



ANNUAL REPORT 2006

# PROFILE

Sanken Electric Co., Ltd. began operations in 1946 by conducting R&D activities in semiconductors, which was then a new field of electronics. Technology gained through these activities was used to manufacture a growing line of power supply products, enabling the company to grow in tandem with the electronics industry. Today, Sanken Electric is one of the leading names in the field of power electronics, offering customers products incorporating highly advanced technology.

Sanken Electric supplies power supplies and associated devices for electrical products, office equipment, automobiles, factory equipment and many other applications. This diverse product lineup underpins high-quality total solutions targeting a variety of customer needs. Solutions are centered on expertise in three business domains: the core semiconductor field, switching mode power supplies and power supply equipment. A global organization, Sanken Electric has manufacturing and sales bases in Asia, including China, North America and Europe.

The company's shares are listed on the Tokyo Stock Exchange First Section (securities code 6707).

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### Cautionary Statement

This annual report contains forecasts and other forward-looking statements concerning the Sanken Electric Group's future plans and results. Such statements reflect assumptions and beliefs based on information available to the Group at the time of this report's writing. The Group's actual performance may be affected by a host of factors, such as new competition in the electronics industry, risks and uncertainties related to market demand and conditions in global stock and foreign exchange markets. Readers are therefore reminded that actual results may differ from forward-looking statements in this report.

# FINANCIAL HIGHLIGHTS

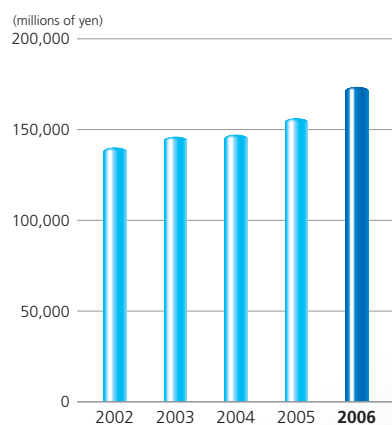
Sanken Electric Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note)
	2006	2005	2006
For the year:			
Net sales	<b>¥173,527</b>	¥156,216	<b>\$1,477,328</b>
Operating income	<b>12,008</b>	12,082	<b>102,230</b>
Net income	<b>7,035</b>	6,682	<b>59,892</b>
Per share (Yen and U.S. dollars):			
Net income	<b>57.41</b>	54.50	<b>0.48</b>
Cash dividends	<b>15.00</b>	10.00	<b>0.13</b>
At year-end:			
Total assets	<b>172,327</b>	140,917	<b>1,467,112</b>
Total shareholders' equity	<b>76,329</b>	68,121	<b>649,829</b>

Note: The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥117.46=U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2006. See Note 2 of the Notes to Consolidated Financial Statements.

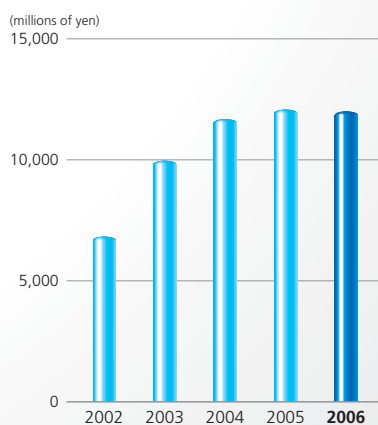
## Net Sales

Years ended March 31



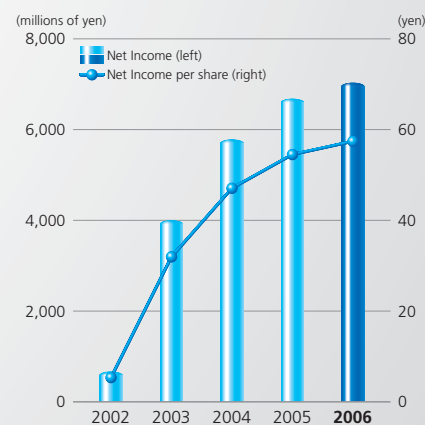
## Operating Income

Years ended March 31



## Net Income

Years ended March 31



## DEAR FELLOW SHAREHOLDERS



**Sanken Electric completed fiscal 2005 with yet another earnings record to conclude its medium-term management plan started three years ago. And in following the growth path set by the previous management plan, the Company announced in April 2006 a new three-year plan to aim for “Leadership through Innovative Power and Optical Solutions.” I also took the helm of your Company, which is fast evolving into a globally competitive electronic component manufacturer. I am convinced that the combination of the new management plan and the new management team will usher in an era of further accelerated growth through such bold initiatives as the redefining of our corporate culture and the Company’s penetration into strategically focused new markets.**

### **Record Earnings as a Basis for Further Growth**

In fiscal 2005, net sales increased 11.1% to ¥173.5 billion, operating income was flat at ¥12.0 billion, and net income rose 5.3% to ¥7.0 billion. This was the fourth consecutive term of top- and bottom-line growth, and the third straight year of record-high earnings. One caveat is that operating income was compressed by foreign exchange translation losses during the consolidation process, but a counterbalancing gain in ordinary income offset this effect. Therefore, if the ¥1.5 billion foreign exchange effect were adjusted, operating income would have maintained growth in line with the sales increase.

I believe, however, that these financial results have not yet reflected the full potential of our capabilities. Given the growth prospects of the markets we are positioned in, I believe that we can count on even higher sales and earnings growth. In this sense, record high earnings are merely the starting point for further growth.

To highlight some of the best-performing product lines, sales of cold cathode fluorescent lamps (CCFLs), which continue to show the highest growth among our main businesses, doubled from the previous year to ¥30.9 billion. Automotive semiconductors also increased 12.8% to ¥33.0 billion as Allegro MicroSystems, Inc. (AMI) of the United States grew strongly. In consumer electronics applications, sales of products for flat-panel displays (FPDs) increased significantly. This gain in the FPD television market, however, was offset by a sharp decline in sales of products for CRT televisions. This is a situation we anticipated and prepared ourselves for, in which a swift shift toward more technologically advanced products is happening in the marketplace. When this shift settles, we expect to be better positioned against competition and to have a good mix of both growth and mature products.

For the last three years under the previous management plan, we focused our efforts on upgrading the less profitable segments of our business and trying to develop products suited for our focus markets. In furtherance of these activities, we intend to accelerate corporate growth by penetrating into key markets with products we have developed. In other words, I want to bring the company’s full potential

to the fore on a global level and successively launch high-value-added, high-growth products into the target markets, just as we proudly declared unrivalled expansion of the semiconductor device business as a major strategic direction in the latest medium-term management plan.

### Rapid Expansion of High-value-added Products

Two plants established during fiscal 2005 will be crucial to achieve a high rate of growth. The first is Sanken Optoproducts Co., Ltd., a subsidiary specializing in CCFL production. This company was established in September 2005, with construction of its plant begun at the same time. Mass production commenced in May 2006. The construction and installation project was executed with unprecedented speed to accommodate a huge jump in demand for our products. Sanken Optoproducts will boost output capacity by 10 million units per month for CCFLs used in large-screen LCD televisions, which offer the highest added value, supporting high future growth and solidifying our leading market share in this field.

The second is Polar Semiconductor, Inc. (PSI), which was established through an M&A transaction conducted in the U.S. last year. PSI brought to our group of companies sub-micron level wafer fabrication technology. For analog semiconductor companies such as ours, the sub-micron design rule is a cutting-edge capability, and enables us to develop products to open up new markets. For example, it makes possible the development of smaller and functionally more advanced devices, such as power controls for digital still cameras, mobile equipment, and portable music players. We call this the power management business, and we will strengthen collaboration among the trio of Sanken Electric conducting marketing in the trend-setting Asian region for power control devices, AMI handling design, and PSI handling chip production. Sub-micron technology should also bring a significant tailwind to the areas that we have already focused on, such as enabling development of automotive ICs with telecommunication capabilities.

### Coming Together as One to Open New Horizons for Sanken Electric

Sanken Electric will celebrate its 60th anniversary in September 2006. Standing at this important milestone, I have drawn up our latest medium-term plan in the hope that we as a company can achieve similar growth again over the next 60 years. In the past, our management plans were essentially top-down strategies. This latest medium-term plan, though, was formulated by selecting key staff from among the next generation of leaders both in Japan and abroad, and conducting long hours of discussions on our market positions and strengths, as well as future opportunities. In that sense, this latest plan reflects the enthusiasm for growth of all of our employees, and symbolizes our commitment to reach for ever higher targets.

The new Sanken Electric will strive to achieve faster growth to realize ever-greater rewards for our shareholders.

July 2006

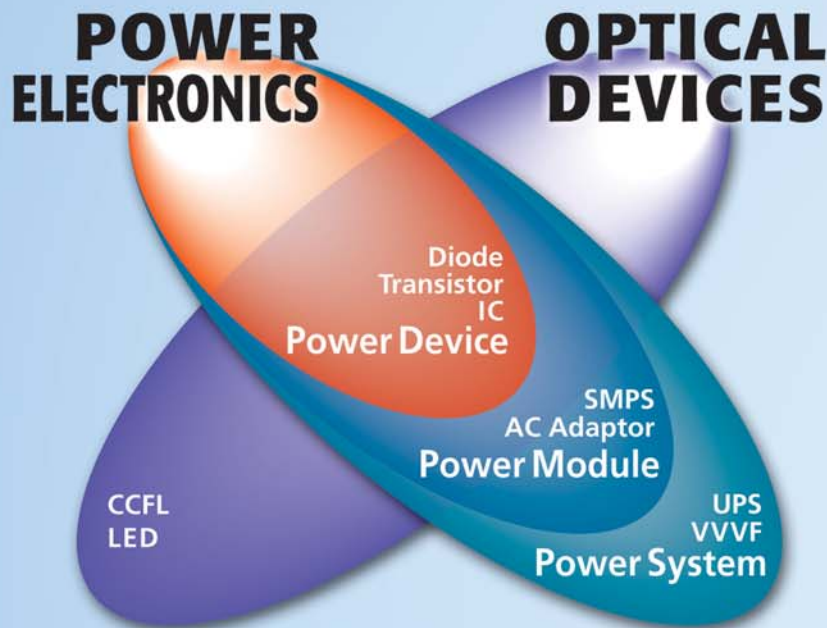


**Sadatoshi Iijima**  
President

## THE MEDIUM-TERM MANAGEMENT PLAN

# Leadership Through Innovative Power and Optical Solutions

—Success by Overcoming Constant Challenges—



During the medium-term management plan executed over the past three years, Sanken Electric has pursued internal structural reforms, including the review of unprofitable businesses and management with an emphasis on cash flow, while also promoting the development of businesses and products in growth areas, such as CCFLs. This plan resulted in a solid business foundation, which we will use as the basis for further improving our value as a company.

In April 2006, leadership was passed to a newly appointed president, Sadatoshi Iijima, and a new medium-term management plan was drawn up covering the three years to March 2009. The three pillars of this medium-term plan are 1) reforms in the semiconductor business, 2) further expansion of the CCFL business, and 3) upgrading of global management and control. Resources will be concentrated in the two core business domains of power electronics and optical devices, with the aim of doubling earnings through aggressive management.

Under the slogan of “Leadership through Innovative Power and Optical Solutions,” Sanken Electric is fully committed to actively expanding its business.

## Success by Overcoming Constant Challenges

The slogan, “Leadership through Innovative Power and Optical Solutions,” encapsulates our desire to rapidly bring high-value-added new products to market underpinned by superior technological capabilities, and become a strong leader always at the forefront of its industry. Our chosen image of a leader is to have our products receive high marks in the market, and to have our Group maintain a high-ranking position within the industry. Our vision of leadership also calls upon management to implement changes whenever and wherever needed.

The businesses outlined in our slogan are domains that Sanken Electric will focus on going forward. We will position the semiconductor business as our core, and expand it, along with its extensions—the power module business and the power systems business—as the power electronics business. The CCFL business is surpassing even the semiconductor business in terms of growth. This domain, along with the LED business, will comprise our second pillar, the optical device business.

## Basic Policies

Our latest medium-term management plan stipulates the following five basic policies. We will familiarize all employees with these policies, implement them consistently, and move toward attainment of our goals.

### (1) Aggressively pursue growth in core businesses

In order to maximize the strengths of our business lines, we have made major revisions to our organization, realigning businesses along product lines in the latest medium-term management plan. The semiconductor business has been divided into six businesses, and the switching mode power supply (SMPS) business and power supply equipment business have been renamed as the power module and power systems businesses, respectively. This has separated businesses into a size that can be adequately controlled by one manager, and has enabled clarification of business managers’ responsibilities and authority, tighter management of sales and earnings, and greater responsiveness toward attainment of objectives.

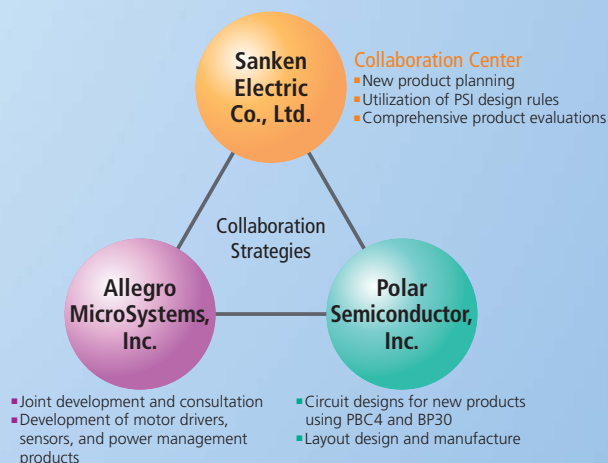
In addition, we intend to strengthen our marketing functions to move away from a reliance on custom orders, and advance an aggressive product strategy. To this end, we are creating a strategic marketing unit to propose development ideas. To enable marketing of such proposal-type products, we will increase the number of field application engineers (FAEs) both domestically and abroad. FAEs will work together with the marketing units to aggressively develop new markets and clients, and promote timely commercialization.

Through the establishment of PSI, resulting from our acquisition last year of PolarFab, LLC, we acquired sub-micron process technology. By utilizing this technology to the full and rapidly developing and commercializing

## New Organization

Business Division Name	Outline
Power Conversion Devices (PCD)	Primary and secondary power supply ICs
Power & Peripheral Devices (PPD)	General-purpose ICs for motor control and portable electronics
Automotive Devices (AMD)	Automotive ICs and Hall-effect sensors
Power Discrete Devices (PDD)	Diodes, transistors, MOS FETs, and IGBTs
LEDs	LEDs
CCFLs	CCFLs
Power Modules	Former SMPS
Power Systems	Former Power Supply Equipment

## Establishment of Technology Development Coordination



next-generation semiconductor devices, we will strengthen our ability to provide solutions. We also created an advanced technology development unit. This unit will select the development projects on which the Group will concentrate, develop new packages, and formulate collaborative strategies, all while assisting in maximizing technological synergies between Sanken Electric and our two subsidiaries in the United States, AMI and PSI.

**(2) Expand the optoelectronics business**

We will further promote CCFLs, currently our top-earning products, and also strengthen the LED business. In September 2005, we established Sanken Optoproducts Co., Ltd., a subsidiary specializing in CCFL production, to greatly increase our CCFL output capacity. Mass production at this company got under way in May 2006. As we assist Sanken Optoproducts in rapidly contributing to production, we plan to expand CCFL sales and earnings, and aim to recover our investment quickly.

Our CCFLs currently maintain very high market shares in high-value-added areas, with a 50% share in notebook PCs and a 40% share in LCD televisions 32 inches and larger. To further entrench our position, we will work to achieve overall optimization of our CCFL manufacturing structure, streamline production and improve cost competitiveness. We will also promote development of CCFL products that differentiate and distance Sanken Electric from other firms, and launch new products in a timely manner.

In our other optical business, we intend to quickly commercialize silicon-substrate blue LEDs as core devices as we move to expand the LED business.

**(3) Achieve innovation and excellence in manufacturing**

We will strengthen our efforts to achieve innovation and excellence in manufacturing, and create a globally competitive cost structure. To this end, we will promote four key reforms—Production Reform, Optimal Production, Quality Reform and Procurement Reform—establish a production system with strict cost controls, and instill an earnings structure which secures earnings growth through corporate-wide productivity improvements alone.

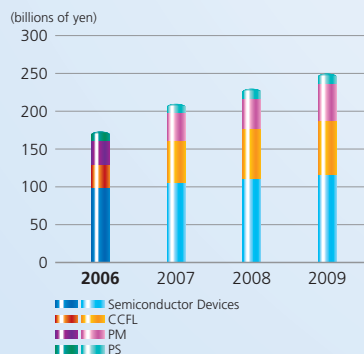
In practice, we will first turn our production technology into “black box” technology by conducting more in-house production, as well as controlling investment outlays. Next, we will achieve material procurement at the optimal cost and timing through procurement at the development level of planning and design. Furthermore, production reform and an optimized production system will allow the procurement, production, and sales divisions to work together to further reduce inventories.

We will work not only on improving monetary productivity, but also on creating products with a trusted level of quality. We are keenly aware that “quality is our lifeline,” and will spare no effort to become a company that is known for quality.

**The Medium-term Management Plan Targets**

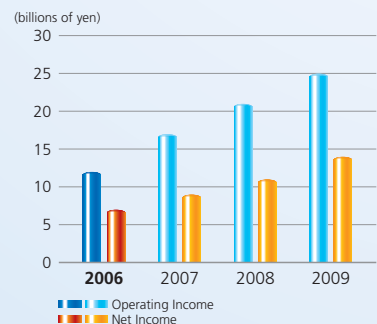
**Net Sales**

Years ended March 31



**Operating Income/Net Income**

Years ended March 31



**(4) Realize Group companies' full potential through enhanced global management and control**

Sanken Electric is becoming a global company, with overseas business already accounting for more than 50% of sales, wafer production output, number of locations, and production staff. In the United States in particular, AMI and PSI are quite large when put together, with sales of ¥40 billion and 2,650 employees. We will promote global management to realize the Group's potential quickly.

Specifically, we will aim to get PSI up and running quickly as a manufacturing site for cutting-edge wafers and certified as an automotive supplier. Next, we will optimize collaboration between Sanken headquarters, AMI and PSI, and strengthen ties between FAE technical centers in Seoul, Shanghai, Taiwan and Sanken Power Systems (UK) Limited (SPS) to create a mutually complementary relationship designed to achieve the overall optimization of Group companies.

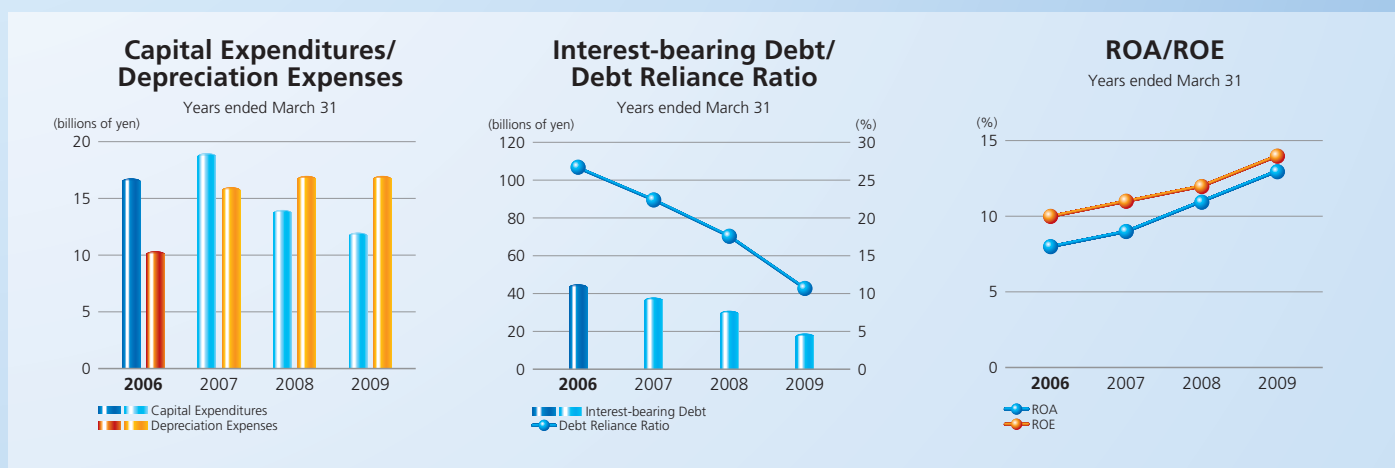
We created an overseas business strategy unit to assist these strategies, and will strengthen efficient Group management through unification of management functions, including sales, technology and production. We will also aggressively promote exchanges and utilization of intra-Group personnel, including overseas units, and create a workforce that is attuned to global business.

It will also be important to establish global risk management and internal control structures. We will strive to increase corporate value by conducting Group management with an emphasis on CSR.

**(5) Foster a corporate culture that addresses the dynamics of our markets and the business world**

FPD-TV is one area we will focus on in our new medium-term management plan. As a unique company that manufactures both power semiconductors and optical devices such as CCFL and LED, providing total solutions to FPD manufacturers will be an important strategy going forward. However, this market experiences the most drastic technological innovations and changes, and we will need to change our mindset to move at 21st century speeds. In order to respond to the shortening of product life cycles and price declines, we will need to shorten development times dramatically and upgrade "the vertical ramp-up" in which time required from designing to shipment of products is drastically minimized. We will also be unable to understand customers' needs and win price wars unless we optimize markets, development, procurement, and production on a global basis.

In order to achieve this, we will have to break away from traditional practices and build a structure that enables speedy decision-making by reviewing systems within our company. Realization of concurrent engineering and building a structure that can go from development to manufacturing in a short period of time to produce results will be important.



## AT A GLANCE

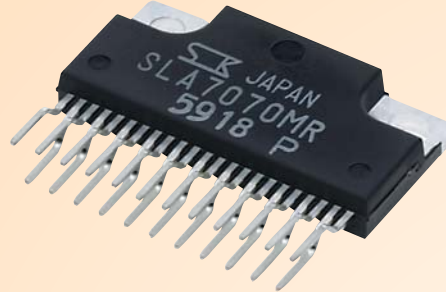
# SEMICONDUCTOR BUSINESS

### Main Products

Power ICs, Hall-Effect sensors, Driver ICs, Transistors,  
Diodes, Light Emitting Diodes (LEDs),  
Cold Cathode Fluorescent Lamps (CCFLs)

### Markets

AV, home appliances, automotive, OA, industrial



Motor Driver IC

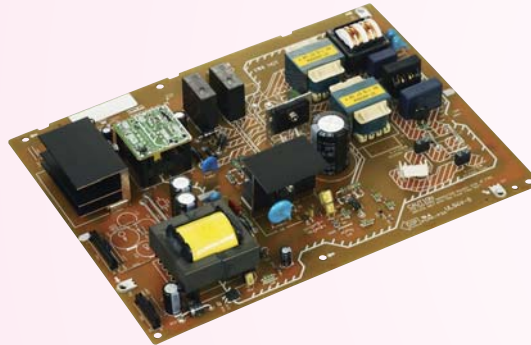
# POWER MODULE BUSINESS

### Main Products

Switching Mode Power Supplies (SMPS),  
AC Adapters, Transformers, Reactors, Modules

### Markets

Office equipment, automated factory equipment,  
flat-panel TVs



SMPS for LCD-TV

# POWER SYSTEMS BUSINESS

### Main Products

Uninterruptible Power Supplies (UPS), Inverters,  
DC Power Supplies, New Energy Resources,  
High-intensity Airway Beacon Systems

### Markets

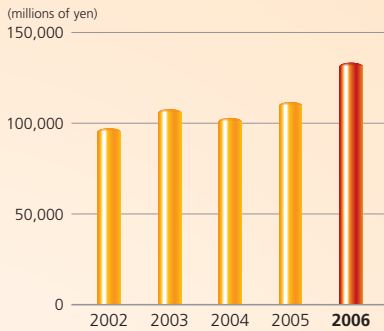
Telecommunications equipment



Inverter

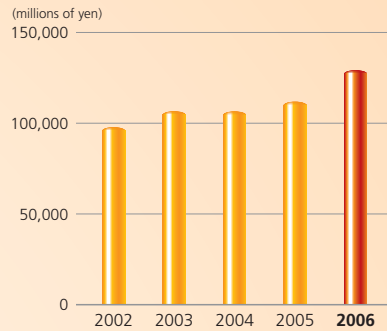
### Orders Received

Years ended March 31



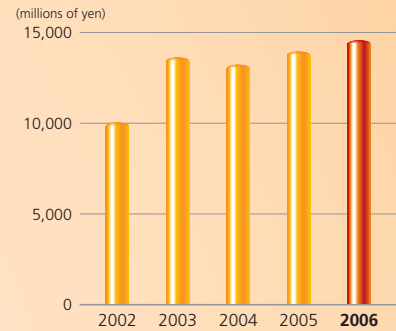
### Net Sales

Years ended March 31



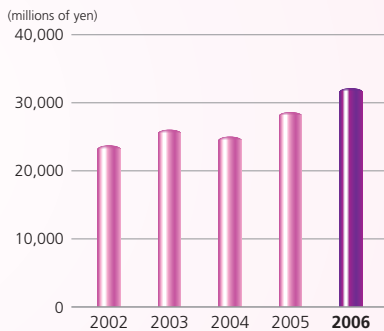
### Operating Income

Years ended March 31



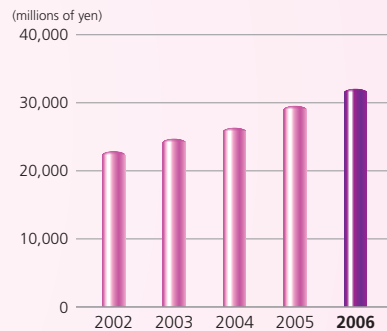
### Orders Received

Years ended March 31



### Net Sales

Years ended March 31



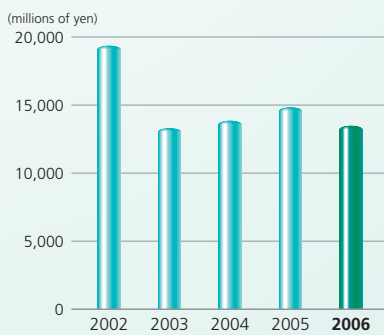
### Operating Income (Loss)

Years ended March 31



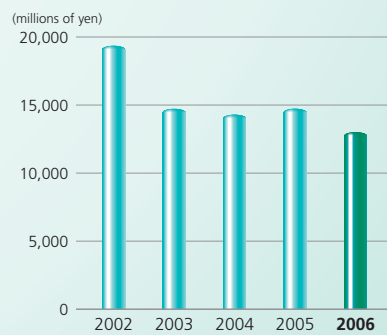
### Orders Received

Years ended March 31



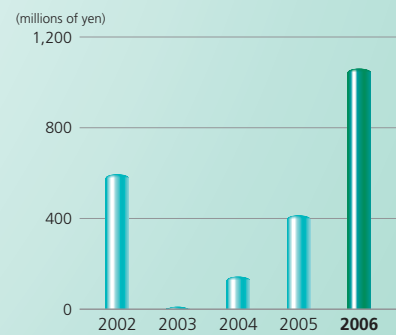
### Net Sales

Years ended March 31



### Operating Income

Years ended March 31



## SEMICONDUCTOR BUSINESS—Semiconductor Devices

**Semiconductor devices are our core business, with main products such as power ICs, transistors, diodes, and Hall-effect sensors. Our semiconductor devices belong to a field called power electronics, and control electronic equipment by converting AC to DC and changing voltage. Power semiconductors are becoming key devices in many areas such as consumer electronics, OA equipment, AV, and automobiles. We are conducting aggressive M&A activities in the United States, and will acquire new markets, products, and technologies to achieve further growth.**

### Market Conditions

Our semiconductor devices can be broadly divided into the consumer electronics, automotive, and OA/industrial machinery markets.

The consumer electronics and OA/industrial machinery fields include mature markets such as CRT televisions and analog audio equipment, but there are also fields with further potential for growth, such as FPD (LCD televisions, PDPs) and the shift to more sophisticated functionality in mobile phones.

The automotive market is the most promising for Sanken Electric. The auto industry is pursuing higher levels of safety, comfort, and performance, and increased use of electronic components is allowing greater design freedom and weight reduction. Electronic components have been used in the ignition and fuel components of engines in the past, but IT technology, such as automotive LANs to connect various electronic components, will come into wider use going forward. This trend is expected to accelerate further with the debut of hybrid cars and the move towards development of electric cars.

### Fiscal 2005 Results

Sales of semiconductor devices increased 1.4% to ¥98,320 million in fiscal 2005, basically flat from the previous year. Sales to the promising automotive field grew 12.8% to ¥33,000 million, and sales to the OA/industrial machinery field increased 4.1% to ¥36,600 million thanks to growth in mobile phone-related products. Conversely, sales to the consumer electronics sector decreased 11.8% to ¥28,700 million, partially offsetting other increases. This was due to the impact of decreased demand from the analog AV equipment market, despite growth in discrete semiconductors for FPDs.

Sales of our US subsidiary, Allegro MicroSystems, were US\$285 million, essentially unchanged from the previous year, as sales of ICs for printers declined even as sales of Hall-effect sensors for automobiles were strong.

## Toward Success of the Medium-term Management Plan

As noted earlier, our medium-term management plan has divided semiconductor devices into four divisions: PCD, PPD, AMD, and PDD. The aim is to delineate objectives under the plan and clarify responsibility for earnings by reducing the size of business units.

We have two main strategies in this business.

The first is to concentrate resources in growth markets. Among the wide range of markets in which we operate, there are growth areas where our distinctive, high-value-added products are at an advantage. FPD within the AV-related market is one such area, as are energy conservation within consumer electronics, digital still cameras and mobile phones within the mobile market, and the automotive market. We will expand earnings in these areas by bolstering our entire process from product development to sales.

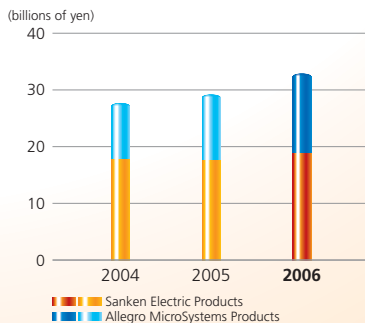
The second is our technological development strategy. We are strengthening product development based on customer needs, such as circuit technology with higher switching frequencies suited to smaller dimensions and lighter weight, low on-resistance devices for higher efficiency, the introduction of sub-micron technology for micro-fabrication, and packaging technology that enables small, high-power, high-density applications.



Hall-effect Sensors for Automotive

## Sales of Automotive Products

Years ended March 31



## Establishment of Polar Semiconductor Inc. (PSI)

Sanken Electric acquired PolarFab, LLC of the United States in July 2005, and established PSI as a wholly owned subsidiary. As a result, BCD processes, which were previously handled by our Yamagata plant, will be gradually transferred to PSI, and PSI's unique sub-micron process technology will be utilized to launch more competitive products. PSI will also handle front-end processes for AMI, thereby boosting AMI's output capacity.

## SEMICONDUCTOR BUSINESS—CCFLs

This business is driven by cold cathode fluorescent lamps (CCFLs). CCFLs are used for backlighting in LCD displays such as notebook PCs and LCD televisions, where they serve as critical components.

Demand for long-length CCFLs has grown more robust in recent years as LCD televisions become more common and screen sizes become increasingly larger. Our superior technology can meet the demands for uniform brightness over long fluorescent tubes as well as long service life. We will continue to raise output capacity in line with demand, and will continue to grow as a top manufacturer of CCFLs for large LCD televisions.

### Market Conditions

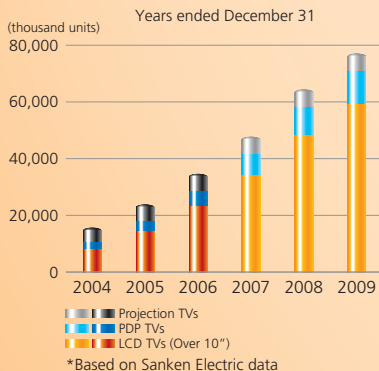
LCD television shipments expanded 2.2 times year on year in 2005 to 20 million units, and are forecast to top 40 million units in 2006. Shipments of large LCD televisions with screen sizes of 32 inches or more, which are a particular strength of Sanken Electric, increased roughly four-fold to 8 million units. The larger the LCD television, the more CCFLs are used, hence the increase in the number of production inquiries we receive is beginning to outstrip growth in the actual number of LCD televisions. Over the next five years until 2010, we project that the LCD television market will see an annual growth rate of over 40% in terms of sales volume.

### Fiscal 2005 Results

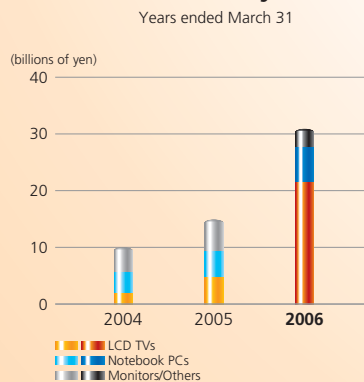
Sales in the CCFL business effectively doubled from the previous year to ¥30,850 million in fiscal 2005, reflecting strong market conditions. We are making continuous capital investments in response to healthy demand for products used in large LCD televisions, and are achieving sales increases by boosting output capacity. In fiscal 2005, monthly capacity started at 10 million units at the beginning of the term, and reached 17 million units at the end of the term after capacity was boosted in October 2005.

CCFL sales can be broken down into three main uses: LCD televisions, notebook PCs, and monitors/others.

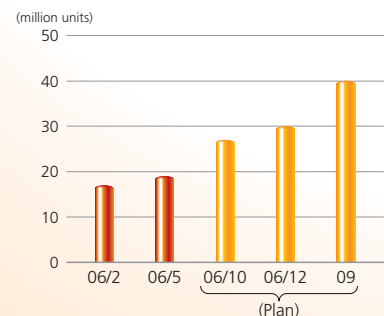
### Growth Forecast for Flat Panel Display Market



### CCFL Sales by Use



### Monthly CCFL Production Capacity



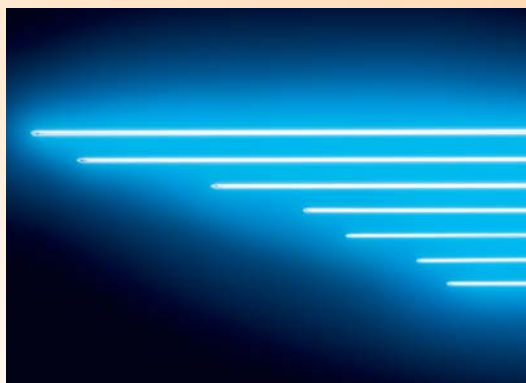
Sales for use in LCD televisions increased roughly 4.6 times to ¥21,500 million. Sales for use in notebook PCs, where we have maintained a high market share for many years, increased 30.4% to ¥6,100 million. Sales for use in monitors/others declined 41.6% to ¥3,300 million. Price drops have been dramatic in CCFLs for monitors/others, and our premium value is not an advantage. Consequently, we have made a strategic decision to reduce production in this area.

### Toward Success of the Medium-term Management Plan

Our objective for the CCFL business under the medium-term management plan is to shift from an emphasis on volume expansion to sales expansion through the introduction of differentiated products that take advantage of our unique technologies. Put differently, we intend to take the steps necessary to maintain top market shares of 50% for notebook PCs and 40% for large LCD televisions.

As a first step, we established Sanken Optoproducts Co., Ltd. as a subsidiary specializing in CCFL production in September 2005, and began construction of one of the largest plants in the world for LCD television CCFLs. Production began at this plant in May 2006, with a goal of reaching full production of 10 million units per month from October 2006. By that time, company-wide output capacity should reach 27 million units per month, including output from our existing facilities. By the end of the year, capacity increases at existing plants will again boost output capacity by 3 million units to reach an aggregate total of 30 million units per month. As a result, our product portfolio will shift dramatically towards high-value-added LCD television products.

In order to maintain our high market share in this field, however, continuing efforts to differentiate our products and lower costs will be critical. We will conduct further research and development into electrodes and fluorescent material to respond to the market's demands for longer life, high brightness, and high color reproduction. We will also continue our approach toward lowering costs by reviewing material expenses, improving the ratio of defective products, and moving more facilities in-house.



CCFLs



#### Sanken Optoproducts Co., Ltd.

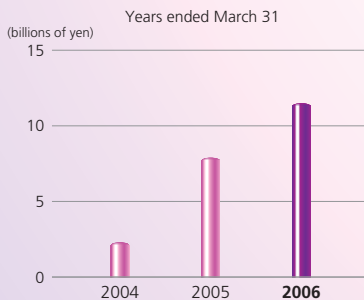
Sanken Electric established this company on September 30, 2005 as a plant dedicated for CCFL production. The plant, located in Ishikawa Prefecture, Japan, is a partly two-storied building with a total floor area of roughly 8,900m<sup>2</sup>. As Sanken Electric's fourth CCFL production facility, Sanken Optoproducts expects its output to rise to as large as 10 million units per month by October 2006, making it the world's largest single production facility for CCFLs used in LCD TVs.

## POWER MODULE BUSINESS

This business was previously called the switching mode power supply (or SMPS) business, but was recast as the power module business in our new medium-term management plan. Power modules bring together our superior semiconductor and power supply technologies. This covers a wide range of products from switching mode power supplies found in computers and OA/FA equipment, power supplies for FPDs such as PDPs, LCD-TVs, AC adaptors for PCs, to small uninterruptible power supplies (UPS). As the electronic age progresses, customers' needs are constantly growing in search of products that offer higher functionality and larger capacity, are smaller and lightweight, and contribute to noise reduction.



### Power Module Sales to Consumer Electronics Field



### Fiscal 2005 Results

Power module business sales increased 0.4% to ¥31,344 million\* in fiscal 2005. Markets are gradually declining in mature fields such as OA/industrial machinery, transformers, and AC adaptors. That said, notable growth continues in the consumer electronics field, which we are concentrating in, led by FPDs. Power supplies for PDPs, in particular, require every type of added value we offer, such as compactness, light weight, large capacity, low power consumption, and low noise, and is a market where the strengths of our products can be leveraged to optimal effect. Sales to the consumer electronics field jumped 44.9% in fiscal 2005. General-purpose small UPS, which previously were included with the power supply equipment business (current power system business), were transferred to the power module business from fiscal 2005.

\* Sales of small UPS were added to previous-year totals for calculation purposes.

### Toward Success of the Medium-term Management Plan

We first plan to intensify our focus on growth markets. We will work to improve market shares in high-growth areas such as power supplies for PDPs and LCD televisions, as well as inverters. Our current market shares are more than 20% for PDPs and more than 10% for LCD televisions, and we will concentrate resources in development and sales of these products. For example, the largest FPD-producing nation in the world is South Korea, and we will build up an integrated structure in that country encompassing technological development to production. On the technological front, we will promote a shift to ICs, and launch differentiated new products such as new ICs with converter circuits reduced from four to three.

In terms of production, we will proceed further with the transfer of general-purpose small UPS production to PT. Sanken Indonesia (SKI) to promote overwhelming low-cost production that will include productivity improvements.

## POWER SYSTEMS BUSINESS

The power systems business, previously called the power supply equipment business, is an old-line business that began with the founding of the company; it is also the root of our manufacturing tradition. Our products, such as large DC power supplies, high-intensity airway beacon systems, high-capacity uninterruptible power supplies, alongside general-purpose inverters for controlling motors, have earned trust and a reputation for excellence while serving in important social infrastructure where power interruptions are unacceptable, such as telecommunications systems, dams, transformer stations, and tunnels.

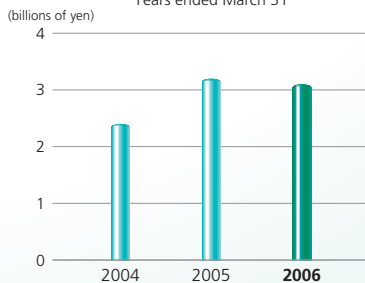


DC Power Supply

Inverter

### Overseas Sales of Power Systems

Years ended March 31



### Fiscal 2005 Results

Consolidated sales in this business declined 0.5% to ¥13,008 million\*. Demand for custom power supply equipment increased from telecommunications facilities, and sales to public facilities also did well. However, sales of general-purpose power supply equipment declined due to the transfer of general-purpose small UPS production to the SMPS division and a slump in variable voltage and variable frequency (VVVF) inverters due to Chinese government policies aimed at curbing investment.

\* Sales of small UPS were added to previous-year totals for calculation purposes.

### Toward Success of the Medium-term Management Plan

The power systems business is mainly reliant on infrastructure demand, and was supported in the past by robust demand from the public sector. Since public-sector demand will gradually diminish due to structural reform of Japan's government, determining how to respond to private-sector demand will be a key issue for this business. Growth in demand is expected from digital terrestrial broadcasting, disaster preparedness, environmental and energy conservation projects, so we will focus on the development of highly efficient, large-capacity power supply equipment and inverters.

We will expand overseas production, mainly in China, and work to improve production efficiency and reduce costs through the use of the just-in-time system, local procurement of components and materials and joint procurement with the power systems business, simplification of key circuits, and standardization of large structural components.

China is also an attractive market from a sales standpoint. As economic growth progresses rapidly, infrastructure build-up will undoubtedly move forward as well. We will expand sales of our products in China, mainly through Sanken L.D. Electric (Jiangyin) Co., Ltd.

# GLOBAL MANUFACTURING NETWORK

Sanken Electric's manufacturing network spans the globe. We are aggressively promoting productivity improvements and stronger manufacturing technology in each region, and each of our manufacturing companies possesses capabilities second to none in the world in terms of product quality, cost, and delivery times. With the addition of PSI, located in the U.S. state of Minnesota and established through an M&A transaction last year, we are creating an organic network among our overseas sales, product development, technology, and manufacturing bases, making it possible to leverage the strengths of the entire Sanken Electric Group.

## Japan

Subsidiary Yamagata Sanken Co., Ltd., the nucleus of Sanken Electric's semiconductor product business, performs the front-end processes required to manufacture diodes, transistors, MOS FET, ICs and other devices. Back-end processes, which primarily involve assembly and packaging, are the responsibility of Ishikawa Sanken Co., Ltd., which has five factories in Ishikawa Prefecture. Kashima Sanken Co., Ltd. performs the assembly of automotive ICs and ICs for television power supplies.

Fukushima Sanken Co., Ltd., initially a manufacturer only of LEDs, began producing CCFLs in 1999 for use as LCD panel backlights. This company is currently raising its output capacity in response to burgeoning demand as the popularity of LCD televisions grows. In September 2005, Sanken Optoproducts Co., Ltd. was established as a manufacturing company for CCFLs, and a new plant was constructed next to Ishikawa Sanken's Horimatsu Plant. This new plant boasts output capacity of 10 million units per month, and will be one of the largest facilities in the world specializing in production of CCFLs for large LCD televisions.

The Kawagoe Plant of Sanken Electric is a fully integrated facility that performs the development, manufacture and shipment of power supplies.

## South Korea

Korea Sanken Co., Ltd., which began as a manufacturer of switching power supplies, began producing CCFLs in 2002 to meet growing demand. As in Japan, LCD panel manufacturers in South Korea and Taiwan are making massive investments to increase output. Korea Sanken is maintaining close ties with these companies to meet their needs for components that help make panels larger, improve their performance and lower costs.

## Indonesia

PT. Sanken Indonesia (SKI) is the backbone of Sanken Electric's switching power supply business, handling all production activities in a manner that optimizes quality while holding down costs. To achieve more improvements in production efficiency, this company is shortening production lines to reduce inventories of work in process and significantly increasing local procurement to bring down the cost of sales.

This company has a number of switching power supply products that target fast-growing markets. Two examples are switching power supplies for PDPs and inverters for LCD televisions. The existence of SKI boosts the international competitiveness of Sanken Electric's products. Production of small UPS was transferred to SKI in 2005, greatly improving the cost performance of these products.

## THE GLOBAL PRODUCTION NETWORK



## China

Established in 2001, Sanken L.D. Electric (Jiangyin) Co., Ltd. became a 60%-owned consolidated subsidiary in 2003. This company manufactures and sells power supplies for use in China.

China is currently considered the center of global manufacturing, and GDP is growing dramatically. As in Japan in the past, demand for power supply equipment is expected to grow significantly due to the build-up of economic infrastructure, and Sanken L.D. Electric (Jiangyin) is increasing output capacity and manufacturing more types of products in response. VVVF inverters, in particular, are promising products that can respond to demands for automation, as well as power and energy conservation in industrial machinery, and output capacity is being boosted for these products.

China is also home to many factories of manufacturers of electronic products based in Japan, South Korea and Taiwan. With technical support centers in Hong Kong, Shanghai and Taiwan, Sanken Electric is able to extend engineering support directly to these manufacturers.

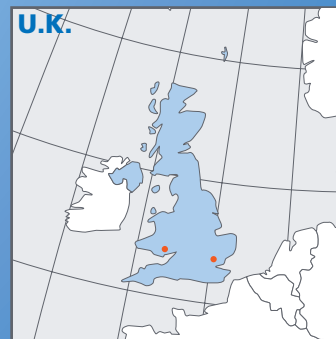
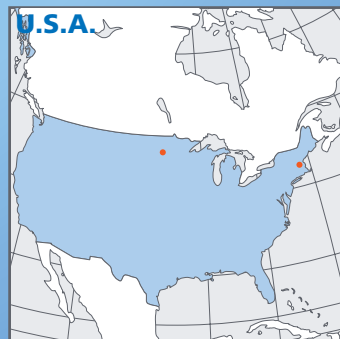
## U.S.A.

Allegro MicroSystems, Inc. (AMI) conducts the Sanken Electric Group's operations in the United States. This company is located in the state of Massachusetts, and its main products are Hall-effect sensors for automobiles and motor driver ICs used in OA equipment. Growth is also expected in the future for flash drivers for digital still cameras and power management products. AMI also handles sales of Sanken Electric semiconductors in the United States and Europe, and has two offices within the United States, a manufacturing subsidiary for semiconductor back-end processes in the Philippines, and a sales subsidiary in London.

In July 2005, Sanken Electric established Polar Semiconductor, Inc. (PSI). PSI is our third semiconductor chip-manufacturing site after Yamagata Sanken and AMI. We plan to turn PSI into a core chip production facility, gradually transferring production from Yamagata Sanken as well as strengthening the competitiveness of AMI's products using PSI's advanced miniaturization process technology.

## Global Manufacturing Matrix

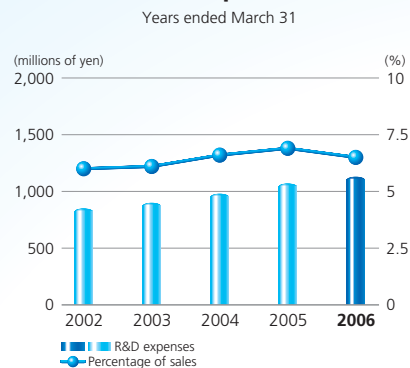
Product	Development/Design	Front-end processes	Back-end processes
Semiconductor	Sanken Electric	Yamagata Sanken Niiza Plant Polar Semiconductor	Ishikawa Sanken Kashima Sanken
Allegro semiconductor	Allegro MicroSystems	Polar Semiconductor	Allegro MicroSystems Philippines
Product	Development/Design	Manufacture	
CCFL	Sanken Electric	Fukushima Sanken, Korea Sanken Ishikawa Sanken, Sanken Optoproducts	
LED		Fukushima Sanken	
Product	Development/Design	Manufacture	
SMPS	Sanken Electric	Korea Sanken Pt. Sanken Indonesia	
Power supplies	Kawagoe Plant	Sanken L.D. Electric (Jiangyin)	



## R&D ACTIVITIES

Sanken Electric has made Power & Peripherals (P&P) its business domain, and is conducting R&D activities in order to provide solutions in power-based (electric power supply) systems, including peripheral areas (devices, equipment). Our technical headquarters, located at the Head Office, acts as a research facility in conducting R&D on products with high potential for becoming the next generation in areas such as power semiconductors, optical devices, and equipment. Technical departments located in each business segment receive direct input from customers, along with the sales section, and work to develop products that reflect those opinions.

### R&D Expenses



### New Products During Fiscal Year Ended March 31, 2006

#### Semiconductor Devices

##### *[SI-5201: Semiconductor Relay for Automotive Applications]*

Although automobiles have begun to increasingly incorporate electronic components in recent years, conventional mechanical relays are still used widely for medium to heavy current loads (30-60A) such as headlights, wipers, fans, etc. Since mechanical relays change outputs via contacts (electromagnets), however, they make clicking noises, have short lifetimes due to wear and deterioration, and are difficult to miniaturize, resulting in restrictions on installment locations within vehicles and control methods.

The SI-5201 semiconductor relay developed by Sanken is solid state, allowing stable relay operation, longer life, and improved reliability. We have also made the system smaller and lighter by using a compact surface-mount package with a low thermal resistance.

The SI-5201 employs a separate 2-chip structure consisting of a MOS FET chip and a control IC chip. The MOS FET realizes a low on-resistance of 7m $\Omega$  by configuring an optimal process for each chip. The control IC integrates MOS FET drive circuits, diverse protection circuits, an output current monitor function, and a self-diagnostic output function by utilizing Sanken's proprietary BCD process.



##### *[FMXJ Series : Fast-recovery Rectifier Diodes]*

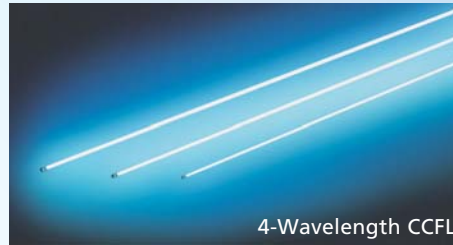
The driver circuits used in PDPs must achieve higher efficiency to save energy and lower electromagnetic noise for higher picture quality. As a result, fast-recovery diodes are required to have shorter reverse recovery time ( $t_{rr}$ ) for power-loss reduction and to have lower noise as well as high breakdown voltage. Achieving both high speed and low noise was difficult with conventional fast-recovery diodes, but Sanken overcame these problems and developed a product featuring the world's shortest reverse recovery time, optimal for PDPs.



## Optical Devices

### *[4-Wavelength CCFL With 660nm Peak Crimson-emitting Fluorescent Material]*

Conventional CCFLs reproduce color through red, green, and blue wavelengths. The peak wavelength of the color red is normally around 611nm, but the product we developed expands the range of red reproduced by adding a fourth wavelength of crimson, with a peak wavelength of approximately 660nm. As a result, crimson, which could not be reproduced previously, can now be reproduced accurately.



4-Wavelength CCFL

## Power Modules

### *[Next-generation PDP Power Supply Improves Quality While Reducing Component Size and Cost]*

Sanken has developed a high-efficiency power supply unit for PDPs featuring fewer components and higher power-supply efficiency compared to conventional products. This was made possible through development of a dedicated IC for control circuits and improvements to the half-wave electric current resonance circuit.

This latest next-generation product has 45% fewer components compared to conventional products. Naturally, this also contributes to making PDPs lighter.



SMPS for PDP

## Power Systems

### *[FULLBACK SFU Series UPS Featuring Unit System Capable of Expanding Output]*

Amidst rapid progress in IT technology, timely and easy introduction of facilities and expansion of network systems and equipment in step with business growth and changes is the most efficient course of action from a cost standpoint. UPS must also be able to flexibly cope with the expansion of servers and other equipment.

The FULLBACK SFU Series UPS that we have developed is unlike conventional case-integrated types, and is based on a parallel unit (power distribution/integration and parallel control) and a power unit (power conversion part equipped with battery). Power output can be expanded as needed from a minimum of 3.5kVA to a maximum 14kVA by adding power units.



SFU Series

# CORPORATE GOVERNANCE

Sanken Electric has set the goals of raising the earnings capabilities of the Group and maximizing shareholder value. As it shoots for these goals, the Company recognizes the importance of conducting fair corporate activities by emphasizing and ensuring management responsibility and accountability to stakeholders as well as by establishing sound and transparent management.

Sanken Electric has promoted the strengthening of corporate governance in a number of ways. It has increased the number of internal statutory auditors and established the Compliance Office to strengthen the internal control framework. In addition, Sanken Electric has formulated Business Guidelines for employees, established an information disclosure system through the Investor Relations Office, and adopted a corporate officer system to create a more flexible business execution system and clarify responsibility.

## Corporate Organizations and Internal Control Systems

1. The Company has adopted a Statutory Auditor system. The Board of Statutory Auditors is made up of four statutory auditors, two of whom are from outside the Company. These statutory auditors have specialist knowledge and experience, which they use to determine audit policies and plans and to execute them.
2. The Board of Directors is made up of eight directors. As the highest decision-making body in the Group, the Board of Directors formulates management policies and strategies for the entire Group, as well as discusses and decides on other important matters concerning business execution.
3. The Company has a corporate officer system, which separates decision-making and supervisory functions from executive functions. This gives Sanken Electric a system capable of responding quickly to changes in the operating environment as well as clarifies authority and responsibility.
4. Sanken Electric also has a Compliance Office, which is responsible for internal audits. This office ensures the efficacy of the compliance system by conducting audits of business execution and operating an internal whistle-blower system.

## Risk Management System

In April 2005, Sanken Electric established the Risk Management Committee, which reports directly to the president, to strengthen overall risk management for the entire Group and promote preparedness. The committee is putting into practice risk management through the investigation, assessment and analysis, planning and implementation of countermeasures for various risks associated with business operations.

## Internal Audits, Audits by Statutory Auditors and Financial Audits

1. The statutory auditors conduct audits in accordance with the audit policies, audit plans and division of duties determined by the Board of Statutory Auditors. In performing their duties, statutory auditors attend Board of Directors' meetings, management meetings and other important meetings, as well as inspect important documents. The findings of their audits are reported to the Board of Statutory Auditors. In this way, the statutory auditors audit and supervise management.
2. Sanken Electric retains Ernst & Young ShinNihon as its accounting auditor under the Company Law and the Securities Exchange Law.
3. The Compliance Office, operating directly under the president, is responsible for internal audits. The Compliance Office audits and evaluates employee activities across the Company, and offers compliance education and training. In this connection, the Company in April 2003 established the Business Guidelines that define rules of recommended behavior for all employees. The following October, Sanken Electric also established the Conduct Guidelines to ensure that employees comply with ethical norms, laws and regulations. The Company has also established a Help Line System to serve as an interface for internal reporting and employee consultations. In these and other ways, Sanken Electric is working to enhance regulations and systems for the establishment of a compliance system.

The statutory auditors, Compliance Office and accounting auditor exchange information at regularly convened meetings and cooperate in other ways on an ordinary basis to improve the effectiveness of audits.

## Disclosure System

The Legal Department collects, confirms and examines information with respect to decisions and facts, and timely disclosure is made in accordance with applicable laws and regulations after approval by the decision-making body or occurrence of said facts. On the other hand, the IR Office actively provides shareholders and other investors, analysts, the media and other parties with corporate information (including financial results) and also carries out public relations activities, operates the Company website and holds results briefings.

## Directors' and Statutory Auditors' Compensation

millions of yen

### Compensation paid to directors and statutory auditors:

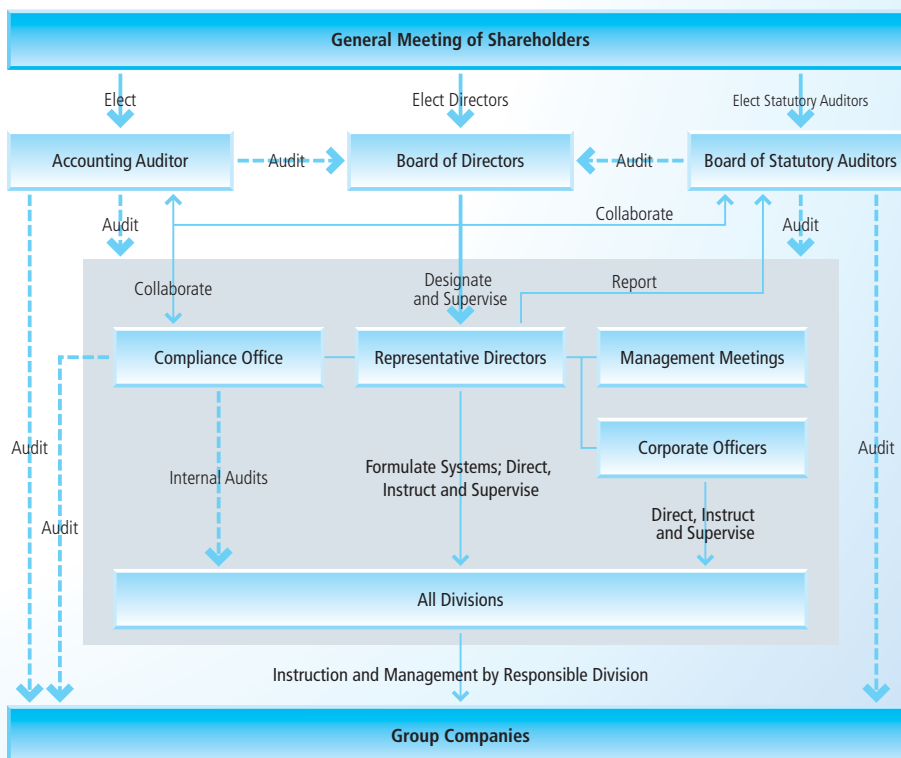
Compensation paid to directors (note)	¥294
Compensation paid to statutory auditors	¥45
<b>Total</b>	<b>¥339</b>

Note: The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥117.46=U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2006. See Note 2 of the Notes to Consolidated Financial Statements.

millions of yen

### Audit fees:

Fees for audit certification	¥35
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# ENVIRONMENTAL INITIATIVES

Sanken Electric positions environmental protection as an important management issue. Fukushima Sanken Co., Ltd. led the way by acquiring ISO 14001 certification in April 1998, and the other Group companies in Japan then proceeded to acquire this certification. As of March 2006, the domestic Sanken Group (Sanken Electric and subsidiaries) has completed acquisition of this certification, as had U.S.-based subsidiary Allegro MicroSystems, Inc. All companies continue to implement environmental protection initiatives.

In 2000, the Sanken Group formulated the Sanken Group Environmental Charter and announced both inside and outside the Group its philosophy and basic principles for protecting the environment. Since then, the Group has yearly issued the Sanken Group Environmental Action Plan to provide concrete targets for all Group companies' environmental protection activities.

One result of acquiring the ISO 14001 certification has been that the entire domestic Sanken Group achieved a recycling ratio for waste materials of 97%, thereby already surpassing the fiscal 2005 target of 96%. A target of 98% has now been set for the fiscal year ending in March 2009. Moreover, Yamagata Sanken Co., Ltd. and Kashima Sanken Co., Ltd. have achieved their targets of zero emissions (a stable recycling ratio for waste materials of 99% or more). In particular, in recognition of its environmental protection initiatives, Yamagata Sanken, as described above, has been awarded the Yamagata Prefectural Governor's Award and the Fuji Sankei Business i Prize at the Global Environmental Protection Grand Prix.

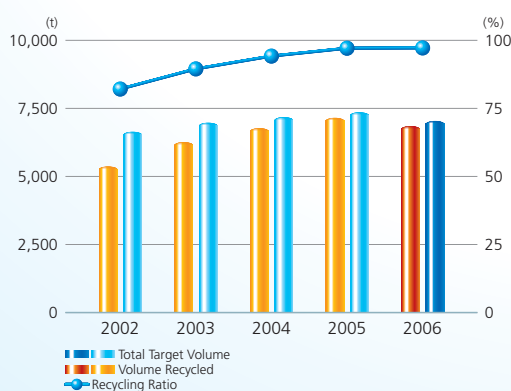
In recent years, the European Union's RoHS Directive, which prohibits the use of six substances, including cadmium and lead, in electrical and electronic equipment from July 2006 onwards, has been an important issue in the industry. In collaboration with all Group companies, Sanken Electric has been energetically working for several years to use lead-free solder. Since fiscal 2003, the Group has been strengthening controls on products containing chemical substances, particularly through green procurement. As a result, client companies with advanced environmental policies recognize the Group as a supplier that uses green procurement. The Group has almost completed establishing a framework that produces compliance with the RoHS Directive.

Sanken Electric and the Sanken Group recognize harmony with the environment as a fundamental duty, and will continue to work proactively to preserve the environment, with integrity and ingenuity, in all their business activities.

## Milestones

<b>April 1998</b>	Started to obtain ISO 14001 certification for environmental management systems
<b>April 2000</b>	Formulated Sanken Group Environmental Charter and Sanken Group Environmental Action Plan
<b>June 2004</b>	Yamagata Sanken awarded the Yamagata Prefectural Governor's Award, sponsored by the Yamagata Prefecture Environmental Protection Council
<b>February 2005</b>	Yamagata Sanken awarded the Fuji Sankei Business i Prize at the Global Environmental Protection Grand Prix, sponsored by the Fuji Sankei Group
<b>March 2005</b>	The domestic Sanken Group companies achieved target of recycling 96% of waste materials in fiscal 2004 Yamagata Sanken and Kashima Sanken achieve target of zero emissions
<b>October 2005</b>	Acquired CANON Green Activity certification (new certification)
<b>November 2005</b>	Acquired SONY Green Partner certification (recertification) Also cleared client audits for compatibility with RoHS standards

## Waste Recycling at Sanken Electric and the Sanken Group



# FINANCIAL SECTION

## CONSOLIDATED FIVE-YEAR SUMMARY

Sanken Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2006, 2005, 2004, 2003 and 2002

	Millions of yen				
	2006	2005	2004	2003	2002
<b>Statements of income</b>					
Net sales	¥173,527	¥156,216	¥147,176	¥146,070	¥140,088
Cost of sales	135,876	121,052	113,716	114,925	112,279
Gross profit	37,650	35,164	33,460	31,144	27,808
Selling, general and administrative expenses	25,642	23,081	21,772	21,174	20,975
Operating income	12,008	12,082	11,687	9,970	6,833
Other expenses	(712)	(1,890)	(2,942)	(4,397)	(5,201)
Income before income taxes and minority interests	11,295	10,191	8,745	5,572	1,631
Net income	7,035	6,682	5,784	4,002	670

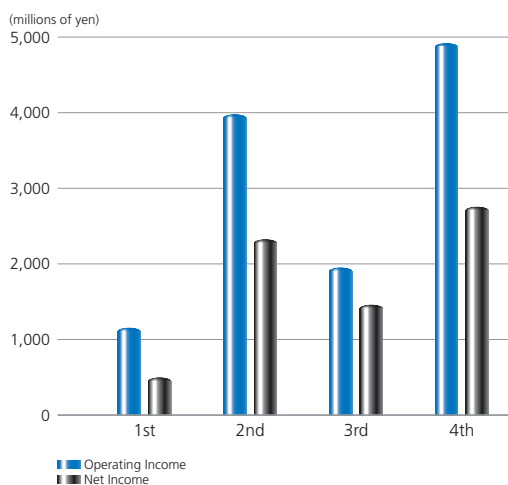
### Balance sheets

Total current assets	¥100,736	¥ 88,684	¥ 94,855	¥ 90,752	¥ 91,661
Total investments and long-term receivables	10,214	7,767	9,189	8,032	9,362
Property, plant and equipment, net	59,348	42,826	38,780	48,563	55,444
Other assets	2,027	1,638	1,558	1,396	1,430
Total assets	172,327	140,917	144,383	148,745	157,899
Total current liabilities	70,880	50,984	53,808	59,121	49,691
Total long-term liabilities	24,821	21,580	27,818	31,194	48,028
Minority interests	297	231	237	177	220
Total shareholders' equity	76,329	68,121	62,518	58,251	59,958
Total liabilities and shareholders' equity	172,327	140,917	144,383	148,745	157,899

	Yen				
<b>Per share</b>					
Shareholders' equity per share	¥627.66	¥560.07	¥513.56	¥477.87	¥478.07
Net income per share	57.41	54.50	47.07	31.96	5.34
Cash dividends per share	15.00	10.00	10.00	10.00	10.00

### Quarterly Profits (Unaudited)

Year ended March 31, 2006



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Overview

### Business Strategy

In March 2006, the Sanken Electric Group completed a three-year medium-term management plan that began in April 2003. Under this plan, the Group adopted an aggressive stance in the development of its businesses as it strove to strengthen its earnings capabilities. Another goal of the plan was to make the Group a self-reliant, growing organization whose performance is not susceptible to fluctuations in economic conditions. We promoted three key themes to achieve the plan's objectives: expanding into key strategic markets; improving the profitability of the switching power supply business and power supply equipment business segments; and placing greater emphasis on cash flows.

Having completed this plan, in April 2006 we initiated a new three-year medium-term management plan with three pillars: reforms in the semiconductor business; further expansion of the cold cathode fluorescent lamp (CCFL) business; and upgrading of global management and control. The new plan will see us channel resources into the two business domains of power electronics and optical devices, as we pursue an even more aggressive growth strategy under the banner "Leadership through Innovative Power and Optical Solutions."

### Fund Procurement and Liquidity

The Group issues corporate bonds and commercial paper and uses credit facilities, bank loans and other methods to procure funds. As of March 31, 2006, short-term loans totaled ¥10.0 billion, of which ¥2.6 billion is the current portion of long-term debt. Commercial paper totaled ¥18.0 billion and unsecured bonds (due in 2009) totaled ¥10.0 billion. Long-term loans totaled ¥7.5 billion.

The Group's basic policy is to fund operating capital and capital expenditures from internal financing. However, we may raise funds by using the unused portion of our commercial paper line (¥12.0 billion), credit facility (¥10.0 billion), and a bond shelf registration (¥30.0 billion, of which ¥10.0 billion has already been utilized), in addition to cash provided by operating activities, to fund additional operating capital and capital expenditures needed in the future to sustain the Group's growth.

### Impact From Fluctuation in Exchange Rates

The Group's overseas sales totaled ¥99,336 million, accounting for around 57% of consolidated net sales. The bulk of overseas sales were denominated in U.S. dollars. Additionally, the financial statements of major overseas consolidated subsidiaries are compiled in U.S. dollars. Consequently, a stronger yen tends to reduce sales, while a weaker yen has the opposite effect. In the fiscal year ended March 31, 2006, a weaker yen had the effect of raising

consolidated net sales by ¥4,338 million.

On the other hand, because foreign currency-denominated costs were about the same as sales, the effect of the weaker yen on sales was effectively negated at the earnings level.

Furthermore, results are subject to the effect of currency fluctuations when transactions are eliminated due to consolidation procedures. In the fiscal year ended March 31, 2006, the effect was to reduce operating income by ¥1,498 million. Sanken Electric has now put in place a framework under which there will be almost no occurrence of such effects from fiscal 2006 of currency fluctuations arising from the elimination of consolidated transactions due to a change in internal procedures.

### Dividend Policy

Sanken Electric recognizes the return of profits to shareholders as one of its most important management policies. As such, the Company aims to provide stable returns by continually improving its earnings capabilities and strengthening its financial position.

Retained earnings are effectively utilized for business expansion and the enhancement of the Company's corporate framework, beginning with capital expenditures and investment in R&D.

Based on a steady performance leading to an improvement in earnings, the Company increased the annual dividend per share by ¥2 to ¥12. The total dividend, including a commemorative dividend of ¥3 for the 60th anniversary of the Company in September 2006, applicable to fiscal 2005 was ¥15 per share (¥5 for the interim dividend and ¥10 for the year-end dividend).

*Note: The date of the Board of Directors' resolution for the interim dividend applicable to the year under review was November 7, 2005.*

### Segment Information

For financial reporting purposes, the Group's segments are broadly divided into the semiconductor business, the switching mode power supply business, and the power supply business. Integrated circuits (ICs), diodes and CCFLs are the main products of the semiconductor business. In the switching mode power supply business, switching mode power supplies, power supplies for flat panel televisions, and small, general-purpose uninterruptible power supplies (UPS) are the major products. The main products of the power supply business, meanwhile, consist primarily of custom power supply equipment, large UPS, and VVVF inverters.

Small, general-purpose uninterruptible power supplies (UPS), which were included in the power supply equipment business segment up to the year ended March 31, 2005, were transferred to the switching mode power supply business segment effective from fiscal 2005 with the aims of increasing production efficiency, improving costs and further expanding sales.

## Results of Operations

### Summary

In fiscal 2005, ended March 31, 2006, consolidated net sales rose 11.1%, to ¥173,527 million, a record and the highest level in 5 years since the March 2001 fiscal year. Consolidated operating income edged down 0.6% to ¥12,008 million, while consolidated net income increased 5.3% to ¥7,035 million, the third straight year of record earnings.

### Results of Operations by Segment

#### Semiconductor Business

Sales, excluding intersegment sales, in the semiconductor segment rose sharply by 15.4%, to ¥129,174 million. Regarding core semiconductor devices, sales were generally lackluster due to a substantial fall in demand for products for CRT TVs, although strong growth was recorded in discrete products for flat panel TVs and automotive electronics components, including Hall-effect sensors of Allegro MicroSystems Inc.

Contrastingly, sales of CCFLs were double the previous year as these products continue to show potential for eventually becoming one of our core businesses. This was the result of a substantially improved supply capacity of products for large-screen TVs due to production facility expansion, as well as higher sales of CCFLs for notebook computers.

Segment operating income rose 4.4%, to ¥14,575 million.

#### Switching Mode Power Supply Business (PM Business)

Sales in this business rose 6.1%, to ¥31,344 million, despite lower sales of AC adaptors for notebook computers. This increase in sales

reflected progress expanding sales to the consumer market, which the Company is targeting, and continued strong growth in sales of switching power supplies for plasma TVs. Sales were also boosted by the transfer to this segment of small, general-purpose UPS from the power supply equipment business effective from the fiscal year under review.

However, the segment posted an operating loss of ¥1,534 million, compared with operating income of ¥212 million in the previous fiscal year. This loss resulted from currency fluctuations on intra-Group transactions, delays in replacing certain unprofitable models and falling product prices.

#### Power Supply Equipment Business (PS Business)

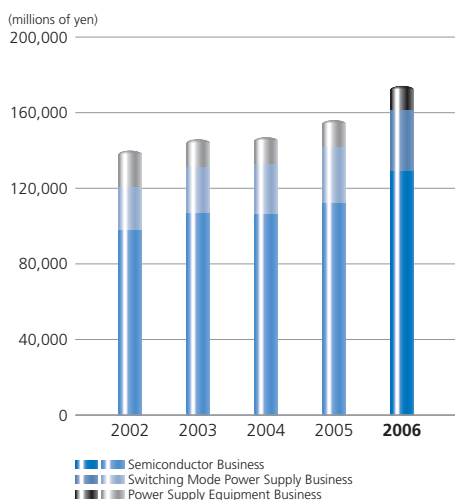
Sales in this business declined 11.7%, to ¥13,008 million. Sales of custom power supply equipment for telecommunications equipment increased, and there was steady growth in sales of this equipment for public sector-related facilities. However, sales of general-purpose power supply equipment decreased due to the transfer of small, general-purpose UPS to the switching mode power supply business and sluggish sales of VVVF inverters stemming from a policy in China of curbing investment.

As a result, segment operating income climbed 156.3%, to ¥1,061 million.

Assuming fiscal 2004 business segments were restated to reflect the classifications used in fiscal 2005, consolidated net sales in the semiconductor business in fiscal 2005 increased 15.4%, sales in the switching mode power supply business increased 0.4% and sales in the power supply equipment business declined 0.5%.

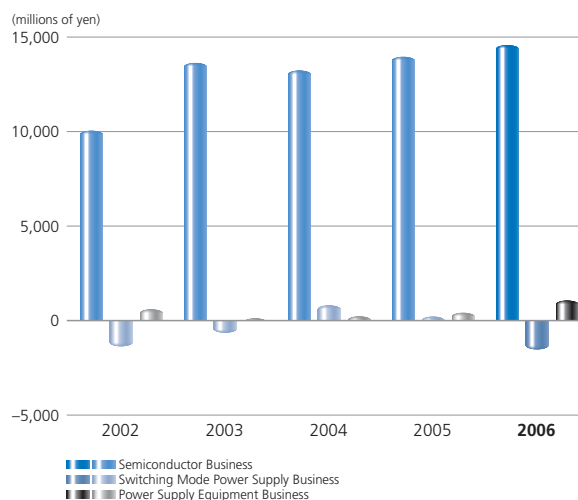
### Net Sales

Years ended March 31



### Operating Income

Years ended March 31



## Geographic Segment Information

Sales in Japan rose 13.1%, to ¥124,766 million on a large increase in sales of CCFLs for LCD TVs and switching mode power supplies for flat panel TVs. Operating income increased 12.5%, to ¥12,995 million due to higher sales of CCFLs and the benefits of production reforms.

Sales in Asia outside Japan declined 4.8%, to ¥18,228 million owing to lower sales of semiconductor devices to China. Due to the lower sales and the effect of foreign exchange adjustments on intra-Group transactions, an operating loss of ¥359 million was recorded, compared with operating income of ¥538 million in the previous fiscal year.

Sales in North America jumped 24.2%, to ¥19,348 million on steadily increasing sales at Allegro MicroSystems, particularly of automotive electronics components. Nevertheless, operating income decreased 3.7%, to ¥1,941 million due to a loss at Polar Semiconductor, Inc., which became subject to consolidation from the previous fiscal year.

Sales in Europe increased only ¥1 million to ¥11,183 million, the result of lackluster sales growth at Allegro MicroSystems Europe Limited. Europe operations reported an operating loss of ¥505 million, compared with operating income of ¥267 million in fiscal 2004, with profits affected by lower sales at the same company.

## Other Income (Expenses)

An exchange gain of ¥1,457 million, up ¥1,222 million, was recorded due to the yen's depreciation. On the other hand, interest expenses

increased ¥248 million, to ¥827 million due to rising interest rates and an increase in interest-bearing liabilities due to the procurement of funds for higher capital expenditures and the acquisition of a U.S.-based semiconductor foundry. Loss for product compensation costs decreased ¥992 million, to ¥85 million.

The Company booked a gain on the sale of fixed assets of ¥319 million due to the sale of idle assets. However, it also recorded a loss on disposal of fixed assets of ¥330 million due to the disposal of idle assets and disposal of existing buildings accompanying construction of a new head office wing. The Company also recorded a provision for special severance of ¥197 million as it brought forward application of a new personnel system.

## Financial Position

### Assets

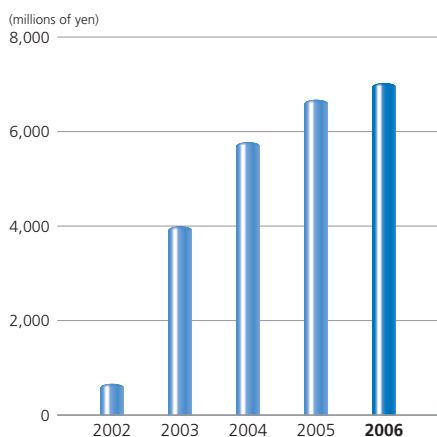
Total assets at March 31, 2006 stood at ¥172,327 million, ¥31,409 million higher than a year ago.

Current assets increased ¥12,051 million, to ¥100,736 million, mainly on account of a ¥6,845 million increase in notes and accounts receivable due to higher sales to overseas customers that typically take longer to collect and a ¥2,400 million increase in inventories in line with higher production.

Investments and long-term receivables rose ¥2,447 million to ¥10,214 million, mainly due to the acquisition of a U.S. semiconductor foundry that was made a consolidated subsidiary. Property, plant and equipment, at cost increased ¥16,522 million to ¥59,348 million, the result mostly of strategic capital expenditures in CCFLs.

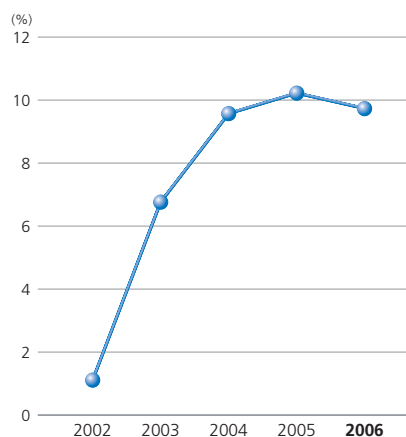
### Net Income

Years ended March 31



### Return on Equity

Years ended March 31



## Liabilities

Total liabilities increased ¥23,136 million, to ¥95,701 million.

Current liabilities rose ¥19,895 million, to ¥70,880 million. This increase reflected a ¥9,000 million increase in commercial paper and a ¥4,177 million increase in notes and accounts payable in line with higher production.

Long-term liabilities rose ¥3,240 million to ¥24,821 million, the result of a ¥2,090 million increase in long-term debt as the Company procured funds for capital expenditures and the aforementioned corporate acquisition.

## Minority Interests

Minority interests increased ¥65 million to ¥297 million.

## Shareholders' Equity

Shareholders' equity rose ¥8,207 million to ¥76,329 million. In addition to a ¥5,202 million increase in retained earnings, reflecting mainly the net income, there was a ¥2,139 million increase in the translation adjustments account due to the weaker yen.

## Cash Flows

Cash and cash equivalents at the end of the year were ¥12,231 million, up ¥929 million from a year ago, mainly due to higher earnings and depreciation and amortization. Offsetting factors included increases in outlays for purchases of property, plant and equipment and the acquisition of a U.S. semiconductor foundry.

Operating activities provided net cash of ¥14,916 million, a year-

on-year increase of ¥5,408 million. In addition to higher earnings, this resulted from higher depreciation and amortization, among other factors.

Investing activities used net cash of ¥24,709 million, ¥13,699 million more than in the previous fiscal year. The main uses of cash were for an increase in purchases of property, plant and equipment, and the acquisition of a U.S. semiconductor foundry.

Financing activities provided net cash of ¥9,998 million, a change of ¥15,724 million from net cash used in the previous fiscal year. Cash was mainly provided by the procurement of funds for capital expenditures and the aforementioned corporate acquisition.

## Capital Expenditures

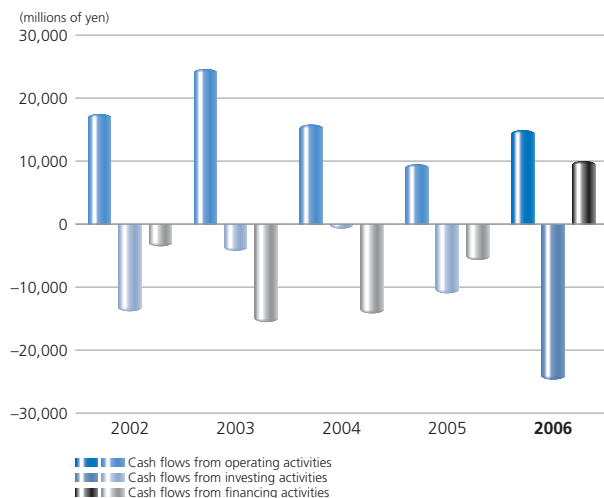
Total capital expenditures in the fiscal year ended March 31, 2006 were ¥16,776 million, mainly for the purchase of production equipment and equipment for research and development.

In the semiconductor business, capital expenditures were ¥3,396 million at Sanken Electric for the purchase of production equipment and equipment for research and development. Capital expenditures were ¥10,133 million at consolidated subsidiaries, including Ishikawa Sanken Co., Ltd., Yamagata Sanken Co., Ltd., Fukushima Sanken Co., Ltd. and Allegro MicroSystems. The main capital expenditures were for increasing and strengthening production equipment.

With respect to the switching mode power supply business, capital expenditures at Sanken Electric were ¥53 million, mainly for the purchase of product molds. Capital expenditures at consolidated

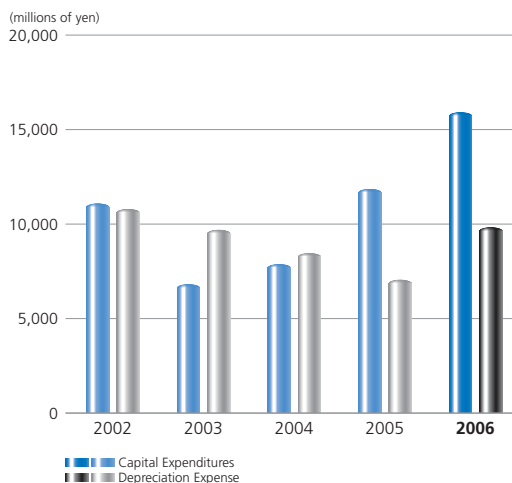
### Cash Flows

Years ended March 31



### Capital Expenditures/Depreciation Expense

Years ended March 31



subsidiaries such as P.T. Sanken Indonesia were ¥805 million, mainly for production facilities and the purchase of molds.

In the power supply equipment business, capital expenditures at Sanken Electric were ¥18 million, mainly for the purchase of product molds. Capital expenditures at consolidated subsidiaries such as Sanken L.D. Electric (Jiangyin) Co., Ltd. were ¥35 million, mainly for the purchase of production facilities.

Funds for capital expenditures are provided principally from internal funds and loans.

## Business Risks

Management has identified the following issues as posing potential risks to the Group's business performance and financial condition.

### Strategy Risk

#### *New Product Development*

The Sanken Electric Group has to develop and introduce products that correspond to market needs in the electronics industry, which is characterized by drastic changes in the pace of technical progress and product cycles. Although the Group conducts R&D while continually monitoring market trends, profitability, earnings, and financial condition could suffer if the Group fails to introduce products in a timely manner and/or its products fail to win acceptance in the marketplace.

#### *Price Competition*

Price competition in the electronics industry is escalating. The emergence of competitors using production bases in Southeast Asia, and particularly China, has had a major impact on the determination

of prices for the Company's products. While price competition is expected to continue escalating, the Group is responding by working to further reduce the cost of sales and to introduce high-value-added products that leverage its inherent technologies. However, the Group's profitability, earnings, and financial condition could suffer due to the appearance of products produced by companies with a greater ability to respond to price reductions and/or to changes in demand by its customers.

#### *Fund Procurement*

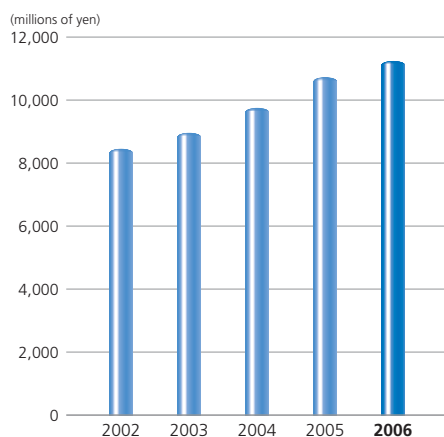
The Group procures funds necessary for capital investment and R&D through the issue of corporate bonds, the issue of commercial paper, and through commitment lines of credit and bank loans. In the event that the Company's credit standing is judged to have declined by the bond market and/or by financial institutions, there may be restrictions in fund procurement methods and/or an increase in procurement costs, which could adversely affect the earnings and financial condition of the Company.

#### *Intellectual Property*

The Group takes steps to differentiate its products from those of competitors by using our proprietary technology and know-how. Although the Company files and records intellectual property rights as necessary to protect these technologies, such protections are inadequate in some nations and regions. As such, in some cases it may be impossible to effectively prohibit third parties from manufacturing analogous products that use the Group's intellectual property.

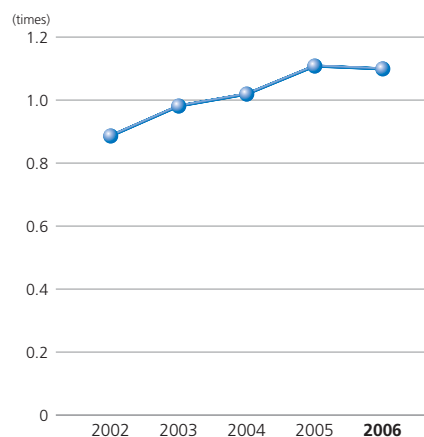
### R&D Expenses

Years ended March 31



### Asset Turnover

Years ended March 31



Should a third party gain intellectual property rights related to the Group's business and/or possess such intellectual property rights without the Group's knowledge, the Group may be requested to pay royalties, prohibited from using the applicable intellectual property rights or have a lawsuit brought against it by a third party asserting infringement of intellectual property rights. Such actions could give rise to an increase in costs and may limit the development and sales of products.

## External Risks

### *Economic Environment*

In addition to Japan, the Group produces products in several other nations and regions, including Asia, North America, and Europe. Overseas production value accounted for 35.3% of consolidated production value in fiscal 2003, 38.6% in fiscal 2004 and 42.1% in fiscal 2005. Overseas sales on a consolidated basis as a proportion of total sales in fiscal 2003, fiscal 2004 and fiscal 2005 were 50.4%, 53.3% and 57.3%, respectively. As a consequence, the Group's earnings and financial condition could be adversely affected by changes in the operating environment, including economic trends, in the relevant areas.

### *Exchange Rates*

The Group derives a portion of its earnings from production and sales in nations and regions outside of Japan, and related accounts are settled in U.S. dollars or the local currencies of the corresponding nations or regions. Consequently, exchange rates prevailing at the time of conversion into Japanese yen may affect earnings.

Exports as a share of the Company's sales were 36.7% in fiscal 2003, 40.3% in fiscal 2004 and 45.7% in fiscal 2005. Of these exports, the proportion denominated in foreign currencies was 54.9% in fiscal 2003, 56.9% in fiscal 2004 and 47.4% in fiscal 2005.

As for exchange risk associated with transactions, because the Group is expanding overseas procurement of products and raw materials, it engages in risk hedging, including through the hedging of the balances of payables, receivables, and turnover, and through the use of forward currency contracts. By doing so, the Company aims to minimize the impact of short-term fluctuations in the exchange rates of major currencies, including the U.S. dollar and the Japanese yen.

Additionally, appreciation of the currencies in the regions and nations where the Group has production bases may drive up manufacturing and procurement costs. Higher costs would have the impact of lower margins and diminished price competitiveness, which may adversely affect earnings.

## Internal Risks

### *Legal Restraints*

The Group has production and sales bases in 11 regions and nations, including Japan. Businesses are established subject to the application of various laws, ordinances and regulations (hereinafter "legal restraints") specified in each region or nation. In addition, with respect to the export and import of technology, products and materials necessary for sales and production by the Group around the world, business activities are subject to legal constraints relating to tariffs, trade, foreign currency, strategic materials, specific technologies, anti-trust, patents, the environment and other areas in each region and nation. Failure to comply with these legal restraints could result in restrictions on the Group's business activities and/or undermine public confidence, which may adversely affect the Company's earnings and financial condition.

### *Quality Issues*

The Group provides a variety of products that satisfy its own internal quality standards as well as those of the customer. To sustain and improve the quality control system, the Company has acquired ISO 9001 certification, an international standard for quality management, and, when necessary, acquires certification of product safety based on relevant standards, including those of Underwriters Laboratories Inc. However, these efforts do not guarantee that any or all products will not be defective, recalled, or require repair. Large-scale recalls or product defects that require repair or result in liability for damage could potentially result in substantial costs and diminished public confidence, which in turn could adversely affect the Company's earnings and financial condition.

### *Environmental Problems*

The Group complies with all regulations pertaining to the prevention of environmental damage and pollution in the nations and regions where it has production bases. As part of its own environmental activities, the Group pursues ISO 14001 certification, an international standard for environmental management systems. Also, the Group works to better understand and reduce the use of substances that carry environmental burdens and that are used in its production processes or contained in its products. The failure to comply with these regulations; the occurrence of an accident that results in the discharge of a large volume of hazardous substances; or the elimination of prohibited substances from products could result in substantial costs to rectify these situations. In addition, this could result in restrictions on business activities, liability for reparations to customers, and loss of public confidence, all of which could adversely affect the Company's earnings and financial position.

# CONSOLIDATED BALANCE SHEETS

Sanken Electric Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>Current assets:</b>			
Cash and deposits (Note 3) . . . . .	¥ 12,466	¥ 11,546	\$ 106,129
Notes and accounts receivable:			
Trade and other . . . . .	47,737	40,557	406,410
Less allowance for doubtful receivables . . . . .	(257)	(94)	(2,187)
	47,480	40,463	404,222
Inventories (Note 5) . . . . .	34,568	32,167	294,295
Deferred tax assets (Note 8) . . . . .	3,172	2,384	27,004
Other current assets . . . . .	3,048	2,122	25,949
<b>Total current assets</b> . . . . .	<b>100,736</b>	<b>88,684</b>	<b>857,619</b>
<b>Investments and long-term receivables:</b>			
Investments in unconsolidated subsidiaries and affiliates . . . . .	891	973	7,585
Investments in other securities (Note 4) . . . . .	5,152	4,588	43,861
Deferred tax assets (Note 8) . . . . .	1,098	1,086	9,347
Other long-term receivables . . . . .	3,096	1,327	26,357
Less allowance for doubtful receivables . . . . .	(24)	(208)	(204)
<b>Total investments and long-term receivables</b> . . . . .	<b>10,214</b>	<b>7,767</b>	<b>86,957</b>
<b>Property, plant and equipment, at cost (Note 6):</b>			
Land . . . . .	4,671	3,869	39,766
Buildings . . . . .	50,423	46,964	429,278
Machinery and equipment . . . . .	95,553	73,865	813,493
Construction in progress . . . . .	2,845	2,545	24,221
	153,494	127,245	1,306,776
Less accumulated depreciation . . . . .	(94,145)	(84,418)	(801,506)
<b>Property, plant and equipment, net</b> . . . . .	<b>59,348</b>	<b>42,826</b>	<b>505,261</b>
<b>Other assets</b> . . . . .	<b>2,027</b>	<b>1,638</b>	<b>17,256</b>
<b>Total assets</b> . . . . .	<b>¥172,327</b>	<b>¥140,917</b>	<b>\$1,467,112</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>Current liabilities:</b>			
Short-term bank loans (Note 6)	¥ 7,433	¥ 5,274	\$ 63,281
Current portion of long-term debt (Note 6)	2,642	3,680	22,492
Commercial paper	18,000	9,000	153,243
Notes and accounts payable:			
Trade and other	26,281	21,897	223,744
Construction	159	366	1,353
	26,441	22,264	225,106
Accrued expenses	8,242	6,913	70,168
Income taxes payable (Note 8)	3,558	1,706	30,291
Deferred tax liabilities (Note 8)	1	7	8
Other current liabilities	4,560	2,136	38,821
<b>Total current liabilities</b>	<b>70,880</b>	<b>50,984</b>	<b>603,439</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 6)	17,519	15,429	149,148
Accrued retirement benefits for directors	314	347	2,673
Accrued employees' retirement benefits (Note 7)	5,528	5,123	47,062
Deferred tax liabilities (Note 8)	853	188	7,262
Other long-term liabilities	604	491	5,142
<b>Total long-term liabilities</b>	<b>24,821</b>	<b>21,580</b>	<b>211,314</b>
<b>Minority interests</b>	<b>297</b>	<b>231</b>	<b>2,528</b>
<b>Shareholders' equity (Note 9):</b>			
Common stock:			
Authorized — 257,000,000 shares			
Issued and outstanding: 2006 — 125,490,302 shares	20,896	—	177,898
2005 — 125,490,302 shares	—	20,896	—
Capital surplus	21,262	21,167	181,014
Retained earnings	36,341	31,139	309,390
Net unrealized gain on securities	1,995	1,037	16,984
Translation adjustments	(437)	(2,576)	(3,720)
Less treasury stock, at cost:			
3,880,226 shares in 2006 and 3,759,687 shares in 2005	(3,729)	(3,542)	(31,746)
<b>Total shareholders' equity (Note 16)</b>	<b>76,329</b>	<b>68,121</b>	<b>649,829</b>
<b>Contingent liabilities (Note 10)</b>			
<b>Total liabilities and shareholders' equity</b>	<b>¥172,327</b>	<b>¥140,917</b>	<b>\$1,467,112</b>

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

Sanken Electric Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
Net sales	¥173,527	¥156,216	\$1,477,328
Cost of sales	135,876	121,052	1,156,785
<b>Gross profit</b>	<b>37,650</b>	35,164	<b>320,534</b>
Selling, general and administrative expenses (Notes 7 and 11)	25,642	23,081	218,304
<b>Operating income</b>	<b>12,008</b>	12,082	<b>102,230</b>
<b>Other income (expenses):</b>			
Interest expense	(827)	(579)	(7,040)
Interest and dividend income	379	258	3,226
Gain on sales of marketable and investment securities	33	455	280
Product compensation costs	(85)	(1,077)	(723)
Foreign exchange gain	1,457	235	12,404
Other, net	(1,669)	(1,182)	(14,209)
	(712)	(1,890)	(6,061)
Income before income taxes and minority interests	11,295	10,191	96,160
Income taxes (Note 8):			
Current	4,917	2,343	41,861
Deferred	(755)	1,013	(6,427)
Income before minority interests	7,133	6,834	60,727
Minority interests	(98)	(151)	(834)
<b>Net income</b> (Note 16)	<b>¥ 7,035</b>	¥ 6,682	<b>\$ 59,892</b>

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sanken Electric Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

	Number of shares of common stock	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized gain (loss) on securities	Translation adjustments	Treasury stock at cost
Balance at March 31, 2004	125,490,302	¥ 20,896	¥ 21,167	¥ 25,651	¥ 1,172	¥ (2,961)	¥ (3,407)
Acquisition of treasury stock	—	—	—	—	—	—	(135)
Bonuses to directors and statutory auditors	—	—	—	(50)	—	—	—
Cash dividends paid	—	—	—	(1,217)	—	—	—
Net income for the year ended							
March 31, 2005	—	—	—	6,682	—	—	—
Net change during the year	—	—	0	—	(134)	384	—
Adjustment for inclusion in consolidation	—	—	—	72	—	—	—
Balance at March 31, 2005	125,490,302	20,896	21,167	31,139	1,037	(2,576)	(3,542)
Acquisition of treasury stock	—	—	—	—	—	—	(187)
Bonuses to directors and statutory auditors	—	—	—	(50)	—	—	—
Cash dividends paid	—	—	—	(1,824)	—	—	—
Net income for the year ended							
March 31, 2006	—	—	—	7,035	—	—	—
Net change during the year	—	—	95	—	957	2,139	—
Adjustment for inclusion in consolidation	—	—	—	41	—	—	—
<b>Balance at March 31, 2006</b>	<b>125,490,302</b>	<b>¥ 20,896</b>	<b>¥ 21,262</b>	<b>¥ 36,341</b>	<b>¥ 1,995</b>	<b>¥ (437)</b>	<b>¥ (3,729)</b>

	Thousands of U.S. dollars (Note 2)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gain (loss) on securities	Translation adjustments	Treasury stock at cost
Balance at March 31, 2005	\$177,898	\$180,206	\$265,103	\$ 8,828	\$(21,930)	\$(30,154)
Acquisition of treasury stock	—	—	—	—	—	(1,592)
Bonuses to directors and statutory auditors	—	—	(425)	—	—	—
Cash dividends paid	—	—	(15,528)	—	—	—
Net income for the year ended March 31, 2006	—	—	59,892	—	—	—
Net change during the year	—	808	—	8,147	18,210	—
Adjustment for inclusion in consolidation	—	—	349	—	—	—
<b>Balance at March 31, 2006</b>	<b>\$177,898</b>	<b>\$181,014</b>	<b>\$309,390</b>	<b>\$16,984</b>	<b>\$ (3,720)</b>	<b>\$(31,746)</b>

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Sanken Electric Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>Operating activities</b>			
Income before income taxes and minority interests in earnings of affiliates	¥ 11,295	¥ 10,191	\$ 96,160
Depreciation and amortization	10,360	7,422	88,200
Reversal of allowance for doubtful receivables	(75)	8	(638)
Interest and dividend income	(379)	(258)	(3,226)
Interest expense	827	579	7,040
(Reversal of) provision for retirement benefits for employees	358	(2,928)	3,047
Gain on sales of investment securities	(33)	(455)	(280)
Decrease (increase) in notes and accounts receivable	(5,081)	795	(43,257)
Decrease in inventories	237	759	2,017
(Decrease) increase in notes and accounts payable	2,411	(2,983)	20,526
Other	(1,727)	(221)	(14,702)
<b>Subtotal</b>	<b>18,194</b>	<b>12,910</b>	<b>154,895</b>
Interest and dividends received	628	251	5,346
Interest paid	(788)	(724)	(6,708)
Income taxes paid	(3,117)	(2,929)	(26,536)
<b>Net cash provided by operating activities</b>	<b>14,916</b>	<b>9,508</b>	<b>126,987</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment	(14,007)	(11,437)	(119,249)
Proceeds from sales of property, plant and equipment	492	145	4,188
Purchases of intangible assets	(402)	(291)	(3,422)
Purchases of securities of subsidiaries (Note 3)	(5,616)	—	(47,812)
Proceeds from sales of investment securities	1,084	824	9,228
Increase in loans	(6,155)	(25)	(52,400)
Proceeds from loans	697	24	5,933
Other	(801)	(251)	(6,819)
<b>Net cash used in investing activities</b>	<b>(24,709)</b>	<b>(11,010)</b>	<b>(210,360)</b>
<b>Financing activities</b>			
Increase in short-term bank loans	1,738	948	14,796
Increase in commercial paper	9,000	9,000	76,621
Proceeds from issuance of long-term bank loans	4,773	—	40,635
Repayment of long-term debt	(3,913)	(14,255)	(33,313)
Proceeds from sales of treasury stock	4	0	34
Redemption of treasury stock	(201)	(135)	(1,711)
Cash dividends paid	(1,218)	(1,219)	(10,369)
Dividends paid to minority interests	(183)	(64)	(1,557)
<b>Net cash used in financing activities</b>	<b>9,998</b>	<b>(5,725)</b>	<b>85,118</b>
Effect of exchange rate changes on cash and cash equivalents	529	277	4,503
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>735</b>	<b>(6,950)</b>	<b>6,257</b>
Cash and cash equivalents at beginning of the year	11,302	17,871	96,219
Increase in cash resulting from inclusion of subsidiaries	194	381	1,651
<b>Cash and cash equivalents at end of the year (Note 3)</b>	<b>¥ 12,231</b>	<b>¥ 11,302</b>	<b>\$ 104,129</b>

The accompanying notes are an integral part of the consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sanken Electric Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

The accompanying consolidated financial statements of Sanken Electric Co., Ltd. (the "Company") and consolidated subsidiaries have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

### (b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all its significant subsidiaries. Significant intercompany transactions and account balances have been eliminated in consolidation. Generally, the difference, if significant in amount, between the cost and the equity in the underlying net assets of a consolidated subsidiary at the date acquired is capitalized in the year of acquisition and amortized principally over a five-year period.

Investment in a significant affiliate is accounted for by the equity method.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost or less; where there has been a persistent decline in the value of such investments, they have been written down.

### (c) Securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair market value with any changes in unrealized gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. The cost of securities sold is determined by the moving average method.

### (d) Inventories

Inventories are stated at the lower of cost or market, cost being determined principally by the first-in, first-out method.

### (e) Property, Plant and Equipment, Intangible Assets and Depreciation

Property, plant and equipment are recorded at cost. Depreciation at the Company and its domestic subsidiaries is computed principally by the declining-balance method over the estimated useful lives of the respective assets except that the straight-line method is applied to the buildings acquired on or after April 1, 1998. The estimated useful lives are as follows:

Building . . . . . 4 – 60 years

Machinery and equipment . . . . . 3 – 10 years

Intangible assets are amortized over 5 years by the straight-line method.

### (f) Foreign Currency Translation

All monetary assets and liabilities of the Company denominated in foreign currencies, regardless of whether these are short-term or long-term, are translated into yen at the exchange rates prevailing as of the fiscal year end, and the resulting gain or loss is credited or charged to income.

Balance sheet accounts and revenue and expense accounts of the overseas consolidated subsidiaries are translated into yen at the exchange rates prevailing at the fiscal year end, except for the components of shareholders' equity, which are translated at their historical exchange rates.

The Company has presented translation adjustments as a component of shareholders' equity and minority interests in consolidated subsidiaries (instead of as a component of assets or liabilities) in its consolidated financial statements.

### (g) Derivatives

The Company has entered into various derivatives transactions in order to manage its risk exposure arising from adverse fluctuation in foreign currency exchange rates and interest rates. Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income.

### (h) Research and Development Expenses

Research and development expenses are charged to income when incurred and are included in cost of sales and selling, general and administrative expenses.

**(i) Income Taxes**

Deferred income taxes are based on the differences between the amounts determined for financial reporting purposes and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

**(j) Leases**

The Company leases certain equipment under noncancelable leases referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the Company are accounted for as operating leases.

**(k) Appropriation of Retained Earnings**

Dividends and other appropriations of retained earnings are reflected in the accompanying consolidated financial statements in the year to which they apply, although they are approved by the shareholders at a meeting held subsequent to the fiscal year end (see Note 9).

**(l) Employees' Retirement Benefits**

The Company and its domestic consolidated subsidiaries have defined benefit plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The overseas consolidated subsidiaries principally have defined contribution pension plans.

Accrued retirement benefits for employees have been provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for the unrecognized net retirement benefit obligation at transition, net unrecognized actuarial gain or loss, and unrecognized prior service cost.

Prior service cost is amortized from the year in which the gain or loss is recognized primarily by the declining-balance method over various periods (principally 11 years through 18 years).

Net unrecognized actuarial gain or loss is amortized from the next year in which the gain or loss is recognized primarily by the declining-balance method over various periods (principally 11 years through 21 years).

Effective November 1, 2005, certain domestic subsidiaries amended their defined benefit plans. Under the new plans, those benefits will be paid based on the pension points earned to the date of retirement, while those benefits under the prior plans were paid based on the correlation to the salaries at the time of retirement. The former plans were tax-qualified retirement pension plans which are required to be dissolved by March 31, 2012 due to the change in Japanese Corporate Tax Laws, while new plans are defined-benefit pension plans which were introduced in Japan since April 1, 2002. As a result, compared to the former plan, for the year ended March 31, 2006, there was a ¥92 million decrease in the retirement benefit expenses and an 81 million yen increase in the income before income taxes and minority interests. See Note 7 for the impact on the prior service cost by these amendments.

In addition, officers of the Company are entitled to lump-sum payments under an unfunded retirement benefit plan. The provision for retirement allowances for these officers has been made at estimated amounts based on the Company's internal rules.

**(m) Cash Equivalents**

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

**Change of fundamental matters for preparation of the consolidated financial statements**

Accounting standard for impairment of fixed assets

The Company and the consolidated subsidiaries adopted the "Accounting Standard for Impairment of Fixed Assets" ("Statement concerning establishment Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council in Japan on August 9, 2002) and "Application Guidance for Accounting Standard for Impairment of Fixed Assets" (Application Guidance for Accounting Standard No. 6, October 31, 2003) from the year ended March 31, 2006. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of these standards had no impact on the results of operations for the year ended March 31, 2006.

## 2. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥117.46=U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2006. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

## 3. SUPPLEMENTARY CASH FLOW INFORMATION

### (a) Cash and Cash Equivalents

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2006 and 2005:

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and deposits	¥12,466	¥11,546	\$106,129
Time deposits with a maturity of more than three months	(234)	(243)	(1,992)
Cash and cash equivalents	¥12,231	¥11,302	\$104,129

### (b) Newly Consolidated Subsidiary's Assets and Liabilities

The company purchased shares of Polar Semiconductor, Inc. and initially consolidated the accounts of the company for the year ended March 31, 2006. The following summarizes the assets and liabilities included in consolidation and presents the acquisition costs and cash disbursements:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Current assets	¥ 2,072	\$ 17,640
Non-current assets	9,654	82,189
Current liabilities	(5,938)	(50,553)
Non-current liabilities	(172)	(1,464)
Acquisition costs	5,616	47,812
Cash and cash equivalents of the company	—	—
Cash disbursements	¥ 5,616	\$ 47,812

#### 4. SECURITIES

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

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Net unrealized gain (loss)	Acquisition cost	Carrying amount	Net unrealized gain (loss)
<b>Year ended March 31, 2006</b>						
Securities whose fair value exceeds their acquisition cost:						
Equity securities . . . . .	¥1,587	¥4,962	¥3,374	\$13,510	\$42,244	\$28,724
Bonds and debentures . . . . .	—	—	—	—	—	—
Other securities . . . . .	—	—	—	—	—	—
	<b>1,587</b>	<b>4,962</b>	<b>3,374</b>	<b>13,510</b>	<b>42,244</b>	<b>28,724</b>
Securities whose acquisition cost exceeds their fair value:						
Equity securities . . . . .	127	103	(24)	1,081	876	(204)
Bonds and debentures . . . . .	—	—	—	—	—	—
Other securities . . . . .	—	—	—	—	—	—
	<b>127</b>	<b>103</b>	<b>(24)</b>	<b>1,081</b>	<b>876</b>	<b>(204)</b>
	<b>¥1,715</b>	<b>¥5,065</b>	<b>¥3,350</b>	<b>\$14,600</b>	<b>\$43,121</b>	<b>\$28,520</b>

	Millions of yen		
	Acquisition cost	Carrying amount	Net unrealized gain (loss)
<b>Year ended March 31, 2005</b>			
Securities whose fair value exceeds their acquisition cost:			
Equity securities . . . . .	¥1,592	¥3,360	¥1,767
Bonds and debentures . . . . .	—	—	—
Other securities . . . . .	10	20	9
	<b>1,603</b>	<b>3,381</b>	<b>1,777</b>
Securities whose acquisition cost exceeds their fair value:			
Equity securities . . . . .	154	119	(34)
Bonds and debentures . . . . .	—	—	—
Other securities . . . . .	—	—	—
	<b>154</b>	<b>119</b>	<b>(34)</b>
	<b>¥1,758</b>	<b>¥3,501</b>	<b>¥1,742</b>

Sales of securities classified as other securities for the years ended March 31, 2006 and 2005 amounted to ¥1,077 million (\$9,169 thousand) and ¥369 million, with an aggregate gain of ¥33 million (\$280 thousand) and ¥455 million, respectively.

## 5. INVENTORIES

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products . . . . .	¥ 9,810	¥10,466	\$ 83,517
Work in process . . . . .	13,648	12,241	116,192
Raw materials and supplies . . . . .	11,109	9,459	94,576
	<b>¥34,568</b>	¥32,167	<b>\$294,295</b>

## 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans are principally secured and generally represent notes. The related weighted average interest rates for the years ended March 31, 2006 and 2005 were approximately 5.10% and 3.32%, respectively. Long-term debt at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Secured:			
Loans payable in yen due serially through 2011 at rates ranging from 1.26% to 11.15% . . . . .	¥10,162	¥ 9,109	\$ 86,514
Unsecured:			
0.69% bonds due 2009 . . . . .	10,000	10,000	85,135
	20,162	19,109	171,649
Less current portion . . . . .	(2,642)	(3,680)	(22,492)
	<b>¥17,519</b>	¥15,429	<b>\$149,148</b>

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees as appropriate) for present and future indebtedness will be given at the request of the bank, and that the bank has the right, as the obligations become due, or in the event of default thereon, to offset cash deposits against any such obligations due to the bank. Under certain loan agreements relating to long-term debt, the creditors may require the Company to submit proposals for appropriations of retained earnings (including the payment of dividends) for the creditors' review and approval prior to their presentation to the shareholders. None of the creditors has ever exercised these rights.

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007 . . . . .	¥ 2,642	\$ 22,492
2008 . . . . .	3,433	29,226
2009 . . . . .	11,394	97,003
2010 and thereafter . . . . .	2,691	22,909
	<b>¥20,162</b>	<b>\$171,649</b>

At March 31, 2006, the assets pledged as collateral for short-term bank loans and long-term debts were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value . . . . .	¥12,046	\$102,554

## 7. RETIREMENT BENEFIT PLANS

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(21,817)	¥(23,211)	\$(185,739)
Plan assets at fair value	19,229	15,662	163,706
Unfunded retirement benefit obligation	(2,588)	(7,548)	(22,033)
Unrecognized actuarial loss	(122)	3,845	(1,038)
Unrecognized prior service cost	(2,818)	(1,420)	(23,991)
Net retirement benefit obligation	(5,528)	(5,123)	(47,062)
Prepaid pension cost	-	-	-
Accrued retirement benefits	¥ (5,528)	¥ (5,123)	\$ (47,062)

As stated in Note 1 (l), certain domestic subsidiaries amended their retirement benefit plans for employees on November 1, 2005. This change resulted in prior service cost amounting to ¥1,696 million, ¥105 million of which was amortized in 2006.

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥1,330	¥1,237	\$11,323
Interest cost	434	455	3,694
Expected return on plan assets	(114)	(206)	(970)
Amortization of actuarial loss	535	414	4,554
Amortization of prior service cost	(298)	(223)	(2,537)
Total	¥1,886	¥1,676	\$16,056

For the years ended March 31, 2006 and 2005, contributions to the assets of the defined contribution pension plan, which are recognized as expenses, totaled ¥165 million (\$1,404 thousand) and ¥259 million.

The assumptions used in accounting for the above plans were as follows:

	Fiscal year 2005 (as of March 31, 2006)		Fiscal year 2004 (as of March 31, 2005)	
	Domestic companies	Overseas companies	Domestic companies	Overseas companies
Discount rates	2.0%	5.5%	2.0%	6.0%
Expected rates of return on plan assets	0.0% – 3.4%	7.0%	0.0% – 3.0%	7.0%

## 8. INCOME TAXES

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 40.4% and 40.4% in 2006 and 2005 respectively.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006 and 2005 differed from the statutory tax rate for the following reasons:

	2006	2005
Statutory tax rate	40.4%	40.4%
Effect of:		
Expenses permanently not deductible for income tax purposes	0.6	0.5
Dividend income deductible for income tax purposes	(1.9)	(0.1)
Inhabitants' per capita taxes	0.2	0.2
Changes in valuation allowance	3.3	1.1
Foreign tax rate differential	(0.1)	(2.9)
Tax credit for research and development expenses	(6.6)	(4.2)
Elimination of dividends received from overseas subsidiaries	2.7	2.1
Deferred tax effect of change in statutory tax rate	(0.2)	(0.2)
Equity in gain of an affiliate	(0.2)	(0.2)
Other, net	(1.3)	(3.8)
Effective tax rates	36.9%	32.9%

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Net operating loss carryforwards	¥ 658	¥ 994	\$ 5,601
Accrued bonuses	1,061	783	9,032
Accrued retirement benefits	2,111	1,944	17,972
Net unrealized holding gain	204	171	1,736
Inventories	1,208	844	10,284
Other	2,584	2,315	21,998
Gross deferred tax assets	7,829	7,053	66,652
Valuation allowance	(1,306)	(1,357)	(11,118)
Total deferred tax assets	6,522	5,695	55,525
Deferred tax liabilities:			
Fixed assets	(1,102)	(1,094)	(9,381)
Reserve for special depreciation	(364)	(339)	(3,098)
Other	(1,638)	(987)	(13,945)
Total deferred tax liabilities	(3,106)	(2,421)	(26,443)
Net deferred tax assets	¥ 3,415	¥ 3,274	\$ 29,073

## 9. SHAREHOLDERS' EQUITY

The retained earnings account includes a legal reserve provided in accordance with the Commercial Code. In principle, this reserve is not available for dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code, however, does provide that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

Appropriations of retained earnings for the year ended March 31, 2006 were duly approved at the annual general meeting of the shareholders held on June 24, 2006 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥10 (U.S.\$0.08) per share . . . . .	¥1,216	\$10,352
Bonuses to directors . . . . .	50	425

## 10. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness of employees . . . . .	¥12	\$102

## 11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2006 and 2005 were ¥11,251 million (\$95,785 thousand) and ¥10,733 million, respectively.

## 12. LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2006 and 2005, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition costs . . . . .	¥1,104	¥1,412	\$9,398
Accumulated depreciation . . . . .	621	829	5,286
Net book value . . . . .	¥ 482	¥ 582	\$4,103

With respect to finance lease contracts other than those under which the title of the leased equipment will be transferred to the Company by the end of the contract period, annual lease expenses for the years ended March 31, 2006 and 2005 and future minimum payments subsequent to March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease expenses . . . . .	¥260	¥323	\$2,213
Future minimum payments:			
Within one year . . . . .	¥180	¥243	\$1,532
Over one year . . . . .	301	338	2,562
	¥482	¥582	\$4,103

Total expenses for all operating leases in 2006 and 2005 amounted to ¥4,182 million (\$35,603 thousand) and ¥5,731 million, respectively.

### 13. DERIVATIVES

Summarized below are the contract amounts and estimated fair value of the Company's derivatives positions at March 31, 2006 and 2005:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Forward foreign exchange contracts:						
To sell U.S. dollars . . . . .	¥9,116	¥9,160	¥5,847	¥6,074	\$77,609	\$77,983
To sell pounds sterling . . . . .	120	121	424	440	1,021	1,030

### 14. SEGMENT INFORMATION

#### a. Business segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen					
	Semiconductor Business	Switching Mode Power Supply Business	Power Supply Equipment Business	Total	Eliminations	Consolidated
<b>Year ended March 31, 2006</b>						
I. Sales:						
(1) Sales to third parties . . . . .	¥129,174	¥31,344	¥13,008	¥173,527	¥ —	¥173,527
(2) Intersegment sales . . . . .	61	711	8	780	(780)	—
Total sales . . . . .	129,236	32,056	13,016	174,308	(780)	173,527
Operating expenses . . . . .	114,661	33,590	11,955	160,206	1,312	161,519
Operating income (loss) . . . . .	14,575	(1,534)	1,061	14,102	(2,093)	12,008
II. Assets, depreciation expense, capital expenditures:						
Assets . . . . .	114,041	31,959	7,983	153,984	18,343	172,327
Depreciation expense . . . . .	9,352	656	124	10,132	227	10,360
Capital expenditures . . . . .	14,286	890	64	15,241	1,534	16,776
<b>Year ended March 31, 2005</b>						
I. Sales:						
(1) Sales to third parties . . . . .	¥111,926	¥29,550	¥14,739	¥156,216	¥ —	¥156,216
(2) Intersegment sales . . . . .	74	221	3	299	(299)	—
Total sales . . . . .	112,001	29,771	14,742	156,516	(299)	156,216
Operating expenses . . . . .	98,044	29,559	14,327	141,932	2,202	144,134
Operating income . . . . .	13,956	212	414	14,583	(2,501)	12,082
II. Assets, depreciation expense, capital expenditures:						
Assets . . . . .	87,888	26,149	8,501	122,539	18,378	140,917
Depreciation expense . . . . .	6,429	597	200	7,227	194	7,422
Capital expenditures . . . . .	11,124	483	110	11,718	127	11,846

Year ended March 31, 2006	Thousands of U.S. dollars					
	Semiconductor Business	Switching Mode Power Supply Business	Power Supply Equipment Business	Total	Eliminations	Consolidated
I. Sales:						
(1) Sales to third parties . . . . .	\$1,099,727	\$266,848	\$110,744	\$1,477,328	\$ —	\$1,477,328
(2) Intersegment sales . . . . .	519	6,053	68	6,640	(6,640)	—
Total sales . . . . .	1,100,255	272,909	110,812	1,483,977	(6,640)	1,477,328
Operating expenses . . . . .	976,170	285,969	101,779	1,363,919	11,169	1,375,097
Operating income (loss) . . . . .	124,084	(13,059)	9,032	120,057	(17,818)	102,230
II. Assets, depreciation expense, capital expenditures:						
Assets . . . . .	970,892	272,084	67,963	1,310,948	156,163	1,467,112
Depreciation expense . . . . .	79,618	5,584	1,055	86,259	1,932	88,200
Capital expenditures . . . . .	121,624	7,577	544	129,754	13,059	142,823

From the year ended March 31, 2006, general-purpose small-sized UPSs in the Power Supply Equipment Business have been reclassified in the Switching Power Supply Business to aim at production efficiency improvement and cost reduction as well as further sales expansion. The business segment information for the year ended March 31, 2005 is recalculated in accordance with this reclassification as follows:

Year ended March 31, 2005	Millions of yen					
	Semiconductor Business	Switching Mode Power Supply Business	Power Supply Equipment Business	Total	Eliminations	Consolidated
I. Sales:						
(1) Sales to third parties . . . . .	¥111,926	¥31,221	¥13,068	¥156,216	¥ —	¥156,216
(2) Intersegment sales . . . . .	74	221	3	299	(299)	—
Total sales . . . . .	112,001	31,442	13,071	156,516	(299)	156,216
Operating expenses . . . . .	98,044	31,271	12,616	141,932	2,202	144,134
Operating income . . . . .	13,956	171	455	14,583	(2,501)	12,082
II. Assets, depreciation expense, capital expenditures:						
Assets . . . . .	87,888	27,358	7,292	122,539	18,378	140,917
Depreciation expense . . . . .	6,429	635	162	7,227	194	7,422
Capital expenditures . . . . .	11,124	510	84	11,718	127	11,846

## b. Operating revenues by geographic area

Operating revenues by geographic area for the years ended March 31, 2006 and 2005 are summarized as follows:

Millions of yen							
Year ended March 31, 2006	Japan	Asia	North America	Europe	Total	Eliminations	Consolidated
I. Sales:							
(1) Sales to third parties . . . . .	¥124,766	¥18,228	¥19,348	¥11,183	¥173,527	¥ —	¥173,527
(2) Intersegment sales . . . . .	10,752	29,118	14,205	89	54,166	(54,166)	—
Total sales . . . . .	135,519	47,346	33,554	11,272	227,693	(54,166)	173,527
Operating expenses . . . . .	122,524	47,706	31,613	11,777	213,621	(52,102)	161,519
Operating income (loss) . . . . .	12,995	(359)	1,941	(505)	14,072	(2,063)	12,008
II. Assets . . . . .	109,635	24,404	30,771	5,041	169,852	2,474	172,327
Year ended March 31, 2005							
I. Sales:							
(1) Sales to third parties . . . . .	¥110,305	¥19,147	¥15,581	¥11,182	¥156,216	¥ —	¥156,216
(2) Intersegment sales . . . . .	11,568	19,036	11,726	281	42,612	(42,612)	—
Total sales . . . . .	121,874	38,184	27,308	11,463	198,829	(42,612)	156,216
Operating expenses . . . . .	110,325	37,645	25,292	11,195	184,459	(40,325)	144,134
Operating income . . . . .	11,548	538	2,015	267	14,370	(2,287)	12,082
II. Assets . . . . .	93,946	18,988	18,171	4,680	135,786	5,131	140,917
Thousands of U.S. dollars							
Year ended March 31, 2006	Japan	Asia	North America	Europe	Total	Eliminations	Consolidated
I. Sales:							
(1) Sales to third parties . . . . .	\$1,062,199	\$155,184	\$164,719	\$ 95,206	\$1,477,328	\$ —	\$1,477,328
(2) Intersegment sales . . . . .	91,537	247,897	120,934	757	461,144	(461,144)	—
Total sales . . . . .	1,153,745	403,081	285,663	95,964	1,938,472	(461,144)	1,477,328
Operating expenses . . . . .	1,043,112	406,146	269,138	100,263	1,818,670	(443,572)	1,375,097
Operating income (loss) . . . . .	110,633	(3,056)	16,524	(4,299)	119,802	(17,563)	102,230
II. Assets . . . . .	933,381	207,764	261,970	42,916	1,446,041	21,062	1,467,112

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries, and sales (other than exports to Japan) of the foreign consolidated subsidiaries, totaled ¥99,336 million (\$845,700 thousand) and ¥83,188 million, or 57.3% and 53.3% of the consolidated net sales for the years ended March 31, 2006 and 2005, respectively.

**15. RELATED PARTY TRANSACTION**

Significant transactions with related parties for the year ended March 31, 2006 are as follows:

	Millions of yen			
	Transactions		Balances	
	Factoring	Loan	Accounts payable	Loan receivable
Sanken Business Service Co., Ltd. ....	¥14,921	¥11,195	¥5,013	¥ 123
Sanken Optoproducts Co., Ltd. ....	—	2,098	—	1,442

	Thousands of U.S. dollars			
	Transactions		Balances	
	Factoring	Loan	Accounts payable	Loan receivable
Sanken Business Service Co., Ltd. ....	\$127,030	\$95,309	\$42,678	\$ 1,047
Sanken Optoproducts Co., Ltd. ....	—	17,861	—	12,276

**16. AMOUNTS PER SHARE**

Amounts per share as of and for the years ended March 31, 2006 and 2005 were as follows:

	Yen		U.S. dollars
	2006	2005	2006
Net income – basic .....	<b>¥ 57.41</b>	¥ 54.50	<b>\$0.48</b>
Net assets .....	<b>627.66</b>	560.07	<b>5.34</b>

# REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Sanken Electric Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sanken Electric Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanken Electric Co., Ltd. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion; such translation has been made on the basis described in Note 2.

June 23, 2006



**ERNST & YOUNG SHINNIHON**

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### Sanken Optoproducts Co., Ltd.

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**Sanken Business Service Co., Ltd.**

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# INVESTOR INFORMATION

As of March 31, 2006

**Company name:** Sanken Electric Co., Ltd.

**Founded:** September 5, 1946

**Headquarters:** 3-6-3 Kitano, Niiza-shi,  
Saitama-ken 352-8666, Japan  
Phone: +81-48-472-1111  
Facsimile: +81-48-471-6249

**Employees:** 9,726

**Common stock:** Authorized: 257,000,000 shares  
Issued: 125,490,302 shares

**Shareholders:** 11,011

## Distribution by type of shareholders:

Financial institutions	50.10%
Individuals	14.54%
Foreigners	26.46%
Other	8.90%

## Distribution by number of shares owned:

1,000,000 or more	55.46%
100,000 or more	24.37%
10,000 or more	8.71%
Less than 10,000	11.46%

## Principal shareholders

Shareholder	Number of shares held (in thousands)	Percentage of voting rights
The Master Trust Bank of Japan, Ltd. (Trust lot)	16,699	13.30%
Japan Trustee Services Bank, Ltd. (Trust lot)	11,511	9.17%
Saitama Resona Bank, Limited	6,012	4.79%
The Bank of New York Europe Limited Lux Branch Account Client 131800	4,824	3.84%
State Street Bank & Trust Company	3,991	3.18%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2,630	2.09%
International Rectifier Corporation	2,500	1.99%
NIPPONKOA Insurance Company, Limited	2,061	1.64%
Mizuho Corporate Bank, Ltd.	2,000	1.59%
Nippon Life Insurance Company	1,950	1.55%

Note: The Company owns 3,880,226 shares of treasury stock, but it is excluded from the above list.

## Bonds

Type of bonds	Date of issue	Balance of bonds (in yen)	Date of maturity
3rd unsecured bonds	March 9, 2004	10,000,000,000	March 9, 2009

# BOARD OF DIRECTORS

As of June 24, 2006

## Board of Directors and Statutory Auditors:

### **Yuji Morita**

Director, Chairman

### **Sadatoshi Iijima**

Director, President

### **Hirohito Sekine**

Director

### **Kiyoshi Imaizumi**

Director

### **Teruo Esumi**

Director

### **Takahiro Fukushima**

Director

### **Hidejiro Akiyama**

Director

### **Dennis H. Fitzgerald**

Director

### **Isao Tokiwa**

Standing Statutory Auditor

### **Yoshimi Ono**

Statutory Auditor

### **Yoshio Hashimoto**

Statutory Auditor

### **Hiroshi Ishibashi**

Statutory Auditor

## Corporate Officers:

### **Hirohito Sekine**

Executive Vice President

### **Kiyoshi Imaizumi**

Senior Vice President

### **Takahiro Fukushima**

Senior Vice President

### **Shigemichi Ieki**

Senior Vice President

### **Hidejiro Akiyama**

Senior Corporate Officer

### **Mitsumasa Sugiyama**

Senior Corporate Officer

### **Yutaka Yoshizawa**

Senior Corporate Officer

### **Yoshinari Kushiro**

Corporate Officer

### **Kinji Kudo**

Corporate Officer

### **Mitsuo Ueki**

Corporate Officer

### **Akira Ota**

Corporate Officer

### **Hiroo Yoshihara**

Corporate Officer

### **Hiroyuki Takeshima**

Corporate Officer

### **Tatsuo Okino**

Corporate Officer

### **Yoshihiro Suzuki**

Corporate Officer



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