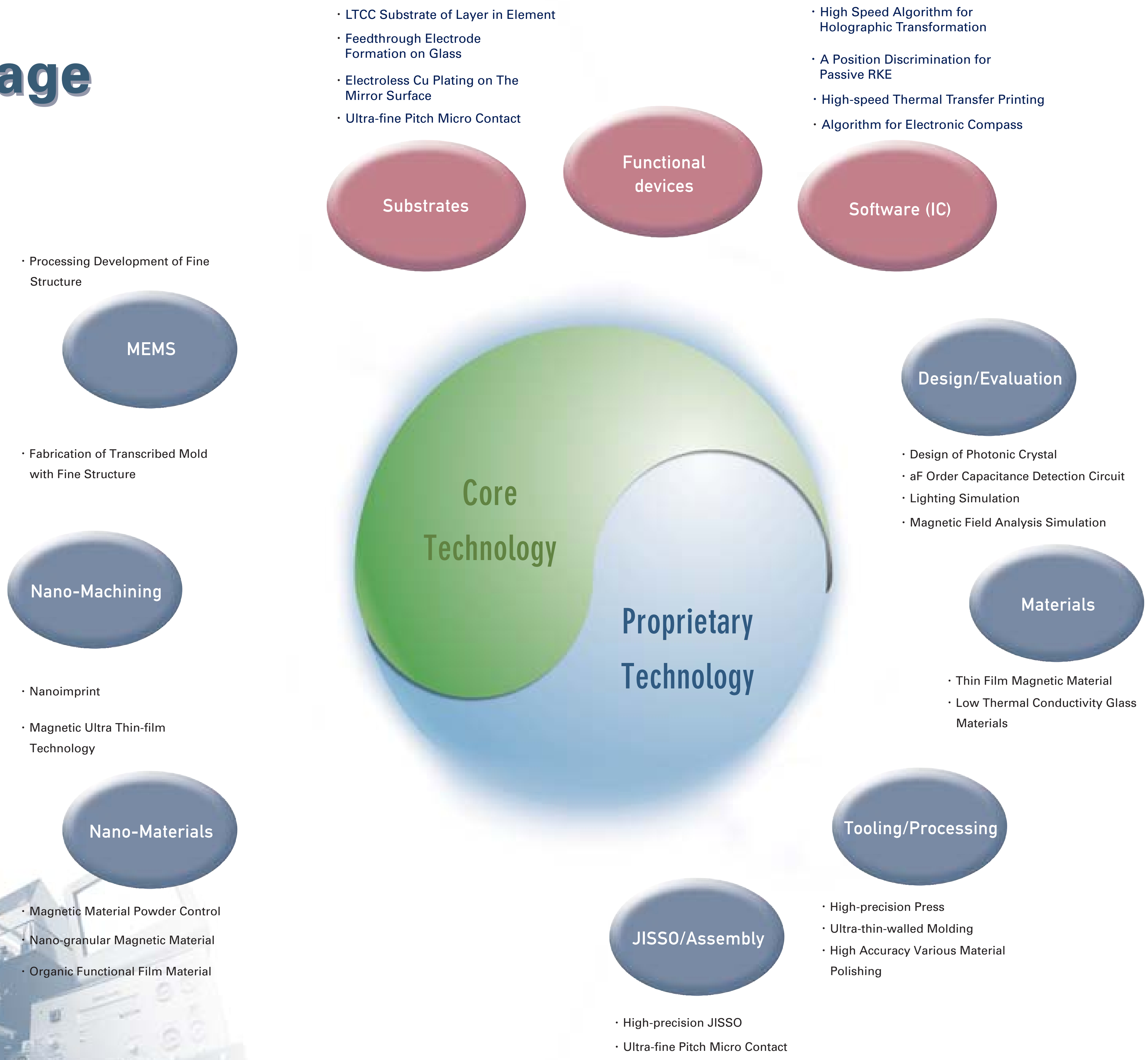
ALPS' System in Package

Alps' System in Package blends together Alps Electric's core and proprietary technologies, including nano-processing, at a sophisticated level to develop highly functional devices. Guided by this development concept, we create human-machine interfaces that enable comfortable operation of appliances, machine-to-machine interfaces that enable seamless connection between devices, and advanced products for broadcasting and telecommunications fields.

Honing our *monozukuri* skills

A wealth of production and processing technologies has helped Alps deliver a continual stream of high-quality electronic devices. Advanced material design technology allows us to exceed our customers' performance requirements. Our molding technology helps ensure outstanding product reliability. And our Micro Electro-Mechanical Systems (MEMS) and JISSO technology make it possible to create high-precision devices and ultramicroscopic electronic circuits.

By continually refining and integrating the many distinct technologies we have accumulated over many years as an electronic components specialist, we look to create products that lead the industry in quality, innovation and performance.



Five businesses focused on Three main markets

Alps Electric focuses on three key markets: the mobile market, led by increasingly advanced mobile phones; the automotive market, where electronics are becoming more critical than ever; and the home market, where demand for digital equipment has seen explosive growth. Drawing on technologies and expertise from a broad range of electronic devices, we can help customers develop effective product strategies.

In markets all around the world we work with customers right from the design stage so that we can develop electronic devices tailored to their exact needs. This customer- and market-oriented approach has helped us establish close ties with a wide base of customers.

Amid regular remodeling, cars are also going through change unseen from the outside.

Automotive electronics are becoming increasingly customary, as cars become more and more automated.

Automobiles, ever since they came into existence, have been a product of continuous effort and evolution. In turn, technology developed to support ongoing improvements in automobile comfort, ease-of-use and safety have shifted from mechanization to computerization. Continuing on this evolutionary path, automotive development is anticipated to become increasingly more advanced.

Making the most of its collective strengths, including proprietary technologies accumulated over many years in the Automotive Products business, an uncompromising R&D program and top-class quality assurance structure, Alps aims to contribute to the future evolution of automotive equipment with the ultimate goal of providing products that offer automobile safety and comfort to customers.

- COMPONENTS
- COMMUNICATIONS
- AUTOMOTIVE ELECTRONICS
- MAGNETIC DEVICES
- PERIPHERAL PRODUCTS

Steering Modules / Clock Spring for Air Bag Systems / Steering Switches

Remote Keyless Entry Systems
Passive Entry Systems

Haptic Commander™ / Air Conditioner Operation Units / Control Switch Units

Switches / Encoders / TACT Switches™

Sensors

Highly Reliable Magnetic Sensors

ETC Module / Bluetooth™ Module

Tuners for TV / AM-FM

Door/Seat Modules
Power Mirror Switches

Mobile information devices continue to develop especially as mobile phones become more and more multifunctional.

This is where Alps' high frequency and other proprietary technologies are being applied in increasingly multifaceted forms.

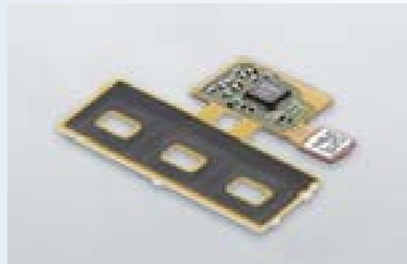
For the last several years, the mobile media market has been characterized by continuous growth, led by demand for portable music players, notebook PCs and digital cameras, and, most predominantly, the mobile phone. The convenience provided by these devices has become universal, with more and more people becoming accustomed to multifunctionality that offers music, image and communication all in one. From markets in leading industrialized countries to BRIC nations, mobile media continues to grow at a remarkable rate.

Against this backdrop, Alps will focus on leveraging high-frequency wave technologies based on its use of a wide range of frequency bands in Communication business, coupled with long-accumulated technologies in Component business, specifically, unique tooling, high-precision processing, plating processing and mechatronics technologies. Taking full advantage of this technological prowess, Alps plans to provide nothing short of the market's highest-caliber products in terms of performance, multifunctionality, compactness, reliability and user satisfaction.

- COMPONENTS
- MAGNETIC DEVICES
- COMMUNICATIONS
- PERIPHERAL PRODUCTS
- AUTOMOTIVE ELECTRONICS

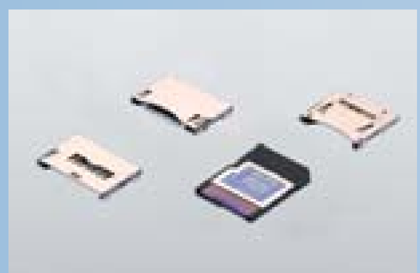
Camera Modules

Keyboard for Notebook PC
Stickpointer™ / Floppy Disk Drive
Glide Point™



Touch Motion™ Sensor

Contactsheets™

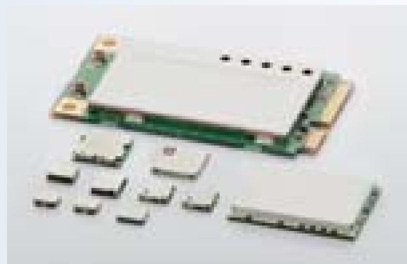


Connectors for Small Memory Cards

Highly Reliable Magnetic Sensors

Liqualloy™ Sheets

Piezoelectric-type Slim-format Pumps



Wireless LAN Communication Modules

Alps' electronic components exist in various forms—functioning not only inside flat-screen TVs and DVD recorders, but also in numerous other electrical appliances in the home.

Alps supports the daily lives of people from behind the scenes.

Electronically, the world continues to shift away from a generation of analog-based electronics toward a new digital generation. One example of this shift is the continuing wave of diffusion of flat-screen TVs and digital broadcasting systems worldwide. Also significant is the increasing sophistication of digital interfaces that have put us in touch with AV equipment, major household appliances and mobile devices, as well as the innovation in digital technology that is helping eliminate the barriers between users and devices.

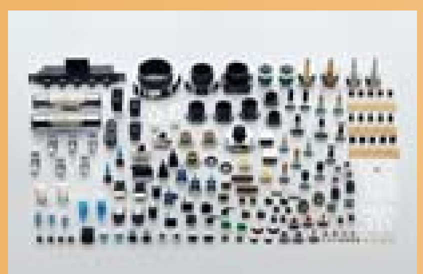
Alps not only recognizes the importance of HMI (human-machine-interface) in digital design, but also strives to realize an environment in which devices are easier and more comfortable to operate. To this end, Alps is moving forward with efforts to amalgamate its nano technologies and other core technologies with proprietary technologies, while generating ever-more-advanced electronic devices.

- COMPONENTS
- COMMUNICATIONS
- AUTOMOTIVE ELECTRONICS
- MAGNETIC DEVICES
- PERIPHERAL PRODUCTS


Liqualloy™ Sheets


FT Sensor™ / Glide Sensor™ / Remote Control Units / Touch Motion™ Sensor / Forcereactor™


Miniature Direct Thermal Printers / Ink Ribbon Cassettes / Card-size Printer


Switches / Encoders / TACT Switches™


Potentiometers


Connectors


Compact Mechanism
Micro-Pumps / Micro-Valves


Highly Reliable Magnetic Sensors


Modules for Home Market FM/AM Combined Tuners / TV Tuners / Video RF Modulators

ALPS LOGISTICS CO., LTD.

ALPINE ELECTRONICS, INC.

FY2007 Results

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

In the fiscal year ended March 31, 2007, performance in Alpine's audio equipment business saw strong sales of commercial iPod® direct-link CD players and car audio equipment in the BRIC market. However, with the impact of increasingly intense price competition and market contraction, sales slowed. Even so, while sales to European carmakers fell, Japanese carmakers' global strategies contributed to healthy sales of CD and DVD audio systems for cars.

In information and communications equipment business, Alpine was applauded for the technological foresight demonstrated by its Mobile Media Station X07 released at the end of last year. The equipment, a proprietary Alpine development, is defined as a next-generation navigation system loaded with domestic terrestrial digital broadcasting, Bluetooth™ capabilities and iPod® direct-link features. Unfortunately, sales of this product were impacted by severe price competition during the Christmas selling season. In addition, sales of our Blackbird portable navigation system were slow on account of a progressive shift in demand toward price range diffusion, despite well-developed sales strategies targeting the North American market in the second half of this fiscal year. On a positive note, sales of audio equipment to automakers increased on the back of steady sales to Japanese carmakers, coupled with sales of products introduced for compatibility with new car models, in the second half of this fiscal year.

For Future Growth

Global competition in the automotive industry is becoming increasingly severe owing to a widening disparity between carmakers as the industry becomes consumed by reorganization and measures to cope with new environmental standards. In the field of car electronics, too, a shift toward the increasing popularity of car electronics and information and communications equipment has spurred a rise in R&D investment. By the same token, reorganization among companies with the aim of streamlining investments and collaborative development efforts is making headway.

Considering these conditions, Alpine has formulated a mid-term business plan that targets consolidated net sales of ¥300.0 billion and an ROA ratio of 5% by fiscal 2010. Additionally, in order to respond to a business environment in which markets and products continue to change dramatically, Alpine has designated the following measures as essential to its structural reform and growth strategies titled: Challenge 30 for Creation of Global Hit Product. These measures include: 1) a 30% improvement in R&D investment efficiency; 2) a 30% reduction in material costs; and 3) a 30% enhancement of indirect manufacturing.

ALPS LOGISTICS CO., LTD.

FY2007 Results

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

In the fiscal year ended March 31, 2007, Alps Logistics undertook efforts to expand sales by bolstering on-site capabilities, enhancing distribution technologies and promoting logistics systemization. Likewise, activities such as further development of logistics services to meet customers' ever-diversifying needs, as well as improvement and expansion of its global logistics structure, were thoroughly implemented. On the domestic front, a new sales office in Fukuoka went into operation on January 1 this year. In China, while working to expand its network of long-distance ground shipping, Alps Logistics reinforced its business structure with the establishment of two new branches to augment the operations of overseas subsidiary Alps Logistics (Shanghai) Co., Ltd. with the Ningbo Branch (Zhejiang) in August 2006 and the Xiamen Branch (Fujian) in December. Moreover, January 2007 marked the start of business for Alps Logistics Mexico S.A. de C.V. in the North American region. With a focus on warehousing operations, the new subsidiary made concerted efforts to build a solid customer base.

Looking at a further breakdown of this segment's business performance, the promotion of sales growth in the field of electronic component logistics was based on outsourcing needs associated with customers' logistics streamlining efforts. As a result, demand for and sales of transportation and storage services grew, mainly among outside customers.

In the field of consumer logistics, sales, mainly for individual distribution services, increased on account of sales expansion initiatives responding to customer needs for a co-op system. Sales in the international logistics business also showed growth amid increasing client needs for global distribution services and owing to Alps Logistics' efforts at strengthening its forwarding business and network of bases in China. Domestic and overseas sales in the packaging and molding materials business expanded as result of sales promotion activities to meet the material procurement needs of customers in Japan and abroad.

For Future Growth

Alps Logistics' operating environment is currently characterized by customers' increasing needs for distribution system and cost rationalization measures. On the other hand, factors such as intensified competition among distributors and an increase in expenses attributable to inflated labor costs caused by labor scarcity and high crude oil prices are putting ever-greater pressure on earnings.

In response to these business conditions, Alps Logistics will exert efforts to strengthen its business structure with the aim of improving earnings. At the same time it will work to enhance its logistics services as part of business infrastructures, while taking on strategic sales activities.

Initiatives in Compliance

It is impossible to "create new values that satisfy stakeholders and are friendly to the earth" without management based on compliance[A], which prevents any illegal and unfair practices. Alps upholds fair conduct at the heart of its corporate policies.

Alps Electric has established a global structure where the Headquarters Compliance Office and Compliance Officers[B] assigned to seven global locations work together to enforce compliance. Internal reporting systems (ethics hotlines) were set up in North America and Korea over 2005 and 2006, and we are now examining appropriate reporting systems for the Greater China, ASEAN and European regions.

Educational programs for compliance at Alps Electric include regular workshops for new employees and managers. In addition, an anonymous questionnaire on compliance issues was conducted for employees, where the company then clarified its response to opinions on the intranet. In fiscal 2007, we will introduce an e-learning course, helping to promote a Group-wide educational structure.

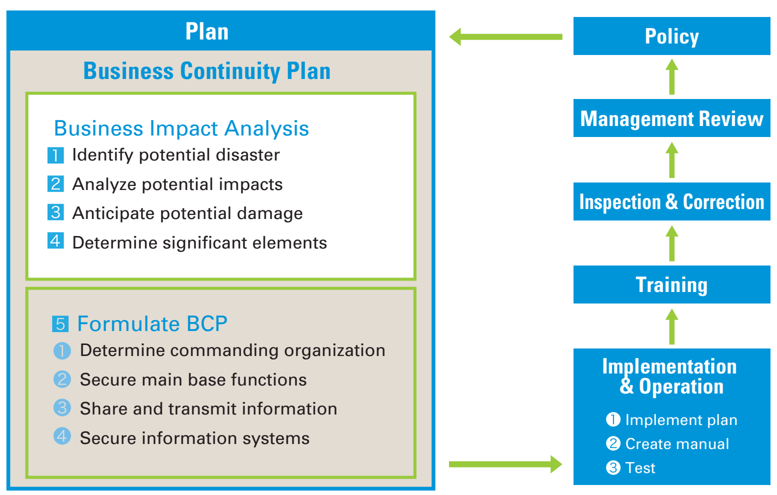
Alps Group Compliance Charter

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

One important managerial issue at Alps Electric is risk management from the perspective of Business Continuity Management (BCM). Using Business Impact Analysis (BIA) methodology, we identify risks that may disrupt operations such as earthquakes, fires, and other internal or external factors, then examine potential property damage and opportunity loss. Based on this analysis, we identify risks that necessitate priority measures, then develop preventive strategies, safeguards and recovery strategies to compile a comprehensive Business Continuity Plan (BCP), which minimizes impact and interruptions to business. BCP effectiveness is analyzed using BIA regularly, completing the plan-do-check-act (PDCA) cycle.



Note: Each fiscal year identified on pages 20 through 25 is for the year ended March 31 of the following year.

Initiatives in Information Management

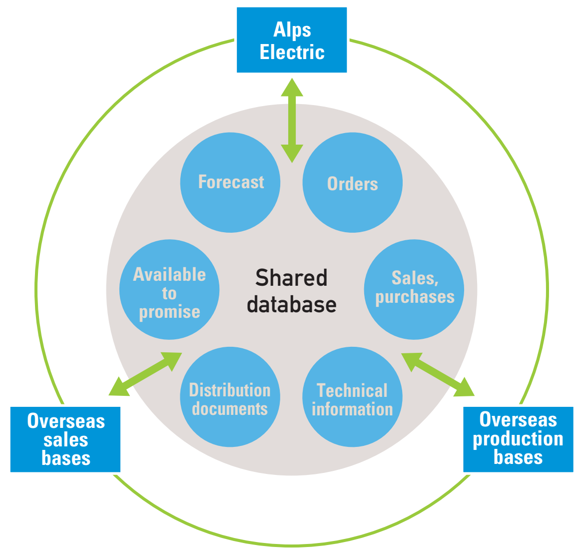
Alps aims to further utilize information technology, and develop a more rigid structure for information management by reinforcing information security, and enhancing our global IT infrastructure.

Reinforcing Information Security

In fiscal 2006, a solution to prevent information leaks was installed at all domestic bases. "Document Security" involves robust security measures that encrypt documents, prevent external transfer of information, and restrict data use, which all help to prevent classified information from leaking to external bodies. In fiscal 2007, this system will be installed at all Alps Electric Global bases.

Enhancing Our Global IT Infrastructure

Since June 2006, Alps Electric has operated CAMPS, a global system for real-time exchange and sharing of information among all Alps Electric Global bases. This system has enabled all bases to share and adopt standardized business procedures, enabling efficient response to customers' needs, and improvements in business procedure quality and visibility.



CAMPS—the Alps Global System

The Connected ALPS Multi Production System (CAMPS) is a business infrastructure that gives greater customer convenience, enhances Alps Electric's total operational efficiency, and is capable of keeping pace with business expansion. This system enables domestic and overseas bases to perform global information exchange and sharing in real time.

A Compliance
Conducting corporate activity in accordance with laws, regulations, social ethics and norms. Compliance requires a framework to ensure corporate ethics, which involves internal rules and manuals for business procedures.

B Compliance Officer
A person responsible for compliance within a company. A Compliance Officer may set up organizations such as a compliance committee, which would serve as a framework for enforcing compliance.

Environmental Accounting and Impact

Environmental Accounting

Alps Electric introduced its environmental accounting[A] system in fiscal 2000 in accordance with the Ministry of the Environment guidelines in order to monitor its environmental costs and associated economic benefits. Fiscal 2006 saw the successful progress and completion of a phase of soil and groundwater bioremediation treatment, resulting in both environmental investments and expenditures falling below previous year levels. An increase in economic benefits in fiscal 2006 over fiscal 2005 can be attributed to a rise in profits on the sale of materials due to a sharp hike in materials prices.

Environmental Costs in Fiscal 2006 [*1] (Coverage: Alps Electric) Unit: million yen

Category	Main Objective	Investment[*2] '05	Investment[*2] '06	Costs[*3] '05	Costs[*3] '06
Operating costs	Pollution prevention Waste recycle	243.6	144.4	518.0	498.1
Upstream and downstream production costs	Green procurement Database for Chemical Substance Management	2.5	13.5	158.1	139.7
Administration costs	ISO 14001 certification maintenance	6.5	0.0	141.9	161.8
R&D costs	—	0.0	1.6	12.3	17.6
Social contribution costs	Community cleanup activities	13.6	2.5	25.3	28.0
Environmental restoration costs	Remediation of soil and groundwater	126.0	0.0	517.5	255.6
Other costs	—	0.0	0.0	0.0	0.0
Total		392.2	162.0	1,373.1	1,100.8

*1 Environmental costs consist of all investments and expenses incurred solely for environmental preservation purposes, and do not include partially-related expenses.
*2 Investment comprises capital investment and leasing expenses.
*3 Costs include administrative, maintenance, depreciation, and lease expenses for the current period.

Economic Benefits from Environmental Preservation Measures in Fiscal 2006 (Coverage: Alps Electric) Unit: million yen

Category	Value '05	Value '06
Profit on sales of materials	1,589.3	1,871.3
Cost reductions due to energy saving	45.8	84.6
Total	1,637.8	1,955.9

* Economic benefits include the sale of wastes that have been separated, recycled and recovered, as well as electric, fuel and other cost savings due to energy conservation. Economic benefits do not include deemed benefits.

Environmental Impact

Alps Electric has been providing overseas-inclusive material balance reports since fiscal 2003. However, data from overseas for certain items has taken longer to obtain due to some deficiencies in information collection procedure. Total material input and output of overseas locations have both increased due to recent production expansion, subsequently contributing more to the material balance of Alps Electric Global as a whole. In light of this, we will continue to reduce total environmental impact by utilizing an increased range of performance data collected from our overseas locations.

INPUT

Alps Electric uses green procurement to help eliminate hazardous chemical substances from materials and components on a global level. The company also promotes energy conservation by creating awareness among employees and adopting the relevant equipment.

Electricity (ten thousand kWh)
Japan 17,162 Overseas 18,527

Fuel (crude-oil equivalent: kl)
Japan 6,714 Overseas 1,372

Mains and industrial water supply (t)
Japan 748,926 Overseas 1,151,696

Groundwater (t)
Japan 1,599,982 Overseas 57,238

Electrical & non-mechanical parts (semiconductors, etc.)

Mechanical parts (molded parts, etc.)

Raw materials (metals, plastics, etc.)

Fuel (crude-oil equivalent: kl)
Japan 1,146 Overseas figures have not been aggregated.

Suppliers

We purchase materials and components with low environmental impact by utilizing the Alps Green Procurement System throughout all global locations.

Alps Electric Global

All domestic and overseas production-based facilities have acquired ISO 14001 certification in order to develop and manufacture products with low environmental impact. The locations are also making efforts to reduce environmental impact through green purchasing, "zero-emissions," and other activity.

Japan (12 facilities)
- Mechatronic Devices Division
- Magnetic Devices Division
- Communication Devices Division
- Peripheral Products Division
- Automotive Products Division
- Others

Overseas (14 production-based facilities)
- America (1 facility)
- Europe (4 facilities)
- ASEAN/Korea (3 facilities)
- Greater China (6 facilities)

Logistics

We have introduced modal shifts and similar activities on a global basis to reduce energy consumption in the logistics process.

Customers

We strive to reduce the environmental impact of our products, enabling reduction in energy consumption and a longer product life for our customers.

OUTPUT

We are pursuing "zero-emissions" in order to reduce waste output volumes. We are also committed to reducing the volume of chemical substances emitted into the atmosphere and to minimizing CO_2 emissions from our logistics operations.

Products
Electronic components for TVs, computers, printers, cameras, mobile phones, automobiles, etc.

Total discharge of waste (t)
Japan 9,060 Overseas 11,707

Emissions into the atmosphere (t)
Japan
CO_2 89,780
NO_x 111
SO_x 56
Overseas figures have not been aggregated.

Discharge into waters (t)
Japan 777,997 Overseas figures have not been aggregated.

Emissions into the atmosphere (t)
Japan
CO_2 3,029
Overseas figures have not been aggregated.

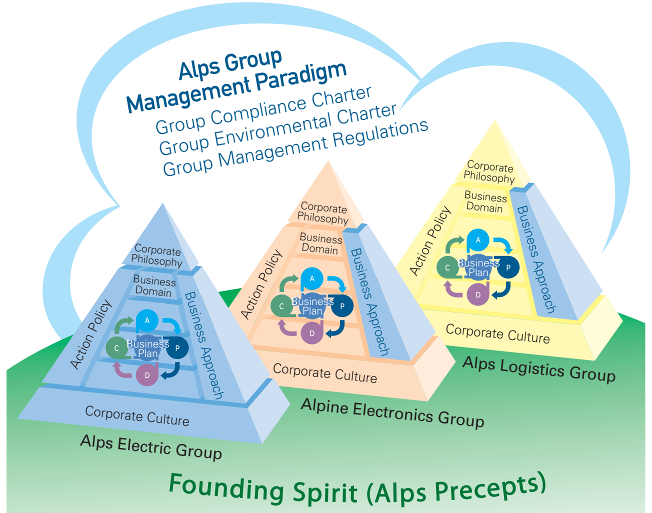
A Environmental Accounting
Environmental accounting is a system used to clarify the costs of those activities that are conducted by a company in an effort to protect the environment and contribute to the creation of a sustainable society.

Structures and Frameworks for Dependable Management

As we believe a corporation belongs to its stakeholders and the whole of society, we engage in fair, open and transparent management with clear-cut values that meet global standards.

Alps Group Management Philosophy

With our founding spirit (Alps Precepts) as the foundation of Group management and our CSR initiatives, we at the Alps Group established the Alps Group Management Paradigm in May 2006, comprising the Group Compliance Charter, the Group Environmental Charter, and the Group Management Regulations. While acknowledging the autonomous nature of Group companies, the Alps Group aims to take advantage of their close collaboration and collective strengths. We will work to improve enterprise value as a whole and contribute to societies by creating new values that satisfy stakeholders and are friendly to the earth.



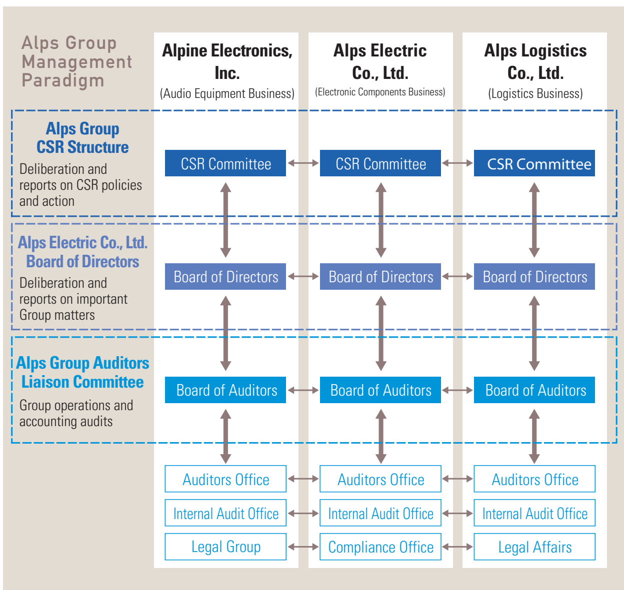
Alps Group Management Concept

Alps Group CSR and Internal Controls

With fiscal 2006 as the first year for Alps Electric's CSR initiative, a CSR Committee was established and CSR Officers were appointed at each business location in Japan and overseas. As Alps Electric also serves as the headquarters for the entire Alps Group, CSR Committees were subsequently established at Alpine Electronics and Alps Logistics, both of which are parent companies of their respective businesses within the Alps Group. In so doing, the Alps Group has developed a structure for promoting Group-wide CSR initiatives. In cooperation with Group companies and related departments, we endeavor to comply with new company law requirements of 2006 and are developing an internal controls system covering the Group, along with Group-wide CSR activity.

As stipulated in Group regulations, the Board of Directors at Alps Electric deliberates and reports on important matters concerning Group companies. While the Compliance Office and Legal Department examine their legality, the Corporate Accounting Department assesses financial and investment performance. This arrangement is designed to facilitate swifter and more precise deliberation and decision-making. In fiscal 2006, resolution standards in the Board of Directors rules and bylaws were revised to tighten internal controls, and new CSR-related rules were also established. Furthermore, the Group Auditors Liaison Committee meets on a regular basis in order to strengthen collaboration among auditors and to share audited information.

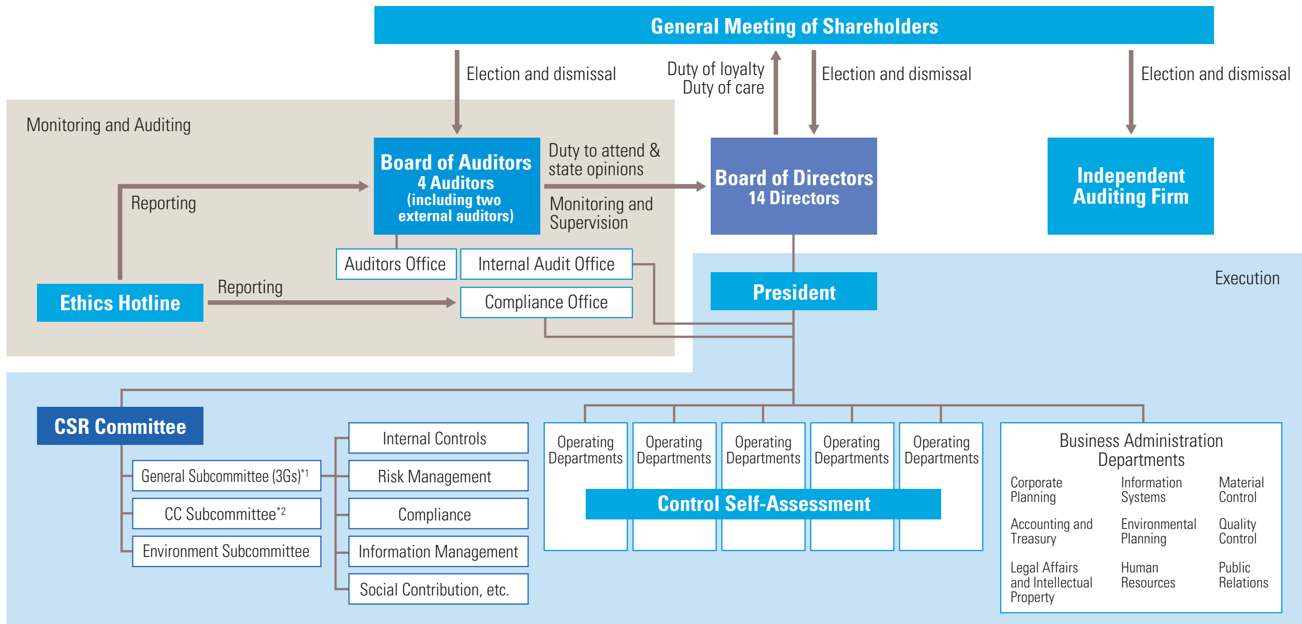
We will continue to promote sound and efficient corporate activity, fulfilling our public and social mission as a Group.



Upgrading and Enhancing Alps Group Governance

Alps Group defines corporate governance as "the design and operation of a framework that achieves sound, efficient and transparent management by motivating top management to be committed to appropriate and efficient decision-making and business execution, and prompt reporting of outcomes to stakeholders in order to increase corporate value." Placing top priority on maximizing benefits for shareholders and all other stakeholders, the framework is based on objectives that maximize corporate value, satisfy stakeholder interests in a balanced manner and return profits directly or indirectly to stakeholders.

Based on these principles, the Alps Group seeks to develop and strengthen its corporate governance by ensuring sound and efficient management through a corporate auditor system.



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

SIX-YEAR FINANCIAL SUMMARY

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2007, 2006, 2005, 2004, 2003 and 2002

	Millions of yen, except for per share data					
	2007	2006	2005	2004	2003	2002
For the years ended March 31:						
Net sales	**¥708,127**	¥709,613	¥643,631	¥619,676	¥601,816	¥540,268
(Overseas sales)	**529,725**	544,063	479,715	460,641	439,387	382,252
Cost of sales	**596,857**	581,016	529,561	502,359	477,995	451,210
SG&A expenses	**89,193**	83,125	82,993	81,143	82,008	75,809
Operating income	**22,077**	45,472	31,077	36,174	41,813	13,249
Income before income taxes	**20,817**	36,164	33,453	33,895	35,153	8,695
Income taxes	**10,536**	11,689	11,090	11,293	12,535	3,415
Net income	**4,918**	18,870	16,315	16,943	17,513	1,902
Cash flows (*1)	**40,403**	52,058	54,940	47,321	45,466	33,197
Amounts per share of common stock:						
Net income (*2)	**¥ 27.40**	¥ 103.74	¥ 89.72	¥ 93.27	¥ 96.27	¥ 10.53
Cash dividends applicable to the year	**20.00**	20.00	16.00	12.00	12.00	5.00
As of March 31:						
Current assets	**¥321,400**	¥317,604	¥310,868	¥284,242	¥298,845	¥293,636
Current liabilities	**184,474**	203,808	184,968	157,003	202,764	190,878
Working capital	**136,926**	113,796	125,900	127,239	96,081	102,758
Long-term debt	**57,308**	41,561	74,882	90,261	62,415	87,851
Net assets	**294,018**	285,367	289,232	214,273	199,215	186,627
Total assets	**548,044**	543,267	517,604	479,029	480,914	484,831
Sales by product category (*3):						
Electronic components:	**¥396,448**	¥412,561	¥386,995	¥375,746	¥348,688	¥317,342
	56.0	58.1	60.1	60.7	57.9	58.7
Components	**92,645**	83,651	73,318	68,804	69,667	68,090 (*3)
	13.1	11.8	11.4	11.1	11.6	12.6
Magnetic devices	**52,648**	78,683	61,155	82,748	83,317	46,288
	7.4	11.1	9.5	13.4	13.8	8.6
Communications	**54,262**	58,728	63,607	58,110	50,892	65,101
	7.7	8.3	9.9	9.4	8.5	12.0
Peripheral products	**99,720**	110,095	119,540	95,976	76,596	75,826 (*3)
	14.1	15.5	18.5	15.5	12.7	14.0
Automotive electronics	**97,173**	81,404	69,375	70,108	68,216	62,037
	13.7	11.4	10.8	11.3	11.3	11.5
Audio equipment	**261,274**	251,128	217,077	209,005	221,439	194,845
	36.9	35.4	33.7	33.7	36.8	36.1
Logistics and others	**50,405**	45,924	39,559	34,925	31,689	28,081
	7.1	6.5	6.2	5.6	5.3	5.2
Total	**¥708,127**	¥709,613	¥643,631	¥619,676	¥601,816	¥540,268
Percentage of sales	**100.0**	100.0	100.0	100.0	100.0	100.0
Sales by area:						
Japan	**¥251,187**	¥251,188	¥231,793	¥211,405	¥197,989	¥195,587
	35.4	35.4	36.0	34.1	32.9	36.2
North America	**147,001**	143,600	126,048	124,951	136,833	133,446
	20.8	20.2	19.6	20.2	22.8	24.7
Europe	**163,242**	153,768	135,518	134,858	133,737	121,170
	23.1	21.7	21.0	21.8	22.2	22.4
Asia	**145,233**	159,859	148,543	146,509	131,309	87,847
	20.5	22.5	23.1	23.6	21.8	16.3
Others	**1,464**	1,198	1,729	1,953	1,948	2,218
	0.2	0.2	0.3	0.3	0.3	0.4
Total	**¥708,127**	¥709,613	¥643,631	¥619,676	¥601,816	¥540,268
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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

Future-oriented statements contained herein are based on Alps' best judgment as of the date of these financial statements (June 27, 2007).

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 recognizes 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 causes, 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.

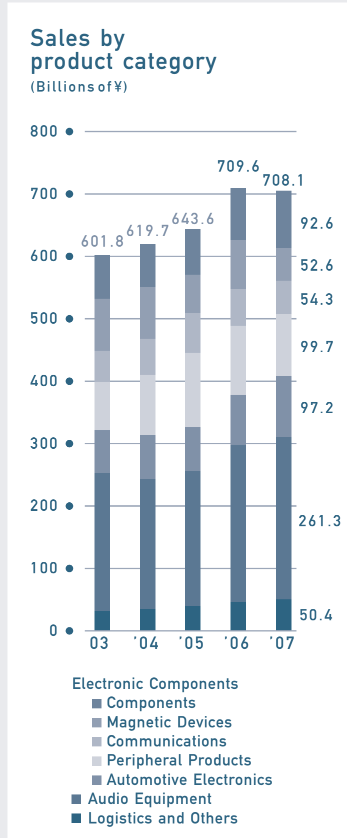
2. PERFORMANCE

(1) Overview

Looking at the world economy in the fiscal year under review, despite apprehension in the United States caused by lingering high crude oil prices and a drop in housing investment, improved corporate earnings and healthy personal consumption allowed for strong and steady advancement. In Europe, although revenues were affected by a strong euro, an increase in exports as well as in transactions within the region supported growth in the economy. In China, although the stock market provoked confusion early in the year of 2007, expansion of corporate capital investment provided for robust economic movement. In Japan, conditions were likewise favorable, giving way to gradual expansion on the back of healthy corporate earnings, a recovery in private capital investment and personal consumption, and an upturn in the job market.

In the electronics market, despite the impact on performance caused by inflated raw material costs and a drop in prices of electronics equipment in line with intensified market competition, the popularity of various types of digital technology products worldwide continued to spread. At the same time, demand increased both for parts aimed at the portable multifunctional equipment market as well as for those to support the shift to car-electronics-loaded automobiles.

Within this business environment, Alps' consolidated net sales slid 0.2% to ¥708.1 billion. In terms of income and expenses, owing to a significant drop in demand for mainstay HDD heads, operating income fell 51.4% to ¥22.1 billion, while net income decreased 73.9% to ¥4.9 billion due to the write down of extraordinary loss associated with impairment losses.

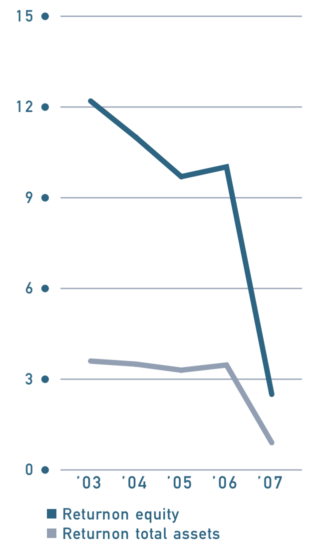


(2) Business Segments

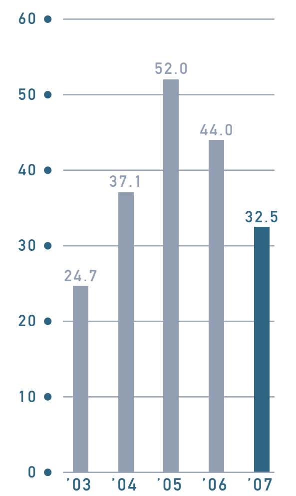
Electronic Components Segment

Today, the ever-increasing ubiquity of thin-screen TVs and mobile phones, portable audio equipment with large-memory capacities, and digital cameras whose market growth is continually spurred on by greater ease of use and higher pixel-counts, is broadening the global popularity of electronic devices and driving bullish market progress. In the field of car electronics, the spread of car navigation systems, coupled with enhanced safety and operability through the progressive shift

Profitability ratios
(%)



Interest coverage
(Times)



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

toward electronics-loaded automobiles, has stimulated full-fledged diffusion of automobile electronics components. Despite booming conditions in the electronics industry, falling prices and sales competition has grown increasingly severe.

Against this backdrop, Alps aggressively carried out sales activities and efforts to secure orders in the fields of car electronics, portable devices and consumer electronics, aiming to make inroads to the market. Despite these efforts, however, Alps was unable to offset a slowed performance, particularly the decline in the sales of its magnetic devices business, with its other four businesses in this segment. As a result, net sales and operating income both fell below results in the previous fiscal year.

Sales in the electronic components segment slipped 3.9% year-on-year to ¥396.4 billion, while operating income dropped 81.5% to ¥5.3 billion. Performance results by business product category within this segment follow.

• *Components*

Sales of switches and connectors for portable equipment such as mobile phones, portable audio equipment and digital cameras increased in line with the overall global proliferation of digital products. In addition, sensors and switches that contribute to safety and lower fuel consumption control in vehicles increased on the back of growing momentum in demand for car-electronics-loaded automobiles.

As a result, sales in the components business rose 10.8% compared with the previous fiscal year to ¥92.6 billion.

• *Magnetic Devices*

Sales of mainstay HDD heads significantly declined due to several factors, including a drop in sales quantities associated with the merger of one of Alps' major suppliers and the impact of falling prices in the market. In consideration of the existing and anticipated conditions, Alps concluded a basic agreement with TDK Corporation (First Section of the Tokyo Stock Exchange) on March 15, 2007, regarding the sales of all assets related to HDD heads including intellectual property, know-how to TDK Corporation. Announcement of this decision was made immediately and on the same day as the conclusion of the agreement.

As a result of the above factors, sales in the magnetic devices business fell 33.1% year on year, to ¥52.6 billion.

• *Communications*

Sales of mainstay TV tuners fell, owing to a decline in demand for analog tuners associated with the spread of digital broadcasting and related generational product shifts, as well as to a decrease in sales quantities of digital tuners due to increased in-house manufacturing by the TV and other product set makers. Sales of components for use in hands-free communications equipment, however, grew, on account of legislation banning the use of mobile phones while driving. Accordingly, Alps made full use of its high-frequency wave technology and accumulated strengths in its automotive electronics business, finding increased demand for Alps' Bluetooth modules for cars.

As a result, sales in the communications business fell 7.6% compared with the results of last fiscal year, to ¥54.3 billion.

• *Peripheral Products*

Sales of color LCDs for mobile phones declined, owing to the impact of customer tendencies to switch handset models. In addition, a stagnant printer market-a market that had shown significant growth in the previous fiscal year in line with demand for photo printing and the increasing global diffusion of digital cameras-contributed to a decline in peripheral product sales.

As a result of these factors, sales in the peripheral products business dipped 9.4% year on year to ¥99.7 billion.

• *Automotive Electronics*

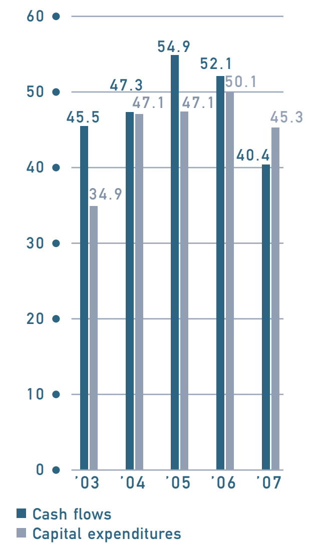
Sales of specialized products such as front panel modules and steering modules grew in response to requests for increasing multifunctionality with the back drop of healthy sales of Alps' products pre-installed models in it by the Japanese and European car manufacturers. In addition, the prolonged depreciation of the yen against foreign currency compared to the previous fiscal year likewise contributed to a rise in sales.

As a result, sales in the automotive electronics business rose 19.4% to ¥97.2 billion, year on year.

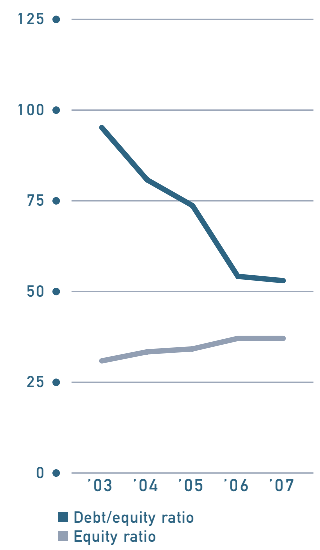
Audio Equipment Segment

During the fiscal year under review there was a shift in demand in the automotive industry from full-sized cars to compact models due to continued high crude oil prices. In Alps' audio equipment segment, operated by Alpine Electronics, Inc., a concerted push was made to secure orders from Japanese, U.S. and European carmakers by presenting advanced information & communication technology equipment for car cabins. Sales of audio equipment decreased due to severe price competition and shrink of the market, in spite of healthy sales of "iPod®" related products and healthy sales at BRICs market. And while sales of car audio equipment to European carmakers were down, the success of Japanese car manufacturers' global sales strategies translated into

Cash flows and capital expenditures
(Billions of ¥)



Capital structure
(%)



healthy sales of car audio systems overall.

As a result, sales in the audio equipment segment rose 4.0%, to ¥261.3 billion. Operating income also grew, rising 4.5% to ¥10.1 billion.

Logistics and Others Segment

Alps' logistics business, serving major clients in the electronics industry, is operated by Alps Logistics Co., Ltd. Sales in this segment grew during the fiscal year under review due to increased demand for slim-screen TVs, digital cameras, and other consumer electronics. Sales expansion measures included strengthening on-site capabilities, enhancing distribution technologies, and promoting logistics systemization, along with the inauguration of a new sales office in Japan, two new branch offices in China and the establishment of Alps Logistics Mexico S.A. de C.V. in the North American region. Sales in the international logistics business marked strong growth, reflecting increasing customer needs for global distribution services.

As a result, while operating income fell 5.9% to ¥6.4 billion, sales in the logistics and others business segment grew 9.8% to ¥50.4 billion.

(3) Other Income (Expenses)

Other expenses decreased ¥8.0 billion to ¥1.3 billion. This was mainly caused by a ¥4.6 billion decline in impairment losses on fixed assets to ¥2.9 billion.

(4) Income before Income Taxes

Income before income taxes decreased 42.4% year on year.

(5) Income Taxes

Income taxes totaled ¥10.5 billion, at an effective tax rate of 50.6%, a 18.3 percentage point increase over the previous fiscal year.

(6) Minority Interests in Net Income of Consolidated Subsidiaries

Minority interests in net income of consolidated subsidiaries amounted to ¥5.4 billion, slightly down from the previous fiscal year.

(7) Net Income

Net income declined from ¥18.9 billion to ¥4.9 billion. Net income per share also significantly decreased, amounting to ¥27.40. Net income per share (diluted) was ¥24.84, owing to the issuance of zero-coupon convertible bonds due in 2010.

3. LIQUIDITY AND SOURCES OF FUNDS

(1) Cash Flows

Cash and cash equivalents at the end of the year decreased 5.5%, or ¥4.8 billion compared with the previous fiscal year, to ¥82.8 billion.

Cash flows from operating activities

Net cash provided by operating activities declined 22.5%, to ¥51.4 billion. Factors largely attributing to this decline include: the recording of ¥20.8 billion in income before income taxes; an increase in capital due to depreciation and amortization of ¥39.2 billion and an ¥8.7 billion decrease in inventories; a reduction in capital associated with a ¥6.0 billion rise in notes and accounts receivable; and ¥9.8 billion in payment for income taxes.

Cash flows from investing activities

In the fiscal year under review, net cash used in investing activities fell 3.1% year on year to ¥45.6 billion. This was primarily caused by a decrease in capital equal to ¥43.0 billion for the acquisition of property, plant and equipment, mainly in the electronic components segment.

Cash flows from financing activities

Net cash flows used in financing activities were down 12.5% compared with the prior fiscal year and amounted to ¥13.0 billion. The principal factors behind this decline were a ¥23.2 billion increase in proceeds from issuance of long-term borrowings, as well as a decrease of ¥10.1 billion for the redemption of domestic bonds, the repayment of long-term borrowings of ¥13.7 billion, and a ¥4.1 billion net decrease in short-term borrowings.

(2) Assets, Liabilities and Shareholders' Equity

Total assets at the end of the fiscal year were ¥548.0 billion, up ¥4.8 billion from the prior year. Total net assets increased ¥8.7 billion, to ¥294.0 billion.

Current assets grew ¥3.8 billion from the end of the previous fiscal year, to ¥321.4 billion. This was mainly due to an increase in notes and accounts receivable.

Fixed assets were ¥226.6 billion, a slight increase of ¥1.0 billion from a year earlier. This was primarily the result of an increase in machinery and equipment.

Current liabilities at the end of the fiscal year fell ¥19.3 billion, to ¥184.5 billion. Principal factors were a decline in long-term debt due within one year.

Non-current liabilities rose ¥15.5 billion to ¥69.6 billion, chiefly as a result of increased long-term debt.

The following risks pertain to business and accounting conditions and may have a material impact on investors' decisions.

Forward-looking statements are based on information available on June 27, 2007.

1. EFFECT OF WORLD MARKET CONDITIONS

The Company relies principally on markets outside of Japan, with overseas net sales accounting for 74.8% of the Company's total net sales for the year ended March 31, 2007. As such, any economic slowdown in the U.S., European and/or Asian markets involving a decline in consumer demand and/or 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 the Company's business.

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

2. COMPETITION

Given its wide range of products and the breadth of its international operations, the Company competes with various manufacturers. While the Company intends to continue to work to satisfy customers through new product introductions, the provision of high-quality products and the enhancement of its global network, due to the anticipation of intensifying market competition, there can be no assurance that the Company will be able to maintain its market share or competitive edge.

3. CUSTOMER NEEDS AND THE FREQUENT INTRODUCTION OF NEW TECHNOLOGIES

The markets in which the Company operates are subject to rapidly changing technology, changes in customers' needs 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 Company may not be successful in identifying new technologies or in developing new products in response to technological changes or changes in customers' requirements. Failure to anticipate or respond rapidly to advances or changes in technology and failure to adapt the Company's products to customer needs or to introduce new products in a timely manner could adversely affect the Company's business, operating results and financial condition.

4. CUSTOMERS' PRODUCTION PLANS

The Company's business is directly affected by the production plans of its customers, who 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 medium and long term.

5. 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, including unforeseen changes in laws and taxation and disadvantageous political and economic factors, as well as terrorism, war and other social disturbances. Accordingly, if any of these conditions were to occur, the operations of the Company would be seriously impacted.

6. 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 to the Company on schedule. Such circumstances would lead to production delays and lost sales opportunities and could adversely affect the performance and financial position of the Company.

7. FLUCTUATIONS IN OPERATING RESULTS

The Company's 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 are expected to continue to be subject to risk from the following factors: changes in general economic and business conditions, success or failure in introducing new products, changes in larger customers' strategies, cancellation of large orders, and other significant changes like extinction of large customer caused by the M&A activities by other companies.

Unfavorable changes in any of the above factors could harm the Company's business, financial condition and operating results.

8. INTELLECTUAL PROPERTY

Patents and other intellectual property are an important competitive factor because of the emphasis on product innovation in the markets for a number 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 significant, actual or potential, 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 on their intellectual property rights. If these claims were to be successful, the Company might 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 costly and time-consuming legal action in order to enforce its intellectual property rights, protect its trade secrets, determine the validity and scope of the property rights of others or 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 patent rights 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.

9. 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 the 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.

10. 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.

11. NATURAL DISASTERS

The Company recognizes the risk of natural disasters such as earthquakes and thoroughly implements strategies to prevent and protect each of its domestic and overseas production facilities from being adversely affected by such catastrophes. Although the Company was able to effectively minimize the adverse affects to its business during past earthquakes, in the event that it experiences any greater-than-expected natural disaster, the Company may incur substantial damages.

12. RISKS RELATING TO ENVIRONMENTAL POLLUTION

The Company takes steps to ensure implementation of environmental risk prevention measures based on its Alps Group's Environmental Charter as a part of its CSR activities. Specifically, such measures include prevention of chemical substance leakage, thorough control of effluents and emissions, and the purification of soil and groundwater. However, despite the Company's efforts to protect the environment, there can be no assurance that future environmental pollution will not arise during the course of its business activities. Accordingly, the occurrence of unforeseen environmental burden may lead to an increase in costs associated with countermeasures taken and adversely affect the performance and financial position of the Company.

CONSOLIDATED BALANCE SHEETS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2007**	2006	**2007**
Current assets:			
Cash and time deposits (Note 16)	**¥ 82,215**	¥ 88,063	**$ 696,147**
Investment securities (Notes 4 and 16)	**503**	573	**4,259**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliated companies	**1,214**	932	**10,279**
Trade	**130,698**	120,276	**1,106,673**
Allowance for doubtful accounts	**(2,282)**	(2,149)	**(19,323)**
Inventories (Note 5)	**77,396**	83,725	**655,343**
Deferred tax assets (Note 15)	**9,495**	9,804	**80,398**
Other current assets	**22,161**	16,380	**187,647**
Total current assets	**321,400**	317,604	**2,721,423**
Property, plant and equipment (Note 6):			
Land (Note 10)	**29,626**	29,005	**250,855**
Buildings and structures	**111,948**	112,102	**947,909**
Machinery and equipment	**305,186**	288,642	**2,584,132**
Construction in progress	**8,103**	6,494	**68,611**
	454,863	436,243	**3,851,507**
Less accumulated depreciation and accumulated impairment losses	**(295,117)**	(278,249)	**(2,498,874)**
	159,746	157,994	**1,352,633**
Investments and other assets:			
Intangible assets, net	**15,040**	14,223	**127,350**
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 4)	**8,625**	7,179	**73,031**
Investment securities (Note 4)	**20,281**	20,464	**171,727**
Deferred tax assets (Note 15)	**6,441**	7,672	**54,539**
Other assets (Note 7)	**16,511**	18,131	**139,805**
	66,898	67,669	**566,452**
Total assets	**¥ 548,044**	¥ 543,267	**$ 4,640,508**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2007**	2006	**2007**
Current liabilities:			
Bank loans (Note 6)	**¥ 41,014**	¥ 44,652	**$ 347,282**
Long-term debt due within one year (Note 6)	**7,028**	23,159	**59,509**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliated companies	**192**	728	**1,626**
Trade	**72,944**	68,405	**617,646**
Accrued income taxes	**4,677**	6,937	**39,602**
Accrued expenses	**37,104**	36,516	**314,174**
Deferred tax liabilities (Note 15)	**241**	446	**2,041**
Other current liabilities	**21,274**	22,965	**180,135**
Total current liabilities	**184,474**	203,808	**1,562,015**
Non-current liabilities:			
Long-term debt (Note 6)	**57,308**	41,561	**485,250**
Accrued employees' severance and pension costs (Note 7)	**2,604**	2,494	**22,049**
Deferred tax liabilities (Note 15)	**4,748**	3,480	**40,203**
Other non-current liabilities	**4,892**	6,557	**41,423**
Total non-current liabilities	**69,552**	54,092	**588,925**
Total liabilities	**254,026**	257,900	**2,150,940**
Contingent liabilities (Note 8)			
Net assets (Notes 3 and 9)**:**			
Stockholders' equity:			
Common stock:			
Authorized—500,000,000 shares			
Issued—181,559,956 shares in 2007 and 2006	**23,624**	23,624	**200,034**
Additional paid-in capital	**45,587**	45,587	**386,003**
Retained earnings	**132,845**	131,310	**1,124,852**
Treasury stock, at cost—2,332,089 shares in 2007, 364,423 shares in 2006	**(3,545)**	(540)	**(30,017)**
Total stockholders' equity	**198,511**	199,981	**1,680,872**
Accumulated gains (losses) from revaluation and translation adjustments:			
Unrealized net gains on investment securities	**4,525**	4,863	**38,315**
Unrealized net gains on hedge transactions (Note 17)	**0**	5	**0**
Land revaluation reserve (Note 10)	**(569)**	(569)	**(4,818)**
Foreign currency translation adjustments	**982**	(2,525)	**8,315**
Total accumulated gains (losses) from revaluation and translation adjustments	**4,938**	1,774	**41,812**
Minority interests	**90,569**	83,612	**766,884**
Total net assets	**294,018**	285,367	**2,489,568**
Total liabilities and net assets	**¥548,044**	¥543,267	**$4,640,508**

CONSOLIDATED STATEMENTS OF INCOME

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Net sales	**¥708,127**	¥709,613	¥643,631	**$5,995,995**
Costs and expenses (Note 12):				
Cost of sales	**596,857**	581,016	529,561	**5,053,827**
Selling, general and administrative expenses (Note 11)	**89,193**	83,125	82,993	**755,233**
	686,050	664,141	612,554	**5,809,060**
Operating income	**22,077**	45,472	31,077	**186,935**
Other income (expenses):				
Interest and dividend income	**1,876**	1,007	623	**15,885**
Interest expense	**(1,616)**	(1,509)	(1,105)	**(13,683)**
Exchange gains (losses), net	**647**	943	301	**5,478**
Other, net (Notes 13 and 14)	**(2,167)**	(9,749)	2,557	**(18,349)**
	(1,260)	(9,308)	2,376	**(10,669)**
Income before income taxes	**20,817**	36,164	33,453	**176,266**
Income taxes (Note 15):				
Current	**8,288**	11,356	10,418	**70,178**
Deferred	**2,248**	333	672	**19,035**
	10,536	11,689	11,090	**89,213**
Income before minority interests	**10,281**	24,475	22,363	**87,053**
Minority interests in net income of consolidated subsidiaries	**(5,363)**	(5,605)	(6,048)	**(45,410)**
Net income	**¥ 4,918**	¥ 18,870	¥ 16,315	**$ 41,643**

	Yen			U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Amounts per share of common stock:				
Net income	**¥ 27.40**	¥ 103.74	¥ 89.72	**$ 0.23**
Diluted net income	**24.84**	94.40	79.12	**0.21**
Cash dividends applicable to the year	**20.00**	20.00	16.00	**0.17**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007, 2006 and 2005

		Millions of yen									
		Stockholders' equity				Accumulated gains (losses) from revaluation and translation adjustments					
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Unrealized net gains on investment securities	Unrealized net gains on hedge transactions	Land revaluation reserve	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2004	180,727,015	¥22,913	¥44,876	¥102,685	¥ (407)	¥2,838	¥ 39	¥(387)	¥(12,518)	¥54,234	¥214,273
Increase due to inclusion of consolidated subsidiaries				222							222
Decrease due to sale of consolidated subsidiaries				(799)							(799)
Net income				16,315							16,315
Cash dividends paid (¥12.00 per share)				(2,165)							(2,165)
Bonuses to directors				(109)							(109)
Change in unrealized net gains on investment securities						435					435
Change in foreign currency translation adjustments									3,384		3,384
Change in minority interests										8,058	8,058
Other				(25)	(90)		(7)	(260)			(382)
Balance at March 31, 2005	180,727,015	22,913	44,876	116,124	(497)	3,273	32	(647)	(9,134)	62,292	239,232
Conversion of convertible bonds	832,941	711	711								1,422
Increase due to inclusion of consolidated subsidiaries				54							54
Net income				18,870							18,870
Cash dividends paid (¥20.00 per share)				(3,610)							(3,610)
Bonuses to directors				(127)							(127)
Change in unrealized net gains on investment securities						1,590					1,590
Change in foreign currency translation adjustments									6,609		6,609
Change in minority interests										21,320	21,320
Other			0	(1)	(43)		(27)	78			7
Balance at March 31, 2006	181,559,956	23,624	45,587	131,310	(540)	4,863	5	(569)	(2,525)	83,612	285,367
Increase due to inclusion of consolidated subsidiaries				**147**							**147**
Net income				**4,918**							**4,918**
Cash dividends paid (¥20.00 per share)				**(3,604)**							**(3,604)**
Bonuses to directors				**(124)**							**(124)**
Increase in earnings due to changes in ownership interest of an affiliated company by equity method				**208**							**208**
Purchase of treasury stock					**(3,006)**						**(3,006)**
Change in unrealized net gains on investment securities						**(338)**					**(338)**
Change in foreign currency translation adjustments									**3,507**		**3,507**
Change in minority interests										**6,957**	**6,957**
Other			**(0)**	**(10)**	**1**		**(5)**				**(14)**
Balance at March 31, 2007	**181,559,956**	**¥23,624**	**¥45,587**	**¥132,845**	**¥(3,545)**	**¥4,525**	**¥ 0**	**¥(569)**	**¥ 982**	**¥90,569**	**¥294,018**

	Thousands of U.S. dollars (Note 1)									
	Stockholders' equity				Accumulated gains (losses) from revaluation and translation adjustments					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Unrealized net gains on investment securities	Unrealized net gains on hedge transactions	Land revaluation reserve	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	$200,034	$386,005	$1,111,854	$ (4,572)	$41,177	$ 42	$(4,818)	$(21,380)	$707,976	$2,416,318
Increase due to inclusion of consolidated subsidiaries			**1,245**							**1,245**
Net income			**41,643**							**41,643**
Cash dividends paid ($0.17 per share)			**(30,517)**							**(30,517)**
Bonuses to directors			**(1,050)**							**(1,050)**
Increase in earnings due to changes in ownership interest of an affiliated company by equity method			**1,761**							**1,761**
Purchase of treasury stock				**(25,453)**						**(25,453)**
Change in unrealized net gains on investment securities					**(2,862)**					**(2,862)**
Change in foreign currency translation adjustments								**29,695**		**29,695**
Change in minority interests									**58,908**	**58,908**
Other		**(2)**	**(84)**	**8**		**(42)**				**(120)**
Balance at March 31, 2007	**$200,034**	**$386,003**	**$1,124,852**	**$(30,017)**	**$38,315**	**$ 0**	**$(4,818)**	**$ 8,315**	**$766,884**	**$2,489,568**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Cash flows from operating activities:				
Income before income taxes	**¥ 20,817**	¥ 36,164	¥ 33,453	**$ 176,266**
Depreciation and amortization	**39,213**	36,925	40,899	**332,032**
Impairment losses on fixed assets	**2,945**	7,476	—	**24,936**
Amortization of goodwill	**115**	114	109	**974**
Increase (decrease) in allowance for doubtful accounts	**44**	489	(75)	**373**
Increase in allowance for cancellation cost of resort membership contract	**—**	206	—	**—**
Increase (decrease) in accrued employees' severance and pension costs	**67**	(10,915)	847	**567**
(Increase) decrease in long-term prepaid pension costs	**910**	(4,234)	(7,057)	**7,705**
Increase (decrease) in accrued directors' severance costs	**227**	(75)	(88)	**1,922**
Increase in allowance for environmental preservation costs	**—**	318	—	**—**
Interest and dividend income	**(1,876)**	(1,007)	(623)	**(15,885)**
Interest expense	**1,616**	1,509	1,105	**13,683**
Equity in earnings of affiliated companies	**(274)**	(186)	(393)	**(2,320)**
Write-offs of specified money in trust	**—**	—	606	**—**
Loss on redemption of specified money in trust	**—**	892	—	**—**
Gain on sale of fixed assets	**(259)**	(661)	(159)	**(2,193)**
Loss on sale and disposal of fixed assets	**1,782**	2,026	1,287	**15,089**
Loss from changes in ownership interest of subsidiaries	**—**	629	33	**—**
Gain on sale of investment securities	**(919)**	(261)	(268)	**(7,782)**
Write-offs of investment securities	**537**	289	178	**4,547**
Restoration expense for soil pollution	**—**	779	—	**—**
(Increase) decrease in notes and accounts receivable	**(6,008)**	957	(3,201)	**(50,872)**
(Increase) decrease in inventories	**8,746**	4,798	(4,845)	**74,056**
Increase (decrease) in notes and accounts payable	**744**	(8,519)	2,026	**6,300**
Increase (decrease) in accrued expenses	**(1,037)**	3,780	(899)	**(8,781)**
Increase (decrease) in long-term other payable	**(1,885)**	3,806	—	**(15,961)**
Increase in income taxes receivable	**(3,177)**	—	—	**(26,901)**
Other, net	**(1,479)**	3,926	1,785	**(12,522)**
Subtotal	**60,849**	79,225	64,720	**515,233**
Proceeds from interest and dividend income	**1,916**	1,211	707	**16,224**
Payments for interest expense	**(1,581)**	(1,508)	(1,094)	**(13,387)**
Payments for income taxes	**(9,798)**	(12,611)	(7,463)	**(82,964)**
Net cash provided by operating activities	**51,386**	66,317	56,870	**435,106**
Cash flows from investing activities:				
Payments to deposit money in bank	**—**	(1,733)	(364)	**—**
Payments for purchases of property, plant and equipment	**(43,014)**	(44,970)	(40,277)	**(364,217)**
Proceeds from sale of property, plant and equipment	**1,556**	2,337	747	**13,175**
Payments for purchases of intangible assets	**(5,837)**	(5,463)	(3,804)	**(49,424)**
Payments for purchases of investment securities	**(575)**	(797)	(51)	**(4,869)**
Proceeds from sale of investment securities	**969**	281	485	**8,205**
Decrease from sale of consolidated subsidiaries	**—**	—	(87)	**—**
Proceeds from redemption of specified money in trust	**—**	2,340	—	**—**
Other	**1,285**	911	267	**10,881**
Net cash used in investing activities	**(45,616)**	(47,094)	(43,084)	**(386,249)**
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	**(4,132)**	916	7,379	**(34,987)**
Proceeds from issuance of long-term borrowings	**23,200**	2,881	1,490	**196,444**
Repayment of long-term borrowings	**(13,740)**	(13,575)	(7,333)	**(116,342)**
Redemption of domestic bonds	**(10,063)**	—	—	**(85,207)**
Cash dividends paid	**(3,604)**	(3,610)	(2,165)	**(30,517)**
Cash dividends paid to minority interests	**(1,684)**	(1,390)	(1,234)	**(14,259)**
Payments for purchase of treasury stock	**(3,006)**	(44)	(0)	**(25,453)**
Other	**34**	(37)	(12)	**287**
Net cash used in financing activities	**(12,995)**	(14,859)	(1,875)	**(110,034)**
Effect of exchange rate changes on cash and cash equivalents	**2,248**	3,984	968	**19,035**
Net increase (decrease) in cash and cash equivalents	**(4,977)**	8,348	12,879	**(42,142)**
Cash and cash equivalents at beginning of year	**87,538**	79,011	65,597	**741,219**
Cash and cash equivalents at beginning of year held by newly consolidated subsidiaries	**163**	179	185	**1,380**
Cash and cash equivalents at the date of merger held by the merged company	**27**	—	350	**229**
Cash and cash equivalents at end of year (Note 16)	**¥ 82,751**	¥ 87,538	¥ 79,011	**$ 700,686**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

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, 2007, which was ¥118.1 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 other than those of subsidiaries and affiliates 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 net assets. 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 gross 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	2–17 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 sale to the market is amortized at the greater of either the amount based on sales in the year, as a proportion of total estimated sales, or the amount calculated on a straight-line basis over the remaining salable period.

(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 net assets.

(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 directors' bonuses

Accrued directors' 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.

(l) 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.

(m) Allowance for cancellation cost of resort membership contract
The Company and certain of its domestic consolidated subsidiaries provided allowance for cancellation cost of resort membership contract at an estimated amount of cost incurred for cancellation of the contract before its maturity for the year ended March 31, 2006.

(n) 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.

(o) 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, 4 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.

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

(q) 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.

(r) 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.

(s) 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.

(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
Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. The financial statements for the year ended March 31, 2006 have been reclassified to conform to the presentation of the financial statements for the year ended March 31, 2007.

Certain prior year amounts have been reclassified to conform to the 2007 presentation. These changes had no impact on previously reported results of operations or net assets.

3. ACCOUNTING CHANGES

(a) Change in useful life
Effective from the fiscal year ended March 31, 2007, certain of the Company's foreign consolidated subsidiaries changed the useful life of machinery from "6 to 10 years" to "4 to 7 years" as a result of the reconsideration of the useful life of machinery and the establishment of new accounting management system.

As a result, depreciation expense increased by ¥395 million ($3,345 thousand), and operating income and income before income taxes decreased by ¥257 million ($2,176 thousand) and ¥381 million ($3,226 thousand), respectively.

Effective from the fiscal year ended March 31, 2006, 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 increased by ¥4,689 million, and operating income and income before income taxes decreased by ¥3,629 million and ¥4,033 million, respectively.

(b) Change in residual value
Effective from the fiscal year ended March 31, 2007, certain of the Company's foreign consolidated subsidiaries changed the estimation of residual value of property, plant and equipment from 10% of acquisition cost to substantial value, as a result of the reconsideration of the residual value and the establishment of new accounting management system.

As a result, depreciation expense increased by ¥561 million ($4,750 thousand), and operating income and income before income taxes decreased by ¥198 million ($1,677 thousand) and ¥551 million ($4,666 thousand), respectively.

(c) Adoption of accounting for directors' bonuses
Effective from the fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted the Accounting Standard for Directors' Bonuses (ASBJ Statement No.4 issued on November 29, 2005). Under this standard, directors' bonuses are expensed as incurred and shown under SG&A expenses, whereas the Companies previously accounted the Companies for them as a deduction of retained earnings.

As a result of the adoption of this standard, operating income and income before income taxes decreased by ¥161 million ($1,363 thousand), respectively.

(d) Accounting standard for presentation of net assets in the balance sheet
Effective from the fiscal year ended March 31, 2007, the Company has adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5 issued on December 9, 2005) and the Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8 issued on December 9, 2005).

Stockholders' equity under the previous presentation method amounted to ¥203,448 million ($1,722,676 thousand) as of March 31, 2007.

(e) Change in presentation of sale of tooling
Effective from the fiscal year ended March 31, 2007, the Company and certain of its consolidated subsidiaries changed presentation of sale of tooling in the consolidated statements of income from recording net gain or loss amounts in other income (expenses) to recording gross amounts in net sales and cost of sales because of the recent increase in such transactions and the establishment of new accounting management system.

As a result, net sales, cost of sales and operating income increased by ¥6,248 million ($52,904 thousand), ¥5,633 million ($47,697 thousand) and ¥615 million ($5,207 thousand), respectively, whereas there is no effect on income before income taxes.

(f) Change in depreciation method
Effective from the fiscal year ended March 31, 2006, 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 decreased by ¥2,730 million, and operating income and income before income taxes increased by ¥2,264 million, respectively.

(g) Adoption of accounting for the impairment of fixed assets
Effective from the fiscal year ended March 31, 2006, 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 will be 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 were 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 the above accounting changes on segment information is described in 19. SEGMENT INFORMATION.

4. INVESTMENT SECURITIES

Marketable securities classified as other securities at March 31, 2007 and 2006 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Cost	Fair value	Unrealized gains (losses)	Cost	Fair value	Unrealized gains (losses)
Securities for which fair value exceeds cost:						
Equity securities	**¥4,173**	**¥19,283**	**¥15,110**	**$35,334**	**$163,276**	**$127,942**
Securities for which cost exceeds fair value:						
Equity securities	**44**	**38**	**(6)**	**373**	**322**	**(51)**
Total	**¥4,217**	**¥19,321**	**¥15,104**	**$35,707**	**$163,598**	**$127,891**

	Millions of yen		
	2006		
	Cost	Fair value	Unrealized gains (losses)
Securities for which fair value exceeds cost:			
Equity securities	¥4,203	¥19,092	¥14,889
Securities for which cost exceeds fair value:			
Equity securities	16	14	(2)
Total	¥4,219	¥19,106	¥14,887

Proceeds from sales of securities classified as other securities for the years ended March 31, 2007, 2006 and 2005 were ¥969 million ($8,205 thousand), ¥281 million and ¥485 million, respectively. Gross realized gains and losses for the year ended March 31, 2007 were ¥919 million ($7,782 thousand) and ¥0 million ($1 thousand), respectively. Gross realized gains and losses for the year ended March 31, 2006 were ¥261 million and ¥5 million, respectively. Gross realized gains for the year ended March 31, 2005 were ¥268 million and ¥54 million, respectively.

Significant components of securities recorded at cost at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Other securities:			
Non-marketable equity securities	¥ 958	¥1,349	$ 8,112
Government bonds	1	0	8
Other	504	582	4,268
Subsidiaries' and affiliates' stocks:			
Unconsolidated subsidiaries and affiliated companies	1,404	1,682	11,888
Total	¥2,867	¥3,613	$24,276

5. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products	¥44,268	¥46,809	$374,835
Work in process	14,905	17,230	126,207
Raw materials and supplies	18,223	19,686	154,301
	¥77,396	¥83,725	$655,343

6. BANK LOANS AND LONG-TERM DEBT

Bank loans consisted primarily of overdrafts with banks at interest rates ranging from 0.81% to 6.18% and 0.47% to 5.44% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans principally from banks and insurance companies due through 2018 at interest rates ranging from 0.98% to 6.19% and 0.00% to 5.34% at March 31, 2007 and 2006, respectively	¥35,548	¥26,120	$300,999
Zero coupon convertible bonds due 2010	28,788	28,600	243,760
1.07% domestic bonds due 2007	—	10,000	—
	64,336	64,720	544,759
Less amounts due within one year	7,028	23,159	59,509
	¥57,308	¥41,561	$485,250

At March 31, 2007 and 2006, the following assets were pledged as collateral for bank loans and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Property, plant and equipment, at book value	¥6,052	¥7,719	$51,245

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 7,028	$ 59,509
2009	930	7,875
2010	33,729	285,597
2011	10,929	92,540
2012	10,499	88,899
2013 and thereafter	1,221	10,339
Total	¥64,336	$544,759

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 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 decreased by ¥8,441 million and unrecognized negative prior service cost 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, 2007 and 2006 for the Company and its consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥(55,166)	¥(53,270)	$(467,113)
Plan assets at fair value	58,399	55,390	494,488
Unfunded projected benefit obligation	3,233	2,120	27,375
Unrecognized actuarial net loss	4,672	6,812	39,560
Unrecognized prior service cost	(49)	(56)	(415)
Amounts recognized in the consolidated balance sheets, net	7,856	8,876	66,520
Prepaid pension cost	10,460	11,370	88,569
Accrued employees' severance and pension costs	¥ (2,604)	¥ (2,494)	$ (22,049)

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, 2007 and 2006 in the amount of ¥2,805 million ($23,751 thousand) and ¥2,334 million 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, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Service cost	**¥ 2,334**	¥ 2,227	¥ 3,091	**$ 19,763**
Interest cost	**1,263**	1,235	2,244	**10,694**
Expected return on plan assets	**(1,351)**	(1,153)	(1,436)	**(11,439)**
Amortization of actuarial loss	**925**	1,358	2,247	**7,832**
Amortization of prior service cost	**(6)**	(7,042)	(1,411)	**(51)**
Additional accrued severance cost	**54**	20	17	**457**
Other	**859**	905	233	**7,274**
Sub-total	**4,078**	(2,450)	4,985	**34,530**
Gain on return of substitutional portion of Employees' Pension Fund plans	**—**	(79)	(10,418)	**—**
Settlement loss on certain pension plans	**—**	—	1,989	**—**
Expenses for the change from conventional method to principle method	**27**	169	—	**229**
Total	**¥ 4,105**	¥ (2,360)	¥ (3,444)	**$ 34,759**

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Discount rates	**1.0%–2.5%**	1.0%–2.5%	2.0%–2.5%
Expected return on plan assets	**2.0%–2.5%**	2.0%–2.5%	2.0%–2.5%

8. CONTINGENT LIABILITIES

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 ¥274 million ($2,320 thousand) at March 31, 2007.

The Company and certain of its consolidated subsidiaries have entered into loan commitment agreements amounting to ¥41,000 million ($347,163 thousand) with financial institutes at March 31, 2007. The loans payable outstanding was ¥14,000 million ($118,544 thousand), and therefore, the unused balances was ¥27,000 million ($228,619 thousand) under the credit facilities as of March 31, 2007.

9. NET ASSETS

The Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock. Such distributions can be made at any time by resolution of the stockholders, or by the Board of Directors if certain conditions are met.

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 net assets.

The carrying value of this land after the revaluation exceeded its fair value as of March 31, 2007 and 2006 by ¥963 million ($8,154 thousand) and ¥873 million, respectively.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items included in selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Salaries	**¥28,224**	¥26,847	¥27,388	**$238,984**
Employees' bonuses	**1,708**	1,439	1,412	**14,462**
Directors' bonuses	**118**	—	—	**999**
Employees' severance and pension costs	**1,183**	(292)	1,224	**10,017**
Directors' severance costs	**286**	208	236	**2,422**
Allowance for doubtful accounts	**346**	410	117	**2,930**
Warranty costs	**1,469**	1,692	1,317	**12,439**
Commission expenses	**8,021**	7,885	6,985	**67,917**
Research and development expenses	**9,986**	8,967	12,834	**84,555**

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in cost of sales and general and administrative expenses were ¥46,804 million ($396,308 thousand), ¥42,830 million and ¥42,466 million for the years ended March31, 2007, 2006 and 2005, respectively.

13. OTHER INCOME (EXPENSES)

The components of other, net, in the accompanying consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Loss on sale and disposal of fixed assets	**¥(1,782)**	¥(2,026)	¥ (1,287)	**$(15,089)**
Gain on sale of fixed assets	**259**	661	159	**2,193**
Prior years' royalty expense	**—**	—	(195)	**—**
Gain on sale of investment securities	**919**	261	268	**7,782**
Write-offs of investment securities	**(537)**	(289)	(178)	**(4,547)**
Gain on sale of subsidiaries' and affiliates' interests	**—**	294	—	**—**
Equity in earnings of affiliated companies	**274**	186	393	**2,320**
Gain on sale of tooling	**—**	836	753	**—**
Write-offs of specified money in trust ("Tokkin")	**—**	—	(606)	**—**
Loss on redemption of specified money in trust ("Tokkin")	**—**	(892)	—	**—**
Gain on return of substitutional portion of Employees' Pension Fund plans	**—**	79	10,418	**—**
Insurance revenue due from disasters	**172**	932	2,506	**1,456**
Settlement gain on lawsuit	**—**	—	919	**—**
Extraordinary depreciation	**(477)**	(405)	(4,971)	**(4,039)**
Settlement loss on certain pension plans	**—**	—	(1,989)	**—**
Loss due to disasters	**—**	—	(1,773)	**—**
Impairment losses on fixed assets	**(2,945)**	(7,476)	—	**(24,936)**
Loss from changes in ownership interest of subsidiaries	**—**	(629)	(33)	**—**
Restoration expense for soil pollution	**—**	(779)	—	**—**
Provision for environmental preservation costs	**—**	(318)	—	**—**
Provision for cancellation cost of resort membership contract	**—**	(206)	—	**—**
Sales discounts	**(334)**	—	—	**(2,828)**
Royalty income	**2,000**	—	—	**16,935**
Product warranty expense	**(935)**	—	—	**(7,917)**
Other	**1,219**	22	(1,827)	**10,321**
	¥ (2,167)	¥ (9,749)	¥ 2,557	**$(18,349)**

(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.

14. 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 years ended March 31, 2007 and 2006 as follows:

			Millions of yen		Thousands of U.S. dollars
Asset group	Asset kind	Location	2007	2006	2007
AV-Head business	Buildings, machinery etc.	(Note 1)	¥ 43	¥1,528	$ 364
LCD business	Buildings, machinery etc.	(Note 2)	228	4,100	1,931
Communications business	Buildings, machinery etc.	(Note 3)	2,620	—	22,184
Idle assets	Buildings, land etc.	Japan	54	1,817	457
Rented assets	Buildings, etc.	Japan	—	31	—
Total			¥2,945	¥7,476	$24,936

(Note 1) Japan and China for the year ended March 31, 2007
Japan, China, South Korea and Malaysia for the year ended March 31, 2006
(Note 2) Japan and China for the year ended March 31, 2007
Japan, China and Germany for the year ended March 31, 2006
(Note 3) Japan, China, South Korea, Malaysia and Czech for the year ended March 31, 2007

With respect to assets categorized in AV-Head business group, LCD business group and Communications business group, the Companies reduced the book value of these assets to the recoverable amount and recognized impairment losses of ¥2,891 million ($24,479 thousand) and ¥5,628 million for the years ended March 31, 2007 and 2006, respectively, as other expenses because business environment deteriorated mainly due to the related market shrink. The impairment losses for the year ended March 31, 2007 were recorded for buildings at ¥714 million ($6,046 thousand), for machinery at ¥1,537 million ($13,014 thousand) and for other assets at ¥640 million ($5,419 thousand), and the impairment losses for the year ended March 31, 2006 were recorded for buildings at ¥1,534 million, for machinery at ¥3,613 million and for other assets at ¥481 million. The rate used in calculating discounted future cash flows for the years ended March 31, 2007 and 2006 were 5.1% and 5.3%, respectively.

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 ¥54 million ($457 thousand) and ¥1,817 million for the years ended March 31, 2007 and 2006, respectively, as other expenses.

The impairment losses of ¥54 million ($457 thousand) on idle assets for the year ended March 31, 2007 were for buildings at ¥39 million ($330 thousand), for land at 15 million ($127 thousand) and for other assets at ¥0 million ($0 thousand), and the impairment losses of ¥1,817 million on idle assets for the year ended March 31, 2006 were for buildings at ¥363 million, for land at ¥1,398 million and for other assets at ¥56 million. 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 for the year ended March 31, 2006 as other expenses. Such impairment losses for the year ended March 31, 2006 were recorded for building at ¥30 million and for other assets at ¥1 million. Net realizable value computed based on property tax value was used for the recoverable amount of the rented assets.

15. 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, 2007, 2006 and 2005.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005:

	2007	2006	2005
Statutory tax rate	40.3%	40.3%	40.3%
Change in valuation allowance	10.5	(0.1)	(0.8)
Lower tax rate at foreign subsidiaries	(7.4)	(7.0)	(4.6)
Prior years' income taxes	4.3	—	—
Non-deductible expenses	2.2	0.9	0.9
Other	0.7	(1.8)	(2.6)
Effective tax rates	50.6%	32.3%	33.2%

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Net operating loss carryforwards	¥ 1,121	¥ 1,096	$ 9,492
Accrued employees' severance and pension costs	772	737	6,537
Intercompany profit	5,246	2,613	44,420
Write-offs of inventories	1,386	1,035	11,736
Depreciation	10,164	9,626	86,063
Accrued employees' bonuses	2,991	3,310	25,326
Write-offs of investment securities	988	1,032	8,366
Accrued warranty costs	1,494	1,197	12,650
Accrued expenses	850	1,043	7,197
Other	4,250	4,532	35,987
Total deferred tax assets	29,262	26,221	247,774
Valuation allowance	(4,893)	(3,638)	(41,431)
Less deferred tax liabilities in the same tax jurisdiction	(8,433)	(5,107)	(71,406)
Deferred tax assets, net	15,936	17,476	134,937
Deferred tax liabilities:			
Unrealized gain on investment securities	6,439	6,029	54,522
Prepaid pension cost	2,289	—	19,382
Reserves under special taxation measures law	1,764	—	14,936
Accelerated depreciation of property, plant and equipment	566	683	4,793
Investment in an affiliated company	1,116	547	9,450
Unappropriated retained earnings of foreign subsidiaries	619	871	5,241
Other	629	903	5,326
Total deferred tax liabilities	13,422	9,033	113,650
Less deferred tax assets in the same tax jurisdiction	(8,433)	(5,107)	(71,406)
Deferred tax liabilities, net	4,989	3,926	42,244
Net deferred tax assets	¥10,947	¥13,550	$ 92,693

16. 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Cash and time deposits	**¥82,215**	¥88,063	**$696,147**
Investment securities	**503**	573	**4,259**
Total	**82,718**	88,636	**700,406**
Less:			
Time deposits with a maturity of more than three months when purchased	**(783)**	(1,344)	**(6,630)**
CD with a maturity of more than three months when purchased	**(126)**	(417)	**(1,067)**
Add:			
Repurchase agreement with period within three months	**942**	663	**7,977**
Cash and cash equivalents	**¥82,751**	¥87,538	**$700,686**

17. 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, 2007 and 2006 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			**2007**		
	Notional amounts	Fair value	Unrealized Gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)
Forward foreign exchange contracts:						
Sell:						
U.S. dollars	**¥18,161**	**¥18,120**	**¥ 41**	**$153,776**	**$153,429**	**$ 347**
Euro	**6,244**	**6,269**	**(25)**	**52,870**	**53,082**	**(212)**

	Millions of yen		
	2006		
	Notional amounts	Fair value	Unrealized gains (losses)
Forward foreign exchange contracts:			
Sell:			
U.S. dollars	¥18,671	¥18,800	¥(129)
Euro	5,034	5,059	(25)
Buy:			
U.S. dollars	6,476	6,487	11
Euro	4,662	4,673	11
Currency option contracts:			
Sell:			
Call-U.S. dollars	4,396	75	(7)
Option premium	68		
Call-Euro	4,102	51	3
Option premium	54		
Buy:			
Put-U.S. dollars	4,396	67	(1)
Option premium	68		
Put-Euro	4,102	36	(18)
Option premium	54		

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.

18. 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, 2007 and 2006, 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
	2007	2006	**2007**
Acquisition costs of machinery and vehicles	**¥1,579**	¥2,230	**$13,370**
Accumulated depreciation of machinery and vehicles	**1,062**	1,435	**8,992**
Net book value	**¥ 517**	¥ 795	**$ 4,378**
Acquisition costs of equipment and tools	**¥ 640**	¥ 756	**$ 5,419**
Accumulated depreciation of equipment and tools	**328**	335	**2,777**
Net book value	**¥ 312**	¥ 421	**$ 2,642**
Acquisition costs of intangible assets	**¥ 1**	¥ 25	**$ 8**
Accumulated depreciation of intangible assets	**1**	20	**8**
Net book value	**¥ 0**	¥ 5	**$ 0**

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	**¥379**	**$3,209**
2009 and thereafter	**450**	**3,810**
	¥829	**$7,019**

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2007, 2006 and 2005 totaled ¥438 million ($3,709 thousand), ¥528 million and ¥697 million, respectively. The pro forma depreciation of the assets leased under finance leases accounted for as operating leases for the years ended March 31, 2007, 2006 and 2005 amounted to ¥438 million ($3,709 thousand), ¥528 million and ¥697 million, respectively.

The Company's future minimum lease payments subsequent to March 31, 2007 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 914	$ 7,739
2009 and thereafter	1,219	10,322
	¥2,133	$18,061

As lessor:

Certain domestic subsidiaries of the Company lease certain buildings, structures, 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, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition costs of buildings and structures	¥ 16	¥ —	$ 135
Accumulated depreciation of buildings and structures	4	—	33
Net book value	¥ 12	¥ —	$ 102
Acquisition costs of machinery and vehicles	¥2,183	¥2,254	$18,484
Accumulated depreciation of machinery and vehicles	1,510	1,512	12,785
Net book value	¥ 673	¥ 742	$ 5,699
Acquisition costs of equipment and tools	¥ 627	¥ 519	$ 5,309
Accumulated depreciation of equipment and tools	355	329	3,006
Net book value	¥ 272	¥ 190	$ 2,303
Acquisition costs of intangible assets	¥ 11	¥ 7	$ 93
Accumulated depreciation of intangible assets	4	3	34
Net book value	¥ 7	¥ 4	$ 59

The future minimum lease income subsequent to March 31, 2007 under finance leases accounted for as operating leases is summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥310	$2,625
2009 and thereafter	650	5,504
	¥960	$8,129

Lease income, depreciation and interest portion of lease income on finance leases accounted for as operating leases for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Lease income	¥368	¥339	¥319	$3,116
Depreciation	295	298	281	2,498
Interest portion of lease income	47	51	44	398

19. 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, 2007, 2006 and 2005 was summarized as follows:

	Millions of yen				
Year ended March 31, 2007	Electronic components	Audio equipment	Logistics and others	Eliminations	Consolidated
Net sales					
Outside customers	¥396,448	¥261,274	¥50,405	¥ —	¥708,127
Inter-segment sales and transfers	6,733	3,781	31,397	(41,911)	—
Total	403,181	265,055	81,802	(41,911)	708,127
Costs and expenses	397,916	254,945	75,394	(42,205)	686,050
Operating income	5,265	10,110	6,408	294	22,077
Total assets	334,101	181,185	82,168	(49,410)	548,044
Depreciation and amortization	27,256	9,326	2,756	(125)	39,213
Impairment losses on fixed assets	2,945	—	—	—	2,945
Capital expenditures	29,526	12,620	8,932	(5,770)	45,308

	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

Year ended March 31, 2007	Electronic components	Audio equipment	Logistics and others	Eliminations	Consolidated
	Thousands of U.S. dollars				
Net sales					
Outside customers	**$3,356,884**	**$2,212,312**	**$426,799**	**$ —**	**$5,995,995**
Inter-segment sales and transfers	**57,011**	**32,015**	**265,851**	**(354,877)**	**—**
Total	**3,413,895**	**2,244,327**	**692,650**	**(354,877)**	**5,995,995**
Costs and expenses	**3,369,314**	**2,158,722**	**638,391**	**(357,367)**	**5,809,060**
Operating income	**44,581**	**85,605**	**54,259**	**2,490**	**186,935**
Total assets	**2,828,967**	**1,534,166**	**695,749**	**(418,374)**	**4,640,508**
Depreciation and amortization	**230,787**	**78,967**	**23,336**	**(1,058)**	**332,032**
Impairment losses on fixed assets	**24,936**	**—**	**—**	**—**	**24,936**
Capital expenditures	**250,008**	**106,859**	**75,631**	**(48,857)**	**383,641**

* The effects of the changes in accounting policies and procedures on the segment information are as follow:

(1) In connection with Note 3(a) , the effect of the change in "electronic components" for the year ended March 31, 2007 was to decrease operating income by ¥257 million ($2,176 thousand), and the effect of the change in "electronic components" for the year ended March 31, 2006 was to decrease operating income by ¥3,629 million.

(2) In connection with Note 3(b) , the effect of the change in "electronic components" for the year ended March 31, 2007 was to decrease operating income by ¥198 million ($1,677 thousand).

(3) In connection with Note 3(c), the effect of the change for the year ended March 31, 2007 was to decrease operating income of "electronics components" by ¥42 million ($356 thousand), of "audio equipment" by ¥63 million ($533 thousand) and of "logistics and others" by ¥56 million ($474 thousand), respectively.

(4) In connection with Note 3(e), the effect of the change in "electronics components" for the year ended March 31, 2007 was to increase net sales, costs and expenses and operating income by ¥6,248 million ($52,904 thousand), ¥5,633 million ($47,697 thousand) and ¥615 million ($5,207 thousand), respectively.

(5) In connection with Note 3(f), the effect of the change in "electronic components" for the year ended March 31, 2006 was to increase operating income by ¥2,264 million.

Geographical segments

The geographic segment information of the Companies for the years ended March 31, 2007, 2006 and 2005 was summarized as follows:

Year ended March 31, 2007	Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
	Millions of yen						
Net sales							
Outside customers	**¥251,187**	**¥147,001**	**¥163,242**	**¥145,233**	**¥1,464**	**¥ —**	**¥708,127**
Inter-segment sales and transfers	**336,373**	**2,172**	**44,404**	**143,847**	**2**	**(526,798)**	**—**
Total	**587,560**	**149,173**	**207,646**	**289,080**	**1,466**	**(526,798)**	**708,127**
Costs and expenses	**573,054**	**146,600**	**205,147**	**278,347**	**1,430**	**(518,528)**	**686,050**
Operating income	**14,506**	**2,573**	**2,499**	**10,733**	**36**	**(8,270)**	**22,077**
Total assets	**411,352**	**51,835**	**75,052**	**141,663**	**518**	**(132,376)**	**548,044**

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, 2007	Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
	Thousands of U.S. dollars						
Net sales							
Outside customers	**$2,126,901**	**$1,244,716**	**$1,382,235**	**$1,229,746**	**$12,397**	**$ —**	**$5,995,995**
Inter-segment sales and transfers	**2,848,205**	**18,392**	**375,987**	**1,218,010**	**16**	**(4,460,610)**	**—**
Total	**4,975,106**	**1,263,108**	**1,758,222**	**2,447,756**	**12,413**	**(4,460,610)**	**5,995,995**
Costs and expenses	**4,852,278**	**1,241,321**	**1,737,062**	**2,356,875**	**12,108**	**(4,390,584)**	**5,809,060**
Operating income	**122,828**	**21,787**	**21,160**	**90,881**	**305**	**(70,026)**	**186,935**
Total assets	**3,483,082**	**438,908**	**635,495**	**1,199,517**	**4,387**	**(1,120,881)**	**4,640,508**

* The effects of the changes in accounting policies and procedures on the segment information are as follows:

(1) In connection with Note 3(a), the effect of the change in "Asia" for the year ended March 31, 2007 was to decrease operating income by ¥257 million ($2,176 thousand), and the effect of the change in "Japan" for the year ended March 31, 2006 was to decrease operating income by ¥3,629 million.

(2) In connection with Note 3(b), the effect of the change in "Asia" for the year ended March 31, 2007 was to decrease operating income by ¥198 million ($1,677 thousand).

(3) In connection with Note 3(c), the effect of the change in "Japan" for the year ended March 31, 2007 was to decrease operating income by ¥161 million ($1,363 thousand).

(4) In connection with Note 3(e), the effect of the change in geographical segments for the year ended March 31, 2007 was as follows:

	Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
	Millions of yen						
Net sales increase	¥2,190	¥1,645	¥2,160	¥253	¥—	¥ —	¥6,248
Costs and expenses increase	1,712	1,748	2,059	66	—	48	5,633
Operating income increase (decrease)	478	(103)	101	187	—	(48)	615

	Japan	North America	Europe	Asia	Other area	Eliminations	Consolidated
	Thousands of U.S. dollars						
Net sales increase	$18,543	$13,929	$18,290	$2,142	$—	$ —	$52,904
Costs and expenses increase	14,496	14,801	17,435	559	—	406	47,697
Operating income increase (decrease)	4,047	(872)	855	1,583	—	(406)	5,207

(5) In connection with Note 3(f), the effect of the change in "Japan" for the year ended March 31, 2006 was to increase operating income by ¥2,264 million.

Overseas sales

Overseas sales of the Companies by geographic area for the years ended March 31, 2007, 2006 and 2005 were as follows:

Year ended March 31, 2007	North America	Europe	Asia	Other area	Total
	Millions of yen				
Overseas sales	**¥153,473**	**¥164,564**	**¥207,274**	**¥4,414**	**¥529,725**
Net sales					**¥708,127**
Ratio of overseas sales (%)	**22%**	**23%**	**29%**	**1%**	**75%**

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 sale					¥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, 2007	North America	Europe	Asia	Other area	Total
	Thousands of U.S. dollars				
Overseas sales	**$1,299,517**	**$1,393,429**	**$1,755,072**	**$37,376**	**$4,485,394**
Net sales					**$5,995,995**
Ratio of overseas sales (%)	**22%**	**23%**	**29%**	**1%**	**75%**

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

(1) In connection with Note 3(e), the effect of the change for the year ended March 31, 2007 was to increase net sales of "North America" by ¥1,645 million ($13,929 thousand), of "Europe" by ¥2,160 million ($18,290 thousand) and of "Asia" by ¥253 million ($2,142 thousand), respectively.

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

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 27, 2007

A Member of Ernst & Young Global

(As of June 27, 2007)

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
Yasuhiro Fujii
Seishi Kai
Toshihiro Kuriyama
Nobuhiko Komeya
Motohiro Shimaoka
Junichi Umehara
Masaru Usui

AUDITORS

Koji Hotta
Mitsunori Narisako
Kenji Yoshino
Hiroshi Akiyama

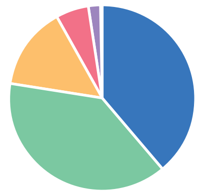
PRINCIPAL STOCKHOLDERS

(As of March 31, 2007)

	Percentage of total shares outstanding
Japan Trustee Services Bank, Ltd. (Trust account)	6.82%
The Master Trust Bank of Japan, Ltd. (Trust account)	5.76%
Mitsui Sumitomo Insurance Company, Limited	2.30%
Mitsui Life Insurance Company Limited	1.97%
Nippon Life Insurance Company	1.90%

CLASSIFICATION OF STOCKHOLDERS

(As of March 31, 2007)



Foreign Investors 39.4%
Financial Institutions 30.6%
Individual Investors 18.7%
Corporations 5.3%
Securities Companies 4.7%
Others 1.3%

ALPS ELECTRIC CO., LTD.

(As of June 27, 2007)

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$200.1 million)
(As of March 31, 2007)

NUMBER OF EMPLOYEES

36,976 (As of March 31, 2007)

COMMON STOCK

Authorized: 500,000,000 shares
Issued: 181,559,956 shares
(As of May 31, 2007)
Number of Stockholders: 28,067
(As of March 31, 2007)

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.com/

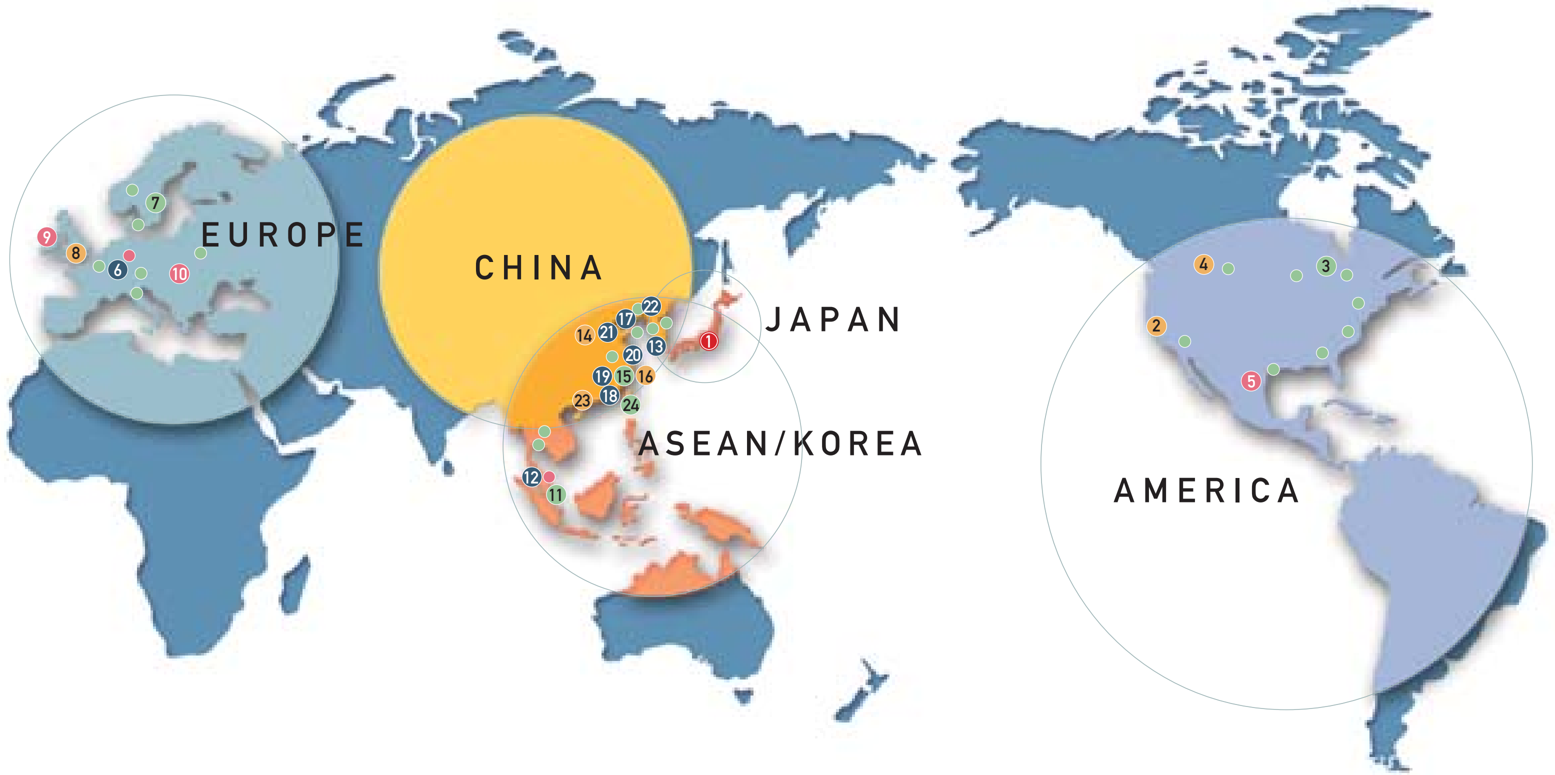
OUTLINE OF GLOBAL NETWORK

6 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



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.
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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

13 ALPS ELECTRIC KOREA CO., LTD.
HEAD OFFICE & PLANT: 970-1, Jangduk-dong, Gwangsan-gu, Gwangju, Korea 506-732

17 DALIAN ALPS ELECTRONICS CO., LTD.
HEAD OFFICE & PLANT: No. 6 Han Zheng Road Jinzhou District, Dalian, 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

19 SHANGHAI ALPS ELECTRONICS CO., LTD.
HEAD OFFICE & PLANT: 1000 Jinhai Road Pudong New Area, Shanghai. 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

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