Alps Philosophy

Alps creates new value that satisfies stakeholders and is friendly to the Earth.

The Alps Electric Group’s approach to monozukuri (encompassing all aspects of product creation) is summed up in the phrase, “perfecting the art of electronics,” meaning we create products that are right, unique and green. By perfecting the art of electronics in its products, the Alps Electric Group will pursue new value and enhance its own presence and corporate value, adding comfort to and enriching the lifestyles of people everywhere.

Alps Business Approach

Pursuit of Value
We will constantly pursue new value creation.

Harmony with Nature
We will seek harmony with the Earth's environment.

Partnership with Customers
We will learn from customers and respond quickly to their needs.

Fair Management
We will act fairly and from a global perspective.

Respect for the Individual
We will draw upon the unique enthusiasm of every employee.

Alps Business Domain

Perfecting the Art of Electronics
— User-friendly communication and relationships between people and media —
The Alps Group—A World Leader in the Electronics Industry

The Alps Group is a collective business entity comprising three corporate groups: the Alps Electric Group headed by Alps Electric Co., Ltd., which is primarily involved in the manufacturing and sales of electronic components; the Alpine Group headed by Alpine Electronics, Inc., a supplier of car navigation and audio systems; and the Alps Logistics Group headed by Alps Logistics Co., Ltd., an integrated logistics service provider specializing in electronic components. While each group retains its own independence, together they generate synergies within their respective business segments.

Overview of the Alps Group (Fiscal 2016)

Net Sales ¥ 437.6 billion
(Fiscal 2016)

ALPS ELECTRIC CO., LTD.
Electronic Components Segment
(TSE: 1st Section)
Capital: ¥38.730 billion
No. of subsidiaries: 24

ALPS ELECTRIC CO., LTD.
Electronic Components Segment
(TSE 2nd Section)
Capital: ¥2.349 billion
No. of subsidiaries: 17

ALPS LOGISTICS CO., LTD.
Logistics Segment
(TSE 2nd Section)
Capital: ¥234.9 billion
No. of subsidiaries: 17

Net Sales ¥ 61.1 billion
(Fiscal 2016)

As a comprehensive logistics company specializing in electronic components, Alps Logistics offers “One Channel Service,” which embraces transport, storage, export and import, and cargo handling services, on a global basis.

Profile of the Alps Group

Established in Ota-ku, Tokyo, as KATAKA ELECTRIC CO., LTD., 1948


Increased capital through public offering of new shares at market price

Established a local subsidiary in Germany

Commenced a joint venture with Motorola, Inc., changed company name to Alpine Electronics, Inc.

Listed on the Second Section of the Tokyo Stock Exchange

Committed to R&D in South Korea and China (Wuxi)

Committed to the 8th Mid-Term Business Plan (Fiscal 2017–Fiscal 2019)

Priority Areas
i) Responding to four major trends in the automobile industry (automatic driving, connectivity, EVs, electric vehicles), and car-sharing
ii) Establishing our uniqueness using our strengths

Achieving consolidated net sales of ¥100.0 billion

GTC (Get the Confidence): Enhance competitiveness

GTB (Get the Business): Strengthening business foundation to prepare for the leap to the next stage

Priority Areas
i) Securing profitability and carrying out prior investments for the future

Overview of the Alps Group

Consolidated Net Sales
¥753.2 billion
(Fiscal 2016)

Consolidated Overseas Sales Ratio
79.8%

Please refer to page 22 for further details.

ANNUAL REPORT 2017
ALPS ELECTRIC CO., LTD.
Creating Synergies across the Alps Group

Leveraging its strengths as an independent corporate group that does not belong to a conglomeration of businesses linked by cross-shareholdings, the Alps Group offers creative proposals to a diverse range of customers in various countries and regions and conducts transactions with over 2,000 client companies. Going forward, the Alps Group will continue to adopt a neutral stance as it further reinforces the trust-based relationships it has established with its customers and contributes to the society of tomorrow.

Maximizing the value provided

Collaborating to provide high-quality and detailed services that cover every-thing from production to delivery in order to respond to customer needs, which are becoming more sophisticated and globalized

Jointly developing new products by leveraging elemental technologies, which represent the Group’s strengths in the electronic components and automobile infotainment fields

Governance Initiatives for Sustainable Corporate Growth and Increased Corporate Value over the Medium to Long Term

To realize sustainable growth and medium- to long-term improvement in corporate value, the Alps Group is promoting initiatives to strengthen governance at each Group company. Governance-related training meetings for directors of the three corporate groups that comprise the Alps Group are held twice a year. In addition to exchanging opinions, directors at these meetings work to deepen the topics of discussion and foster a sense of unity between the corporate groups. As such, these meetings represent the foundation of the Group’s management. Based on discussions held at these meetings, each corporate group transitioned to a “companies with an audit and supervisory committee” system in June 2016. Meetings are held between the audit & supervisory committees of the corporate groups, at which opinions regarding monitoring are exchanged that extend beyond the respective industries of the three groups. In these ways, the Alps Group is working to further improve its governance.

Utilizing the Group’s Strengths to Expand Business Development in the Growing Automobile Market in the Americas

Automobile manufacturers in Japan and various European countries are gradually advancing into the Americas, and North American automobile manufacturers are branching out into Central and South America. Accordingly, the importance of the Americas as a base for the global production of automobiles is becoming greater. Alcom Electrónicos de Mexico, S.A. de C.V. handles the production of electronic components and automotive infotainment devices in Mexico and provides support to our client companies that are advancing into the Americas. At the same time, the company makes use of NAFTA, FTA, and other trade agreements to shorten lead times and bolster its price competitiveness.

In addition, we have established Alps Logistics (USA), Inc. and Alps Logistics Mexico, S. A. DE C. V., which serve as logistics bases in the Americas. By leveraging Group synergies, these companies support the further growth of the automotive electronics business through the optimization of supply chain management.
## Financial and Non-Financial Highlights

### Consolidated fiscal years started April 1

| Year | Net sales (Millions of yen) | Cost of sales (Millions of yen) | Gross profit (Millions of yen) | Selling, general and administrative expenses (Millions of yen) | Operating income (Millions of yen) | Operating income margin (%) | Return on assets (ROA)*4 | Return on equity (ROE)*5 | Debt to equity ratio | Interest coverage ratio*3: [Times] | Profit (loss) attributable to owners of parent (Millions of yen) | Operating cash flows (Millions of yen) | Capital expenditure (Millions of yen) | Other | R&D expenses (Millions of yen) | Equity ratio | Dividends per share (DPS) (Yen) | Book-value per share (Yen) | Diluted EPS (Yen) | Average exchange rates | Per Share Data: [Yen] | Capital turnover | CO2 Emissions (Alps Electric Group) |
|------|-----------------------------|---------------------------------|-------------------------------|---------------------------------------------------------------|----------------------------------|-------------------------------|---------------------------|------------------------|--------------------------|---------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------|-----------------------------|-----------------------------|-------------------|-------------------|------------------------|-------------------|-------------------|
| 2016 | 708,126                     | 682,656                         | 538,965                       | 69,183                                                        | 493,639                          | 24,077                       | 526,500                   | 546,423               | 364,362                  | 40,000                          | 3,621                          | 2006                         | 117.02                     | 25.00                      | 42.2                       | 2006              | 117.02                     | 25.00                      | 2006              | 117.02                     | 25.00                      |
| 2019 | 93,800                      | 92,969                          | 89,249                        | 69,183                                                        | 73,800                           | 80,299                       | 87,740                    | 80,906               | 101,291                  | 40,000                          | 3,621                          | 2006                         | 105.05                     | 16.1                       | 24.9                       | 2006              | 105.05                     | 16.1                       | 2006              | 105.05                     | 16.1                       |
| 2020 | 97,736                      | 93,788                          | 93,956                        | 69,183                                                        | 73,800                           | 80,299                       | 97,736                    | 97,736               | 101,291                  | 40,000                          | 3,621                          | 2006                         | 107.17                     | 17.1                       | 24.9                       | 2006              | 107.17                     | 17.1                       | 2006              | 107.17                     | 17.1                       |

### Net Sales by Business Segment (Billions of yen)

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic components</td>
<td>268.0</td>
<td>338.6</td>
<td>389.1</td>
<td>434.0</td>
<td>437.6</td>
</tr>
<tr>
<td>Automotive Market</td>
<td>140.0</td>
<td>168.4</td>
<td>208.4</td>
<td>247.5</td>
<td>290.0</td>
</tr>
<tr>
<td>Consumer Market</td>
<td>120.0</td>
<td>170.3</td>
<td>180.6</td>
<td>186.5</td>
<td>181.6</td>
</tr>
<tr>
<td>Automotive Automotive Intiture</td>
<td>219.8</td>
<td>282.1</td>
<td>289.7</td>
<td>287.5</td>
<td>242.3</td>
</tr>
<tr>
<td>Logistics</td>
<td>46.5</td>
<td>52.2</td>
<td>57.9</td>
<td>60.2</td>
<td>61.1</td>
</tr>
<tr>
<td>Others</td>
<td>9.0</td>
<td>11.1</td>
<td>12.6</td>
<td>12.1</td>
<td>12.1</td>
</tr>
</tbody>
</table>

### Number of Employees by Business Segment (as of April 1 of each year)

- **Electronic components**: [ ]
- **Automotive Intiture**: [ ]
- **Logistics**: [ ]
- **Others**: [ ]
- **Total**: [ ]

### Ratio of Women in Management Positions (Alps Electric)

- **For the Fiscal Year**: [ ]

### Water Use (Alps Electric Group)

- **Thousand m**: [ ]
- **Billions of yen**: [ ]

### CO2 Emissions (Alps Electric Group)

- **Japan (left)**
- **Overseas (left)**
- **Water use per unit (right)**

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1. *Simplified free cash flows = Operating cash flows + Investing cash flows
2. Debt to equity ratio = Interest-bearing debt / Equity
3. *Interest coverage ratio = Operating cash flows / Interest expenses paid
4. Return on assets (ROA) = Profit (loss) attributable to owners of parent / Average total assets
5. Return on equity (ROE) = Profit (loss) attributable to owners of parent / Average equity
6. *The total number of issued shares includes treasury shares.
Who Is Alps Electric?

Alps Electric is a comprehensive electronics manufacturer, supplying nearly 40,000 kinds of electronic components to customer companies around the world in the automobile, home appliances, mobile, and industrial equipment industries. Through a unique kind of monozukuri that accurately comprehends the market and promptly meets the various needs of customers, we have created “First 1” (first-of-a-kind) products and “Number 1” (market-leading) products.

Automotive Market

In the automotive market, we handle various kinds of modules, such as input modules used in vehicle cockpits and communication modules geared toward connected cars. We are also involved in a broad range of components, examples of which are sensors that improve fuel efficiency and safety.

- **Automotive Modules**
  - Main Product Lineup
  - Remote Keypad Entry System
  - Instrument Panel Module
  - Electronic Parking Brake
  - HAPTIC COMMANDER™ (Touch Sense Technology Licensed by Immersion Corporation)
  - Actuator for Cameras
  - Geomagnetic Sensor

- **HMII Markets**
  - IoT Smart Modules
  - Power Source Components
  - Sensors

Consumer Market

In the mobile market, we develop switches and other kinds of input components as well as our mainstay camera actuators. In addition, we continue to utilize force feedback technology to develop HAPTIC™ and are setting our sights on applying this technology in automotive, video game, and various other fields going forward.

Also, for the EHII markets, we are launching such products as IoT Smart Modules fusing sensors with communication modules and power source components that utilize unique materials, in addition to a wide range of sensors.

- **Mobile Market**
  - Main Product Lineup
  - Actuator for Cameras
  - Stepping Motor
  - Waterproof TACT Switch™
  - HAPTIC™ Reactor

- **EHII Markets**
  - Sensor Network Modules
  - One-stop support for the IoT

<table>
<thead>
<tr>
<th>Automotive Market Net Sales (Billions of yen)</th>
<th>13/3</th>
<th>14/3</th>
<th>15/3</th>
<th>16/3</th>
<th>17/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales for Automotive Modules</td>
<td>140.0</td>
<td>168.4</td>
<td>208.4</td>
<td>247.5</td>
<td>256.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumer Net Sales (Billions of yen)</th>
<th>13/3</th>
<th>14/3</th>
<th>15/3</th>
<th>16/3</th>
<th>17/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Market Net Sales for Modules</td>
<td>128.0</td>
<td>170.3</td>
<td>180.6</td>
<td>186.5</td>
<td>191.6</td>
</tr>
</tbody>
</table>

EHII Markets

- Sensor Network Modules
- One-stop support for the IoT
- For managing the health of workers
- For managing office environments
- For nursing care and taking care of the elderly
- For fitness and healthcare

HAPTIC and HAPTIC COMMANDER are registered trademarks of ALPS ELECTRIC CO., LTD.
By perfecting the art of electronics, we create new value that satisfies stakeholders and is friendly to the Earth.

The philosophy of “creating new value that satisfies stakeholders and is friendly to the Earth” forms the cornerstone of Alps Electric’s business. Guided by this philosophy, we aim to contribute to the development of a sustainable society through our business activities. These business activities center on “perfecting the art of electronics,” which involves the creation of products that are right, unique, and green. Throughout our near 70-year history, we have leveraged our unique strengths to their full potential to create new value.
Sources of Value Creation

We create value by perfecting the art of electronics to timely deliver products that meet market needs. Such value creation is supported by the technologies that we have enhanced and melded over the years and by our corporate culture that has been continuously passed down since our founding.

Dedication to Technologies

We began to accumulate technologies in 1948, when we started developing rotary switches used to change radio bands. Since then, we have continued to evolve our technologies through the incorporation of new technologies and concepts.

Technological Evolution and Transformation

1948
1960
1970
1980
1990
2000
2010
2015
Source: Alps Electric Co., Ltd.

Sources That Support Alps Electric’s Value Creation

1. Belief in People

People create our business and cultivate our technologies. Therefore, we nurture and harness the full potential of people. In other words, we have established “believe in people” as our universal corporate philosophy. Alps Electric is a company involved in monetarism, which means that people are indispensable for executing our business operations. In addition, by promoting such ideas as “even if a company fails, it does not mean that people fail, so always have a skill that you can sell” and “do not be afraid of failure,” we continuously spread a culture that values people and leverages their strengths to the fullest.

2. The ‘Three Hards’

The “Three Hards” (“Work Hard,” “Study Hard,” and “Play Hard”) are an important element of “Alps-ism.” “Work Hard” means that we always carry out our work in an honest and sincere manner. “Study Hard” entails that we continue to try new things based on a passion for learning. And “Play Hard” calls for us to take pride in the work that we do as a team and display our strength through a sense of solidarity. The “Three Hards” provide the foundation for our business activities, and we continue to leverage them as strengths as we carry out our duties.

Alps Culture (Alps-ism)

Alps culture, or “Alps-ism,” refers to our unique corporate culture. This culture embodies our basic philosophy and code of conduct and has been continuously handed down from one generation of Alps’ employees to the next.

Shimidashi

Enhancing the Competitiveness of Our Core Technologies

Shimidashi, or “kick-out” product development, involves gradually expanding our business domains through the addition of new functions and technologies while maintaining continuity throughout the development processes for our products and technologies. In addition, shimidashi applies not only to continuity within our product and technological development processes but also with regard to the management of the facilities we possess and the long-established manufacturing techniques we implement.

Through shimidashi, we are working to increase our sales by developing new products and entering into new business domains while also making efforts to improve investment efficiency and enhance cost competitiveness.

Three Core Technological Domains

Based on the Alps Philosophy, we supply components from our three core technological domains to a wide range of markets all over the world.

HMI (Human Machine Interface)

Alps Electric has a solid track record in input devices that dates back to the time of its founding. We have adapted to the times by developing more compact and lightweight products and have been responding to needs for greater integration and multifunctionality. Manufacturing elevated standards for performance that we constantly pursue the creation of the most appropriate products.

Connectivity

Alps Electric supplies a variety of data communication modules, making extensive use of RF technology and software to support Bluetooth®, wireless LAN, LTE, and other standards, as well as supporting such advancements as V2X technology in the automotive domain. We continue to support easy, reliable access to diverse information with unique product varieties, including products combining input devices and sensors.

SENSORING™

Alps Electric harnesses original materials, process technologies, and software to create compact, highly sophisticated devices. We supply an extensive variety of compact, high-sensitivity sensors for the constantly evolving mobile domain, and provide compact current sensors compatible with high voltages for automobiles. By combining environment-friendly sensors with wireless communication technologies, we will support the practical application of the IoT going forward.
Strengths That Support Alps Electric’s Value Creation

Competitiveness

Our competitiveness lies in our development and production capabilities. Our development capabilities refer to our ability to develop products that are right, unique, and green and contribute to the enrichment of society as a whole. Our production capabilities are with regard to our ability to mass-produce products and supply them on a global scale while maintaining high levels of quality. Together, these capabilities support the business activities of the entire Alps Electric Group.

Development Capabilities

By enhancing and fusing its proprietary technologies, Alps Electric is developing cutting-edge products that meet the needs of customers and markets.

Three Core Technological Domains

- HMI
- Connectivity
- SENSORING™

Proprietary Technologies

- Evaluation / Simulation
- Design / Assembly
- Microfabrication
- Thin Film Processes
- Patterning / Packaging
- Optical Design / Molding
- Materials / Application
- IC Design

For details on our proprietary technologies:

Creating Products with New Value by Enhancing and Fusing Our Proprietary Technologies

For further details on our development capabilities, please refer to page 28.

Production Capabilities

While striving to meet the needs of customers, Alps Electric is working daily to improve its production capabilities, which allow it to mass-produce a diverse range of high-quality products.

Development of Production Technologies That Improve Productivity

Alps Electric provides products to a wide range of markets. In regard to products supplied to the mobile market, centered on smartphones, and the automotive market, production processes and the composition of materials and components differ, as do product life cycles. To continue to enhance productivity amid these circumstances, the automation of production processes is essential. As such, we are moving forward with the development of robots and automated machines that best suit the characteristics of each individual product.

We are also promoting the development of production technologies that help realize a production structure that can promptly adapt to changes in product categories.

Mold Technologies Supporting Enhanced Operation Rates through Product Precision

Precision molds represent one of Alps Electric’s strengths. The in-house manufacturing of molds boasting high levels of sophistication and precision is what allows us to mass-produce high-quality products with a precise composition. In addition, we manufacture molds that optimize processes for shortening cooling times and other processes, thereby realizing enhanced operation rates.

By integrating on-site production, which supports our unique technologies, and our mold manufacturing divisions, we are able to leverage our production capabilities to an even greater extent.

For further details on our production capabilities, please refer to page 35.

Global Structure for Leveraging Our Competitiveness to the Fullest

- Global development structure that meets market and customer needs in a prompt manner
- 9 locations in 4 countries around the world

- Global production structure that realizes the speedy and stable supply of products
- 21 locations in 9 countries around the world

Value

Alps Electric pursues the concept of “perfecting the art of electronics.” This means that we create products that are right, unique, and green. Going forward, we will continue to perfect the art of electronics to provide new value to our customers. In doing so, we will contribute to enriched lifestyles that are more convenient and safer.

For details on our proprietary technologies:
Completing the First Year of 8th Mid-Term Business Plan

What It Means to Become a Company That Can Achieve Sustained Growth

Since April 2016, Alps Electric has been promoting the 8th Mid-Term Management Plan, which lays out a vision for becoming a “company that can achieve sustained growth.” This vision calls on us to become a company that uses the new products it creates through its core technologies as a foundation to develop businesses within future growth markets and continue to create new pillars of profit. Such a company can realize sustainable growth even when either peak demand from the market or demand for its core products has passed.

Looking back at the past 20 years in the electronics industry, a period in which digital technologies have made substantial progress, we see that a large number of hit products have been created, such as personal computers, cellular phones, gaming consoles, digital cameras, and flat-screen TVs. However, all of these products have undergone commoditization, and the market has shrunk as a result. Accordingly, the Company’s performance has thus far been significantly influenced by the wave of demand for such hit products.

Strategies for Realizing Our Vision for the Company

Under the 8th Mid-Term Management Plan, we will move forward with the establishment of business foundations capable of remaining firm well into the future by nurturing a large number of new businesses without ever being satisfied with short-term positive results.

Seeing Positive Results in Fiscal 2016

Fiscal 2016 marked the first year of the 8th Mid-Term Management Plan. During the year, Alps Electric recorded net sales of ¥437.6 billion and operating income of ¥32.8 billion. While sales increased compared with the previous fiscal year, profits decreased for the first time in four years due to the significant impact of exchange rates. However, if we exclude the impact of exchange rates, our business performance in fiscal 2016 is on a par with that of the previous fiscal year. I therefore feel that our overall condition is stable and that fiscal 2016 was a year in which we made solid progress toward achieving our targets.

In the automotive market, favorable conditions continued against a backdrop of such factors as strong economic conditions in the United States, lower taxes on small-engine cars in China, and a decrease in crude oil prices. The products that we offer in this market also performed well, including module products such as electric shifters; communication equipment such as Bluetooth®, W-LAN, and LTE; and device products such as sensors.

Turning to the consumer market, the smartphone market showed signs of weakness in the first half. However, this market saw an upswing in the second half thanks in part to the shift to products with high functionality by Chinese manufacturers and the release of new products by North American manufacturers. Products such as our actuators for smartphone cameras as well as our sensors and switches realized a solid performance alongside the recovery in the smartphone market. However, due to the impact of exchange rates, overall sales in the consumer market decreased slightly.

We will strengthen our *monozukuri* capabilities and establish a firm business foundation to become a company that can achieve sustained growth.

Toshihiro Kuriyama
Representative Director and President
Our business in the automotive market gradually expanded in China. Amid these circumstances, the business environment arising following the Brexit vote, and economic deceleration economic trends in Europe, including the issues that have due to such factors as the direction of U.S. political policies, Recently, uncertainty has been rising in the global economy due to such factors as the direction of U.S. political policies, and the partial application of automatic driving. Although the continuous entry of rival manufacturers into the market has led to intensified competition, we will continue to develop new products that accurately address the needs of customers based on our core technologies.

As for the consumer market, demand for components in the smartphone market has been rising as the shift toward smartphones with high functionality advances. While sales of smartphone-oriented products are expected to grow, smartphones represent a business in which changes occur rapidly. As such, we will continue efforts to develop new products and realize a reliable supply so that we can continue to be the primary supplier to our customers and so that we can further increase our overall number of customers. In addition, we will focus our efforts on the development of new products geared toward mobile devices, such as virtual reality equipment, which has been garnering significant attention recently, and wearable devices.

While smartphone use has become widespread around the globe, the differences in function and performance between the smartphones of various manufacturers are likely to become less significant, and commoditization is expected to gradually advance. To prepare for such conditions, we are setting our sights on the new EHI (energy, healthcare, industry, and the IoT) markets. Specifically, in the energy market, we concluded an agreement for business collaboration with an overseas electric power company in 2016. We are also accelerating efforts to strengthen product development through an absorption-type merger of our subsidiary Alps Green Devices Co., Ltd. in the IoT market, which has been attracting a great deal of attention in recent years, we are moving forward with the proposal of solutions through collaboration with various communications companies, and these efforts have been gradually producing results. While more time is needed before our business in the EHI markets becomes a new pillar of profit, we will continue to pursue the development of unique, high-value-added products.

Developing Unique, High-Value-Added Products in Core Markets

Recently, uncertainty has been rising in the global economy due to such factors as the direction of U.S. political policies, and the partial application of automatic driving. Although the continuous entry of rival manufacturers into the market has led to intensified competition, we will continue to develop new products that accurately address the needs of customers based on our core technologies.

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Shimidashi

Take On Challenges in New Markets by Enhancing and Fusing Our Core Technologies

With the 8th Mid-Term Management Plan, we are concentrating our efforts in three core technological domains: HMI (human machine interface), which connects people with devices; connectivity, which involves the sharing of a broad range of information; and SENSORDRIVE™, which detects the condition of people and devices.

To promptly develop and introduce products that meet market needs, it is essential for us to engage in sh مصدر our product development in those three technological domains. Sh مصدر our product development means that we enhance and fuse the core technologies we possess to create new technologies, thereby boosting our uniqueness and strengths to even higher levels. By extending the new technologies created through sh مصدر into the automotive, mobile, and EHI markets, we will cultivate new businesses going forward. Our ability to leverage our core technologies to take on challenges in various markets represents one of our key strengths.

Since our founding, we have adopted “being devoted to components” as our basic philosophy. Based on this philosophy, we have continued to evolve as an independent electronic components manufacturer. Accordingly, we have gained the ability to make proposals to a wide range of customers as well as the ability to develop businesses in markets where we can fully exercise our strengths.

Establishing a Monozukuri Structure to Further Leverage Our Strengths

We are making concerted efforts to bolster our monozukuri structure so that we can leverage our technological capabilities to their full potential. To further accelerate this process by enhancing and fusing our various technologies, we established a technology and development base in the Fukuoka area of Oita City, Miyazaki Prefecture, and have gathered our engineers at this location. Using this base as a center for technology, we will promote investment in infrastructure and facilities as the next step in our efforts to further strengthen our technological and development capabilities.

Meanwhile, the plants that we have established in Miyazaki, Fukushima, and Niigata prefectures function collectively as our “global mother plant.” In addition, the construction of a new plant in Osaki City is scheduled to be completed in October 2018. Together with our global mother plant, this new plant will help us advance efforts to bolster our monozukuri capabilities in Japan (see page 31 for details). While the construction of this new plant has led to increases in capital expenditures over the past few years, we have limited this increase to less than 10% of net sales. Going forward, we will carry out capital expenditures that lead to future growth while giving thorough consideration to cash flows.

Enhancing Global Business Chain Management

At the moment, transactions with overseas customers account for nearly 80% of total sales in the Electronic Components Segment. Accordingly, one of our key initiatives is to enhance our global coordination. For example, in regard to business dealings with European automobile manufacturers, it is not uncommon for us to conduct sales activities in Europe, carry out product design in Japan, manufacture products in South Korea and China, and deliver finished products to the United States or Mexico. If we are unable to realize seamless collaboration between each location around the world and leverage the appropriate functions, then we cannot meet the demands of our customers.

Business chain management (BCM) is the key phrase when it comes to strengthening global collaboration. While many people are familiar with the concept of supply chain management (SCM), which refers to the management of the flow of goods and services from the supplier to a company and to customers, BCM builds on the concept of SCM to include decision-making and refers to all the connections across an entire business. For business dealings that span across a global scale, there is a limit to what we can do when making management decisions only in Japan, as we have done thus far. Our overseas locations need to be able to act independently with an appropriate sense of speed. If a delay occurs at even one of these locations, the entire business process is impacted significantly. As such, we are establishing stronger BCM through organic connections between each global location.

In addition, we are currently pursuing a shift in our automotive business from quantity to quality in order to improve profits. As our business rapidly expands and production grows, the occurrence of a quality-related issue would put immediate downward pressure on profits. Accordingly, we position this shift to a sharper focus on quality as our most important management issue. Under the 8th Mid-Term Management Plan, we are making concerted efforts to realize globally consistent quality by eliminating variations in structures and performance from product to product and between production bases and by achieving a high level of quality stability.

Applying the Action Policy of “Constructive, Proactive, and Vigilant” to All of Our Employees Worldwide

In accordance with the 8th Mid-Term Management Plan, we have established “Constructive, Proactive, and Vigilant” as the action policy for all of our employees worldwide. In light of the solid growth that we achieved under the 7th Mid-Term Management Plan, being constructive and proactive, including the idea of pushing forward even further, as well as vigilant, which means not being satisfied with the current situation and the high levels of uncertainty in the business environment, is extremely important for our employees. We share this action policy with all employees of the Alps Electric Group through various means, such as at morning meetings held at the beginning of each month and via our in-house newsletter.
directors to three. With the additional questions and opinions.
However, we have now increased the number of outside
director to serve alongside our 12 inside directors.

Improving Productivity by Promoting Reforms
to Workstyles
With the 8th Mid-Term Management Plan, we have adopted the target of reaching net sales of ¥500.0 billion in the Electronic
Components Segment by the last year of the plan. This target represents a significant challenge for us, as net sales in this
segment have remained between the ¥300.0 billion to ¥400.0
billion range. Furthermore, as our business increases in size,
we are facing the issue of tightening resources.

To achieve this target, it is essential that we pursue
improvements to productivity—an effort that has thus far
been carried out in our manufacturing divisions—within every
division of the Company, including our technological and
back-office divisions, and on a global scale. To this end,
we are working to automate and improve processes on the
manufacturing floor through the utilization of robots and
other means, and are promoting the use of IT, such as AI and
new technologies. At the same time, under the leadership of
management, we are actively moving forward with reforms
to workstyles, including efforts to raise the awareness of
each employee.

Net Sales for the Electronic Components Segment
(Billions of yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>2014/3</th>
<th>2015/3</th>
<th>2016/3</th>
<th>2017/3</th>
<th>2018/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>168.4</td>
<td>208.4</td>
<td>247.5</td>
<td>256.0</td>
<td>271.0</td>
</tr>
<tr>
<td>Consumer</td>
<td>170.3</td>
<td>180.6</td>
<td>186.5</td>
<td>181.6</td>
<td>212.0</td>
</tr>
</tbody>
</table>

7th Mid-Term Business Plan
8th Mid-Term Business Plan

Dividend Policy
Based on the performance of the Electronic Components
Segment, we adhere to a basic policy of striking a balance
between three elements—returns to shareholders; funds for
R&D and capital investment to support business expansion
and enhance competitiveness; and internal reserves. In line
with this policy, and based on comprehensive consideration
of such factors as trends in financial performance, our current
financial position, and shareholders’ expectations toward
dividends, we issued a year-end dividend of ¥15.00 per share
in the fiscal year under review.

For the fiscal year ending March 31, 2018, we plan on
issuing a dividend of ¥34.00 per share, consisting of a
¥17.00 interim dividend and a ¥17.00 year-end dividend.

Making Alps Electronic a Stronger Company
through an Inherited Passion for Monozukuri/
As an electronic components manufacturer, we have adopted
“Alps creates new value that satisfies stakeholders and is
friendly to the Earth” as our corporate philosophy and
“perfecting the art of electronics” as the core approach of
our business activities.

We define “perfecting the art of electronics” as creating
products that are right, unique, and green. In other words,
this means that we create products that not only have a
refined exterior but also achieve the required performance
with outstanding levels of quality and take the environment
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The source for creating such products is the passion
each of our employees has toward monozukuri. This passion
is reflected in our employees’ ceaseless dedication to creating
new technologies as well as in their ability to think outside
the box, their proactive behavior, their sound imagination,
and their desire for mastering their craft. These characteristics
were recorded in the Alps Precepts, which was established
on the 10-year anniversary of the Company in 1958, and
have been continuously passed on over the years. Today,
with our sights on the future, our employees continue
to embody these characteristics. Furthermore, under our

universal philosophy of “believing in people,” we are promoting
continuous efforts on a Groupwide basis to cultivate human
resources, create better working environments, and strengthen
a governance structure aiming for management that creates
value together with customers and emphasizes fairness.

To make Alps Electric even stronger and become a
company that can achieve sustained growth, and to continue
to create new value that realizes enriched, comfortable life-
styles and is friendly to the Earth, we will diligently continue
these kinds of efforts.

I would like to ask our stakeholders for their continued
support and cooperation as we pursue these endeavors

To Our Stakeholders
One Year after Our Transition to a Company with
an Audit and Supervisory Committee
In June 2016, we transitioned from a company with an audit
and supervisory board to a company with an audit and
supervisory committee. In the past, we appointed only one
outside director to serve alongside our 12 inside directors.
However, we have now increased the number of outside
directors to three. With the additional questions and opinions
that these outside directors provide on each agenda item at
Board of Directors’ meetings, discussions have become even
livelier and an extremely positive sense of urgency has arisen.
As medium-term initiatives going forward, we will increase
the ratio of outside directors on the Board of Directors and
further promote diversity. In doing so, we will realize even
stronger governance through the enhanced quality of
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learning forward.
Progress of the 8th Mid-Term Business Plan

Alps Electric is moving forward with the 8th Mid-Term Business Plan, which commenced in fiscal 2016, ended March 31, 2017. The plan positions the automotive, mobile, and EHII markets as three core markets in which the Company should focus its efforts. By bolstering profitability and further enhancing corporate value under this plan, Alps Electric aims to become a company that can realize sustained growth.

GT510

Net Sales of ¥500 billion, Operating Income Margin of 10%

Targets

- Achieve net sales of ¥300 billion in the automotive market
- Achieve net sales of ¥200 billion in the mobile market
- Build foundations to realize net sales of ¥60 billion in the EHII markets

Initiatives

- Increase profits from modules
- Expand the devices product lineup
- Retain and build on our position as primary supplier
- Develop business targeting new mobile devices (PCs, wearable devices, virtual reality devices, drones, etc.)
- Build foundations looking ahead to the 9th Mid-Term Business Plan
- Expand sales of products with high added value
- Expand open innovation through collaboration with other companies

Progress of the Plan as of March 31, 2017

Net Sales ¥437.6 billion / Operating Income Margin 7.5%

With the 8th Mid-Term Business Plan, we aim to realize “dual pillars of profit” in the automotive and mobile markets, thereby further increasing profits. To accomplish this, we are pursuing efforts to improve profitability in the automotive business and continuing efforts to create new products and increase the number of customers in the mobile business. In addition, we are working to promptly establish EHII as the next business pillar through new product development that combines our three core technological domains of HMI, connectivity, and SENSING™.

In fiscal 2016, we recorded steady sales in the automotive market in line with our plan, centered particularly on various input modules and communication modules. In the mobile market, while sales of component for smartphones were sluggish in the first half of the year, sales levels recovered during the second half. In the EHII markets, particularly the IoT market, we moved forward with specific proposals in collaboration with other companies. As a result, we steadily expanded our EHII business compared with the previous fiscal year, despite being adversely affected by the impact of yen appreciation.

Key Initiatives Going Forward

The key initiatives we are undertaking in fiscal 2017, the second year of the 8th Mid-Term Business Plan, are improving profitability in the automotive module business, maintaining and extending our position as a primary supplier in the mobile business, expanding and enhancing automotive devices and EHII-oriented products, and pursuing higher levels of productivity. At the moment, we are promoting increased production while working to launch new products to meet robust demand primarily for smartphone-related products. Amid rising levels of uncertainty in the business environment, we will make concerted efforts to heighten profitability with a heightened sense of urgency and awareness of crisis.
In the automotive market, we are promoting touch panel modules for automotive displays, an application of advanced technologies, such as said milliwave radars, and the pursuit of integration, sophistication, and more comfortable vehicle operation. At the same time, we have positioned improvements in productivity as an important initiative and are promoting the use of common materials and parts and the standardization of design and development processes. In these ways, we are maintaining and ensuring high levels of quality and working to boost profitability.

For vehicle-to-infrastructure communication systems, which are essential to ADAS and automatic driving, we have developed VXO (vehicle-to-X) communication devices that use our core connectivity technology and radio frequency (RF) technology and have commenced mass production of these devices. In line with the advancements in intelligent transportation systems (ITS), communication devices are becoming more important than ever before. As such, we will enhance our development capabilities to expand our product lineup going forward.

In addition, we will continue to utilize force feedback technology to develop HAPTiC™, setting our sights on applying this technology in automotive, video game, and various other fields.

In the automotive business, we have adopted net sales of ¥300.0 billion as a target within our 8th Mid-Term Business Plan. As for ensuring profits, we will work to realize “dual pillars of profit” in the automotive and mobile markets by promoting increased profits from module products and smartphone-related products. In doing so, we aim to expand our overall automotive business.

To contribute to improvements in vehicle safety, security, comfort, and environmental performance, we are developing products that can be used in a broad range of fields, from components to system products. Also, we are developing integrated control devices to address the issue of complex vehicle operation for drivers as the digitization of car interiors continues. In these ways, we are promoting research on and development of products that are necessary for hybrid vehicles, plug-in hybrid vehicles, electric vehicles, fuel cell vehicles, and other next-generation vehicles.

In fiscal 2016, sales in the automotive market accounted for nearly 58% of total sales in the Electronic Components Segment. As the significance of the automotive market for our overall business is becoming greater than ever before, we have set a target for net sales in the automotive business of ¥300.0 billion within the 8th Mid-Term Business Plan and are currently promoting a wide variety of initiatives under the slogan AUTO 300. For product development, we will actively introduce capacitive technologies, which have a solid track record of use in smartphones and PC input devices, and various other kinds of technologies that we have cultivated in the consumer device field, such as HAPTiC™. At the same time, we will leverage our core technologies to create high-value-added products, including communication devices that contribute to automatic driving and other features as well as sensors that help improve vehicle fuel performance. Meanwhile, to improve profitability within our business structure, which entails the production of multiple brands in small quantities and at multiple locations, we will promote Companywide activities to bolster global collaboration, enhance productivity, and eliminate quality-related issues. Amid a solid market environment, we will diligently promote efforts with a sense of urgency in line with AUTO 300 and realize “dual pillars of profit” in the automotive and mobile markets.

Hiroyuki Sato
Director, General Manager, Automotive Modules
Deputy General Manager, Engineering Headquarters

Leveraging Unique Technologies to Create Products with High Added Value

Also, we are working to enhance added value through the application of advanced technologies, such as said milliwave radars, and the pursuit of integration, sophistication, and more comfortable vehicle operation. At the same time, we have positioned improvements in productivity as an important initiative and are promoting the use of common materials and parts and the standardization of design and development processes. In these ways, we are maintaining and ensuring high levels of quality and working to boost profitability.

Automotive Devices

Review of Business Segments

- Automotive Market
  - By further strengthening the automotive product technologies that we have long cultivated, we will pursue the development of new products that provide safety and peace of mind in an effort to bolster profitability.
  - Net Sales (Billions of yen)
    - 2013/3: 140.2
    - 2014/3: 168.4
    - 2015/3: 208.4
    - 2016/3: 247.5
    - 2017/3: 256.0
    - 2018/3 (Forecast): 271.0

- Awareness of the Business Environment
  - In the automotive market, stable conditions continued against a backdrop of such factors as strong economic conditions in the United States, increased demand in China following a tax reduction on small-engine cars, and lower crude oil prices. Amid these circumstances, automobile manufacturers are accelerating efforts to offer safety and peace of mind as well as improve comfort and environmental performance. At the same time, there has been significant growth in automotive electronics, reflected by the installation of advanced driver assistant systems (ADAS) and the partial application of automatic driving.

- Review of Initiatives Implemented in Fiscal 2016
  - We achieved solid sales across our entire product lineup in the automotive market, including input module products such as electric shifters and HAPTiC COMMANDERTM communication equipment such as Bluetooth®, W-LAN, and LTE; and devices such as sensors. In addition, we enhanced our production activities through an absorption-type merger with Kurikoma Electronics Co., Ltd., a subsidiary company that manufactures automotive products, in October 2016.

- Key Initiatives in Fiscal 2017
  - Automotive Modules
    - With the aim of improving the usability of air conditioners and audio devices, starting with small electric shifters, we are promoting the development of touch panel modules, HAPTiC touchpads, capacitive steering wheel switches, and other products. Furthermore, to ensure that collision prevention and automatic driving systems are able to detect oncoming vehicles, people, and obstacles to the greatest extent possible, we are currently in the process of developing ultrashort-range milliwave radars.

- Medium- to Long-Term Vision
  - In the automotive business, we have adopted net sales of ¥300.0 billion as a target within our 8th Mid-Term Business Plan. As for ensuring profits, we will work to realize “dual pillars of profit” in the automotive and mobile markets by promoting increased profits from module products and smartphone-related products. In doing so, we aim to expand our overall automotive business.
  - To contribute to improvements in vehicle safety, security, comfort, and environmental performance, we are developing high-value-added products that can be used in a broad range of fields, from components to system products. Also, we are developing integrated control devices to address the issue of complex vehicle operation for drivers as the digitization of car interiors continues. In these ways, we are promoting research on and development of products that are necessary for hybrid vehicles, plug-in hybrid vehicles, electric vehicles, fuel cell vehicles, and other next-generation vehicles.

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Consumer Market

We will steadily pursue opportunities to incorporate new demand by promptly supplying products that meet customer needs.

<table>
<thead>
<tr>
<th>Mobile Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness of the Business Environment</td>
</tr>
<tr>
<td>In fiscal 2016, the smartphone market recovered in the second half after sluggish conditions in the first due to the release of new smartphone models by North American manufacturers. This second-half recovery was also supported by the introduction of smartphone models with high functionality by Chinese manufacturers. In addition, VR products were released into the market, thereby stimulating new trends in electronic devices.</td>
</tr>
<tr>
<td>Review of Initiatives Implemented in Fiscal 2016</td>
</tr>
<tr>
<td>Despite stagnant sales in the first half of the fiscal year, our smartphone-related products such as switches and camera actuators demonstrated favorable second-half performance in line with the market’s recovery. Also, in the HMI field, HAPTIC™, which utilizes force feedback technology, has been drawing significant attention in the VR market. We therefore promoted activities to propose and develop HAPTIC™-related technology in a variety of markets, including consoles.</td>
</tr>
<tr>
<td>Key Initiatives in Fiscal 2017</td>
</tr>
<tr>
<td>Robust demand has continued in the smartphone market and the new VR market is expected to expand going forward. Within this environment, we will actively develop core products such as switches and other input components and camera actuators in order to respond to the needs of these markets. To speed up development and improve productivity and quality, we will ramp up collaborative initiatives between our technology, sales, and manufacturing divisions. In doing so, we will continue to create one-of-a-kind products and market-leading products.</td>
</tr>
<tr>
<td>Medium-to-Long-Term Vision</td>
</tr>
<tr>
<td>There are various needs related to smartphones, including the need for high-performance cameras with superior picture quality as well as the need for reduced energy consumption and thinner models. To address these needs, we are accelerating the development of new camera actuators. In the VR market, we anticipate that use of controllers for remote operations, which currently center on the video game industry, will extend to factories and medical institutions. We are therefore promoting the development of HAPTIC™-related products. Furthermore, we have commenced mass production of our vibrational feedback device HAPTIC™ Reactor, which brings together our proprietary precision processing and magnetic and electrical design technologies, and this device has been adopted for use in consoles. In these ways, we expect that our business activities in the smartphone and VR markets will expand going forward.</td>
</tr>
</tbody>
</table>

EHII Markets

Awareness of the Business Environment

Japan and other advanced nations around the world are beginning efforts to bring about innovation through the use of big data analytics, as reflected by the Japanese government’s policy for realizing a “super smart society” via information and communication technology (ICT). In light of this trend, information technologies and electronics are becoming more important to a variety of industries, such as manufacturing, agriculture, and medical care.

Review of Initiatives Implemented in Fiscal 2016

We worked together with various communication companies that deal with IoT-smart modules to propose solutions in the healthcare, industrial, and various other fields. In the energy market, we pushed forward with the development of energy-conserving products through the merger-type acquisition of Alps Green Devices Co., Ltd. At the same time, we concluded a collaborative business contract with an overseas electrical power company. Through these means, we took steps to establish and expand our business foundation in the EHII markets.

Key Initiatives in Fiscal 2017

In the energy field, we are currently engaging in the joint development of sensors for smart electrical distribution panels with a major overseas company. In addition, we have commenced shipping of energy storage systems for household use. We are also promoting business development in the field of energy conservation supported by product development that utilizes our unique LowDuty™, a magnetic amorphous material.

In the IoT field, we are developing the world’s smallest sensor network module. We are also providing development kits so that users of this product can easily establish IoT systems. At the same time, these modules are being used for a variety of purposes, including to monitor the environment of office buildings and the operational status of production lines at factories, control various conditions at distribution warehouses, and utilize ICT in the agriculture industry. Going forward, we plan to make even more proposals for products in the IoT field.

Furthermore, we will actively promote efforts such as collaboration with other companies to promptly establish a business foundation within the wide range of business types to which the IoT is being applied.

Medium-to-Long-Term Vision

Growth in the smartphone market is expected to stagnate going forward. Accordingly, we are positioning the EHII markets as the next business pillar to replace smartphones. These markets consist of various businesses, and we will work to establish a foundation within each of these businesses through the development of unique products and active collaboration with other companies. In doing so, we will aim for net sales of ¥60.0 billion within the 9th Mid-Term Business Plan.

EHII Markets as the Next Business Pillar

As commoditization in the smartphone market is expected to advance going forward, we are currently promoting a broad range of preparatory activities to establish the EHII markets as a new business pillar for the Company. With regard to energy, we are accelerating collaborative business development with overseas companies and have carried out an absorption-type merger with Alps Green Devices. In healthcare, we are currently promoting joint development with industrial and academic institutions. Also, for the IoT we are collaborating with various communications companies to extend IoT-smart module use to the front line of construction and agriculture. These are just a few examples of the results we have steadily achieved thanks to our efforts in each EHII market. Additionally, we are deploying our products at exhibitions in Japan and overseas to promote the competitive edge of our technologies. We are also making proactive efforts to develop new product and application proposals.

As part of our approach to expanding our business in these markets, we are promoting standardized development based on our core technologies. Meanwhile, we are actively moving forward with the swift development of new products, collaborative business development with other companies, and the pursuit of open innovation. In doing so, we are advancing the creation of a foundation that will allow us to reach an annual net sales target of ¥60.0 billion in the EHII business under the 9th Mid-Term Business Plan.

Takeshi Daomaru
Director
General Manager, New Business & Consumer Modules
Deputy General Manager, Engineering Headquarters
Development Capabilities

Society 5.0 is a newly formulated concept of a society in which cyberspace and the real world are combined in a highly sophisticated manner. A diverse range of IoT devices and systems are thought to be necessary in order to realize such a society. Accordingly, the Alps Electric Group is pursuing R&D activities aimed at the creation of high-value-added products that can contribute to the society of the future.

R&D Policy

In R&D activities, we adhere to the basic policy, “Perfecting the art of electronics,” and we will continue creating products with new value under the 8th Mid-Term Business Plan by stepping up our enrichment and fusion of core technologies.

R&D Strategy under the 8th Mid-Term Business Plan

The Alps Electric Group looks to achieve differentiation from other companies, and thereby establish a competitive advantage, by creating new businesses and products that match market and customer needs. This is done through ongoing innovation entailing the enrichment and fusion of mechatronics, process, material, and design technologies built up over the years.

We place particular importance on developing products through synergy (“sticks-and-stones” product development), which involves continuously adding new functionality to core technologies and branching into new business areas while also taking environmental considerations into account, and on technology “black-boxing” to make products harder to imitate.

Adhering to these concepts, we carry out product development with the potential to enrich lives in a way that is friendly to both people and the Earth. We do this with a focus on these three core areas:—enrichment of human-machine interface (HMI) technology, expansion of sensor variety, and expansion of connectivity-oriented business—and with aims to establish the EHI* business and expand the automotive device business.

* EHI: Energy, healthcare, industry, and the IoT

To realize sustained growth well into the future, we are constantly working to develop technologies that allow us to take on challenges in new markets. Throughout our near 70-year history, we have cultivated a great deal of proprietary technologies. By combining, or fusing, these technologies, we believe that we can continue to create new technologies and flexibly meet the needs of customers and markets going forward. However, thus far we have made enhancements to our proprietary technologies on an individual basis. To fuse a technology with another that is from a completely different domain is no easy task, and various mechanisms are required. At the moment, we are building a development structure that calms to the characteristics of each of our proprietary technologies. We are also actively promoting Companywide research presentations to boost our creative and conceptual capabilities and implementing management rotation. In these ways, we aim to fuse our proprietary technologies in a highly organic manner.

In addition, setting our sights on the more distant future, it is necessary for us to take on challenges in new technological domains without constraining ourselves to the technologies we currently possess. We will therefore pursue open innovation and alliances with universities, research institutions, and other companies to a greater extent than ever before. By leveraging our production capabilities, we will continue to promote dynamic technological development so that we can launch one-of-a-kind products in brand new markets.

Yasuo Sasao
Managing Director
General Manager, Components
General Manager, Engineering Headquarters

Exploiting New Technologies and New Markets through the Fusion of Our Proprietary Technologies

To realize sustained growth well into the future, we are constantly working to develop technologies that allow us to take on challenges in new markets. Throughout our near 70-year history, we have cultivated a great deal of proprietary technologies. By combining, or fusing, these technologies, we believe that we can continue to create new technologies and flexibly meet the needs of customers and markets going forward. However, thus far we have made enhancements to our proprietary technologies on an individual basis. To fuse a technology with another that is from a completely different domain is no easy task, and various mechanisms are required. At the moment, we are building a development structure that calms to the characteristics of each of our proprietary technologies. We are also actively promoting Companywide research presentations to boost our creative and conceptual capabilities and implementing management rotation. In these ways, we aim to fuse our proprietary technologies in a highly organic manner.

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Yasuo Sasao
Managing Director
General Manager, Components
General Manager, Engineering Headquarters

R&D Expenditures (Electronic Components Segment)

<table>
<thead>
<tr>
<th>Year</th>
<th>Billion yen</th>
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<tr>
<td>2015</td>
<td>11.7</td>
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</tr>
<tr>
<td>2019</td>
<td>16.7</td>
</tr>
<tr>
<td>2020</td>
<td>19.7</td>
</tr>
</tbody>
</table>

Further Enhancing Our Development Capabilities

Promoting Organizational Collaboration to Encourage Open Innovation

In March 2017, Alps Electric and Tohoku University concluded an organizational collaboration agreement. This collaboration is part of the “Industry-Academia Partnerships for the Co-Creation of a Future Vision,” which is a model for industry-academia collaboration promoted by Tohoku University that aims for recovery in disaster-stricken areas, regional revitalization, and new industry creation. Leveraging the new competitiveness created through this collaboration between Tohoku University and Alps Electric, the agreement aims to create businesses involving state-of-the-art technologies. At the same time, the agreement seeks to cultivate human resources who will play a crucial role in encouraging innovation to promote the sustained growth of regional industries. In doing so, this agreement will help promote the electronic components industry and contribute to the development of society as a whole.

Collaborative Committee will be established to promote the activities carried out under this agreement. The committee will handle the following tasks: (1) pursuing collaborative research, (2) encouraging organizational exchange, including exchange between researchers, (3) promoting the mutual utilization of research facilities and equipment, and (4) promoting and supporting educational activities and efforts to cultivate human resources.

Outline of “Industry-Academia Partnerships for the Co-Creation of a Future Vision”

Tohoku University
Collaborative Committee
Alps Electric

Matching of R&D themes, exchange between human resources

Collaboration in research themes
+ Collaboration in cultivating human resources

Response to Core Markets

Automotive

In the automotive market, there is a rising need for vehicles that offer safety, peace of mind, and comfort and are friendly to the environment, while technological development is being pursued in regard to fully autonomous vehicles and eco-friendly electric and fuel cell cars. To respond to these trends, we are expanding our lineup of sensors used in engines and chassis as well as our devices used in ADAS (Advanced Driver Assistance Systems). We are also extending the scope of our product development to electric shifter and other modules controlled by people inside vehicle cabins.

Mobile

The smartphone market is expected to expand going forward. Also, there has been an emergence of exciting new trends such as the heightened interest toward the development of VR-related technologies. In light of these trends, we are developing and producing a wide array of products such as autofocus actuators for smartphone cameras as well as various kinds of switches, sensors, connectors, and touch panels.

Energy

For eco-friendly products, we are developing energy and resource-efficient power inducers, sensors, and communication modules, as well as modules that take advantage of the characteristics of Liqualloy™, a magnetic material jointly developed with Tohoku University, Japan. In fiscal 2016, we made progress with initiatives for establishing a business foundation in the energy market and realizing future expansion. These initiatives included the reorganization of our subsidiary companies and the conclusion of a business collaboration agreement with an overseas electric power company.

Healthcare

Following the advancement of the aging society, the need for monitoring daily health conditions to prevent illness, in addition to environmental information, is becoming greater. To respond to this need, we are developing devices for healthcare equipment that leverage connectivity technologies to monitor biological information such as pulse rate and blood flow.

IoT

For the IoT market, which is expected to grow significantly in the future, we are actively pursuing proposal-making activities in such ways as introducing examples of the various solutions we offer that utilize the IoT at exhibitions around the world.

Exploring New Technologies and New Markets through the Fusion of Our Proprietary Technologies

To realize sustained growth well into the future, we are constantly working to develop technologies that allow us to take on challenges in new markets. Throughout our near 70-year history, we have cultivated a great deal of proprietary technologies. By combining, or fusing, these technologies, we believe that we can continue to create new technologies and flexibly meet the needs of customers and markets going forward. However, thus far we have made enhancements to our proprietary technologies on an individual basis. To fuse a technology with another that is from a completely different domain is no easy task, and various mechanisms are required. At the moment, we are building a development structure that calms to the characteristics of each of our proprietary technologies. We are also actively promoting Companywide research presentations to boost our creative and conceptual capabilities and implementing management rotation. In these ways, we aim to fuse our proprietary technologies in a highly organic manner.

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Yasuo Sasao
Managing Director
General Manager, Components
General Manager, Engineering Headquarters

Further Enhancing Our Development Capabilities

Promoting Organizational Collaboration to Encourage Open Innovation

In March 2017, Alps Electric and Tohoku University concluded an organizational collaboration agreement. This agreement is part of the “Industry-Academia Partnerships for the Co-Creation of a Future Vision,” which is a model for industry-academia collaboration promoted by Tohoku University that aims for recovery in disaster-stricken areas, regional revitalization, and new industry creation. Leveraging the new competitiveness created through this collaboration between Tohoku University and Alps Electric, the agreement aims to create businesses involving state-of-the-art technologies. At the same time, the agreement seeks to cultivate human resources who will play a crucial role in encouraging innovation to promote the sustained growth of regional industries. In doing so, the agreement will help promote the electronic components industry and contribute to the development of society as a whole. Collaborative Committee will be established to promote the activities carried out under this agreement. The committee will handle the following tasks: (1) pursuing collaborative research, (2) encouraging organizational exchange, including exchange between researchers, (3) promoting the mutual utilization of research facilities and equipment, and (4) promoting and supporting educational activities and efforts to cultivate human resources.

Outline of “Industry-Academia Partnerships for the Co-Creation of a Future Vision”

Tohoku University
Collaborative Committee
Alps Electric

Matching of R&D themes, exchange between human resources

Collaboration in research themes
+ Collaboration in cultivating human resources
Production Capabilities

The Alps Electric Group provides electronic components to various markets around the world, including the smart-phone, automotive, and industrial equipment markets. In addition to its development capabilities and its launching of new products that meet customer and market needs, one of the Group’s core strengths is its production capabilities, which allow it to supply high-quality products in a timely manner.

Strategies and Structure for Realizing Unrivaled Production

The production capabilities of the Alps Electric Group have been cultivated through a strong production structure and various initiatives to improve productivity. The kind of electronic components that are needed by markets and customers change with the times. The Group has thus created a production structure that can respond to these changes and is developing measures that give consideration to the monozukuri of the future. In doing so, the Group is working to further enhance its production capabilities.

Promoting Initiatives to Further Enhance Our Production Capabilities

To further enhance our production capabilities and realize the monozukuri of the future, the Alps Electric Group is focusing on the following efforts.

Promptly Supplying Products on a Global Scale through Comprehensive Production That Covers Everything from Molding to Assembly

The source of our production capabilities lies in our technological strengths and production structure, which allow us to cover everything from molding to assembly in-house. The precision processing technologies that we have cultivated over the years are able to create various parts from molding. These parts are then mass-produced for a variety of high-quality products through automated machines developed by the Company, which give thorough consideration to the assembly process. Supported by various technologies that pertain to production and mass production, our production capabilities allow us to timely respond to the rapidly changing needs of the market. These capabilities also enable us to supply products that embody the “art of electronics” on a global scale.

Improving Productivity through a Multifaceted Approach

Based on the 4Ms (man, machine, materials, and method), Alps Electric has set “cultivation of human resources” and “automation” as the key phrases for its efforts to further enhance productivity. For “automation,” not only are we working to automate operations conducted by people, we are also developing automated machines that can support the production of various products. In addition, on the production floor, we are thoroughly eliminating wasteful procedures by improving total industrial engineering (TIE) and are working to enhance the skills of our production floor employees.

We view monozukuri as a series of processes that extends from product development to mass production. We therefore believe that monozukuri is achieved through the involvement of all relevant divisions, including the design, production, and purchasing divisions. Giving consideration to all stages of monozukuri, from product development to mass production, we are promoting product development that integrates production and technologies.

Aiming for a Next-Generation Production Structure with the Furukawa Plant 2

Looking ahead to the next 50 years, Alps Electric will commence construction of a new plant in Osaki City, Miyagi Prefecture. At the new plant, we will introduce production management systems that utilize the IoT and promote the visualization of processes, quality, and productivity. In this manner, we will work to improve our production capabilities. In addition, we will be able to utilize energy more efficiently through heat conservation and natural energy use. Moreover, we will promote energy conservation by leveraging the IoT and conduct greening activities within the plant, thereby aiming for eco-friendly plant management.

As not only market needs but also rules and regulations continue to change, the evolution of monozukuri has become essential. With its sights on the future, the Alps Electric Group will carry out experimental work related to materials, production equipment, and production processes as and will promote the development of new technologies.
Quality Management

The Alps Electric Group views quality as a paramount factor influencing the heart of its business activities and pursues quality improvements in line with the Fundamental Quality Control Policy. To facilitate improvements in global quality performance, quality-related achievements and issues pertaining to products are regularly reported to the Board of Directors to be shared Groupwide.

The Fundamental Quality Control Policy and the 8th Mid-Term Business Plan

Alps Electric continues to guarantee a standard of excellence in all of its products and services to satisfy customer needs. Under the 8th Mid-Term Business Plan, we are working to realize globally consistent quality by eliminating variations in structures and competence from product to product and between production bases, and by achieving a high level of quality stability.

Quality Management Systems (QMS)

International standards for quality management systems (QMS) are essential for business as they demonstrate that all departments, through quality assurance, help realize higher levels of customer satisfaction.

All production plants of the Alps Electric Group (including levels of customer satisfaction.

Quality Assurance System

We have also acquired ISO / TS 16949 certification for plants manufacturing products for the automotive industry. In addition, we have been implementing standardized QMS both in Japan and overseas since April 2015 as one measure aimed at realizing globally consistent quality.

Global Quality Information System (GQIS)

The Global Quality Information System (GQIS) allows global sharing of quality-related information to enable the containment (prevention) of problems through swift improvements right across the organization. The system makes it possible to share quality information from customers or the market with bases worldwide and that information is used to promptly carry out cause analysis and take action. Measures and improvements implemented are subsequently turned into permanent measures.

Active Use of Quality Engineering (QE)

Quality problems, when they occur, lead to not only loss of trust but also huge adverse effects on earnings and subsequent efforts to capture and maintain business. Defect issues we hear about today, tidied up by vehicle recalls, have a potentially extensive scope due to the globalization of business and changing business models, including the use of common parts. Problems sometimes have major implications for society. If that happens, it is already too late. Determining how to prevent quality problems before they occur is therefore crucial.

One way the Alps Electric Group does this is through the active use of quality engineering (QE). In the development and design stage, for example, we evaluate the stability of functions and optimize design parameters while envisaging the manner and environmental conditions in which the customer, or the market, will use the product in order to improve product robustness.

1 Robustness: The degree to which a supplied product can perform its intended function under the various conditions customers might use it (methods of use, treatment, hot, humid, dust, or other kinds of environments, etc.).
**Intellectual Property**

The Alps Electric Group engages in product creation and therefore ventures to create, protect, and utilize Intellectual property based on accurate knowledge and understanding so that customers will feel secure using its products and services.

**Improving Corporate Value through the Integrated Utilization of Intellectual Assets**

By utilizing its patents, designs, and trademarks in an integrated manner, the Alps Electric Group is pursuing strategic activities that contribute to its global business development. In fiscal 2016, the Group leveraged its tactile technologies to enhance the brand image of its products through the creation of a new logo for its trademark HAPTRICTM and the application for trademarks in Japan and overseas. By promoting such efforts, the Group is working to secure the competitiveness of its products, technologies, image, and brand and improve its corporate value through the integrated utilization of Intellectual properties.

**Efforts to Increase the Number of Owned Intellectual Properties**

From the initial stages of planning and developing a new product, the Group identifies the characteristics that the product in development will likely share with existing product groups and applies for basic intellectual property rights accordingly. At the same time, the Group is working to enhance its intellectual properties through overseas applications in accordance with trends in the market and in commercialization.

In addition, centered on the technologies that are used across the Group’s multiple business domains, the Group holds strategic meetings between its technology and intellectual property divisions and conducts efforts in accordance with each stage of business creation in order to pursue Groupwide activities in such areas as establishing an intellectual property portfolio.

The Group is also continuing efforts to submit patent and other applications in Japan and overseas, with over 800 submissions scheduled to be made in fiscal 2017.

**Procurement**

The Alps Electric Group maintains fairness in its dealings with suppliers and builds relationships of cooperation and mutual trust based on underlying sincerity. Our procurement policy is to help bring about sustainable development with attention to safety and environmental concerns.

**Response to Procurement Risk**

The Alps Electric Group has set up international procurement offices (IPOs) to carry out procurement activities at production bases in 21 locations in nine countries: Japan, China, South Korea, Malaysia, Mexico, Ireland, Germany, the Czech Republic, and India, as well as in Taiwan and Hong Kong. Procurement entails obtaining at the right time the required volume of materials and parts that are superior in quality, cost, delivery, and environmental performance. It is therefore essential that the Group procures from suppliers it can trust. For that reason, the Group makes efforts to build trust-based relationships. The supply chain is also affected by natural disasters, accidents, labor disputes, bankruptcies, and other occurrences, with extensive repercussions for procurement activities as well as for such operations as logistics. The Group regularly updates its supply chain database and is currently establishing structures for globally centralizing information and responding in a timely manner when procurement risks do eventuate.

The Alps Electric Group continuously holds policy briefings with its suppliers. At these briefings, it requests supplier cooperation with its approach to addressing procurement risks. The Group believes that responding to such risks is not possible without the support of suppliers and it will continue efforts to strengthen that cooperation going forward.

**Human Resources**

Our approach to human resources is “believing in people.” In a workforce representing diverse cultures and sets of values, we implement measures promoting the ongoing development of employees into creative, independent-minded professionals.

**Development-Oriented Rotation and Career Development Support**

Also, employees file self-assessments reporting on their career so far, as well as future job ambitions and other aspects, such as life plans. Each year, supervisors and employees discuss career plans for the medium term and work together to realize the actualization of employees’ capabilities through training, job rotation, and day-to-day work.

**Overseas Trainee Program—Developing Global Human Resources**

Alps Electric has established an overseas trainee program whereby young and mid-level employees are seconded to affiliates or outside organizations overseas for one year to gain experience through practical training. The aim of the program is to develop global human resources possessing an international perspective and vitality with an awareness of cultures and customs and language proficiency by having employees experience working and living overseas early on in their careers.

**Alps Japan Trainee Program—Nurturing Future Overseas Affiliate Executives**

As one element of our global strategy for human resources development, the Alps Electric Group runs the Alps Japan Trainee Program, which aims to nurture future executives of overseas affiliates. Through a one-year period working and doing practical training in Japan, trainees learn about business operations and Alps Electric’s corporate culture. As future overseas affiliate executives, it is hoped that they will serve as a bridge between Japan and overseas locations.

**Establishment of Various Employee Systems**

In March 2016, Alps Electric put into action a number of measures aiming to make use of diverse human resources, increase motivation, nurture professionals, and establish systems enabling full application and development of employees’ skills. Such measures included easing restrictions on holding more than one job, expanding application of a program for reducing working hours, and introducing a system for working from home with certain conditions.
Diversity

Promoting Greater Involvement of Women

Having long viewed expanding involvement of female employees as an important challenge, the Alps Electric Group provides equal opportunities for men and women, for example, in overseas assignments and training programs. In new-graduate recruitment, Alps Electric actively hires women, even in engineering positions. We also seek to bring about a change in mentality among managers and even women themselves by, for example, establishing the right working environments through the enhancement of programs that support the balance between work and childcare or nursing care and by implementing education and training. As a result of these efforts, more female employees are achieving work-life balance and playing an active role even after they marry—the average length of service among women is more than 20 years, and more than 65% of women are married.

Targets of Activities Related to the Act for Promoting Women’s Active Participation in the Workforce

1. By fiscal 2018, lift the ratio of women as a percentage of new graduates and mid-career hires from 34% (fiscal 2015) to at least 40%.

2. Up to fiscal 2018, maintain the current situation where the length of service among regular employees for women (21 years) is longer than that for men (20 years), and work to extend the length of service of female management employees (10 years).

Employing Persons with Disabilities

Alps Electric is working to establish environments where all employees, with or without disabilities, can work with vitality and apply their capabilities to the fullest. We have maintained an employment rate of persons with disabilities above the statutory rate continuously since 2012.

Employment of Persons with Disabilities (Alps Electric)*1

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<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Men in management positions (number)</td>
<td>376</td>
<td>385</td>
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<td>Women in management positions (number)</td>
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<td>8</td>
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<td>Women in management positions (ratio)</td>
<td>1.1%</td>
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</tbody>
</table>

*1 As of April 1 of each year

Employing Overseas Personnel—International Associates Program

The International Associates Program (IAP) recruits new graduates from overseas and employs them on two-year contracts at Alps headquarters in Japan. Employing around five people annually for over 20 years, the program has had nearly 100 participants to date from countries in Europe, North America, and Asia. After completion of the program, many participants stay on to work for the Alps Electric Group, including one employee who is still with us after more than 20 years.

In addition, former foreign exchange students now account for around 10% of the new graduates hired in Japan. These persons engage in wide-ranging jobs, for example, in design and development, manufacturing, sales, and accounting.

Sustainability

Eco-Friendly Production Activities

Since fiscal 2016, the Alps Electric Group has been pursuing global warming countermeasures and other environmental preservation activities in line with the 8th Medium-Term Action Plan for Environmental Preservation. As a manufacturer, the Group has added elements to the 8th Medium-Term Action Plan that will allow it to contribute more to environmental preservation in the areas of manufacturing and product development, namely, the improvement of material yield*2 and material straight pass rate,*2 to enable the effective utilization of resources and aggressive sales of environmentally-friendly products. In regard to targets set under the 7th Medium-Term Action Plan, such as improving energy consumption per unit, activities will be continued with the scope again encompassing the entire Alps Group.

*1 Material yield: The value (theoretical value) reached by dividing the amount of raw materials constituting a product by the amount of raw materials needed to manufacture the product. The closer this value is to 1 the better. An important consideration is working out how to reduce the amount of items such as metal offcuts and plastic runners through innovation in product design and mold or die specifications.

*2 Material straight pass rate: The value reached by dividing the amount of raw materials theoretically needed by the amount of raw materials actually used in the process. The closer the value is to 1 the better. Important tasks with regard to reaching this value include reducing the amount of defects within the manufacturing process and reducing losses when switching production batches.

Efforts to Conserve Energy

To reduce CO2 emissions through the conservation of energy, the Alps Electric Group is making efforts to rationalize its energy use. These efforts center on energy conservation from hard perspectives, which entail the introduction of highly efficient equipment, and from soft perspectives, which entail the pursuit of operational improvements.

Conerving Energy by Changing the Operation Method for Vacuum Pumps

At the Nagaoka Plant, the Alps Electric Group changed the method of operation for vacuum pumps connected to its manufacturing equipment, thereby conserving a substantial amount of energy. While it traditionally operated these pumps on a continuous basis, the Group now only operates these pumps when necessary after confirming the status of the manufacturing process. In doing so, it has realized a nearly 50% reduction in the amount of energy the plant uses.

Conerving Energy by Improving the Air Conditioning in the Server Room

Alps Electric has reduced the amount of energy consumed (an energy used for air conditioning) at its headquarters by 16.3% through such measures as installing insulation and vents underneath the raised floor in the server room, reducing the volume of air in circulation (a 40% decrease), and revising the temperature settings for air conditioning equipment (from 24°C to 28°C). These efforts also have led to improvements regarding inconsistencies in temperature and air flow in cold aisles (hallways in a data center where cold air passes through).
Toshihiro Kuriyama
General Manager, Quality Management
Apr. 1983 Joined the Company
Jan. 1987 General Manager, Peripherals Products Division
Jun. 1990 Director
Apr. 1999 Deputy General Manager, Automotive Division
Jun. 2008 Officer in charge of Module Engineering and Quality Management Executive
Apr. 2012 Officer in charge of Modular Engineering Headquarters
Jun. 2012 General Manager, Modular Engineering Headquarters
Apr. 2013 Officer in charge of New Business & Consumer Modules and General Manager, Engineering Headquarters
Jun. 2014 Quality Management Executive and Material Control Executive, Production Headquarters
May 2016 Quality Management Executive and Deputy General Manager, Production Headquarters
Jun. 2016 Managing Director (present)
Quality Management and Quality Management Headquarters and General Manager, Production Innovation Division (present)
Jun. 2017 Quality Management Executive and General Manager, Management Headquarters (present)

Yasuo Sasao
General Manager, Components
Apr. 1983 Joined the Company
Apr. 2009 Deputy Officer in charge of Component Business Products Business, MMP Division
Jan. 2010 Director
Apr. 2012 General Manager, Component Business, Engineering Headquarters
Apr. 2013 Officer in charge of Component Business Engineering Headquarters
Jun. 2014 Officer in charge of Component Business and General Manager, Engineering Headquarters (present)
Jun. 2015 Managing Director (present)

Tetsuhiro Saeki
General Manager, Information System
Apr. 1983 Joined the Company
Jul. 2006 Deputy General Manager, Sales & Marketing Headquarters
Jun. 2008 Director
Apr. 2009 General Manager, Components Business, Engineering Headquarters
Jul. 2010 Director
Apr. 2012 General Manager, Component Business, Engineering Headquarters
Apr. 2013 Officer in charge of Component Business Engineering Headquarters (present)
Jun. 2014 Officer in charge of Component Business and General Manager, Engineering Headquarters (present)
Jun. 2015 Managing Director (present)

Yoichiro Kega
General Manager, Corporate Planning, Accounting & Finance, General Affairs & Environmental Planning
Apr. 1984 Joined the Company
Apr. 2002 Senior Manager, Sales Dept. 4, Home, Mobile & Industry Division
Apr. 2004 Project Manager, Global Sales & Marketing Department, MMP Division
Jul. 2005 Business Planning Manager, Preparatory Products Division
Feb. 2007 Project Manager, Preparatory Products Division
Feb. 2012 General Manager, Preparatory Products Division
Oct. 2013 Deputy General Manager, Sales Planning Division, Sales & Marketing Headquarters
Feb. 2015 General Manager, Corporate Planning Office
May 2016 Director (present)
Director (present)
Director (present)
Director (present)

Hiroki Sato
General Manager, Automotive Modules
Apr. 1986 Joined the Company
Oct. 2003 General Manager, Engineering Dept. 2, Automotive Products Division
Apr. 2008 General Manager, Engineering Dept. 3, Automotive Products Division
Oct. 2009 General Manager, Engineering Dept. 1, Automotive Division
Oct. 2012 Project Manager, Corporate Planning Division, Automotive Division
May 2015 Director (present)
Director (present)
Director (present)
Director (present)
Director (present)

Managing Director
Yoshihata Amagishi
General Manager, Quality Management
Apr. 1983 Joined the Company
Jun. 1987 General Manager, Peripherals Products Division
Jun. 1990 Director
Apr. 1999 Deputy General Manager, Automotive Division
Jun. 2008 Officer in charge of Module Engineering and Quality Management Executive
Apr. 2012 Officer in charge of Modular Engineering Headquarters
Jun. 2012 General Manager, Modular Engineering Headquarters
Apr. 2013 Officer in charge of New Business & Consumer Modules and General Manager, Engineering Headquarters
Jun. 2014 Quality Management Executive and Material Control Executive, Production Headquarters
May 2016 Quality Management Executive and Deputy General Manager, Production Headquarters
Jun. 2016 Managing Director (present)
Quality Management and Quality Management Headquarters and General Manager, Production Innovation Division (present)
Jun. 2017 Quality Management Executive and General Manager, Management Headquarters (present)

Managing Director
Takeshi Daianmo
General Manager, New Business & Consumer Modules
Apr. 1983 Joined the Company
Apr. 2000 Senior Manager, Sales Dept. 1, Sales & Marketing Engineering Headquarters
Apr. 2008 General Manager, Global Sales & Marketing Operations, MMP Process Division
Jan. 2008 Deputy General Manager, Marketing Headquarters, Global Sales & Marketing Headquarters
Jun. 2008 General Manager, Mobile Sales Operations, Sales & Marketing Headquarters
Apr. 2009 General Manager, Sales & Marketing Headquarters, Home, Mobile & Industry Division
Jul. 2013 Director (present)
Director (present)
Director (present)
Director (present)

Executive Adviser
Masataska Kataoka
Apr. 1973 Retigned from Sharp Corporation
Jun. 1982 Director
Jun. 1985 Managing Director
Oct. 1986 Senior Managing Director
Jun. 1988 President, Chairman of the Board of Directors
Jun. 2012 Chairman
Jun. 2017 Executive Adviser (present)

Directors
(As of June 23, 2017)
Corporate Governance

The Alps Group defines corporate governance as the “establishment and operation of frameworks for realizing efficient and appropriate decision-making and execution of duties by senior management, prompt reporting of outcomes to stakeholders, and sound, efficient, and transparent business administration for the purpose of heightening corporate value.” Our basic approach, placing importance on maximizing benefits for shareholders and all other stakeholders, is to maximize corporate value and deliver benefits directly or indirectly to shareholders in a balanced way, satisfying their respective interests.

Furthermore, in order to fulfill responsibilities to stakeholders, including shareholders, customers, local communities, and employees, and make effective corporate governance as a business entity, the Company has established “Alps Electric Co., Ltd. Corporate Governance Policies” and disclosed the policies on the Company’s website. http://www.alps.co.jp/en/governance.html [Japanese only]

Corporate Governance Structure

Alps Electric made the transition from a company with an audit and supervisory board to a company with an audit and supervisory committee following approval at the 33rd Ordinary General Meeting of Shareholders on June 23, 2016. Independent of executives, the Audit and Supervisory Committee will bolster auditing and supervisory functions while closely coordinating with an independent auditing firm and the internal audit department; thereby further strengthening corporate governance and enabling fair and fairly transparent business administration.

Corporate Governance at Alps Electric

Approach to Corporate Governance

Proposal / Reporting -> Board of Directors’ meeting, Board of Directors’ Committee (Outside) -> Audit and Supervisory Committee Office -> Compliances & Audit Office


directors (including three outside directors) who are Audit and Supervisory Committee members) and five directors (including three outside directors) who are Audit and Supervisory Committee members. It is positioned as an organ that deliberates and makes decisions on basic management policy and important management matters, such as short- and medium-term business plans, and carries out monitoring and supervision of the execution of duties. The Board convenes once a month for regular meetings and on other occasions as required to thoroughly deliberate and pass resolutions on all important matters.

The Board of Directors is operated in accordance with related laws and bylaws. Resolution items are checked in advance from legal, accounting, tax, economic rationality, and other perspectives to ensure legal compliance and rationalism. Furthermore, a guide for submitting items to the Board of Directors has been created to clarify standard formats for document submission and main factors for deliberation, helping resolve rational and efficient discussion at Board of Directors’ meetings.
Alps Electric has reinforced its corporate governance systems with the aim of improving the soundness, transparency, efficiency, and dynamism of business operations. As part of these efforts, the Company began to evaluate the effectiveness of the Board of Directors from fiscal 2016 and the results of these evaluations are as follows:

1. Analysis and Evaluation Method
   To evaluate the effectiveness of the Board of Directors, in fiscal 2016 a non-anonymous questionnaire was completed by all 17 directors regarding the structure, operation, and deliberations of the Board of Directors, as well as communication among directors, support systems, and other topics. Furthermore, these directors performed self-evaluations and expressed their opinions regarding the topics covered in the questionnaire. The Audit and Supervisory Committee, which comprises outside directors and directors in charge of administrative and corporate planning, analyzed the results, organized issues, and reported to the Board of Directors, which verified and deliberated on the results.

2. Analysis and Evaluation Results
   The results confirmed that discussions, deliberations, and operations by the Board of Directors under the current system in place since June 2016 were appropriately conducted. No major problems were identified, and the results verified that effectiveness of the Board is secured.

   - The frank opinions of each officer were sought, and constructive opinions were collected regarding the active appointment of women, young employees, and personnel with business management experience as directors; early provision of documents and efficient reporting to support more effective deliberations by the Board of Directors; further enhancement of opportunities for communication among Audit and Supervisory Committee members and executive directors; sharing perceptions and reinforcing management regarding increasing risks; and the method of conducting this evaluation.

3. Response Going Forward
   Based on these opinions, the Company will conduct short-term or medium-/long-term investigations. Furthermore, since shared opinions and awareness among directors have become clearer as a result of the implementation of this evaluation, the Company will continue the evaluation in fiscal 2017 and beyond in order to share information and develop a business attitude with an even greater sense of unity, and to enhance the corporate governance and the corporate value of the Company.

Audit and Supervisory Committee
Alps Electric’s Audit and Supervisory Committee comprises three outside committee members and two inside members. With a majority of members coming from outside the Company, the committee endeavors to make suitable judgments from an objective standpoint independent of executives. Moreover, full-time Audit and Supervisory Committee members are appointed so that they will attend important meetings of the Board of Directors and other important meetings. Furthermore, persons are assigned to assist with the duties of the Audit and Supervisory Committee and the Company ensures that employees who engage in these duties (not including directors who are committee members) are independent of the Board of Directors.

Outside Directors
To strengthen the supervisory functions of its Board of Directors, Alps Electric has appointed three outside directors who also serve as Audit and Supervisory Committee members. The Company maintains no personal or capital relationships with these three outside directors, nor is there any transaction relationship or other special interests with these outside directors that would create a conflict of interest with general shareholders. The Company’s outside directors focus on ensuring legal compliance in business administration and, bearing all stakeholders in mind, strive to strengthen the supervision of business administration by actively offering opinions and advice at meetings of the Board of Directors and through supervision of the election, removal, and compensation of management personnel as well as conflicts of interest between the Company and management personnel, controlling shareholders and other parties, and other decision-making by the Board of Directors on important matters. Outside directors also work to realize effective supervision by regularly visiting facilities of Alps Electric to gather information and engage in information and opinion exchange with other directors and employees.

Board of Directors
The composition of Audit and Supervisory Committee members is determined based on Company standards for selection of director candidates, including criteria for independence, and outside directors, with their consent, are designated as independent directors with their appointment as independent directors being notified to Tokyo Stock Exchange, Inc.

Name
Takashi Iida
Hiroshi Akiyama
Takaji Kuniyoshi
Reason for appointment
To receive sound guidance and advice for management of the Company based on the extensive experience and achievements in the judicial world as a lawyer
To employ the management of the Company by expert knowledge and experience and broad insight accumulated as a lawyer
To employ the management of the Company by his international experience gained in accounting firms and broad insight accumulated as a certified public accountant
Age
59
59
60
Term
1/12 to 10/10
1/12 to 10/10
1/12 to 10/10

Audit and Supervisory Committee Members
Alps Electric Co., Ltd. (Electronic Components)
Alpine Electronics, Inc. (Automotive Electronics)
Alps Logistics Co., Ltd. (Logistics)
Audit and Supervisory Committee
Office of the Audit
Committee
Supervisory Committee

Agreement relating to Alps Group administration and management
Alps Group Management Paradigm (Alps Group Management Regulations / Compliance Charter / Environmental Charter)

Alps Group Internal Controls
Under the remuneration structure focusing on linking short-term performance with medium- to long-term performance, Alps Electric stimulates actions of directors to increase corporate performance.

Remuneration Composition
Remuneration for Outside Directors (Excluding Directors Who Are Members of the Audit and Supervisory Committee)
- The Company’s remuneration for inside directors (excluding directors who are members of the Audit and Supervisory Committee) consists of fixed remuneration, performance-based bonuses, and stock compensation-type stock options.
- Performance-based bonuses vary according to single-year performance (operating income, profit, and others).
- Stock compensation-type stock options are granted as compensation linked to medium- to long-term performance in accordance with the number of stocks calculated based on the value at the time of issuance and according to the amount of stock option remuneration that is specified for each position. Since these stock options have an effect equivalent to substantial provision of the Company’s own and the share price to the maximum extent in order to lastingly improve the Group’s corporate value.

Internal Controls
Acknowledging the Founding Spirit (Alps Precepts) as the origin of Group management, Alps Electric has established within the Alps Group Management Paradigm a fundamental philosophy and action guidelines relating to compliance by Alps Electric that apply to the entire Alps Group, including Alps Electric and listed subsidiaries. We also maintain internal controls (systems for ensuring the appropriateness of operations) conforming to the Companies Act of Japan and ordinances for enforcement of the act to make sure that Alps Electric and the Alps Group, as a whole are operated efficiently and appropriately. For more detailed information on the structure of internal control systems, please view the “Materials Related to Internal Control System” section of our Corporate Governance Report.

http://www.alps.com/e/ir/ir_governance.html

http://www.alps.com/j/ir/ir_meeting.html (Japanese only)
Compliance

Measures

As the core company of the Electronic Components Segment, Alps Electric has established a set of compliance regulations based on the Alps Group Compliance Charter and globally deploys specific measures within the segment. The deployment of measures goes beyond developing and introducing rules and systems. Importance is placed on ensuring that those rules and systems are being managed properly and efficiently by encouraging individual employees, who actively engage in the activities, to take proactive action based on a proper understanding of the importance of compliance.

Specifically, internal controls are established and implemented to ensure that management of Company and Group operations is carried out appropriately; that departments carry out self-evaluations (monitoring) of their own activities; and that the internal audit department carries out internal audits of the activities and operations of various departments, overseas affiliates, and other subsidiaries. For example, in regard to the management and use of grants and subsidies received from public agencies, Alps Electric has established a set of regulations related to the management and use of such grants and subsidies.

Whistle-Blowing System

The Alps Electric Group has in place a whistle-blowing system (Ethics Hotlines), which is independent from management in charge of business execution, for responding to problems when reaching a resolution through organizational lines is complicated. Taking into account national and regional variations in law and the need for an agile response to trends, Ethics Hotlines have been set up in Japan and at the main overseas affiliates. Alps Electric has formulated internal regulations that establish one full-time Audit and Supervisory Committee member, outside Audit and Supervisory Committee members, and the head of the compliance department as contact points for Ethics Hotlines. These regulations also stipulate the confidentiality of reports and ensure the anonymity and protection of those making reports. The contact information and operational policies regarding these hotlines are disseminated as needed via the Company newsletter and at training sessions.

Global Implementation of Compliance and CSR Training

In fiscal 2015, the Alps Electric Group commenced the Compliance and CSR Training, which is implemented globally. The training not only provides a general outline of compliance and CSR, but also covers topics such as proper accounting procedures, information security, the prohibition of harassment and discrimination, compliance with antitrust laws, and the prohibition of corruption and bribery, with the objective of ensuring full awareness of these issues. In fiscal 2015, the inaugural training program was implemented at Alps Electric and affiliates in China, Hong Kong, and Taiwan. In fiscal 2016, the same program was held at overseas affiliates other than those previously mentioned. In fiscal 2017, Alps Electric plans to implement a second training program.

Risk Management

Approach to Risk Management

Risks are diversifying due to business globalization and technological advancements. To address these risks, it is vital that the Alps Electric Group averts risks affecting its future and that it anticipates dangers and advancements. To address these risks, it is vital that the Alps Electric Group averts risks affecting its future and that it anticipates dangers and advancements. To address these risks, it is vital that the Alps Electric Group averts risks affecting its future and that it anticipates dangers and advancements. To address these risks, it is vital that the Alps Electric Group averts risks affecting its future and that it anticipates dangers and advancements. To address these risks, it is vital that the Alps Electric Group averts risks affecting its future and that it anticipates dangers and advancements. To address these risks, it is vital that the Alps Electric Group averts risks affecting its future and that it anticipates dangers and advancements.

At the Alps Electric Group, under the jurisdiction of the director in charge of administration, corporate departments— including corporate planning, legal affairs, human resources, general affairs, accounting, export and import administration, and compliance—and operating departments—such as engineering, production, quality control, and sales—deliberate on functions and roles related to risk management and establish risk management structures based on crisis management regulations and in accordance with the 8th Mid-Term Business Plan. As part of these efforts, the corporate departments prepare “risk maps” in order to visualize the business environment facing the Group. This entails categorizing risks and then evaluating those risks from the perspectives of potential impact, potential for eventuation, and status of risk management measure implementation. Risk maps are subsequently prepared based on the results of these evaluations. Going forward, these risk maps will help the Group in its risk management activities.

Crisis Management

In addition to fires, natural disasters such as earthquakes and heavy rains have a significant impact on a corporation’s business and management as well as on its supply chain. To prepare for such crises, the Alps Electric Group is promoting various initiatives to realize a prompt recovery in operations and minimize damage.

Crisis Management Policy (Excerpts from the Crisis Management Manual)

We will place top priority on ensuring the safety of employees, all people on Company premises (including visitors, related Company employees, on-site subcontractors, and temporary staff), and the families of employees.

Crisis Management Regulations and Manuals

The Alps Electric Group identifies risks that need to be managed in a set of crisis management regulations and maintains crisis management manuals depending on the significance of the risk, upholding them as required. Each facility in Japan also promotes its own individual crisis management manuals based on Groupwide manuals.

Information Security

Within the Alps Electric Group, the information systems department heads activities for establishing regulations related to information security, devising security enhancement measures and training plans, and deploying them both in Japan and globally through coordination with information officers in individual departments.

To thoroughly disseminate the information management policy, information management audits of individual departments are conducted every year to confirm the status and progress of educational activity plans and improvement measures. Operation, maintenance, and trouble-response activities of information systems departments are also audited, and the Group is advancing efforts to prevent the falsification of information and maintain environments allowing for the timely utilization of information for business, along with measures to counter new threats such as targeted attacks.
The Foundations That Support Growth

Message from an Outside Director

Working to Further Enhance Governance

We asked Takuji Kuniyoshi, an Audit and Supervisory Committee member and outside director of the Company, about corporate governance at Alps Electric.

Takuji Kuniyoshi
Outside Director
Audit and Supervisory Committee Member

Alps Electric’s Corporate Culture of Supporting Governance

I believe there are three factors support governance. The first is the vigorous and energetic hustle and bustle of the town factory. It was this sort of town, in Yuki, where the late Katsutaro Kataoka founded the Company. Alps started out as just one of these small town factories, and I believe the Company retains that original vigor and energy today. The second factor is a sense of respect. At general meetings of shareholders, the management team does its best to answer shareholders’ questions thoroughly and in their own words. My sense is that the Company respects cooperating factories and suppliers in the communities, regions, and overseas countries where it is developing its business. The third factor is the corporate value of being humble and tenacious. Alps has several factories in the Tohoku region, which experienced a great deal of damage in the Great East Japan Earthquake of 2011. The Company addressed the situation by pulling together. People worked noon and night to get the factories back up and running so that customers would not be inconvenienced and brought them back on line quickly. By virtue of operating in this region for many years, I think Alps has naturally cultivated the strong sense of humility and tenacity for which the region is known.

Put another way, if the Company were to lose this shared sense of culture and spirit, I think its governance would be in crisis. Governance is conducted by people and, as such, can break down easily. Complementing this reality, I consider an ongoing corporate culture of humility and soundness to be vital.

| My Role as an Outside Director and Audit and Supervisory Committee Member

Alps is a combination of two personalities. The first is characterized by its pursuit of profits as a private enterprise. This personality’s role is to bolster sales, ensure a return on invested capital, invest any surplus toward the future, and award suitable dividends. In this guise, the Company strives for sustainable growth. To respond to customer requirements amid a globalizing economy, the Company’s overseas developments must include a “made-in-market” aspect. Also, the Company needs to respect the laws of the countries in which it does business and respond appropriately with respect to accounting and transfer price taxation. I will keep alert to these needs, drawing on my experience as a certified public accountant working overseas.

The second personality involves the Company’s social structure, comprising shareholders, customers, suppliers, employees, governments, and various other stakeholders. To build trust among stakeholders, a company must provide extensive disclosure. In the sense of corporate disclosure, the question of how to alleviate the information asymmetry that exists between the management team and shareholders and other stakeholders is currently being put up for review. Annual reports and integrated reports play a role in addressing this asymmetry of information. Hence, they serve as an aspect of governance. As an outside director, I am committed to promoting appropriate and timely disclosure from the perspective of shareholders and other stakeholders.

Financial Data

Management’s Discussion & Analysis of Operating Results

1. Analysis of Operating Results for the Fiscal Year Ended March 31, 2017
2. Forecasts for the Fiscal Year Ending March 31, 2018
3. Liquidity and Sources of Funds
4. Business and Other Risks

Consolidated Financial Statements

Consolidated Balance Sheet
Consolidated Statement of Income and Comprehensive Income
Consolidated Statement of Changes in Net Assets
Consolidated Statement of Cash Flows

The accompanying consolidated financial statements of Alps Electric Co., Ltd. and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan. These 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 and the prevailing exchange rate on March 31, 2017, which was ¥112.19 to U.S.$1.00.

The translation should not be construed as a representation that the Japanese yen could be converted into U.S. dollars at the above or any other rate of exchange.
1. Analysis of Operating Results for the Fiscal Year Ended March 31, 2017

In the global economy during fiscal 2016 (the year ended March 31, 2017), the United States experienced a gradual economic recovery on the back of improvement in the employment situation and increased consumer spending. In Europe, despite a sense of uncertainty following the U.K.’s decision to leave the European Union, overall business activity was firm in the Eurozone. Additionally, while China experienced a gradual economic slowdown, commodity prices of emerging nations were mixed, with a trend of devaluation and signs of bottoming out in the economies of certain countries. In Japan, despite an economic reversal from 2015 at the start of spring due to such factors as the impact of yen appreciation on corporate performance and sluggish consumer spending, a gradual economic recovery occurred against the backdrop of strong employment and a trend of yen depreciation from the end of 2015 and onward.

On a consolidated basis, the Alps Group recorded net sales of ¥753.2 billion (a 2.7% year-on-year decrease), operating income of ¥44.3 billion (an increase of ¥4.2 billion, or 1.0%), and net income attributable to parent company shareholders of ¥34.9 billion (10.5% decrease). Average exchange rates during the fiscal year were ¥108.38 to the U.S. dollar and ¥116.79 to the euro, representing yen appreciation from the previous fiscal year of ¥11.76 against the dollar and ¥13.79 against the euro.

2. Net Sales

Net sales amounted to ¥753.2 billion, a decline of ¥20.7 billion, or 2.7%, from the previous fiscal year.

Sales in the Electronic Components Segment came to ¥437.6 billion, up ¥3.2 billion, or 0.7%, compared with the previous fiscal year. Sales in the Automotive Infotainment Segment stood at ¥242.3 billion, down ¥25.2 billion, or 9.4%. Sales in the Logistics Segment came to ¥61.1 billion, an increase of ¥9.0 billion, or 1.5%.

The yen appreciated against both the U.S. dollar and the euro compared with the previous fiscal year, putting downward pressure on sales to the extent of ¥59.7 billion.

3. Operating Income

Operating income amounted to ¥44.3 billion, a decline of ¥7.1 billion, or 15.2%, from the previous fiscal year. Foreign exchange movements had a negative impact on operating income totaling ¥13.7 billion.

4. Financial Results

Sales in the Electronic Components Segment came to ¥437.6 billion, an increase of ¥2.7 billion, or 0.6%, from the previous fiscal year. Sales in the Automotive Infotainment Segment amounted to ¥242.3 billion, a decrease of ¥7.1 billion, or 2.9%, compared with the previous fiscal year. Sales in the Logistics Segment amounted to ¥61.1 billion, an increase of ¥9.0 billion, or 1.5%.

5. Liquidity and Sources of Funds

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥44.3 billion, a decrease of ¥7.1 billion, or 15.2%, from the previous fiscal year. Foreign exchange movements had a negative impact on operating income totaling ¥13.7 billion.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥437.9 billion, compared with ¥303.3 billion used in the previous fiscal year. This amount was mainly attributable to ¥47.4 billion used for purchase of property, plant and equipment, which offset ¥9.3 billion provided by proceeds from sales of shares of subsidiaries and associates.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥437.9 billion, compared with ¥303.3 billion used in the previous fiscal year. This amount was mainly attributable to ¥47.4 billion used for purchase of property, plant and equipment, which offset ¥9.3 billion provided by proceeds from sales of shares of subsidiaries and associates.

6. Financial Results

On a consolidated basis, the Alps Group reported net sales of ¥753.2 billion (a 2.7% year-on-year decrease), operating income of ¥44.3 billion (an increase of ¥4.2 billion, or 1.0%), and net income attributable to parent company shareholders of ¥34.9 billion (10.5% decrease). Average exchange rates during the fiscal year were ¥108.38 to the U.S. dollar and ¥116.79 to the euro, representing yen appreciation from the previous fiscal year of ¥11.76 against the dollar and ¥13.79 against the euro.

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12. Operating Income

Operating income amounted to ¥44.3 billion, a decline of ¥7.1 billion, or 15.2%, from the previous fiscal year. Foreign exchange movements had a negative impact on operating income totaling ¥13.7 billion.
4. Business and Other Risks

Risks pertaining to the status of operations and accounting of the Alps Group that could have a major impact on investors’ decisions are outlined below:

Forward-looking statements are based on judgments made at the end of the fiscal year ended March 31, 2017.

1 Economic Conditions

The Alps Group (Alps Electric and its consolidated subsidiaries) operates a global business centered on the Electronic Components Segment, with overseas markets accounting for 79.8% of sales in fiscal 2016 (year ended March 31, 2017). As most of the Alps Group’s products are sold to manufacturers, customers’ production levels, which may be influenced by economic trends, have a major impact on the business of the Alps Group. The Alps Group will therefore be influenced directly or indirectly by economic conditions in markets across Japan, Europe, the United States, and Asia, and economic fluctuations in those markets have the potential to impact the results of operations and financial condition of the Alps Group.

2 Competition

The Alps Group is exposed to intense competition from other companies in the Electronic Components Segment and all other areas of business. Although the Alps Group makes efforts to satisfy customers by introducing new products, supplying products of a high quality, and enhancing and expanding its global network, market competition is expected to intensify further. This creates potential for unforeseen situations such as the failure to win orders, which could have an adverse effect on the Alps Group’s results of operations and financial condition.

3 Customer Needs and Introduction of New Technology

Many of the Alps Group’s production and sales activities are undertaken in the United States, Europe, and Asia, including China. Engaging in business for overseas markets and operating in overseas locations come with inherent risks, including unexpected changes to legal and tax systems, disadvantageous political or economic factors, and terrorism, war, or other social disturbances. Such circumstances therefore have the potential to interfere with the Alps Group’s execution of business affairs.

4 Customers’ Production Plans

The majority of the Alps Group’s customers are manufacturers and, as such, its business is directly affected by customers’ production plans. Customers’ production plans are in turn influenced by factors such as cyclical and seasonal trends in consumer spending, introduction of new products, forecasts of demand for new specifications and standards, and the speed of technological innovation. These uncertainties have the potential to adversely affect medium- to long-term R&D activities and capital investment plan formulations of the Alps Group.

5 Underlying Risks Related to Overseas Business and Operations

Many of the Alps Group’s production and sales activities are undertaken in the United States, Europe, and Asia, including China. Engaging in business for overseas markets and operating in overseas locations come with inherent risks, including unexpected changes to legal and tax systems, disadvantageous political or economic factors, and terrorism, war, or other social disturbances. Such circumstances therefore have the potential to interfere with the Alps Group’s execution of business affairs.

6 Supply Structures for Certain Parts

The Alps Group makes an effort to manufacture critical parts within the Group, but some critical parts are sourced from companies outside the Group. A situation in which a supplier is unable to fill orders for parts in quantities required by the Alps Group due to, for example, a natural disaster may lead to a production delay or the loss of sales opportunities and could adversely affect the results of operations and financial condition of the Alps Group.

7 Fluctuations in Results of Operations

The Alps Group is subject to wide-ranging government controls, laws, and regulations in countries where it operates, including business and investment permit requirements, customs duties, and other import and export regulations. These regulations may restrict the business activities of the Alps Group, leading to higher costs. Accordingly, these regulations have the potential to adversely affect the results of operations and financial condition of the Alps Group.

8 Intellectual Property

Patents and other types of intellectual property are key factors in the competitiveness of Alps Group products because of the emphasis placed on technological innovation in many of the markets we serve. The Alps Group generally employs technologies developed by the Group and seeks to protect those technologies by acquiring, and in cases asserting, patents, trademarks, and other intellectual property rights. However, there is no guarantee that there will be no impediments to the Alps Group’s assertion of intellectual property rights, and it is possible that allegations of infringement of other companies’ intellectual property rights could be made against the Alps Group.

The Alps Group counters claims filed against it for allegedly infringing intellectual property rights. However, if the Alps Group ends up paying damages as part of a legal settlement reached as a result of the proceeding, this would potentially have an adverse effect on the results of operations and financial condition of the Alps Group. Furthermore, licenses to use the intellectual property of other companies are obtained for some Alps Group products, but there is no guarantee that the owners of those rights will continue to grant licenses to the Alps Group into the future. Circumstances unfavorable to the Alps Group could adversely affect its results of operations and financial condition.

9 Foreign Exchange and Interest Rate Risks

The Alps Group engages in a global business and as such is subject to the effects of exchange rate fluctuations. For instance, appreciation of the Japanese yen against a foreign currency, particularly the U.S. dollar or the euro, could have a negative impact on the Alps Group’s results of operations. The Alps Group tries to minimize the effect of foreign exchange rate fluctuations by hedging risk using forward contracts or options and by offsetting foreign currency-denominated assets and liabilities. However, in situations where exchange rate fluctuations well exceed expectations, there is no guarantee that the impact on the Alps Group’s results of operations can be mitigated.

The Alps Group has entered into syndicated loan and syndicated committed credit line agreements with its banks. However, any violation of financial covenants in these agreements might result in requests for repayment of borrowed funds to be brought forward, potentially affecting the Alps Group’s financial condition.

10 Public Regulations

The Alps Group is subject to wide-ranging government controls, laws, and regulations in countries where it operates, including business and investment permit requirements, customs duties, and other import and export regulations. These regulations may restrict the business activities of the Alps Group, leading to higher costs. Accordingly, these regulations have the potential to adversely affect the results of operations and financial condition of the Alps Group.

11 Environmental Contamination Risks

The Alps Group implements measures to prevent environmental risks in line with the Alps Group Environmental Charter as part of its CSR activities. Specific measures include the prevention of chemical substance leaks, thorough wastewater and emissions management, and purification of soil and groundwater at domestic business locations. However, there is no guarantee that environmental contamination will not occur in the future during the course of business activities. The occurrence or discovery of such an unforeseen event would generate costs associated with countermeasures and potentially lead to deterioration of the Alps Group’s results of operations and financial condition.

12 Funding Risks

The Alps Group has entered into syndicated loan and syndicated committed credit line agreements with its banks. However, any violation of financial covenants in these agreements might result in requests for repayment of borrowed funds to be brought forward, potentially affecting the Alps Group’s financial condition.

13 Disaster Risks

The Alps Group ensures thorough implementation of measures for preventing or mitigating damage caused by earthquakes or other disasters at production bases in Japan and overseas and in the past has effectively minimized the impact of disasters on operations. However, major disasters exceeding expectations could have a substantial impact on operations.

14 Risks Related to Impairment Accounting

The Alps Group owns a wide range of assets for use in its operations. There is a risk that these assets will undergo impairment accounting due to a decline in market value or the state of future cash inflows, potentially having an effect on the Alps Group’s results of operations.

15 Risks of Fluctuations in Prices of Marketable Securities

Although the Alps Group does not hold marketable securities for trading purposes, all securities it does hold that have a market value are marked to market value. Price fluctuations on stock markets could therefore affect the results of operations and financial condition of the Alps Group.

16 Risks Related to Legal Proceedings and Lawsuits

The Alps Group has established and implements compliance systems for its business activities. However, the Alps Group’s results of operations and financial condition could be adversely affected if legal proceedings were initiated by a regulatory authority due to a violation of law, or if legal action were to be taken, in relation to the activities of the Alps Group.
## Consolidated Balance Sheet

**Alps Electric Co., Ltd. and Consolidated Subsidiaries**  
As of March 31, 2017 and 2016

### Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and time deposits</td>
<td>¥ 118,968</td>
<td>¥ 117,543</td>
<td>$ 1,060,415</td>
<td>$ 1,015,874</td>
</tr>
<tr>
<td>Notes and accounts receivable-trade</td>
<td>955</td>
<td>1,715</td>
<td>8,512</td>
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<tr>
<td>Unconsolidated subsidiaries and affiliated companies</td>
<td>145,172</td>
<td>121,669</td>
<td>1,293,983</td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(426)</td>
<td>(395)</td>
<td>(3,797)</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>89,829</td>
<td>87,239</td>
<td>798,904</td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>6,618</td>
<td>6,551</td>
<td>58,989</td>
<td></td>
</tr>
<tr>
<td>Other current assets</td>
<td>18,796</td>
<td>19,764</td>
<td>167,537</td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>379,713</td>
<td>354,378</td>
<td>3,384,553</td>
<td>3,132,699</td>
</tr>
<tr>
<td><strong>Property, plant and equipment:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>29,580</td>
<td>28,990</td>
<td>263,660</td>
<td></td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>130,433</td>
<td>130,958</td>
<td>1,162,608</td>
<td></td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>332,629</td>
<td>320,328</td>
<td>2,964,872</td>
<td></td>
</tr>
<tr>
<td>Construction in progress</td>
<td>15,513</td>
<td>14,714</td>
<td>138,274</td>
<td></td>
</tr>
<tr>
<td><strong>Less accumulated depreciation and impairment losses:</strong></td>
<td>(356,371)</td>
<td>(350,824)</td>
<td>(3,194,322)</td>
<td></td>
</tr>
<tr>
<td><strong>Property, plant and equipment, net</strong></td>
<td>149,785</td>
<td>144,167</td>
<td>1,335,101</td>
<td></td>
</tr>
<tr>
<td><strong>Investments and other assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>16,773</td>
<td>14,217</td>
<td>149,505</td>
<td></td>
</tr>
<tr>
<td>Investments in unconsolidated subsidiaries and affiliated companies</td>
<td>20,382</td>
<td>21,254</td>
<td>181,674</td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>17,328</td>
<td>16,155</td>
<td>149,905</td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>7,780</td>
<td>7,063</td>
<td>69,347</td>
<td></td>
</tr>
<tr>
<td><strong>Other current liabilities:</strong></td>
<td>188,084</td>
<td>178,811</td>
<td>1,676,477</td>
<td></td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>73,461</td>
<td>64,310</td>
<td>654,791</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets:</strong></td>
<td>¥ 602,961</td>
<td>¥ 562,856</td>
<td>$ 5,374,463</td>
<td></td>
</tr>
</tbody>
</table>

### Liabilities and Net Assets

**Liabilities:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term loans payable</td>
<td>¥ 17,505</td>
<td>¥ 22,208</td>
<td>$ 152,674</td>
<td></td>
</tr>
<tr>
<td>Notes and accounts payable-trade</td>
<td>1,978</td>
<td>12,758</td>
<td>16,729</td>
<td></td>
</tr>
<tr>
<td>Unconsolidated subsidiaries and affiliated companies</td>
<td>346</td>
<td>712</td>
<td>3,898</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>73,760</td>
<td>66,737</td>
<td>657,466</td>
<td></td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>7,780</td>
<td>7,063</td>
<td>69,347</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>34,049</td>
<td>33,856</td>
<td>303,494</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>70</td>
<td>67</td>
<td>624</td>
<td></td>
</tr>
<tr>
<td><strong>Other current liabilities:</strong></td>
<td>34,527</td>
<td>35,485</td>
<td>308,022</td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities:</strong></td>
<td>188,084</td>
<td>178,811</td>
<td>1,676,477</td>
<td></td>
</tr>
<tr>
<td><strong>Non-current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>25,843</td>
<td>19,418</td>
<td>230,350</td>
<td></td>
</tr>
<tr>
<td>Liability for retirement benefits</td>
<td>17,295</td>
<td>20,784</td>
<td>154,158</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>4,696</td>
<td>5,988</td>
<td>41,858</td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>5,926</td>
<td>6,089</td>
<td>52,821</td>
<td></td>
</tr>
<tr>
<td><strong>Total non-current liabilities:</strong></td>
<td>53,762</td>
<td>52,280</td>
<td>479,205</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>241,846</td>
<td>231,092</td>
<td>2,155,682</td>
<td></td>
</tr>
</tbody>
</table>

**Net assets:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders’ equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized - 500,000,000 shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued - 136,208,096 shares in 2017 and 2016</td>
<td>38,730</td>
<td>38,730</td>
<td>345,218</td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>56,071</td>
<td>57,248</td>
<td>499,786</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>172,677</td>
<td>143,650</td>
<td>1,539,148</td>
<td></td>
</tr>
<tr>
<td>Treasury stock - 2,315,445 shares in 2016</td>
<td>(3,493)</td>
<td>(3,505)</td>
<td>(31,135)</td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity:</strong></td>
<td>263,985</td>
<td>236,124</td>
<td>2,351,077</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized gains on securities</td>
<td>4,479</td>
<td>3,946</td>
<td>39,923</td>
<td></td>
</tr>
<tr>
<td>Net deferred losses on hedges</td>
<td>(0)</td>
<td>(0)</td>
<td>(0)</td>
<td></td>
</tr>
<tr>
<td>Revaluation reserve for land</td>
<td>(506)</td>
<td>(524)</td>
<td>(4,510)</td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(8,481)</td>
<td>(3,518)</td>
<td>(75,595)</td>
<td></td>
</tr>
<tr>
<td>Retirement benefits liability adjustments</td>
<td>(4,976)</td>
<td>(7,542)</td>
<td>(44,353)</td>
<td></td>
</tr>
<tr>
<td><strong>Total accumulated other comprehensive income</strong></td>
<td>(13,938)</td>
<td>(14,582)</td>
<td>(84,558)</td>
<td></td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td>248</td>
<td>179</td>
<td>2,211</td>
<td></td>
</tr>
<tr>
<td><strong>Non-controlling interests:</strong></td>
<td>106,365</td>
<td>103,088</td>
<td>948,079</td>
<td></td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>361,114</td>
<td>339,212</td>
<td>3,216,772</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>¥602,961</td>
<td>¥562,856</td>
<td>$5,374,463</td>
<td></td>
</tr>
</tbody>
</table>

**Amounts per share of common stock:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets</td>
<td>¥1,299.11</td>
<td>¥1,166.41</td>
<td>$11.58</td>
<td></td>
</tr>
</tbody>
</table>
### CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

**ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES**

For the years ended March 31, 2017 and 2016

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2017</strong></td>
<td><strong>2016</strong></td>
</tr>
<tr>
<td>Net sales</td>
<td>¥753,262</td>
</tr>
<tr>
<td>Costs and expenses:</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>601,711</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>197,177</td>
</tr>
<tr>
<td>Operating income</td>
<td>708,889</td>
</tr>
<tr>
<td>Operating income</td>
<td>44,373</td>
</tr>
<tr>
<td>Other income (expenses):</td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>847</td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>629</td>
</tr>
<tr>
<td>Insurance return</td>
<td>395</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(499)</td>
</tr>
<tr>
<td>Foreign exchange gains (losses), net</td>
<td>(580)</td>
</tr>
<tr>
<td>Loss on pension liabilities</td>
<td>(742)</td>
</tr>
<tr>
<td>Loss on interruption of engineering work</td>
<td>(559)</td>
</tr>
<tr>
<td>Gain on sales of shares of subsidiaries and affiliated companies</td>
<td>7,689</td>
</tr>
<tr>
<td>Loss on valuation of investment securities</td>
<td>–</td>
</tr>
<tr>
<td>Loss on reduction of non-current assets</td>
<td>(240)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(3,776)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>5,127</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>48,501</td>
</tr>
</tbody>
</table>

**Income taxes:**

| Current | 14,864 | 18,611 | 132,490 |
| Deferred | (6,468) | 2,522 | (57,652) |
| Total | 8,395 | 21,133 | 74,828 |

**Profit:**

| 41,706 | 46,698 | 366,387 |

**Profit attributable to owners of parent:**

| 34,300 | 39,034 | 311,258 |

**Non-controlling interests in earnings of consolidated subsidiaries:**

| 6,184 | 7,644 | 55,121 |

**Profit:**

| 41,105 | 46,698 | 366,387 |

### CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

**ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES**

For the years ended March 31, 2017 and 2016

### Restated balance

| 23,623 | 42,228 | 108,330 | (3,506) |

### Cumulative effects of changes in accounting policy

| – | – | – | – |

### Profit attributable to owners of parent

| 39,034 | – | – | 4 |

### Dividends

| (3,713) | – | – | – |

### Conversion of convertible bonds

| 16,648,130 | 15,106 | 15,106 |

### Balance at April 1, 2015

| ¥4,479 | ¥(0) | ¥(506) | ¥(8,481) | ¥(4,976) | ¥248 | ¥106,365 | ¥361,114 |

### Balance at March 31, 2016

| 533 | 1 | 20 | (4,962) | 2,551 | 68 | 3,267 | 1,480 |

### Balance at March 31, 2017

| ¥4,476 | 930 | ¥203 | (6,481) | 931,976 | 1024 | ¥108,365 | ¥281,114 |

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### CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

**ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES**

For the years ended March 31, 2017 and 2016

<table>
<thead>
<tr>
<th>Balance at March 31, 2016 (Millions of yen)</th>
<th>Difference</th>
<th>Balance at March 31, 2017 (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$345,218</td>
<td>$499,786</td>
<td>$1,280,462</td>
</tr>
<tr>
<td>$345,218</td>
<td>$(31,242)</td>
<td>$(31,135)</td>
</tr>
</tbody>
</table>

#### Changes in items other than shareholders’ equity, net

<table>
<thead>
<tr>
<th>Stage</th>
<th>Balance at March 31, 2016 (Millions of yen)</th>
<th>Difference</th>
<th>Balance at March 31, 2017 (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in treasury shares of parent arising from transactions</td>
<td>$345,218</td>
<td>$510,277</td>
<td>$1,280,462</td>
</tr>
<tr>
<td>Reversal of revaluation reserve for land</td>
<td>$(10,554)</td>
<td>$(169)</td>
<td>$(187)</td>
</tr>
<tr>
<td>Change of scope of equity method</td>
<td>$(169)</td>
<td>$(9)</td>
<td>$(27)</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>$311,258</td>
<td>$23,790</td>
<td>$29,120</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>$(187)</td>
<td>$(116)</td>
<td>$(273)</td>
</tr>
<tr>
<td>Profit attributable to owners of parent</td>
<td>$(52,384)</td>
<td>$(7,871)</td>
<td>$(59,255)</td>
</tr>
<tr>
<td>Dividends</td>
<td>$(52,384)</td>
<td>$(7,871)</td>
<td>$(59,255)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$41,603</td>
<td>$37,062</td>
<td>$78,665</td>
</tr>
</tbody>
</table>

#### Cash flows from investing activities:

- Purchase of property, plant, and equipment: $(41,087) (31,443) $(366,227)
- Proceeds from sales of investment securities: $2,669 2 $23,790
- Payments for investments in capital: $(1,683) (14,056) $(15,001)
- Net cash used in investing activities: $(37,981) (30,381) $(338,542)

#### Cash flows from financing activities:

- Net increase (decrease) in short-term loans payable: $14,406 (3,409) $128,407
- Proceeds from long-term loans payable: $8,350 17,500 $74,427
- Repayment of long-term loans payable: $(12,704) (42,654) $(113,236)
- Dividends paid to non-controlling interests: $(5,777) (3,713) $(52,384)
- Repayments of lease obligations: $(1,134) (1,509) $(10,108)
- Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation: $(125) (192) $(1,142)
- Net cash used in financing activities: $(309) (36,343) (2,754)

**Effect of exchange rate change on cash and cash equivalents:** $(2,163) (4,814) $(19,286)

**Net increase (decrease) in cash and cash equivalents:** $1,148 (17,585) $10,233

**Cash and cash equivalents at beginning of year:** $116,843 134,298 $1,041,474

**Increase in cash and cash equivalents resulting from change in the scope of consolidation:** – 125 –

**Cash and cash equivalents at end of year:** $117,991 $116,843 $1,051,707
Corporate Data

Company name: ALPS ELECTRIC CO., LTD.
Headquarters: 1-7, Yukigaya-otsukamachi, Ota-ku, Tokyo 145-8501, Japan
Website: http://www.alps.com/e/
President: Toshihiro Kuriyama
Established: November 1, 1948
Capital stock: ¥38.730 billion
Employees: 42,053 (consolidated) 5,588 (non-consolidated)
Facilities: R&D / Design: Japan: 3 Overseas: 6 (3 countries)
Production: Japan: 7 Overseas: 14 (8 countries)
Sales: 52 (16 countries)

Stock Information

No. of authorized shares: 500,000,000
No. of issued shares: 198,208,086
No. of shareholders: 30,967
Stock listing: Tokyo Stock Exchange First Section (Code: 6770)
Share registrar: Mitsubishi UFJ Trust and Banking Corporation

Breakdown of Shareholders:

- Corporations: 3.5%
- Financial institutions: 40.4%
- Individual investors: 10.5%
- Others: 1.2%
- Securities Companies: 2.6%
- Foreign Investors: 41.8%

Top 10 Shareholders:

1. The Master Trust Bank of Japan, Ltd. (Trust account) - 24,066
2. Japan Trustee Services Bank, Ltd. (Trust account) - 18,941
3. Trust & Custody Services Bank, Ltd. (Security investment trust account) - 4,911
4. CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESQROW - 4,438
5. Mitsui Life Insurance Company Limited - 3,591
6. Japan Trustee Services Bank, Ltd. (Trust account 5) - 3,391
7. STATE STREET BANK WEST CLIENT-TREATY 505234 - 2,761
8. Nippon Life Insurance Company - 2,750
9. Japan Trustee Services Bank, Ltd. (Trust account 7) - 2,640
10. Mitsui Sumitomo Insurance Company, Limited - 2,517

Notes:
1. "Others" refers to shares held by Alps Electric Co., Ltd. and unclaimed shares stored by the Japan Securities Depository Center, Inc.
2. "Individual investors" refers to shares held by individuals and Alps Electric’s employee shareholding association.

Share Price

Trading Volume

ANNUAL REPORT 2017