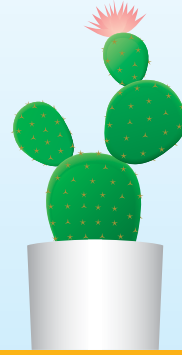




SanKen Electric Co., Ltd.

ANNUAL REPORT 2007

For the year ended March 31, 2007



FINANCIAL HIGHLIGHTS

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006, 2005, 2004, 2003 and 2002

	Millions of yen					
	2007	2006	2005	2004	2003	2002
Statements of income						
Net sales	¥203,815	¥173,527	¥156,216	¥147,176	¥146,070	¥140,088
Cost of sales	160,859	135,876	121,052	113,716	114,925	112,279
Gross profit	42,956	37,650	35,164	33,460	31,144	27,808
Selling, general and administrative expenses	27,941	25,642	23,081	21,772	21,174	20,975
Operating income	15,014	12,008	12,082	11,687	9,970	6,833
Other expenses	(2,693)	(712)	(1,890)	(2,942)	(4,397)	(5,201)
Income before income taxes and minority interests ...	12,320	11,295	10,191	8,745	5,572	1,631
Net income	7,499	7,035	6,682	5,784	4,002	670

Balance sheets						
Total current assets	¥112,464	¥100,736	¥ 88,684	¥ 94,855	¥ 90,752	¥ 91,661
Total investments and long-term receivables	7,719	10,214	7,767	9,189	8,032	9,362
Property, plant and equipment, net	71,755	59,348	42,826	38,780	48,563	55,444
Other assets	1,847	2,027	1,638	1,558	1,396	1,430
Total assets	193,787	172,327	140,917	144,383	148,745	157,899
Total current liabilities	91,153	70,880	50,984	53,808	59,121	49,691
Total long-term liabilities	19,547	24,821	21,580	27,818	31,194	48,028
Total net assets	83,086	76,626	68,353	62,756	58,428	60,179
Total liabilities and net assets	193,787	172,327	140,917	144,383	148,745	157,899

	Yen					
	2007	2006	2005	2004	2003	2002
Per share						
Total net assets per share	¥680.11	¥627.66	¥560.07	¥513.56	¥477.87	¥478.07
Net income per share	61.69	57.41	54.50	47.07	31.96	5.34
Cash dividends per share	14.00	15.00	10.00	10.00	10.00	10.00

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Cautionary Statement

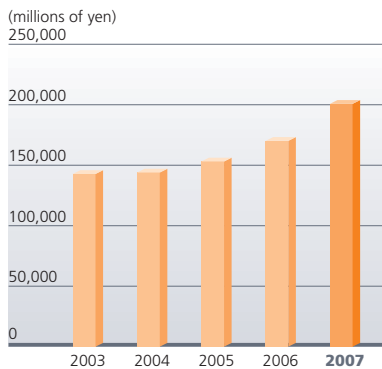
This annual report contains forecasts and other forward-looking statements concerning the Sanken Electric Group's future plans and results. Such statements reflect assumptions and beliefs based on information available to the Group at the time of this report's writing. The Group's actual performance 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 PERFORMANCE

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006, 2005, 2004 and 2003

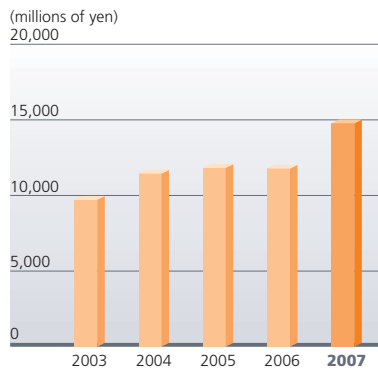
Net Sales

Years ended March 31



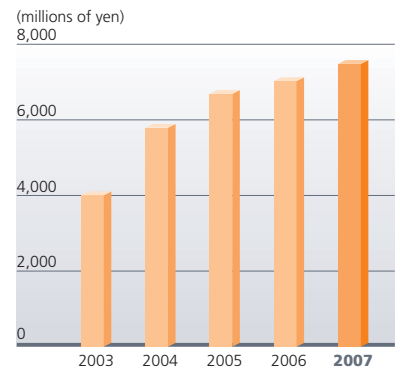
Operating Income

Years ended March 31



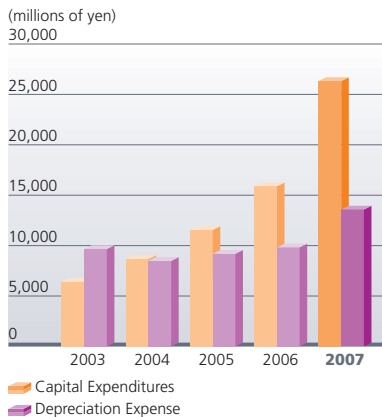
Net Income

Years ended March 31



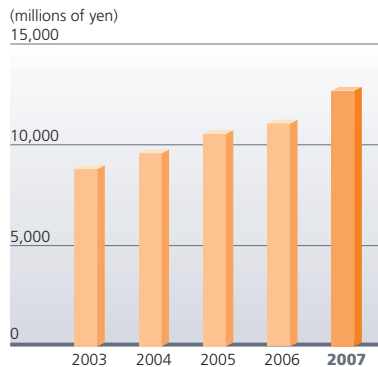
Capital Expenditures/ Depreciation Expense

Years ended March 31



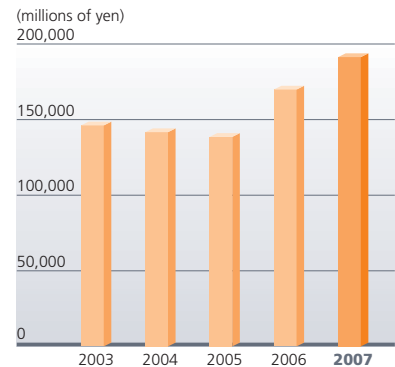
R&D Expenses

Years ended March 31



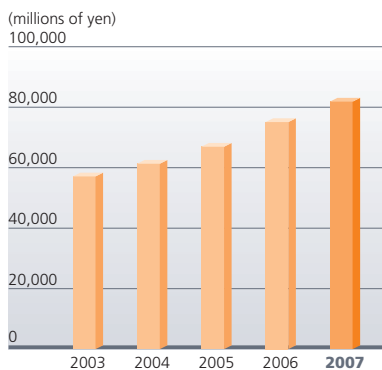
Total Assets

As of March 31



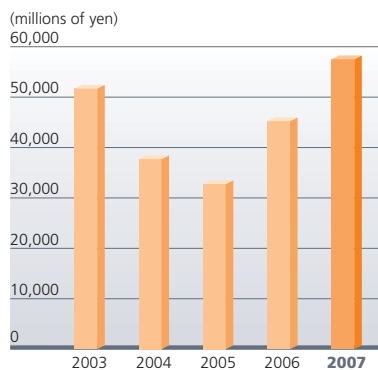
Total Net Assets

As of March 31



Interest-bearing Debt

As of March 31



ROA/ROE

Years ended March 31



DEAR FELLOW SHAREHOLDERS

Sanken Electric is presently implementing a medium-term management plan set to conclude in fiscal 2008, ending March 31, 2009. Under the slogan of "Leadership through Innovative Power and Optical Solutions," we have taken bold steps to realize faster, more aggressive management. To support these efforts, Sanken Electric has reformed its semiconductor business, targeted further expansion in the cold cathode fluorescent lamp (CCFL) business, and enhanced global management. By steadily meeting the benchmarks of the medium-term plan, we are determined to stimulate further growth going forward.



Sadatoshi Iijima
President

Fourth Consecutive Year of Record Earnings

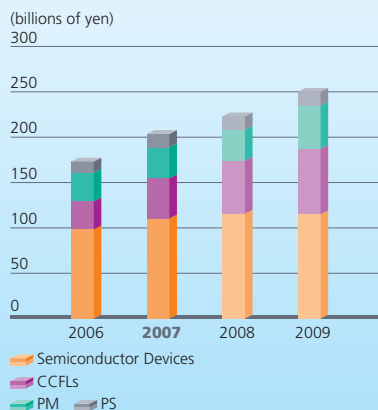
In fiscal 2006, the global economy witnessed healthy overall performance as high levels of growth were sustained in China and other Asian economies. This growth, in fact, was strong enough to offset slow growth in the U.S. economy, particularly in manufacturing-based industries. In Japan too, the economy grew atop a swell in private-sector demand. In this climate, the electronics industry experienced higher demand for products such as flat-panel TVs and PCs, as well as growth in electrical system components shipped to Japanese

automakers with bases in North America. This performance was counterbalanced, however, by intense cost competition triggered by higher prices for raw materials and falling prices for finished products.

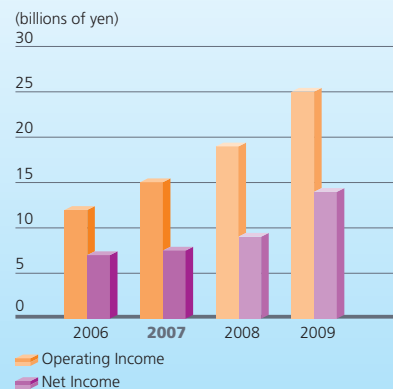
Faced with these conditions, the Sanken Electric Group aggressively pursued a variety of initiatives in power electronics and optical devices, our two key business domains. Priority was given to flat-panel TVs and the automotive market, two areas where additional growth in demand is expected. Among other measures, we bolstered the Group's

The Medium-term Management Plan Targets

Net Sales
Years ended March 31



Operating Income/Net Income
Years ended March 31



market strategy capabilities and its framework for promoting global collaboration in development, and added production capacity for CCFLs and semiconductor devices. Buoyed by these efforts, net sales increased 17.5% from the previous fiscal year to ¥203.8 billion, clearing the ¥200 billion mark for the first time in Sanken Electric's history. Operating income was up 25.0% to ¥15.0 billion, while net income rose 6.6% to ¥7.5 billion. This performance represented our fifth straight year of top- and bottom-line growth, together with a fourth consecutive year of record earnings.

Progress Report: Year One of the Medium-term Management Plan

The fundamental policy embedded in our latest medium-term management plan calls for new product development and stable expansion in production by the CCFL business, alongside steps to enhance and expand technology development and sales systems in the Group's core semiconductor devices business. In this respect, the fiscal year ended March 31, 2007 was both an inaugural and vital year for the medium-term plan.

In the CCFL business, the plan oversaw the establishment of a monthly production capacity of 30 million units, with sales up a substantial 46.1% year on year to ¥45.1 billion. Nevertheless, sales for this business fell ¥9.9 billion short of our initial sales target of ¥55 billion. This outcome reflected the impact of several adverse factors, including unexpected delays in the establishment of Sanken Optoproducts Co., Ltd. (SKO), which left us unable to meet surging demand, and delays in our launch of next-generation products.

In the semiconductor devices business, we moved to secure our submicron process technology, and develop and commercialize next-generation semiconductor devices built on this technology, by transferring control of wafer processes to Polar Semiconductor, Inc. (PSI), a U.S.-based subsidiary purchased in 2005. At the same time, we proceeded with three-way collaboration that included the cooperation of Allegro MicroSystems, Inc. (AMI). In this vein, we worked hard to forge an optimal global production framework and boost production capacity. The result was sales of ¥109.9 billion, which surpassed our target for this business.

In the PM (Power Module) business, sales were ¥3.5 billion below our planned target despite robust performance from switching power supplies and flat-panel display (FPD)-related products, as sales of AC adapters for notebook PCs and general-purpose small UPS (uninterruptible power supplies) faltered.

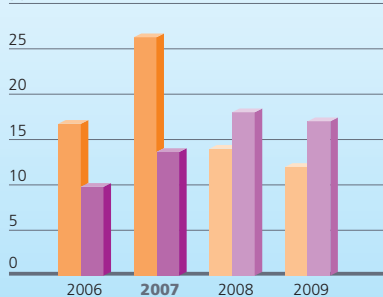
Sales in the PS (Power System) business, meanwhile, were ¥2.3 billion higher than forecasts, thanks to firm sales of custom power supplies for telecommunications equipment, specifically equipment used in mobile phone base stations, and special demand mainly for airway beacon systems.

Although we maintained a level of performance in the plan's first fiscal year that saw top- and bottom-line growth, as well as record earnings, these results were, in many ways, not satisfying. Compared to initial targets of ¥210.0 billion in net sales, ¥17.0 billion in operating income, and ¥9.0 billion in net income, we attained 97.1%, 88.3%, and 83.3% of these targets, respectively. For the plan's second year, fiscal 2007, we have set our sights slightly lower than our initial targets,

Capital Expenditures/ Depreciation Expense

Years ended March 31

(billions of yen)

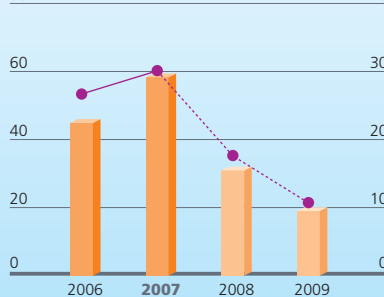


Capital Expenditures
Depreciation Expense

Interest-bearing Debt/ Debt Reliance Ratio

Years ended March 31

(billions of yen)

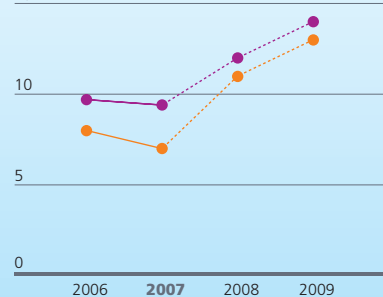


Interest-bearing Debt
Debt Reliance Ratio

ROA/ROE

Years ended March 31

(%)



ROA
ROE

aiming for net sales of ¥223.0 billion, operating income of ¥19.0 billion, and net income of ¥9.0 billion. I should note, however, that this decision reflects our assessment of market conditions for the year, and that our targets of ¥250.0 billion in net sales, ¥25.0 billion in operating income, and ¥14.0 billion in net income for the final year of the plan remain unchanged. On a different note, stiff market competition is expected in the digital market, where most of our energies at Sanken Electric are focused. Competition will likely be spurred by falling product prices and increasingly short model life cycles. Staying competitive in this fiercely competitive environment will demand that we work harder to ramp up development speeds. Beyond this, if our goal is earnings growth, then we must continue to have a fully integrated approach, encompassing development, production and sales, in our pursuit of this ever-changing market. Among other actions, this will include the roll out of a zone-based sales structure capable of supporting customers worldwide wherever their optimal production bases are located.

Two Key Markets for Meeting Plan Targets

In the drive to achieve our medium-term plan targets, our first point of focus is the FPD market. Here, we will work to set Sanken Electric's CCFL business apart from competitors by launching third-generation products for large LCD TVs. This latest generation offers a roughly 20% improvement in brightness compared to existing products. These products will also enable users to reduce costs and offer other benefits that give Sanken Electric products a potent competitive edge. Looking at our core semiconductor devices

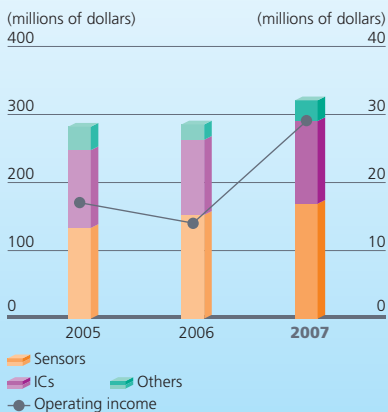
business, we intend to focus on the development of power supply ICs and other low-loss power devices, and attain better energy efficiency. In parallel, we will work on developing current resonant-type power supply ICs and other high-value-added products for the FPD market. The FPD market represents a field where a high rate of growth is all but certain for the next several years. As one of our business domains, we will take full advantage of Sanken Electric's strengths in power electronics and optical devices to offer total solutions to our customers.

Another key market for Sanken Electric is the automotive market, where the adoption of more electrical and electronic automotive systems has triggered rapid growth in the use of semiconductor devices. For automobiles, we are eyeing strong growth by expanding sales of devices for car regulators and igniters, encouraging greater use of AMI Hall-effect sensors among customers in Japan, developing high-value-added motor drivers, and actively adopting new processes and packages with a particular focus on custom design specifications for components for hybrid and fuel cell cars. On a parallel track, we plan to unveil high-quality products for high-precision voltage and current detection and malfunction detection to realize greater levels of energy efficiency, environmental performance, safety, and comfort.

We are also promoting greater collaboration in terms of technology development. While previous efforts have focused on strengthening collaboration among Sanken Electric, AMI and PSI, going forward, we will actively look for collaboration opportunities outside the Group as well, particularly with other firms, universities and public institutions worldwide.

Results of AMI

Years ended March 31



Process Transfer from Sanken to PSI

	FY06	FY07(P)				FY08(P)			
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
BCD3 1.0um 6" Application Power Supply IC, Motor Driver IC, Car Regulator IC, etc.		Output 3,000/mo.		4,000/mo.		6,000/mo.		8,000/mo.	
MOS FET 1.5um 6" Application Power MOS FET in Power Supply IC, Discrete devices for PDP, etc.		Sample and Reliability Tests		Output 1,000/mo.		2,000/mo.		4,000/mo.	
BCD5 0.35um 8" Application Motor Driver IC, Regulator IC for Secondary Circuit, etc.		Process Development		Sample and Reliability Tests		Trial Run 200/mo			

The decision to cast a wider net for collaboration is guided by four main themes for Sanken Electric in this area: boost the pace of development, develop new products, research next-generation elemental technologies, and train the company's next generation of engineers.

The Noto Peninsula Earthquake: The Role of Risk Management

On March 25, 2007, an earthquake with a magnitude of 6.9 struck Japan's Noto Peninsula. The Noto Peninsula is home to five plants operated by Group company Ishikawa Sanken Co., Ltd.; SKO, the Group's main CCFL production site, is also located in the area. While all of the sites sustained some damage, overall damage was kept relatively light thanks to invaluable disaster countermeasures in place prior to the quake and the Group's effective risk management functions. Although this event undoubtedly came as a shock to shareholders, operations were back to normal within several days after the earthquake. Moreover, the economic impact of the destruction, ¥438 million, was not substantial enough to seriously affect business performance.

Looking ahead, we will strive to maintain the momentum that consecutive years of sales and earnings growth have granted Sanken Electric. As we do, we will work to raise the payout ratio higher in line with our basic policy of paying a stable dividend to investors. With a speed matching that of the digital market itself, we will push forward with enacting the key points of our medium-term management plan, while simultaneously taking steps to achieve a more solid business base and better competitiveness.

On a different note, preparations are under way for an initial public offering on the U.S. stock market of one of the Group's key operating companies, U.S.-based Allegro MicroSystems. This IPO will enable Sanken Electric and AMI to procure funds vital to promoting their respective R&D programs, as well as the funds for capital investment aimed at increasing production capacity. These benefits, in turn, will enable the Sanken Group to realize its growth strategies with a greater degree of certainty.

In closing, I ask for your ongoing support as we move forward in this endeavor.

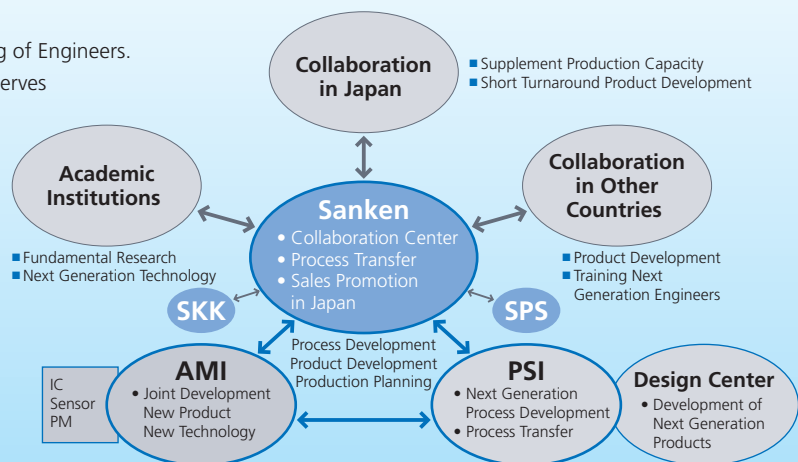
July 2007



Sadatoshi Iijima
President

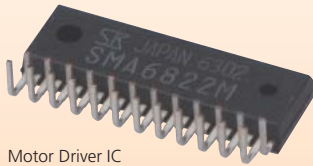
Enhancing Collaboration

Faster Development, New Products,
Next Generation Element Technology, Training of Engineers.
Trilateral Relationship of Allegro-PSI-Sanken Serves
as Core of Wider Collaboration.



AT A GLANCE

SEMICONDUCTOR BUSINESS



Motor Driver IC



CCFL

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

POWER MODULE BUSINESS



SMPS for LCD-TVs

Main Products

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

Markets

Office equipment, automated factory equipment, flat-panel TVs

POWER SYSTEM BUSINESS



UPS

Main Products

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

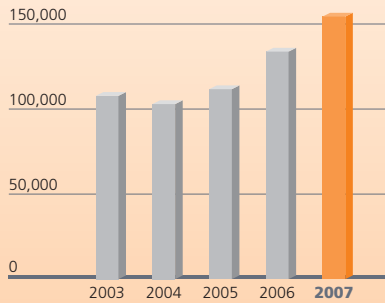
Markets

Telecommunications equipment

Orders Received

Years ended March 31

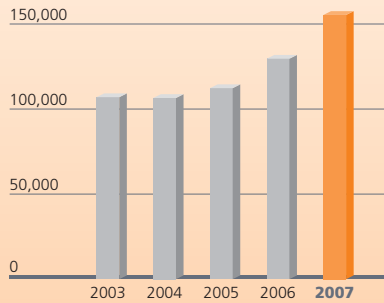
(millions of yen)
200,000



Net Sales

Years ended March 31

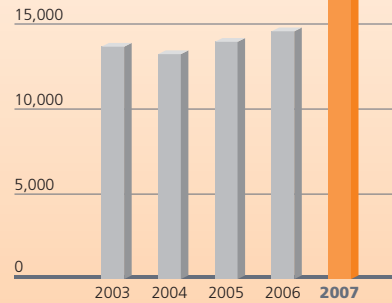
(millions of yen)
200,000



Operating Income

Years ended March 31

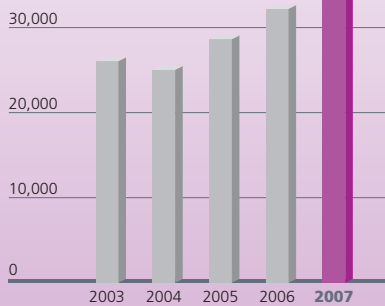
(millions of yen)
20,000



Orders Received

Years ended March 31

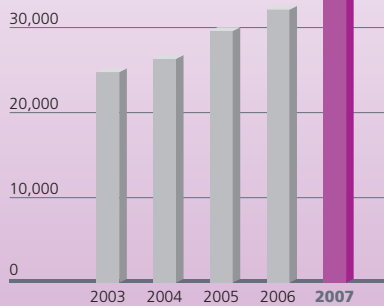
(millions of yen)
40,000



Net Sales

Years ended March 31

(millions of yen)
40,000



Operating Income (Loss)

Years ended March 31

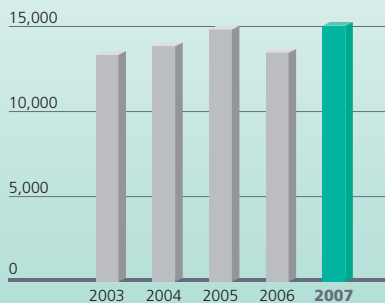
(millions of yen)
1,000



Orders Received

Years ended March 31

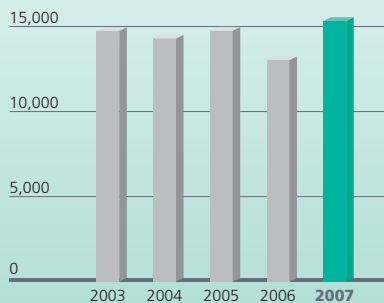
(millions of yen)
20,000



Net Sales

Years ended March 31

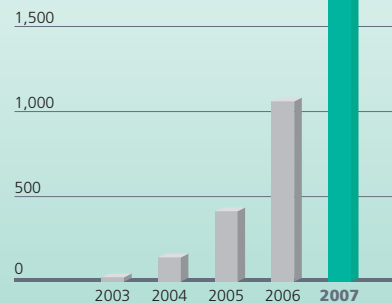
(millions of yen)
20,000



Operating Income

Years ended March 31

(millions of yen)
2,000



REVIEW OF OPERATIONS
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, but are becoming key devices in many areas such as consumer electronics, OA equipment, AV equipment, and automobiles. Right now, we are establishing a three-way collaborative framework consisting of Sanken Electric, AMI and PSI and ramping up the pace of development to offer clients products that better suit their specific needs.

Market Conditions

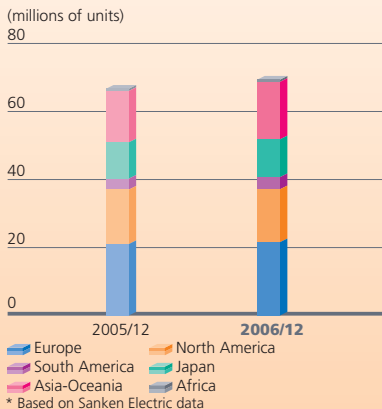
Our semiconductor devices can be broadly divided into products for the consumer electronics, automotive, and OA/ industrial machinery markets. At present, the Group's attention is heavily focused on one corner of the consumer electronics market, FPDs, as well as the automotive market.

In the FPD market, a sharp decline in CRT-TV production has been counterbalanced by a greater-than-expected surge in FPD-TV production, as the shift to digital, flatter and larger TVs and shorter model life cycles continues. The latter holds especially true for digital consumer electronics, where model life cycles have dramatically shortened. In fact, the pace of market change is now such that the peak sales period for new models is considered to be just roughly three months. Anchored by growth in LCD televisions, PDPs and other FPDs, and the shift to more sophisticated functionality in mobile

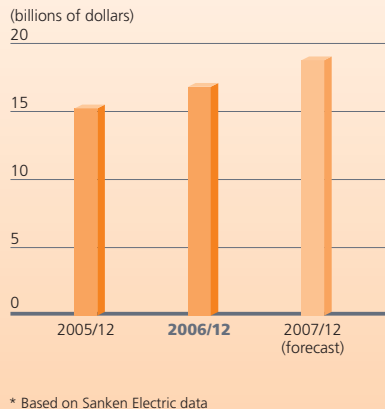
phones, the consumer electronics market is widely expected to undergo further expansion in the coming years.

The automotive market is another area of focus for Sanken Electric. In this market, the auto industry is emphasizing three distinct characteristics: safety, comfort, and performance. Accordingly, the use of electronic components in automobiles has spread rapidly as a means to raise the level of these three essential qualities. Increased use of electronic components is also allowing greater design freedom and weight reduction. Electronic components have been used in peripheral components for engines in the past. However, as IT technology-based controls become more critical, and the pace at which automobiles are equipped with electrical and electronic systems quickens, the scale of the market for semiconductor devices within the automotive market is expected to expand further.

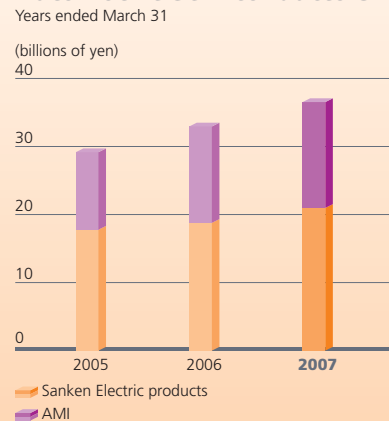
World Motor Vehicle Production



Market Size of Automotive Semiconductors



Sales of Automotive Semiconductors



Fiscal 2006 Results

Sales of semiconductor devices increased 11.8% year on year to ¥109,891 million, with steady growth buoyed by the robust performance of two markets where Group efforts are currently focused—FPD-TVs and automotive electronics components.

Sales to the consumer electronics sector increased 8.6% to ¥31,179 million, as sales of products for AV equipment recovered from last year's decline on the back of growth in products for audio equipment and FPD-TVs. In the promising automotive sector, sales rose 10.8% to ¥36,519 million. This growth mainly reflected higher demand in North America for Japanese-made compact cars, which offer superior fuel economy, and a sharp increase in automotive electronics components. Sales to the OA/industrial machinery field increased 15.1% to ¥42,193 million, thanks to steady growth in sales of devices for PC-related applications that outweighed slightly lower sales of products for OA equipment.

Sales at our US subsidiary, AMI, increased 12.5% year on year to ¥37,517 million (US\$320.7 million). Subsidiary PSI, meanwhile, marked its first full year of consolidation with sales of ¥9,646 million (US\$82.5 million).

Toward Success of the Medium-term Management Plan

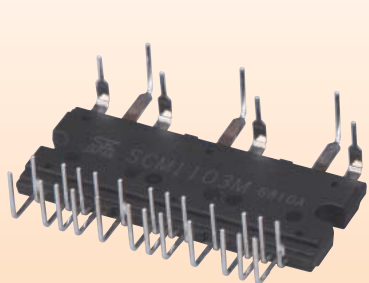
The semiconductor devices business exceeded its sales goal for the first year of the medium-term management plan by 4.7%, with sales edging above the plan target of ¥105 billion. Although results for the plan's inaugural year were satisfactory overall, we will enact improvement and reform measures in the plan's second year in an attempt to turn in a better performance.

One concrete measure will see Sanken Electric forge an optimal production framework encompassing the entire Group that will consolidate management of each of its wafer fabrication processes (i.e., semiconductor front-end) and assembly and packaging (i.e., semiconductor back-end) functions. The goal here is to shorten lead times and enhance production efficiency. We also plan to elevate the Center for Manufacturing Excellence to the level of a division in a bid to clearly emphasize production technology across the Group. The center will spearhead efforts to actively promote production innovation at Sanken Electric.

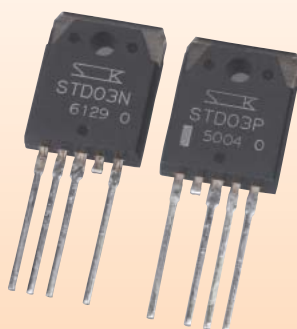
Recognizing the need to cover gaps in our wafer production capacity in Japan, we are transferring wafer processes from Yamagata Sanken to U.S.-based subsidiary PSI to build a complementary structure capable of meeting increased order volume with greater flexibility. Moreover, Sanken Headquarters and U.S.-based subsidiaries AMI and PSI are pushing forward with collaboration aimed at developing next-generation process technology. Once developed, this technology will be leveraged to produce power ICs with more sophisticated functions at lower cost.

Concerning initiatives for key markets, we will respond to the rapid shift in the FPD market towards digital, flatter, and larger products with shorter life cycles, with the successive launch of new products that take advantage of Sanken Electric's distinctive IC technologies. Doing so will enable us to maintain both product price stability and our competitive edge.

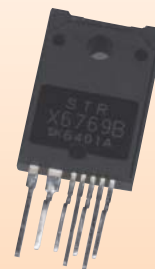
For the household appliances market, where the shift to energy-efficient inverters is gaining momentum, we will work to extend our market share through a broader product lineup and upgraded functions. One example is our planned launch of the new SCM series of Intelligent Power Modules for Inverters.



Intelligent Power Module for Inverters



Transistors for Audio Amplifiers



Power Supply IC for FPD-TVs

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. Rapid growth in the size of the FDP market in recent years has been accompanied by a shift towards large display sizes. Amid these dramatic changes, the Sanken Electric Group is launching third-generation CCFLs in a move that will solidify its position as the industry's leading CCFL manufacturer.

Market Conditions

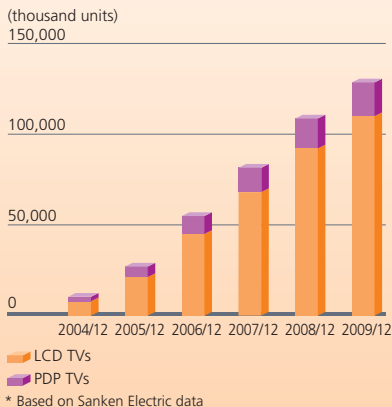
LCD television shipments expanded roughly 2.25 times year on year in 2006 to 45 million units, and are forecast to top 70 million units in 2007. One trend in LCD televisions has seen 32-inch models become increasingly commoditized, a change that has been accompanied by a sharp drop in product prices. At the same time, the shift to large screen sizes of 40 inches or more is gaining speed. From a competitive standpoint, the most vital point going forward will be devising ways to effectively respond to this fast-paced expansion and the shift to large-screen products.

Fiscal 2006 Results

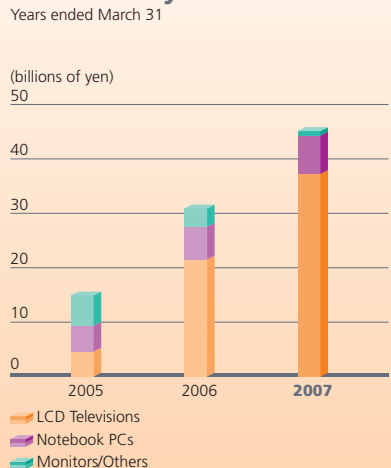
Sales in the CCFL business rose a substantial 46.1% year on year to ¥45,076 million, supported by increased demand in

Japan and overseas markets for CCFLs used in large-screen televisions. Another factor in sales growth was improved production capacity, the result of ongoing capital investments aimed at growing optical devices into the Group's second core business. These steps are in line with the medium-term management plan, which calls for spurring growth in Sanken Electric's optical devices business. To this end, Sanken Optoproducts Co., Ltd., a company established to dramatically boost CCFL production capacity as envisioned by the plan, joined our mass production framework in fiscal 2006. By the end of the fiscal year, this upgrade had given Sanken Electric the capacity to produce 30 million CCFL units per month, compared to 17 million units at the start of the fiscal year. Thus equipped, we now have the structure to meet previously unanswered demand.

Growth Forecast for Flat Panel Display Market



CCFL Sales by Use



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

Sales of products for use in LCD televisions increased 74.0% to ¥37,388 million. Sales for use in notebook PCs, where we have maintained a high market share for many years, increased 13.3% to ¥6,880 million. Sales for use in monitors/others declined 75.5% to ¥807 million. In CCFLs for monitors/others, low-priced competition from products made in Taiwan and South Korea has made it difficult to leverage our premium value advantage. Consequently, we have decided to withdraw from this lower-end market effective from the term under review.

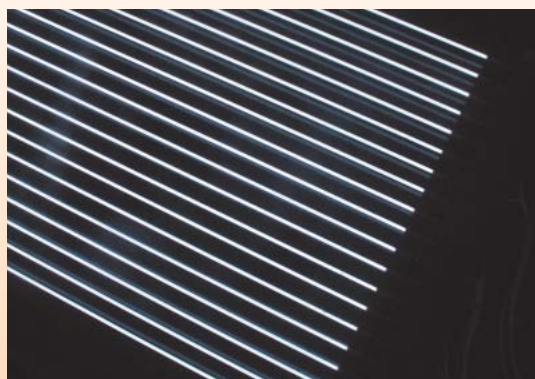
Toward Success of the Medium-term Management Plan

Performance for the CCFL business during the first year of the medium-term management plan fell substantially short of our initial targets. This outcome reflected delays in the launch of new products, as well as greater-than-anticipated drops in prices.

In fiscal 2007, demand for CCFLs used in LCD TVs is projected to rise roughly 60% year on year to 1.3 billion units, with demand for long-length CCFLs used in products with screen sizes of 40 inches or more expected to increase a substantial 105%, tracking the shift to larger screen sizes.

Sanken Electric's strategy for achieving plan objectives will see us work to stabilize prices and earnings by accelerating a production shift to high-value-added, long-length products, where we can better leverage Sanken Electric's proprietary technological advantages.

Our next step will be to unveil third-generation, high-brightness products that offer a 20% improvement in brightness and a longer product life over conventional products. This move will enable Sanken Electric to provide clients with solutions for reducing costs associated with the backlighting modules used in their new product models. We will also pay close attention to technology development to create products with better environmental performance, both to set them apart in the marketplace and maintain our superior advantage, as we strive to build win-win relationships with our clients.



The Third Generation CCFL

REVIEW OF OPERATIONS
POWER MODULE BUSINESS

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, and AC adapters for PCs, to small uninterruptible power supplies (UPS).

Fiscal 2006 Results

Power module business sales increased 6.9% to ¥33,518 million. Lower sales of AC adapters for notebook PCs and small UPS were covered by sales of switching power supplies for printers, which were largely unchanged year on year, coupled with the launch of new products for LCD TVs and firm order volume in products for PDPs. Higher sales notwithstanding, we unfortunately posted an operating loss in this business for the second straight year. This loss was mainly attributable to unscheduled costs due to production turmoil caused by component shortage, delays in replacing unprofitable models, and escalating raw material costs.

Toward Success of the Medium-term Management Plan

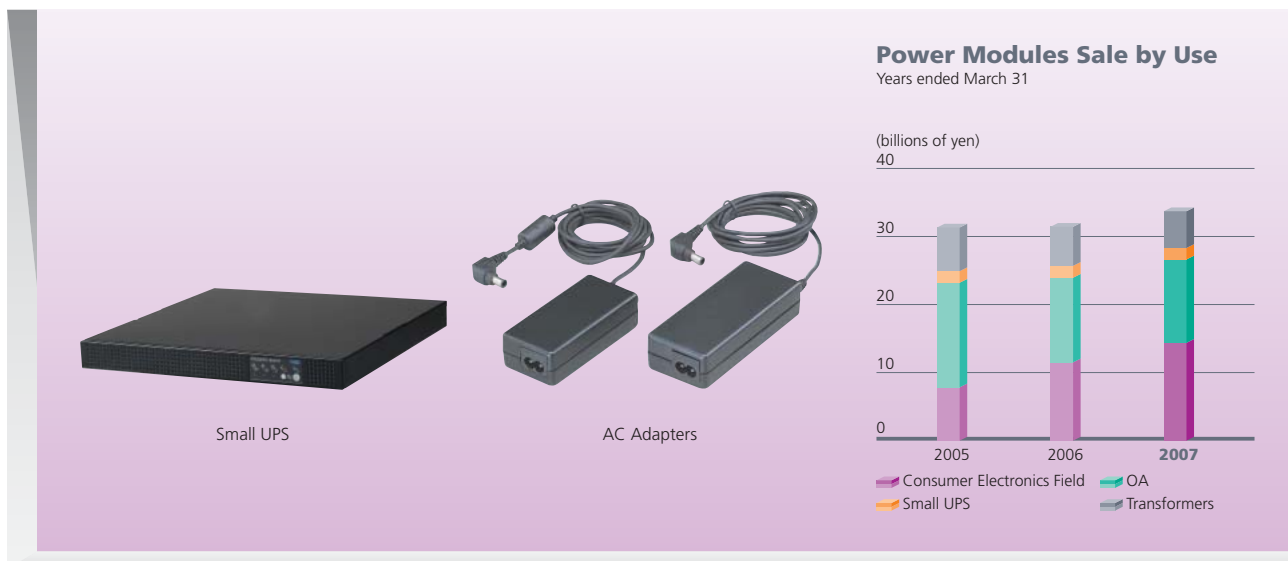
Although sales in the PM business were up 6.9% year on year, it was still 9.4% short of the planned target of ¥37 billion.

Earnings, moreover, ended in an operating loss, leaving us unable to meet any of our targets for the first year of the medium-term plan in this business.

To achieve plan objectives going forward, we will redouble efforts to meet the plan's initial numerical benchmarks through sweeping initiatives that will eliminate unprofitable products, enhance our material procurement framework, pare back transportation costs, and raise worker productivity.

Where technology development is concerned, we will focus on developing power supplies with lower profiles for LCD TVs. In particular, we plan to tackle the challenge of developing power supplies designed specifically for ultra-flat, wall-mountable products.

In adapters, where growth has struggled, we expect the world's smallest AC adapter, developed for mobile notebook PCs and scheduled for launch in the fall of 2007, to become a major source of earnings.



The power system business is the root of our manufacturing tradition. Our products, such as large DC power supplies, high-intensity airway beacon systems, and 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 substations, and tunnels.

Fiscal 2006 Results

Consolidated sales in this business rose a considerable 17.9% to ¥15,330 million. In addition to healthy demand in power supplies for telecommunications facilities, and for products used in mobile phone base stations in particular, two other factors were largely responsible for sales growth. One was special demand for power supply equipment accompanying the construction of regional airports, as well as for ADSL infrastructure products. Another key factor was an increase in order volume for products to educational institutions and for use with Internet communications infrastructure. Elsewhere, sales of VVVF inverters to China, while subdued, also grew for the year.

Toward Success of the Medium-term Management Plan

Sales in the power system business surpassed the ¥13 billion target set for the initial year of the medium-term management plan, underpinning Group income by rising 17.9% higher than anticipated.

In the drive to meet plan objectives, we intend to focus on developing high-efficiency, high-capacity power supply equipment and high-voltage inverters specifically for markets

where future growth in demand is expected. This will include markets related to terrestrial digital broadcasting, disaster prevention, the environment, and energy conservation. Development of this kind will enable us to attain a more stable earnings structure and to establish a presence in new business areas with solutions that closely match the needs of the application.

In terms of global business development, we will push forward with expanding overseas production, centered on China, and take decisive steps to enhance production efficiency and reduce costs. Initiatives here will include adopting just-in-time production methods, local procurement in China of component materials and joint purchasing with the power system procurement office in Japan, greater simplification of main circuits, and the standardization of large structural component materials.

On the sales front, viewing burgeoning demand triggered by infrastructure projects in rapidly growing China as a major business opportunity, we will bolster efforts to stimulate sales in the country, particularly at local production and sales subsidiary Sanken L.D. Electric (Jiangyin) Co., Ltd.



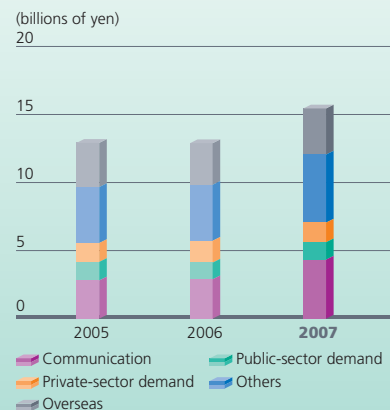
High-capacity UPS



Power supply for telecommunications system

Power Systems Sales by Use

Years ended March 31



GLOBAL MANAGEMENT

Sanken Electric's manufacturing network spans the globe. Right now, the Group is taking steps to bolster global management to effectively enhance the functions of this network. Forging stronger ties between technology, development, application design, manufacturing and sales functions will enable the Group to take full advantage of its collective strengths.

Strengthening Global Management

The Sanken Electric Group's manufacturing network is supported by key bases worldwide, located in Japan, the United States, the United Kingdom, China, Indonesia, the Philippines, Taiwan, and South Korea. A global network of major manufacturing bases alone, however, is not sufficient to keep pace with the speed and changes of the digital market. For this reason, the Group promotes stronger global management by accelerating the speed of new product development and aggressively pursuing marketing activities tailored to specific "end-user markets around the globe."

Accelerating New Product Development

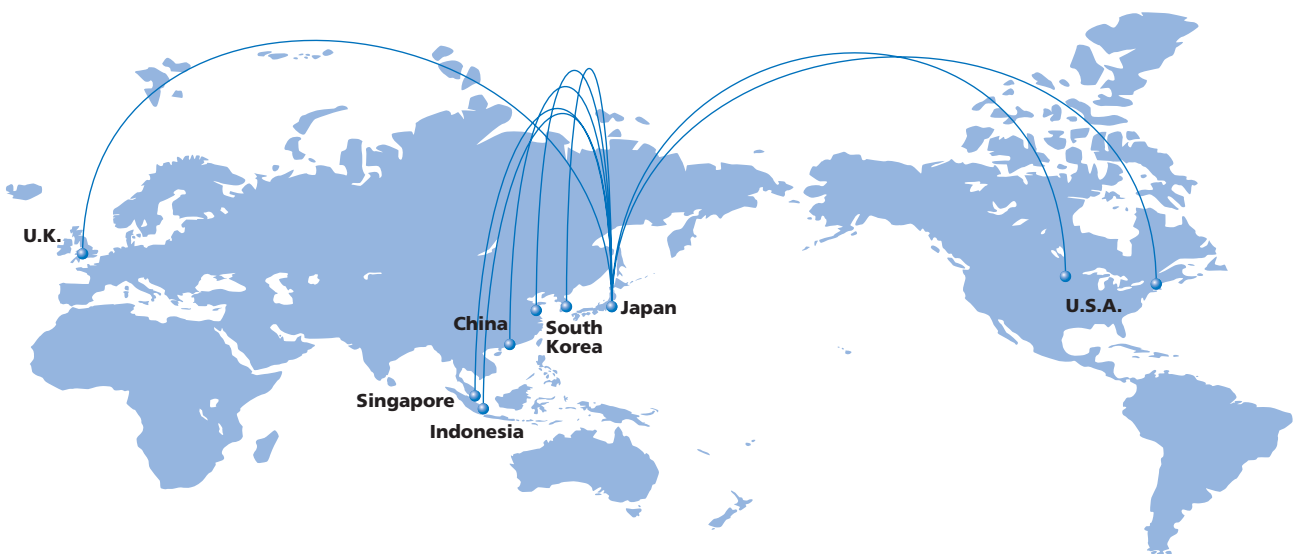
The push to ramp up the pace of new product development will be spearheaded by a three-way collaboration between Sanken Headquarters and U.S.-based subsidiaries AMI and PSI. Anchored by the headquarters' technical

center, the capabilities of the U.S. subsidiaries, namely development strengths in submicron technology and sensors, and manufacturing capacity in cutting-edge 8-inch wafer processes, will be fully leveraged to speed up the development of new products. The collaboration will also seek to accelerate production activities through the optimized manufacture of semiconductor devices in cooperation with Yamagata Sanken.

Aggressive Marketing Activities

Elsewhere, we have integrated our domestic and overseas sales organization, making it possible to develop sales activities tailored to different "end-user markets." Guided by close ties between the technical center at Sanken Headquarters and sales divisions, FAE (field application engineer) technical centers in Seoul, Shanghai, Taiwan, Hong Kong, and Wales form a network covering Japan-based and local client firms operating everywhere from China, South Korea and the ASEAN region, to India, Turkey and the whole of Europe. By promoting strategic marketing and joint product development prefaced on close ties between these centers and our customers, we will push commercialization efforts forward with greater speed.

Through initiatives of this kind, we will strive to realize global management founded on the Group's integrated development, manufacturing and sales activities. Doing so will enable the Sanken Electric Group to consistently supply high-quality products for the global market in its key business domains of power electronics and optical devices.



DOMESTIC

Japan

In semiconductor products, subsidiary Yamagata Sanken Co., Ltd., the nucleus of semiconductor production at Sanken Electric, performs the front-end processes required to manufacture diodes, transistors, MOS FETs, ICs and other device chips. These chips are then sent to Ishikawa Sanken Co., Ltd., which has five factories in Ishikawa Prefecture, for back-end processes, which primarily involve assembly and packaging. Similarly, 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 in response to burgeoning demand as the popularity of LCD televisions grows. In September 2005, Sanken Optoproducts Co., Ltd. was established as a fourth production base for CCFLs after Fukushima Sanken, Korea Sanken, and Ishikawa Sanken. This move was accompanied by the construction of a new plant with a total floor space of 8,900m² and partial two-story construction next to Ishikawa Sanken's Horimatsu Plant. This new plant boasts output 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.

Sanken Electric has also built a technical center on the grounds of Sanken Headquarters in the city of Niiza. Meanwhile, the Kawagoe Plant of Sanken Electric serves as a fully integrated facility that performs the development, manufacture and shipment of large power supply systems.



1 Yamagata Sanken., Ltd.



2 Fukushima Sanken., Ltd.



3 Kashima Sanken., Ltd.



4 Sanken Electric Co., Ltd.

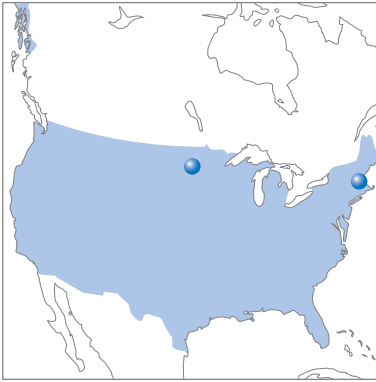


5 Ishikawa Sanken Co., Ltd.



6 Sanken Optoproducts Co., Ltd.

OVERSEAS



U.S.A.

Allegro MicroSystems, Inc. (AMI) conducts the Sanken Electric Group's operations in the United States. This company is located in Massachusetts (U.S.A.), and its main products are Hall-effect sensors for automobiles and motor driver ICs used in OA equipment such as printers. Growth is also expected in the future for photoflash drivers for digital still cameras and other power management products. AMI has three offices within the United

States, a sales subsidiary in London, and a manufacturing subsidiary for semiconductor back-end processes in the Philippines. It also handles sales of Sanken Electric semiconductors in North America.

Additionally in the U.S., Sanken Electric has established Polar Semiconductor, Inc. (PSI) as a third semiconductor chip-manufacturing site after Yamagata Sanken and AMI. We plan to turn PSI into a core chip production facility, gradually transferring production overflows from Yamagata Sanken as well as strengthening the competitiveness of AMI's products using PSI's advanced submicron process technology.

Despite some initial delays in this production transfer stemming largely from production equipment differences, current production at PSI is moving ahead smoothly. Accordingly, we plan to complete the transfer of most of the designated fabrication processes to PSI in fiscal 2008.

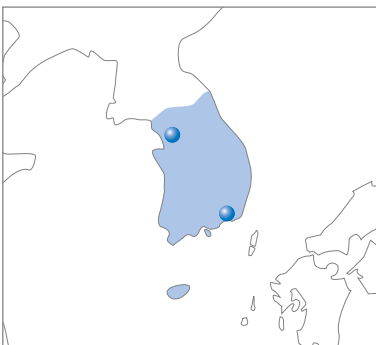
The roles of AMI and PSI, however, will extend beyond just production. In line with our medium-term management plan, we intend to bolster relationships between Sanken Electric, AMI and PSI to facilitate development-side collaboration as well. AMI will be particularly involved in the development of new products and new technologies, while PSI will bring its own capabilities to bear in the development of next-generation wafer fabrication processes and product designs.



Allegro MicroSystems, Inc.



Polar Semiconductor, Inc.



South Korea

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



Korea Sanken Co., Ltd.



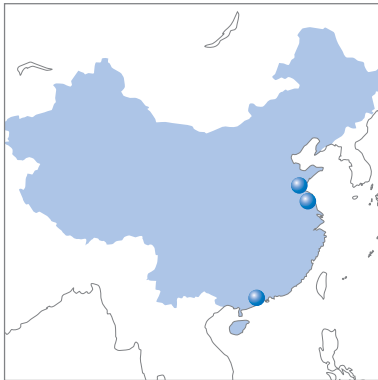
Indonesia

P.T. Sanken Indonesia (SKI) is the backbone of Sanken Electric's switching mode 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 production.



P.T. Sanken Indonesia

This company has switching mode power supply products that are attracting attention on two main fronts: power supplies for FPD TVs and other fast-growing markets, and AC adapters for PCs. The very existence of SKI boosts the international competitiveness of Sanken Electric's products. For example, production of small general-purpose UPS was transferred to SKI in 2005, greatly improving the cost structure of these products.



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 supply equipment for use in China.

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

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.



Sanken L.D. Electric (Jiangyin) Co., Ltd.

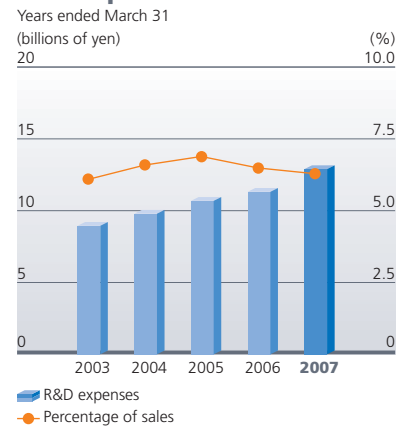
Global Manufacturing Matrix

Product	Development/Design	Front-end processes	Back-end processes
Semiconductor	Sanken Electric Polar Semiconductor	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 P.T. Sanken Indonesia	
Power supplies	Kawagoe Plant	Sanken L.D. Electric (Jiangyin)	

R&D AND INTELLECTUAL PROPERTY

In April 2006, the Sanken Electric Group embarked on a three-year medium-term management plan that identifies power electronics and optical devices as its main business domains. R&D activities seek to empower the Group to take a more aggressive stance with respect to growth strategies in these fields.

R&D Expenses



R&D Organization

The Group's R&D organization is composed of a dedicated research facility for responding with speed to new technological breakthroughs, eight technical divisions organized along product lines, and the R&D divisions of the Group's consolidated subsidiaries. This configuration serves to promote more efficient and fast-paced R&D activities. In April 2007, we established an Intellectual Property Department within this framework to further enhance R&D effectiveness.

As the Group strives to strengthen global management, R&D divisions are forging links with the marketing activities conducted by Group sales sections to develop products responsive to market needs.

Intellectual Property

Manufacturers view patents and other forms of intellectual property as vital assets, both as the end result of their R&D activities and for the potential these assets possess as drivers of future growth. The Sanken Electric Group is no exception. In April 2007, we reorganized our existing Patent Information Group as the Intellectual Property and Legal Office, to better reflect the importance we give to intellectual property.

In addition to acquiring intellectual property rights and responding to the intellectual property of other companies as it has done in the past, the office is involved in a range of new tasks. Among these, it is responsible for evaluating and analyzing the intellectual property of Sanken Electric and other companies to assess technology trends, proposing directions for R&D activities, and finding ways to make product development more efficient. Ultimately, the office's mission is to support efforts to reinforce business strategies from an intellectual property standpoint.

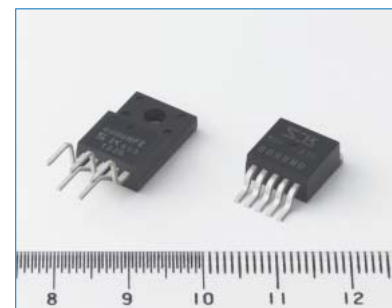
New Products during Fiscal Year Ended March 31, 2007

[SI-8000HFE Series: Step-Down Switching Regulator ICs]

The power supply voltages for ICs such as microcomputers and digital signal processors (DSP) used in electronic equipment have been lowered in accordance with the power-saving trend in equipment, and have become more diverse as well. From an efficiency standpoint, these trends have more often required switching-type regulator ICs to serve as the regulator ICs supplying the power to microcomputers, DSP, and other ICs.

Previously, the output currents of most regulator ICs were 3A or less. However, the increasing use of digital ICs in equipment is triggering a large demand for regulator ICs exceeding 3A.

In response, the Sanken Electric Group has developed the SI-8000HFE Series of step-down switching regulator ICs which, despite its compact package, can supply a maximum output current of 5.5A.



[FULLBACK SMU-HC601: UPS for Extreme Temperature Environments]

In the majority of cases, UPS units tend to be used under relatively favorable ambient temperatures. However, ongoing improvements in the performance and functions of UPS units are leading to more instances where these products are being used to provide more reliable power supplies for a broad spectrum of current loads and applications. Accordingly, one avenue of research for UPS applications has explored the use of these units under severe temperature conditions reaching 40°C or higher.

Through improvements to UPS batteries and circuits, the Sanken Electric Group has developed the FULLBACK SMU-HC601, a new UPS unit that can be used under ambient temperatures ranging from -5°C to +50°C. The FULLBACK SMU-HC601 is a highly reliable UPS that, by employing a Sanken proprietary power multiprocessing method, provides a high-accuracy and high-efficiency power supply, and can switch to backup operation during power outages with no momentary power interruption. In addition, the SMU-HC601 has built-in batteries, resulting in easier installation and effective utilization of space due to its thinner and space-saving design.



[Development of Uninterruptible Power Supply (UPS) Compliant With RoHS Directive]

Increased environmental awareness in recent years has been spurring calls for more environmentally friendly components and products. The RoHS directive is an example of one such trend. Enacted across Europe in July 2006, the RoHS directive has triggered a flurry of activity in the electronics and electrical device industries aimed at curbing the use of certain hazardous substances.

Sanken Electric's UPS is not subject to the RoHS directive. Nevertheless, customers in Japan as well as Europe are promoting the adoption of cleaner facilities and equipment as part of their own in-house environmental conservation programs. To meet these market needs and encourage the wider implementation of environmental initiatives, the Sanken Electric Group has developed the SCU-A501RH and the SCU-A751RH, two compact UPS models that voluntarily conform to the RoHS directive standards.

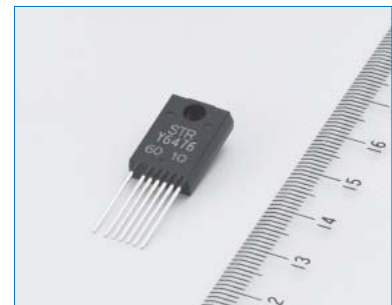
Going forward, Sanken Electric is planning to make all newly developed and released compact UPS (i.e., those with roughly 3kVA power output) compliant with the RoHS directive standards.



[STR-Y6400 Series: Quasi-Resonant-type Power Supply IC Ideal for Digital Equipment]

Each passing year brings renewed calls for high-efficiency, energy-saving, and low-cost power supplies for digital home electronics and traditional home appliances.

To answer these needs, the Sanken Group has developed the STR-Y6400 Series IC. This IC employs a multi-mode control function that allows optimal power supply operation over the entire load range according to load conditions, such as light or full loads, as well as a quasi-resonant method with its widely established reputation for low noise. In this way, the STR-Y6400 achieves both high efficiency and the ability to control input power below 0.1W at no load. The STR-Y6400 also realizes low power consumption and enables users to configure the power supply system with a single main power supply device without the need for an extra standby power supply device. This advantage over conventional system configurations ultimately allows users to reduce power supply system costs.



[Development of World's Smallest 60W Output AC Adapter]

Notebook PCs today require more power to operate thanks to higher performance, multi-functional features and enhanced graphics functions. This is especially true for mobile notebook PCs, which require between 50W to 60W of power to operate, yet also demand smaller adapters to keep these PCs optimized for mobile applications.

The Sanken Electric Group has developed the SED70N2, the world's smallest 60W output AC adapter optimized for mobile notebook PCs. By incorporating a proprietary and dedicated control IC for AC adapters and completely revising the control circuit, the Group has realized a compact AC adapter just 96cc in size, yet capable of covering the power range for mobile notebook PCs (50W to 60W) with a rated output of 60W, and a maximum output of 70W.



CORPORATE GOVERNANCE

Sanken Electric is striding forward with initiatives to strengthen management functions in order to boost efficiency, improve transparency and maintain sound management. On the one hand, the Company is working to enhance the speed and accuracy of decision-making by the Board of Directors and strengthen the board's supervisory role on business execution. On the other, Sanken Electric has adopted a corporate officer system in order to build a more flexible business execution structure. Corporate governance at Sanken Electric has also been reinforced by the addition of a Compliance Office and an Investor Relations Office to our governance structure.

Management Administrative Organization and Corporate Governance Structure

Sanken Electric has adopted a Statutory Auditor system, anchored by a seven-member Board of Directors and a four-member Board of Statutory Auditors. Of the statutory auditors, two are from outside the Company. Sanken Electric does not have outside directors, since the task of monitoring management from an objective standpoint is delegated to the two outside statutory auditors. Furthermore, the adoption of a corporate officer system has enabled the Company to put a framework in place that is more responsive to changes in the management environment by separating business execution from decision-making and supervisory functions. As of May 31, 2007, Sanken Electric had 15 corporate officers, four of whom serve concurrently as directors.

In accordance with its rules and regulations, the Board of Directors deliberates important matters pertaining to business execution, and is responsible for supervising the President's performance of duties to ensure the appropriateness of actions taken on the Company's behalf.

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.

Internal Audits, Audits by Statutory Auditors, and Financial Audits

Internal audits are performed by the Compliance Office, which reports directly to the President. The office is

responsible for auditing and inspecting the full spectrum of corporate activities conducted by Sanken Electric employees, and offers advice and support for implementing suggested improvements. The office is also involved in promoting compliance-related education and training. In April 2003, the Company 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 sit on the Board of Statutory Auditors, and meet in order to set audit policies, audit plans, and decide other matters as prescribed by law, as well as to share audit information. In accordance with the division of duties determined by the Board of Statutory Auditors, the statutory auditors attend Board of Directors' meetings, management committee meetings and other important meetings, as well as inspect important documents. The findings of their audits are reported to the Board of Statutory Auditors. The statutory auditors also meet regularly for discussions with directors, the head of the Compliance Office and the independent auditor to enhance the efficacy of audits performed.

Sanken Electric retains Ernst & Young ShinNihon as its independent auditor under Japan's Corporation Law and the Securities and Exchange Law. As independent auditor, Ernst & Young ShinNihon maintains close working relationships with auditing bodies within the Company, meeting regularly to report audit findings to the Board of Statutory Auditors and offering opinions regarding the Company's internal control systems. No particular conflicts of interest exist between Ernst & Young ShinNihon and Sanken Electric, or between the Company and the managing partners of the independent auditor responsible for performing audits. Fees for audit services rendered by the independent auditor are based on an auditing contract concluded between the Company and Ernst & Young ShinNihon in accordance with Japan's Corporation Law and the Securities and Exchange Law.

Basic Approach Regarding Internal Control Systems

The Sanken Electric Group has formulated a Corporate Philosophy, Business Guidelines and Conduct Guidelines for a compliance framework supported in equal part by the management and the Company's employees. Furthermore, Sanken Electric is developing a highly effective system of internal controls by erecting the organizations, systems, rules and regulations critical to achieving operational efficiency and ensuring the reliability of its financial reporting.

Risk Management System

Decisions regarding risks associated with important investments and new businesses are made after careful consideration of such matters by the Board of Directors, management committee meetings, and other important Company meetings, each of which examines these issues from a variety of viewpoints. Evaluation and responses to risks encountered during the course of normal operations are the responsibility of the relevant divisions involved.

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 risk-event preparedness.

Disclosure System

The General Affairs section continuously collects, confirms and examines information with respect to decisions and facts,

and timely disclosure is made without delay 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.

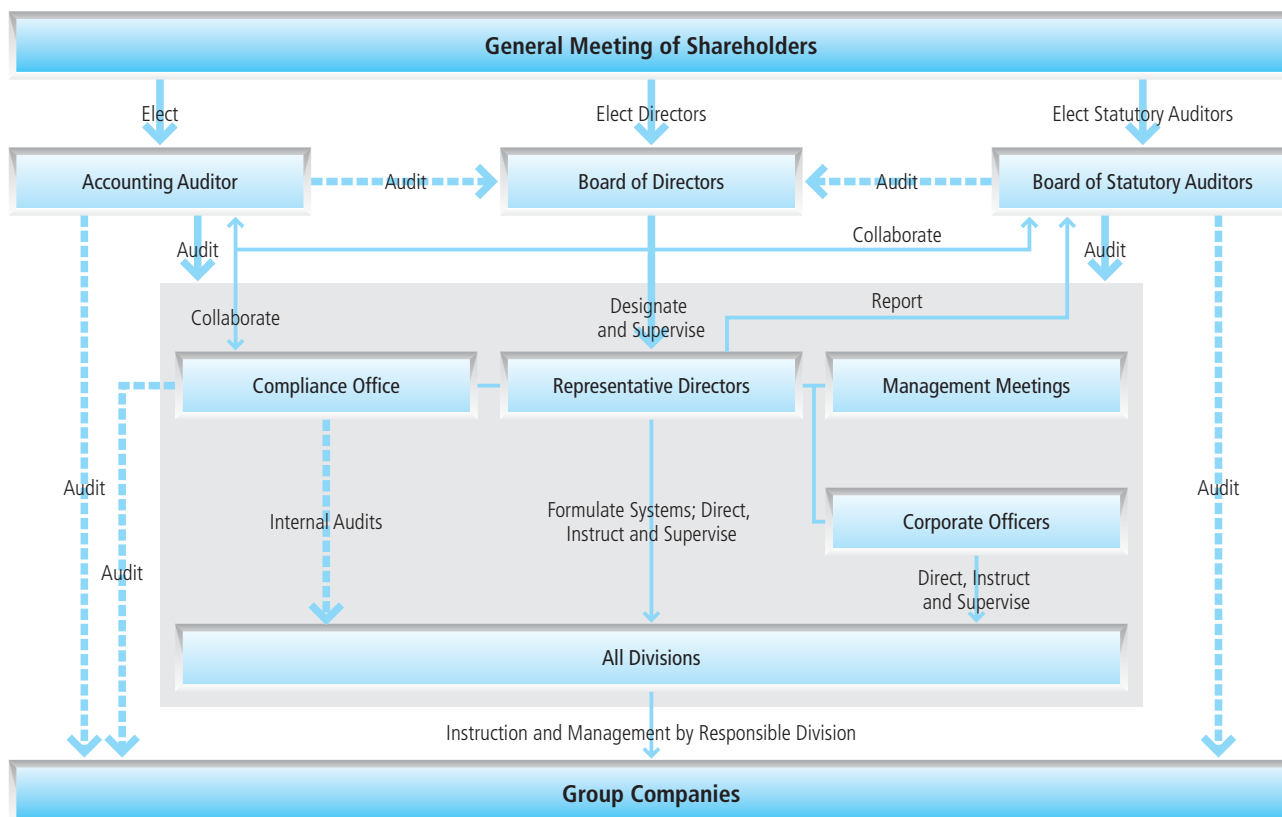
As part of management reforms, the Company performed a review of its compensation system for directors and statutory auditors. This resulted in a decision by the Board of Directors on May 9, 2006 to abolish the system of retirement benefits for directors and statutory auditors. The system was formally abolished at the conclusion of the Company's 89th Ordinary General Meeting of Shareholders held on June 23, 2006.

Directors' and Statutory Auditors' Compensation

(Millions of yen)

Compensation paid to directors and statutory auditors:

Compensation paid to directors	¥254
Compensation paid to statutory auditors	¥ 51
Total	¥305
Fees paid to independent auditor	¥ 34



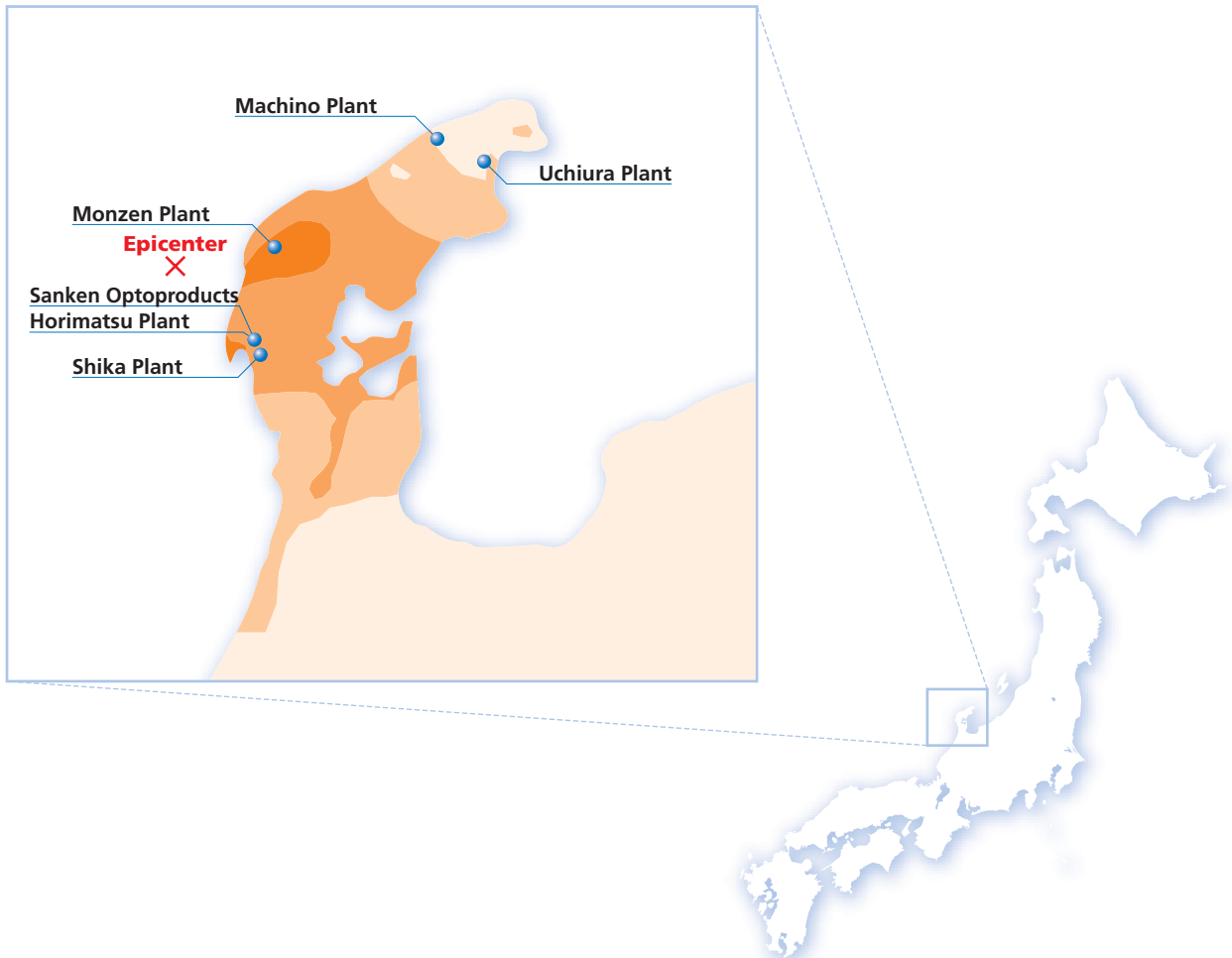
Sanken Electric Group Response to the Noto Peninsula Earthquake

At 9:42 a.m. on March 25, 2007, a magnitude 6.9 earthquake struck the Noto Peninsula in Ishikawa Prefecture, Japan. The region is home to a total of six Group sites involved in semiconductor and CCFL production. All six sites are within an area that experienced nearly the full force of the quake. Just under an hour later, at 10:20 a.m., Sanken Electric had set up disaster response centers at Sanken Headquarters and locally, and from 3:00 p.m., a 50-member strong support team from Sanken Headquarters and Group companies was in the area to restore operations. Fortunately, no Group employees or related personnel were killed or injured in the earthquake, and all six plants involved sustained relatively minor damage. In fact, operations resumed at some production lines within hours after the quake, with all six plants declaring “operations fully restored” by March 29, just four days later. Ultimately, the Group’s ability to supply products to customers was unimpaired by the disaster, enabling Sanken Electric to fulfill its supply obligations.

In April 2005, a Risk Management Committee responsible for promoting risk management was established for Sanken Electric and the entire Group. The committee proceeded to survey, evaluate and analyze, and offer suggested countermeasures for the various risks that emerge during the course of business operations. Among other risks, these efforts encompassed measures for coping with natural disasters. The prompt restoration of operations after the Noto Earthquake highlighted the success of initiatives to enhance quake resistance enacted as part of disaster readiness. In addition to the drafting of a disaster recovery manual and business continuity plans (BCP) for the entire Group, these measures included such fundamental but unnoticeable measures as the installation of earthquake-accommodating flooring underneath critical IT equipment.

Going forward, the Sanken Electric Group will further extend the reach of its risk management activities, including translating its experience from the Noto Earthquake into countermeasures that can be quickly disseminated to other Group companies.

Noto Peninsula



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 May 2007, the domestic Sanken Group (Sanken Electric and subsidiaries) has completed acquisition of this certification, as had new members of the Sanken Group: U.S.-based subsidiary Polar Semiconductor, Inc. and Sanken L.D. Electric (Jiangyin) Co., Ltd. of China. 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 98.1%, thereby already surpassing the target of 98% set for the fiscal year ending in March 2009. Moreover, half of all affiliates*, including Yamagata Sanken Co., Ltd. and others, have achieved "zero emissions" (a stable recycling ratio for waste materials of 99% or more). In particular, in recognition of its environmental protection initiatives, Yamagata Sanken has been awarded the Yamagata Prefectural Governor's Award and the Fuji Sankei Business i Prize at the Global Environmental Protection Grand Prix.

* Affiliates include Kashima Sanken Co., Ltd., the Horimatsu and Shika plants of Ishikawa Sanken Co., Ltd., and Sanken Electric's Niiza Plant.

Milestones

April 1997	Commenced ISO 14001 certification activities
April 1998	Fukushima Sanken Co., Ltd. became the first member of the Sanken Group to obtain ISO 14001 certification, after which certification was obtained successively by all Sanken Group companies in Japan and overseas
April 2000	Formulated the Sanken Group Environmental Charter and the Sanken Group Environmental Action Plan
January 2004	Yamagata Sanken Co., Ltd. and Kashima Sanken Co., Ltd. became the first affiliates to achieve zero emissions (a stable recycling ratio for waste materials of 99% or more)
June 2004	Yamagata Sanken was awarded the Yamagata Prefectural Governor's Award, sponsored by the Yamagata Prefecture Environmental Protection Council
February 2005	Yamagata Sanken was awarded the Fuji Sankei Business i Prize at the Global Environmental Protection Grand Prix, sponsored by the Fuji Sankei Group
March 2005	The domestic Sanken Group companies achieved target of recycling 97.7% of waste materials in fiscal 2004
October 2005	Acquired CANON Green Activity certification (new certification)
November 2005	Acquired SONY Green Partner certification (recertification)
September 2006	New affiliate PSI (Polar Semiconductor, Inc.) obtained ISO 14001 certification
December 2006	Environmental management level ranked 95th out of 541 manufacturing companies by the Nihon Keizai Shimbun.
April 2007	An affiliate in China, Sanken L.D. Electric (Jiangyin) Co., Ltd. obtained ISO 14001 certification

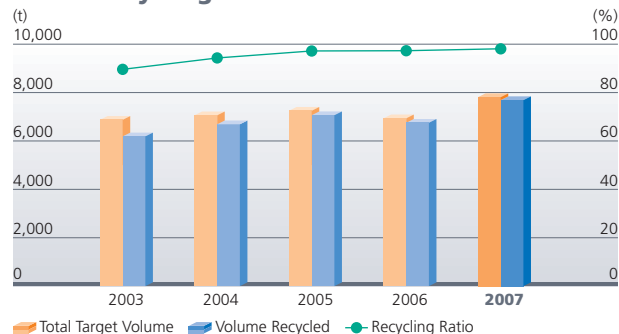
In recent years, the European Union's RoHS Directive, which has prohibited the use of six substances, including cadmium and lead, in electrical and electronic equipment since July 2006, has been an important issue in the industry. In collaboration with all Group companies, Sanken Electric has been energetically 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, most client companies with advanced environmental policies recognize the Group as a supplier of choice for their green procurement. The Group has almost completed establishing a framework that secures compliance with the RoHS Directive. Towards this end, in fiscal 2006, Sanken Electric established a specialized department, installed new analytical equipment and vigorously pursued related measures to respond promptly to customers' steadily growing needs in this area.

On a different front, Sanken Electric is promoting a CO₂ reduction program encompassing all of its business sites as part of its energy conservation activities. Monitored on a per consolidated net sales unit basis, CO₂ emissions in fiscal 2006 were 93% of those in fiscal 1999, representing a 7-percentage point improvement.

Sanken Electric is also required to take steps in fiscal 2007 in response to revisions to Japan's Energy Conservation Law (The Law Concerning the Rational Use of Energy), which seeks to further streamline the country's energy use. As one example, Sanken Headquarters, which has had its status upgraded to that of a Type 1 Designated Energy Management Factory, now has legal obligations with respect to energy conservation. Accordingly, Sanken Electric will promote energy conservation activities, directed by an Energy Manager, on a company-wide basis in the effort to combat global warming.

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.

Waste Recycling



MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Business Strategy

The Sanken Electric Group is currently pursuing more aggressive growth strategies based on our new three-year medium-term management plan, which began in April 2006. The Group is placing priority on strengthening our core business, the semiconductor business. To achieve this, in addition to putting in place systems to ensure aggregated management for both our process and assembly functions, we are joining in collaboration with our American subsidiaries to speed up the process of development and mass commercialization of new products. In our cold cathode fluorescent lamp (CCFL) business, our current focus is the early establishment of technology that will differentiate our products to provide the means for further sales expansion. In our power module (PM) business, we are vigorously continuing our activities to improve the profitability of and our responsiveness to the consumer market. By hiring professional field application engineers (FAE) to locate optimum worldwide locations for production sites and through zoned business activities, we are able to respond to market changes. Through these measures and by holding a global perspective, we are reforming our systems to respond to the fast-changing digital market and, as a unified group, we are advancing effectively towards our goals.

Fund Procurement and Liquidity

The Group issues corporate bonds and commercial paper, commitment line contract, bank loans and other methods to procure funds. As of March 31, 2007, short-term loans totaled ¥14.5 billion, of which ¥3.4 billion is the current portion of long-term debt. Commercial paper totaled ¥30.0 billion and unsecured bonds (due in 2009) totaled ¥10.0 billion. Long-term loans totaled ¥3.6 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 outstanding (¥12.0 billion), commitment line contract (¥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.

Dividend Policy

As its basic policy for the distribution of profits, 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.

In accordance with this basic policy, the Company distributes capital surplus as dividends to shareholders twice a year as interim dividends and year-end dividends. The decision functions for dividend payment amounts are by resolution at the Ordinary General Meeting of Shareholders for the year-end dividend, and by resolution of the Board of Directors in accordance with the Articles of Incorporation for the interim dividend.

Taking the business performance of the entire fiscal year into account, the Company paid a total dividend of ¥14 per share for the fiscal year under review (¥7 for the interim dividend and ¥7 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, 2006.

Results of Operations

Summary

In fiscal 2006, ended March 31, 2007, consolidated net sales rose 17.5% or ¥30,288 million year on year to ¥203,815 million. Consolidated operating income climbed 25.0% or ¥3,005 million to ¥15,014 million, while consolidated net income once again produced a year-on-year increase, up 6.6% or ¥464 million to ¥7,499 million and thus we achieved increases for both revenue and profit. In March 2007, there was an earthquake on the Noto Peninsula that affected six of the Group's manufacturing facilities. Fortunately, no serious damage was sustained and all the facilities were able to resume full operations within a few days.

Results of Operations by Segment

On April 1, 2006, we reorganized our products into three business groupings. We split up our semiconductor business by assigning semiconductor products to the Semiconductor Business and unit products to our Power Module (PM) business, and changed the name of the power supply equipment business to the Power System (PS) Business.

Semiconductor Business

Sales, excluding intersegment sales, in this business rose by 20.0% or ¥25,792 million year on year to ¥154,967 million.

One of the key performers contributing to this business expansion, CCFLs, jumped 46.1% year on year due to their strong demand for use in large-screen TVs for the international

and domestic market. Aside from this, semiconductor devices such as ICs, diodes, and transistors were also in strong demand. In addition to these components for AV equipment, which have seen firm growth due to demand related to FPD-TVs and audio equipment, there was also a large increase in orders for electronic components for automobiles as Japanese small cars are becoming increasingly popular in the North American market due to their superior fuel economy.

Segment operating income rose 25.3% or ¥3,693 million from last year to ¥18,269 million.

Power Module (PM) Business

Sales in this business rose 6.9% or ¥2,173 million year on year to ¥33,518 million.

Despite lower sales of AC adapters for notebook computers and general-purpose small UPS, sales of switching power supplies were about the same as last year for printers. In addition, there were firm orders related to new and existing products for LCD and plasma TVs, which led to the sales increase.

However, a sudden increase orders impacted on profitability due to difficulty in procuring the necessary components and the segment posted an operating loss of ¥2,570 million, compared with a loss of ¥1,534 million in the previous fiscal year.

Power System (PS) Business

Sales in this business increased by 17.9% or ¥2,322 million to ¥15,330 million.

Sales of power supply equipment for telecommunications equipment increased strongly due to steady orders from mobile telecommunication base stations and particularly strong demand from ADSL infrastructure networks. In respect to UPS, there was an increase in orders for education institutions and Internet communication infrastructures. There was also moderate growth in the Chinese market for Chinese-specification VVVF inverters.

Segment operating income steeply increased by 75.5% or ¥801 million to ¥1,862 million.

Geographic Segment Information

Sales in Japan rose 14.7% or ¥18,287 million year on year to ¥143,054 due to a buoyant digital market, especially in respect to flat panel TVs, which led to strong sales of semiconductor devices and CCFLs. Operating income, reflecting the increase in sales, rose by 3.6% or ¥469 million to ¥13,464 million.

Sales in Asia rose 19.5% or ¥3,547 million to ¥21,776 million as the regional economies, particularly the Chinese economy, were consistently buoyant. However due to poor profitability at P.T. Sanken Indonesia, the Company posted an operating loss for this geographic segment of ¥1,096 million, compared with a loss of ¥359 million in the previous year.

Sales in North America jumped 33.8% or ¥6,534 million to ¥25,883 million due to steadily increasing sales at Allegro MicroSystems, particularly of automotive electronics components. Operating income also increased by 103.7% or 2,012 million to ¥3,953 million, partly due to the successful reforms made at Allegro MicroSystems to improve profitability.

Europe operations reported an increase in sales of 17.2% or ¥1,918 million to ¥13,101 million due to the sales growth of Sanken Power Systems (UK) Ltd. An operating income of ¥232 million was reported compared with a loss of ¥505 million in the previous year.

Other Income (Expenses)

The Company recorded other expenses of ¥2,693 million, a decrease of ¥1,981 million from the previous year. This decline was largely the result of several factors, among them an increase in interest expense. In addition to rising interest rates, this increase reflected higher interest-bearing debt due mainly to higher capital expenditures. Other factors included a foreign exchange loss, as well as a casualty loss of ¥262 million stemming from an earthquake that struck the Noto Peninsula. On the other hand, the Company recorded ¥584 million from a government grant, the result of funds received from the national and local governments for the establishment of subsidiaries. The Company also booked a loss on the sale of fixed assets of ¥383 million due mostly to the sale of idle assets.

Financial Position

Assets

Total assets at March 31, 2007 stood at ¥193,787 million, ¥21,459 million higher than a year ago. Current assets increased ¥11,728 million, to ¥112,464 million, mainly on account of a ¥4,320 million increase in notes and accounts receivable due to higher sales to overseas customers that typically take longer to collect, and a ¥5,168 million increase in inventories in line with higher production. Investments and long-term receivables decreased ¥2,495 million to ¥7,719 million. Property, plant and equipment, at cost increased ¥12,406 million to ¥71,755 million by having executed strategic capital investment in CCFL.

Liabilities

Total liabilities increased ¥14,999 million, to ¥110,701 million. Current liabilities rose ¥20,273 million, to ¥91,153 million. This increase reflected a ¥12 billion increase in commercial paper and a ¥6,885 million increase in notes and accounts payable in line with higher production. Long-term liabilities decreased ¥5,273 million to ¥19,547 million, mainly the result of a ¥3,884 million decrease in long-term debt.

Net Assets

Net assets at March 31, 2007 were ¥83,086 million, up ¥6,459 million from last year. This was mainly due to an increase in retained earnings that was the result of posting a record-high net income.

Cash Flows

Operating activities provided net cash of ¥14,390 million, a year on year decrease of ¥526 million. Although there were higher earnings and higher depreciation and amortization, the decrease was mainly as a result of an increase in inventories. Investing activities used net cash of ¥26,306 million, ¥1,596 million more than in the previous year due to stronger investment in CCFL manufacturing facilities. Financing activities provided net cash of ¥10,021 million, which was mainly provided by the amount from funds procured for capital expenditures exceeding depreciation and amortization. As a result, interest-bearing debt totaled ¥58,369 million at the end of the year and the debt reliance ratio stood at 30.1%. As a result, cash and cash equivalents at the end of the year were ¥10,367 million, which is ¥1,864 million less than a year ago.

Capital Expenditures

Total capital expenditures in the fiscal year ended March 31, 2007 were ¥26,663 million, mainly for the purchase of production equipment and equipment for research and development.

In the semiconductor business, capital expenditures were ¥989 million at Sanken Electric for the purchase of production equipment and equipment for research and development. Capital expenditures were ¥22,943 million at consolidated subsidiaries, including Ishikawa Sanken Co., Ltd., Yamagata Sanken Co., Ltd., Fukushima Sanken Co., Ltd. and Allegro MicroSystems, Inc.

With respect to the PM business, capital expenditures at Sanken Electric were ¥61 million, mainly for the purchase of product molds. Capital expenditures at consolidated subsidiaries such as P.T. Sanken Indonesia were ¥1,084 million, mainly for production facilities and the purchase of molds.

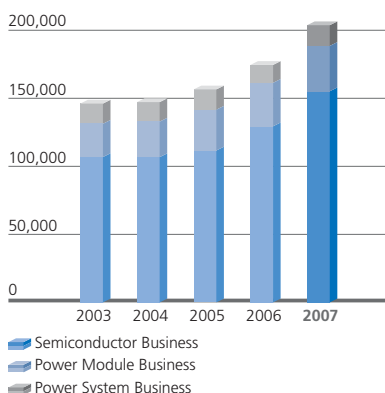
In the PS business, capital expenditures at Sanken Electric were ¥42 million, mainly for the purchase of product molds. Capital expenditures at consolidated subsidiaries such as Sanken L.D. Electric (Jiangyin) Co., Ltd. were ¥47 million, mainly for the purchase of production facilities.

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

Net Sales

Years ended March 31

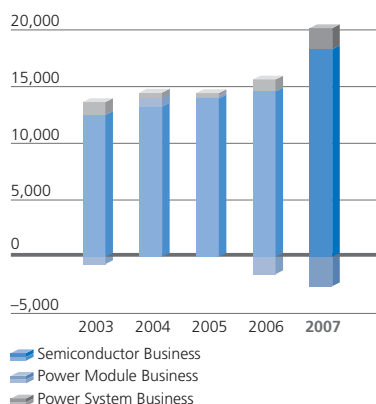
(millions of yen)
250,000



Operating Income (Loss)

Years ended March 31

(millions of yen)
25,000



Business Risks

Management has identified the following issues as posing potential risks to the Group's business performance and financial condition. Concerning risks to business strategy, forecasts regarding the future presented here are judgments contemporary at the end of the fiscal year under review (March 31, 2007). It is important to keep in mind that actual outcomes may deviate considerably from these forecasts due to inherent uncertainties.

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 South-east 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

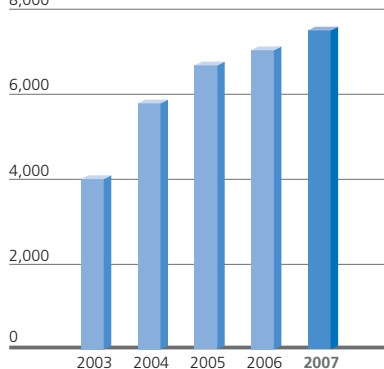
The Group takes steps to differentiate its products from those of competitors by using our proprietary technology and know-how. Although the Company files and records intellectual property rights as necessary to protect these technologies, such protections are inadequate in some nations and regions. 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.

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

Net Income

Years ended March 31

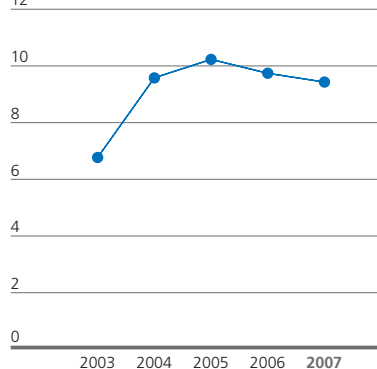
(millions of yen)
8,000



Return on Equity

Years ended March 31

(%)
12



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 38.6% of consolidated production value in fiscal 2004, 42.1% in fiscal 2005 and 42.0% in fiscal 2006. Overseas sales on a consolidated basis as a proportion of total sales in fiscal 2004, fiscal 2005 and fiscal 2006 were 53.3%, 57.3% and 59.3%, 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 40.3% in fiscal 2004, 45.7% in fiscal 2005 and 47.7% in fiscal 2006. Of these

exports, the proportion denominated in foreign currencies was 56.9% in fiscal 2004, 47.4% in fiscal 2005 and 48.3% in fiscal 2006. As for exchange risk associated with transactions, the Group engages in risk hedging, including through the hedging of the balances of payables, receivables, and turnover by expanding overseas procurement of products and raw materials, 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

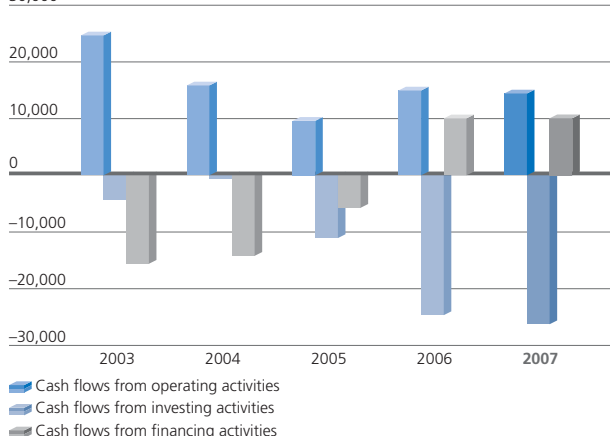
Legal Restraints

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 restraints relating to tariffs, trade, foreign currency, strategic materials, specific technologies, antitrust, 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

Cash Flows

Years ended March 31

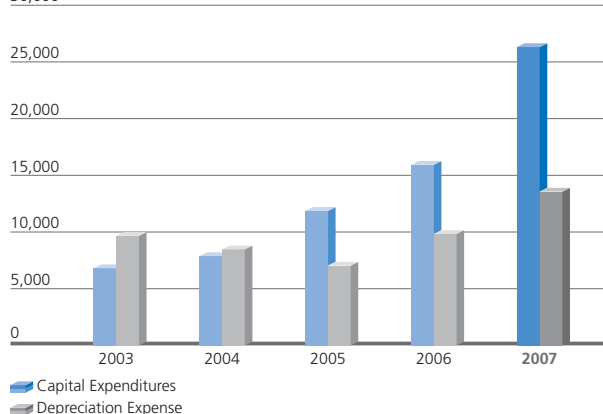
(millions of yen)
30,000



Capital Expenditures/Depreciation Expense

Years ended March 31

(millions of yen)
30,000



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 repairs or product defects that 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 legal restraints 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 restraints; 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.

Besides the above, in addition to possible occurrence of some kind of calamity such as natural disaster, fire, or damage to the social or telecommunications infrastructure, there may be unforeseeable country risk such as a war, terrorist attack, epidemic of infectious disease, or significant changes to laws or the taxation system in a particular country or region. Alternatively there is the risk of legal action or compensation payment obligations that could arise from a product defect causing death, or impacting on society, the environment, or business activities. Other risks include potential changes to the compulsory corporate contribution to retirement benefits and the increasing risk of improper or illegal use of company information including personal information as the use of information systems expand.

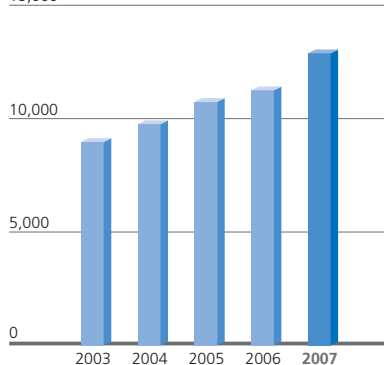
If any one or more of these potential risks occurs, and such an occurrence results in a lowering of public trust, suspension of business operations or significant financial loss, it is possible that this would detrimentally impact on business performance and financial position of the Sanken Group.

R&D Expenses

Years ended March 31

(millions of yen)

15,000

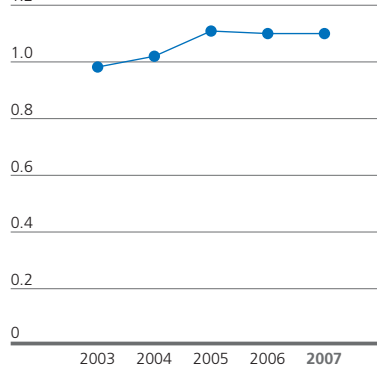


Asset Turnover

Years ended March 31

(%)

1.2



FINANCIAL SECTION

CONSOLIDATED BALANCE SHEETS

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Current assets:			
Cash and deposits (Note 4)	¥ 10,603	¥ 12,466	\$ 89,791
Notes and accounts receivable (Note 5):			
Trade and other	53,856	47,737	456,061
Less allowance for doubtful receivables	(146)	(257)	(1,242)
	53,709	47,480	454,819
Inventories (Note 7)	39,736	34,568	336,497
Deferred tax assets (Note 12)	3,270	3,172	27,694
Other current assets	5,143	3,048	43,557
Total current assets	112,464	100,736	952,360
Investments and long-term receivables:			
Investments in unconsolidated subsidiaries and affiliates	103	891	872
Investments in other securities (Note 6)	4,619	5,152	39,118
Deferred tax assets (Note 12)	1,186	1,098	10,050
Other long-term receivables	1,835	3,096	15,542
Less allowance for doubtful receivables	(25)	(24)	(215)
Total investments and long-term receivables	7,719	10,214	65,367
Property, plant and equipment, at cost (Note 8):			
Land	4,566	4,671	38,669
Buildings	55,005	50,423	465,791
Machinery and equipment	112,576	95,553	953,312
Construction in progress	4,677	2,845	39,607
	176,825	153,494	1,497,381
Less accumulated depreciation	(105,069)	(94,145)	(889,743)
Property, plant and equipment, net	71,755	59,348	607,637
Other assets	1,847	2,027	15,648
Total assets	¥ 193,787	¥ 172,327	\$ 1,641,014

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF INCOME

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Net sales	¥203,815	¥173,527	\$1,725,935
Cost of sales (Note 15)	160,859	135,876	1,362,177
Gross profit	42,956	37,650	363,758
Selling, general and administrative expenses (Notes 10, 11, 15 and 20)	27,941	25,642	236,614
Operating income	15,014	12,008	127,143
Other income (expenses):			
Interest expense	(1,170)	(827)	(9,911)
Interest and dividend income	287	379	2,430
(Loss) gain on sales of marketable and investment securities	(215)	33	(1,821)
Product compensation costs	(164)	(85)	(1,395)
Foreign exchange (loss) gain	(536)	1,457	(4,544)
Other, net	(893)	(1,669)	(7,567)
	(2,693)	(712)	(22,810)
Income before income taxes and minority interests	12,320	11,295	104,333
Income taxes (Note 12):			
Current	4,579	4,917	38,779
Deferred	140	(755)	1,193
Income before minority interests	7,600	7,133	64,360
Minority interests	(100)	(98)	(850)
Net income (Note 21)	¥ 7,499	¥ 7,035	\$ 63,509

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

FINANCIAL SECTION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

 Sanken Electric Co., Ltd. and Consolidated Subsidiaries
 For the years ended March 31, 2007 and 2006

Millions of yen									
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gain (loss) on securities	Translation adjustments	Stock acquisition rights	Minority interests
Balance at March 31, 2005 . . .	125,490,302	¥20,896	¥21,167	¥31,139	¥(3,542)	¥1,037	¥(2,576)	¥ —	¥231
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 changes during the year . . .	—	—	95	—	—	957	2,139	—	65
Adjustments for inclusion of subsidiaries in consolidation . . .	—	—	—	41	—	—	—	—	—
Balance at March 31, 2006 . . .	125,490,302	20,896	21,262	36,341	(3,729)	1,995	(437)	—	297
Acquisition of treasury stock . . .	—	—	—	—	(104)	—	—	—	—
Disposition of treasury stock . . .	—	—	0	—	2	—	—	—	—
Cash dividends paid	—	—	—	(851)	—	—	—	—	—
Net income for the year ended March 31, 2007	—	—	—	7,499	—	—	—	—	—
Net changes during the year . . .	—	—	—	—	—	(347)	751	111	17
Adjustment for change of fiscal year end of certain subsidiaries	—	—	—	(415)	—	—	—	—	—
Adjustments for inclusion of subsidiaries in consolidation . . .	—	—	—	(205)	—	—	—	—	—
Balance at March 31, 2007 . . .	125,490,302	¥20,896	¥21,263	¥42,369	¥(3,832)	¥1,648	¥ 314	¥111	¥314

Thousands of U.S. dollars (Note 3)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gain (loss) on securities	Translation adjustments	Stock acquisition rights	Minority interests	
Balance at March 31, 2006	\$176,956	\$180,056	\$307,745	\$(31,584)	\$16,896	\$(3,703)	\$ —	\$2,515	
Acquisition of treasury stock	—	—	—	(887)	—	—	—	—	
Disposition of treasury stock	—	7	—	20	—	—	—	—	
Cash dividends paid	—	—	(7,206)	—	—	—	—	—	
Net income for the year ended March 31, 2007	—	—	63,509	—	—	—	—	—	
Net changes during the year	—	—	—	—	(2,939)	6,366	943	147	
Adjustment for change of fiscal year end of certain subsidiaries	—	—	(3,517)	—	—	—	—	—	
Adjustments for inclusion of subsidiaries in consolidation	—	—	(1,741)	—	—	—	—	—	
Balance at March 31, 2007	\$176,956	\$180,063	\$358,788	\$(32,451)	\$13,956	\$ 2,663	\$943	\$2,663	

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

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Operating activities			
Income before income taxes and minority interests	¥ 12,320	¥ 11,295	\$ 104,333
Depreciation and amortization	14,380	10,360	121,777
Reversal of allowance for doubtful receivables	(109)	(75)	(923)
Interest and dividend income	(287)	(379)	(2,430)
Interest expense	1,170	827	9,911
(Reversal of) provision for retirement benefits for employees	(1,323)	358	(11,205)
Loss (gain) on sales of marketable and investment securities	215	(33)	1,821
Increase in notes and accounts receivable	(3,943)	(5,081)	(33,393)
(Increase) decrease in inventories	(4,870)	237	(41,241)
Increase in notes and accounts payable	6,495	2,411	55,003
Other	(2,777)	(1,727)	(23,521)
Subtotal	21,271	18,194	180,130
Interest and dividends received	288	628	2,441
Interest paid	(1,152)	(788)	(9,759)
Income taxes paid	(6,016)	(3,117)	(50,952)
Net cash provided by operating activities	14,390	14,916	121,861
Investing activities			
Purchases of property, plant and equipment	(27,436)	(14,007)	(232,339)
Proceeds from sales of property, plant and equipment	1,150	492	9,743
Purchases of intangible assets	(305)	(402)	(2,584)
Purchases of securities of subsidiaries (Note 4)	—	(5,616)	—
Purchases of investment securities	(52)	—	(447)
Proceeds from sales of investment securities	516	1,084	4,376
Increase in loans made	(48)	(6,155)	(406)
Proceeds from loans made	149	697	1,269
Other	(280)	(801)	(2,378)
Net cash used in investing activities	(26,306)	(24,709)	(222,768)
Financing activities			
Increase in short-term bank loans	3,542	1,738	29,996
Increase in commercial paper	12,000	9,000	101,617
Proceeds from issuance of long-term bank loans	—	4,773	—
Repayment of long-term debt	(3,266)	(3,913)	(27,664)
Proceeds from sales of treasury stock	3	4	28
Retirement of treasury stock	(104)	(201)	(887)
Cash dividends paid	(2,063)	(1,218)	(17,472)
Dividends paid to minority interests	(88)	(183)	(753)
Net cash provided by financing activities	10,021	9,998	84,864
Effect of exchange rate changes on cash and cash equivalents	218	529	1,846
Net (decrease) increase in cash and cash equivalents	(1,676)	735	(14,196)
Cash and cash equivalents at beginning of the year	12,231	11,302	103,581
Effect of change of fiscal year end of certain subsidiaries	(188)	—	(1,599)
Increase in cash resulting from inclusion of subsidiaries in consolidation	0	194	4
Cash and cash equivalents at end of the year (Note 4)	¥ 10,367	¥ 12,231	\$ 87,789

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, 2007 and 2006

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 (collectively, the "Group") 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 net assets (shareholders' equity in 2006). Non-marketable securities classified as other securities are carried at cost. The cost of securities sold is determined by the moving average method.

(d) Hedge Accounting

The Group conducts interest-rate swap transactions for the purpose of mitigating interest-rate volatility risk on loans payable and to establish stable cash flows. Discrimination of hedged items is dependent upon individual contracts.

Interest-rate swap agreements which fulfill the hedge accounting requirements, together with the related debt, having nearly the same notional amounts, interest rates, interest settlement dates, and contract periods with those of the debt, are not valued at market; the net effect of the interest-rate swap transactions is added to (or deducted from) the interest on the debt using special accounting rules.

Due to the fact that significant terms and conditions for hedging instruments and hedged items are the same, and that interest-rate volatility is continuously offset from the commencement of hedging transactions, assessments of hedge effectiveness are not performed.

The hedging instrument utilized and the corresponding hedged items are as follows:

Hedging instrument	Interest-rate swap transactions
Hedged items	Floating interest rate on loans payable

(e) Inventories

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

(f) Property, Plant and Equipment, Intangible Assets, Depreciation and Amortization

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 buildings acquired on or after April 1, 1998. The estimated useful lives are as follows:

Buildings	7 – 60 years
Machinery and equipment	3 – 10 years

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

(g) Allowance for Doubtful Receivables

Estimated uncollectible amounts are calculated using historical data for trade receivables and individually considering the probability of collection of doubtful receivables.

(h) Accrued Bonuses for Directors and Statutory Auditors

Accrued bonuses for directors of the Board of Directors and statutory auditors are calculated based on estimates of bonus payments for directors and statutory auditors attributable to the fiscal year.

(i) Employees' Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined benefit pension 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 through 18 years).

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

With regard to the period in which prior service cost and net unrecognized actuarial gain or loss are expensed, the designated number of years within the average remaining service period for employees has been changed from 11 to 21 years to 11 to 18 years as a result of the shortening of the average remaining service period for employees at the Company and a few of its consolidated subsidiaries. This change had no material effect on income.

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.

(j) 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 sheets of overseas consolidated subsidiaries are translated into yen at the fiscal year-end exchange rates, except for the components of net assets excluding minority interests (shareholders' equity in 2006) which are translated at their historical exchange rates. Income statements of overseas consolidated subsidiaries are translated at average exchange rates.

The Company has presented translation adjustments and minority interests in consolidated subsidiaries as components of net assets (instead of as components of assets or liabilities) in the accompanying consolidated financial statements.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

2. ACCOUNTING CHANGES***Accounting standard for bonuses for directors of the Board of Directors and statutory auditors***

Effective the current fiscal year, the Company has adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan (ASBJ) Statement No. 4, November 29, 2005). This adoption had no material effect on income.

Accounting standard for presentation of net assets in the balance sheet

Effective the current fiscal year, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8, December 9, 2005).

Total shareholders' equity under the previous method of presentation as of the end of the current fiscal year amounted to ¥82,660 million (\$699,977 thousand).

Method of accounting for translating significant income and expenses denominated in foreign currency into Japanese yen

Until the year ended March 31, 2006, the majority-owned overseas consolidated subsidiaries' revenues and expenses were translated into Japanese yen at the exchange rates prevailing at the end of the fiscal year. Effective the current fiscal year, however, the Company has changed its method of accounting for foreign currency translation to employing the average exchange rates during the fiscal year.

This change was made in order to properly reflect foreign currency fluctuation in the consolidated financial statements and to present the business condition of the Company in accordance with the current status with regard to the translation of income and expenses incurred through the fiscal year.

As a result, net sales decreased by ¥1,040 million (\$8,807 thousand), operating income increased by ¥181 million (\$1,532 thousand) and income before income taxes and minority interests decreased by ¥22 million (\$190 thousand) for the year ended March 31, 2007, as compared to the amounts which would have been recorded by the former method.

3. 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 ¥118.09 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2007. 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.

4. SUPPLEMENTARY CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2007 and 2006:

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and deposits	¥10,603	¥12,466	\$89,791
Time deposits with a maturity of more than three months	(236)	(234)	(2,001)
Cash and cash equivalents	¥10,367	¥12,231	\$87,789

5. NOTES AND ACCOUNTS RECEIVABLE

When the fiscal year-end is a bank holiday, the Company considers notes maturing on that date to have been settled on the maturity date. The settled notes consisted of notes receivable and amounted to ¥319 million (\$2,706 thousand) at March 31, 2007.

The retroactively adjusted liability upon transfer of export receivables was ¥870 million (\$7,374 thousand) at March 31, 2007.

6. SECURITIES

Marketable securities classified as other securities at March 31, 2007 and 2006 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)
Year ended March 31, 2007						
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥1,640	¥4,408	¥2,767	\$13,893	\$37,332	\$23,439
Securities whose acquisition cost exceeds their fair value:						
Equity securities	127	127	(0)	1,080	1,076	(4)
	¥1,768	¥4,535	¥2,767	\$14,974	\$38,409	\$23,439
Year ended March 31, 2006						
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥1,587	¥4,962	¥3,374			
Securities whose acquisition cost exceeds their fair value:						
Equity securities	127	103	(24)			
	¥1,715	¥5,065	¥3,350			

Non-marketable securities classified as other securities at March 31, 2007 and 2006 amounted to ¥83 million (\$709 thousand) and ¥87 million, respectively.

Sales of securities classified as other securities for the years ended March 31, 2007 and 2006 amounted to ¥3 million (\$27,813 thousand) and ¥1,077 million, respectively, with no gain or loss for the year ended March 31, 2007 and an aggregate gain of ¥33 million for the year ended March 31, 2006.

7. INVENTORIES

Inventories at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products	¥12,745	¥ 9,810	\$107,934
Work in process	14,741	13,648	124,829
Raw materials and supplies	12,249	11,109	103,733
	¥39,736	¥34,568	\$336,497

8. 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 at March 31, 2007 and 2006 were approximately 5.60% and 5.10%, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Secured:			
Loans payable in yen due serially through 2011 at rates ranging from 1.26% to 11.15%	¥ 7,081	¥10,162	\$ 59,970
Unsecured:			
0.69% bonds due 2009	10,000	10,000	84,681
	17,081	20,162	144,652
Less current portion	(3,447)	(2,642)	(29,189)
	¥13,634	¥17,519	\$115,462

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, 2007 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥3,447	\$29,189
2009	1,091	9,240
2010	997	8,446
2011 and thereafter	1,546	13,093
	¥7,081	\$59,970

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

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥11,607	\$98,293

9. LINES OF CREDIT

The Company has committed line-of-credit agreements with certain financial institutions in order to raise funds efficiently. In addition, certain of the overseas subsidiaries have entered into overdraft agreements. The balances of credit available at March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Total committed lines of credit	¥10,000	¥10,000	\$84,681
Balance of credit available	10,000	10,000	84,681
Total overdraft	5,014	3,717	42,459
Balance of overdraft unused	4,981	2,306	42,187

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The principal components of selling, general and administrative expenses for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Salaries and bonuses	¥8,750	¥7,862	\$74,103
Packing and shipping expenses	3,685	2,787	31,210
Retirement benefit expenses	(15)	433	(127)
Provision for directors' bonuses	50	—	423
Provision for directors' retirement benefits	22	83	189
Provision for doubtful receivables	—	8	—

11. 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, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation	¥(23,153)	¥(21,817)	\$(196,066)
Plan assets at fair value	21,730	19,229	184,017
Unfunded retirement benefit obligation	(1,422)	(2,588)	(12,049)
Unrecognized actuarial loss	(387)	(122)	(3,283)
Unrecognized prior service cost	(2,416)	(2,818)	(20,466)
Net retirement benefit obligation	(4,227)	(5,528)	(35,799)
Prepaid pension cost	25	—	216
Accrued retirement benefits	¥ (4,201)	¥ (5,528)	\$ (35,582)

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 1,345	¥1,330	\$11,394
Interest cost	459	434	3,891
Expected return on plan assets	(1,150)	(114)	(9,743)
Amortization of actuarial loss	(35)	535	(298)
Amortization of prior service cost	(426)	(298)	(3,611)
Total	¥ 192	¥1,886	\$ 1,632

For the years ended March 31, 2007 and 2006, contributions to the assets of the defined contribution pension plan, which are recognized as expenses, totaled ¥357 million (\$3,023 thousand) and ¥165 million, respectively.

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

	2007		2006	
	Domestic companies	Overseas companies	Domestic companies	Overseas companies
Discount rates	2.0%	6.8%	2.0%	5.5%
Expected rates of return on plan assets	0.0% – 6.2%	9.2%	0.0% – 3.4%	7.0%

12. 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% for the years ended March 31, 2007 and 2006.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007 and 2006 differed from the statutory tax rate for the following reasons:

	2007	2006
Statutory tax rate	40.4%	40.4%
Effect of:		
Expenses permanently not deductible for income tax purposes	2.5	0.6
Dividend income deductible for income tax purposes	(3.4)	(1.9)
Inhabitants' per capita taxes	0.2	0.2
Changes in valuation allowance	2.1	3.3
Foreign tax rate differential	0.2	(0.1)
Tax credit for research and development expenses	(5.4)	(6.6)
Elimination of dividends received from overseas subsidiaries	1.5	2.7
Deferred tax effect of change in statutory tax rate	(0.2)	(0.2)
Equity in gain of an affiliate	(0.1)	(0.2)
Other, net	0.5	(1.3)
Effective tax rates	38.3%	36.9%

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Net operating loss carryforwards	¥ 2,209	¥ 658	\$ 18,714
Accrued bonuses	1,168	1,061	9,891
Accrued retirement benefits	1,454	2,111	12,320
Net unrealized holding gain	278	204	2,355
Inventories	1,307	1,208	11,072
Tax credit carryforwards	589	972	4,990
Other	1,642	1,612	13,910
Gross deferred tax assets	8,650	7,829	73,256
Valuation allowance	(1,693)	(1,306)	(14,340)
Total deferred tax assets	6,957	6,522	58,915
Deferred tax liabilities:			
Fixed assets	(1,471)	(1,102)	(12,459)
Reserve for special depreciation	(407)	(364)	(3,446)
Other	(1,561)	(1,638)	(13,222)
Total deferred tax liabilities	(3,439)	(3,106)	(29,128)
Net deferred tax assets	¥ 3,517	¥ 3,415	\$ 29,786

13. 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, provides 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.

An appropriation of retained earnings for the year ended March 31, 2007 was duly approved at the annual general meeting of the shareholders held on June 22, 2007 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥7 (U.S.\$0.05) per share	¥850	\$7,204

14. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
As guarantors of indebtedness of employees	¥10		\$85

15. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2007 and 2006 were ¥12,788 million (\$108,297 thousand) and ¥11,251 million, respectively.

16. LEASES

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2007 and 2006, 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
	2007	2006	2007
Acquisition costs	¥1,239	¥1,104	\$10,496
Accumulated depreciation	466	621	3,947
Net book value	¥ 773	¥ 482	\$ 6,548

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, 2007 and 2006 and future minimum lease payments subsequent to March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Lease expenses	¥211	¥260	\$1,789
Future minimum lease payments:			
Within one year	¥229	¥180	\$1,945
Over one year	543	301	4,603
	¥773	¥482	\$6,548

Total expenses for all operating leases for the years ended March 31, 2007 and 2006 amounted to ¥3,570 million (\$30,234 thousand) and ¥4,182 million, respectively.

17. DERIVATIVES

Summarized below are the contract amounts and estimated fair value of the Company's derivatives positions at March 31, 2007 and 2006:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Forward foreign exchange contracts:						
Sell U.S. dollars	¥8,174	¥8,167	¥9,116	¥9,160	\$69,221	\$69,163
Sell pounds sterling	—	—	120	121	—	—

18. SEGMENT INFORMATION

a. Business segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is summarized as follows:

Year ended March 31, 2007	Millions of yen					
	Semiconductor business	Power module business	Power system business	Total	Eliminations	Consolidated
I. Sales:						
(1) Sales to third parties . . .	¥154,967	¥33,518	¥15,330	¥203,815	¥ —	¥203,815
(2) Intersegment sales	2,083	1,559	8	3,651	(3,651)	—
Net sales	157,051	35,077	15,338	207,467	(3,651)	203,815
Operating expenses	138,782	37,648	13,476	189,906	(1,105)	188,801
Operating income (loss) . . .	¥ 18,269	¥ (2,570)	¥ 1,862	¥ 17,560	¥ (2,546)	¥ 15,014
II. Total assets, depreciation expense, impairment loss, capital expenditures:						
Total assets	¥134,192	¥32,261	¥ 9,417	¥175,870	¥17,916	¥193,787
Depreciation expense	13,294	674	120	14,089	291	14,380
Impairment loss	39	—	—	39	—	39
Capital expenditures	24,144	1,169	135	25,449	1,214	26,663
Year ended March 31, 2006						
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)	—
Net 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. Total assets, depreciation expense, capital expenditures:						
Total 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
Thousands of U.S. dollars						
Year ended March 31, 2007						
I. Sales:						
(1) Sales to third parties . . .	\$1,312,282	\$283,835	\$129,817	\$1,725,935	\$ —	\$1,725,935
(2) Intersegment sales	17,647	13,203	73	30,923	(30,923)	—
Net sales	1,329,929	297,039	129,890	1,756,859	(30,923)	1,725,935
Operating expenses	1,175,225	318,808	114,118	1,608,152	(9,360)	1,598,792
Operating income (loss) . . .	\$ 154,704	\$ (21,769)	\$ 15,771	\$ 148,707	\$ (21,563)	\$ 127,143
II. Total assets, depreciation expense, impairment loss, capital expenditures:						
Total assets	\$1,136,358	\$273,190	\$ 79,745	\$1,489,294	\$151,719	\$1,641,014
Depreciation expense	112,578	5,710	1,023	119,312	2,465	121,777
Impairment loss	338	—	—	338	—	338
Capital expenditures	204,456	9,901	1,148	215,507	10,286	225,793

As described in "Accounting changes," effective the current fiscal year, the Company has changed its method of foreign currency translation to employing the average exchange rates during the fiscal year.

As a result, net sales of the semiconductor business, the power module business and power system business decreased by ¥446 million (\$3,783 thousand), ¥485 million (\$4,108 thousand) and ¥108 million (\$914 thousand), respectively, and operating income of the semiconductor business and the power module business increased by ¥83 million (\$706 thousand) and ¥136 million (\$1,158 thousand), respectively, and operating income of the power system business decreased by ¥39 million (\$332 thousand), as compared to the amounts which would have been recorded by the former method.

b. Operating revenues by geographic area

Operating revenues by geographic area for the years ended March 31, 2007 and 2006 are summarized as follows:

Year ended March 31, 2007	Millions of yen						
	Japan	Asia	North America	Europe	Total	Eliminations	Consolidated
I. Sales:							
(1) Sales to third parties . . .	¥143,054	¥21,776	¥25,883	¥13,101	¥203,815	¥ —	¥203,815
(2) Intersegment sales . . .	14,529	35,070	15,932	56	65,589	(65,589)	—
Net sales	157,583	56,847	41,815	13,158	269,405	(65,589)	203,815
Operating expenses . . .	144,118	57,944	37,862	12,925	252,850	(64,049)	188,801
Operating income (loss) . .	¥ 13,464	¥ (1,096)	¥ 3,953	¥ 232	¥ 16,554	¥ (1,540)	¥ 15,014
II. Total assets	¥133,414	¥25,606	¥32,427	¥ 5,541	¥196,989	¥ (3,201)	¥193,787

Year ended March 31, 2006

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)	—
Net 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. Total assets	¥109,635	¥24,404	¥30,771	¥ 5,041	¥169,852	¥ 2,474	¥172,327

Year ended March 31, 2007	Thousands of U.S. dollars						
	Japan	Asia	North America	Europe	Total	Eliminations	Consolidated
I. Sales:							
(1) Sales to third parties . .	\$1,211,399	\$184,408	\$219,181	\$110,947	\$1,725,935	\$ —	\$1,725,935
(2) Intersegment sales . . .	123,040	296,985	134,920	477	555,423	(555,423)	—
Net sales	1,334,439	481,393	354,102	111,424	2,281,359	(555,423)	1,725,935
Operating expenses . . .	1,220,416	490,678	320,620	109,455	2,141,170	(542,378)	1,598,792
Operating income (loss) . .	\$ 114,022	\$ (9,285)	\$ 33,482	\$ 1,968	\$ 140,188	\$ (13,045)	\$ 127,143
II. Total assets	\$1,129,766	\$216,839	\$274,596	\$ 46,924	\$1,668,126	\$ 27,112	\$1,641,014

As described in "Accounting changes," effective the current fiscal year, the Company has changed its method of foreign currency translation to employing the average exchange rates during the fiscal year.

As a result, net sales of Asia, North America and Europe decreased by ¥506 million (\$4,293 thousand), ¥247 million (\$2,098 thousand) and ¥285 million (\$2,415 thousand), respectively, and operating income of Asia increased by ¥272 million (\$2,308 thousand) and operating income of North America and Europe decreased by ¥28 million (\$240 thousand) and ¥111 million (\$945 thousand), respectively, as compared to the amounts which would have been recorded by the former method.

c. Overseas sales

Overseas sales for the years ended March 31, 2007 and 2006 are summarized as follows:

Year ended March 31, 2007	Millions of yen				
	Asia	North America	Europe	Other	Total
(1) Overseas sales	¥90,847	¥16,682	¥13,204	¥64	¥120,798
(2) Consolidated net sales					¥203,815
(3) Overseas sales as a percentage of consolidated net sales	44.6	8.2	6.5	0.0	59.3
Year ended March 31, 2006					
(1) Overseas sales	¥75,878	¥12,104	¥11,303	¥49	¥ 99,336
(2) Consolidated net sales					¥173,527
(3) Overseas sales as a percentage of consolidated net sales	43.7	7.0	6.5	0.1	57.3
Year ended March 31, 2007	Thousands of U.S. dollars				
	Asia	North America	Europe	Other	Total
(1) Overseas sales	\$769,303	\$141,272	\$111,813	\$548	\$1,022,936
(2) Consolidated net sales					\$1,725,935

As described in "Accounting changes," effective the current fiscal year, the Company has changed its method of foreign currency translation to employing the average exchange rates during the fiscal year.

As a result, overseas sales to Asia, North America, Europe and other decreased by ¥611 million (\$5,179 thousand), ¥141 million (\$1,202 thousand), ¥285 million (\$2,416 thousand) and ¥1 million (\$12 thousand), respectively, as compared to the amounts which would have been recorded by the former method.

19. RELATED PARTY TRANSACTIONS

Significant transactions with related parties for the years ended March 31, 2007 and 2006 were as follows:

Year ended March 31, 2007	Millions of yen				
	Transactions		Balances		
	Factoring	Loan	Accounts payable	Other current liabilities	Loans receivable
Sanken Business Service Co., Ltd.	42,404	¥—	¥7,524	¥428	¥—
Year ended March 31, 2006					
	Factoring	Loan	Accounts payable	Other current liabilities	Loans receivable
Sanken Business Service Co., Ltd.	¥14,921	¥11,195	¥3,784	¥1,229	¥ 123
Sanken Optoproducts Co., Ltd.	—	2,098	—	—	1,442
Year ended March 31, 2007	Thousands of U.S. dollars				
	Transactions		Balances		
	Factoring	Loan	Accounts payable	Other current liabilities	Loans receivable
Sanken Business Service Co., Ltd.	\$359,089	\$—	\$63,717	\$3,630	\$—

As for accounts payable and other current liabilities to Sanken Business Service Co., Ltd., a basic agreement was entered into among the Company, a supplier of the Company, and Sanken Business Service Co., Ltd., and the accounts were settled by way of factoring transactions.

20. STOCK OPTION PLAN

The amount of stock option compensation recognized for the year ended March 31, 2007 was ¥111 million (\$943 thousand) and was included in general and administrative expenses.

The following table summarizes the contents of the stock option plan at March 31, 2007:

Company name	Allegro MicroSystems, Inc. (a subsidiary)
Position and number of grantees	Directors: 2 Employees: 474
Class and number of shares	Common stock, 3,750,000
Grant date	From May 30, 2001 to March 31, 2007
Vesting conditions	Continuously employed until the 5th anniversary of the grant date
Service period	No provision
Exercisable period of subscription rights	Within 5 years from the vested date

The following table summarizes stock option activity under the stock option plan during the year ended March 31, 2007:

Non-vested:

Outstanding at March 31, 2006	2,313,670
Granted	247,800
Forfeited	76,600
Vested	1,718,330
Outstanding at March 31, 2007	766,540

Vested:

Outstanding at March 31, 2006	584,920
Vested	1,718,330
Exercised	—
Forfeited	—
Outstanding at March 31, 2007	2,303,250

The following table summarizes price information of the stock option plan as of March 31, 2007:

Weighted average exercise price per share	\$7.27
Weighted average fair value of stock option as of grant date	\$7.27

The Black-Scholes option-pricing model was used to calculate the fair value as of the grant date of an award. The fair value of options granted was calculated using the following estimated weighted-average assumptions:

Weighted average expected volatility	45.5%
Weighted average expected term (in years)	7.5
Expected dividend yield	\$0.04 per share
Risk-free interest rate	4.8%

21. AMOUNTS PER SHARE

Amounts per share as of and for the years ended March 31, 2007 and 2006 were as follows:

	Yen		U.S. dollars
	2007	2006	2007
Net income – basic	¥ 61.69	¥ 57.41	\$0.52
Net income – diluted	59.52	—	0.50
Net assets	680.11	627.66	5.75

Net income per share and diluted net income per share were calculated on the following basis:

	Yen		U.S. dollars
	2007	2006	2007
Net income per share:			
Net income			
<i>(Millions of yen / Thousands of U.S. dollars)</i>	7,499	7,035	63,509
Amounts not available to shareholders of common stock			
<i>(Millions of yen / Thousands of U.S. dollars):</i>	—	50	—
Bonus payments to directors			
<i>(Millions of yen / Thousands of U.S. dollars)</i>	—	(50)	—
Net income available to shareholders of common stock			
<i>(Millions of yen / Thousands of U.S. dollars)</i>	7,499	6,985	63,509
Average number of shares outstanding during the year			
<i>(Thousands of shares)</i>	121,581	121,680	—
Diluted net income per share:			
Adjustment to net income			
<i>(Millions of yen / Thousands of U.S. dollars):</i>	263	—	2,228
Subsidiary's stock acquisition rights			
<i>(Millions of yen / Thousands of U.S. dollars)</i>	(263)	—	(2,228)
Increase in number of shares of common stock			
<i>(Thousands of shares)</i>	—	—	—
Residual securities which do not dilute			
net income per share	Subsidiary's stock options (stock acquisition rights) 260,000	—	—

Net assets per share were calculated on the following basis:

	Yen		U.S. dollars
	2007	2006	2007
Net assets <i>(Millions of yen / Thousands of U.S. dollars)</i> . .	83,086	—	703,585
Amounts deducted from net assets			
<i>(Millions of yen / Thousands of U.S. dollars):</i>	425	—	3,607
Stock acquisition rights			
<i>(Millions of yen / Thousands of U.S. dollars)</i>	(111)	—	(943)
Minority interests			
<i>(Millions of yen / Thousands of U.S. dollars)</i>	(314)	—	(2,663)
Net assets available for distribution to shareholders			
<i>(Millions of yen / Thousands of U.S. dollars)</i>	82,660	—	699,977
Number of shares outstanding at the end of the year			
<i>(Thousands of shares)</i>	121,540	—	—

FINANCIAL SECTION
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, 2007 and 2006, and the related consolidated statements of income, changes in net assets, 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, 2007 and 2006, 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, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 22, 2007



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INVESTOR INFORMATION

As of March 31, 2007

Company name: Sanken Electric Co., Ltd.
Founded: September 5, 1946
Headquarters: 3-6-3 Kitano, Niiza-shi,
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Phone: +81-48-472-1111
Facsimile: +81-48-471-6249
Employees: 10,579

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

Shareholders: 17,067

Distribution by type of shareholders:

Financial institutions	35.09%
Individuals	26.65%
Foreigners	26.28%
Other	11.98%

Distribution by number of shares owned:

1,000,000 or more	38.58%
100,000 or more	28.57%
10,000 or more	11.90%
Less than 10,000	20.95%

Principal shareholders

Shareholder	Number of shares held (in thousands)	Percentage of voting rights
The Master Trust Bank of Japan, Limited (Trust Account)	10,795	8.60%
Saitama Resona Bank, Limited	6,011	4.79%
Japan Trustee Services Bank, Limited (Trust Account)	5,077	4.04%
State Street Bank and Trust Company	4,939	3.93%
The Bank of New York Europe Limited Lux Branch Account Client (Standard Rate)	4,189	3.33%
International Rectifier Corporation	2,500	1.99%
NIPPONKOA Insurance Company, Limited	2,061	1.64%
Mizuho Corporate Bank, Limited	2,000	1.59%
The Bank of New York–JASDEC Non–Treaty Account	1,669	1.32%
The Hachijuni Bank, Limited	1,556	1.24%

Note: The Company holds 3,950,093 (3.14%) shares of treasury stock but is excluded from the principal shareholders listed above.

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 22, 2007

Board of Directors and Statutory Auditors:

Sadatoshi Iijima

Director, President

Hirohito Sekine

Director

Kiyoshi Imaizumi

Director

Teruo Esumi

Director

Hidejiro Akiyama

Director

Dennis H. Fitzgerald

Director

Shigemichi Ieki

Director

Mitsumasa Sugiyama

Standing Statutory Auditor

Takaaki Mikami

Statutory Auditor

Hiroshi Ishibashi

Statutory Auditor

Masanobu Kurihara

Statutory Auditor

Corporate Officers:

Hirohito Sekine

Executive Vice President

Kiyoshi Imaizumi

Executive Vice President

Shigemichi Ieki

Senior Vice President

Hidejiro Akiyama

Senior Vice President

Yoshinari Kushiro

Corporate Officer

Kinji Kudo

Corporate Officer

Mitsuo Ueki

Corporate Officer

Akira Ota

Corporate Officer

Hiroyuki Takeshima

Corporate Officer

Tatsuo Okino

Corporate Officer

Yoshihiro Suzuki

Corporate Officer

Nobuhiro Katou

Corporate Officer

Takashi Wada

Corporate Officer

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