SANKEN REPORT **2021**

Power Electronics for Your Innovation

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Sanken Electric

Creates with Society

Power Electronics for Your Innovat!on

Slogan Meaning

Our slogan, "Power Electronics for Your Innovat!on," expresses the essence of our expectations for the medium-term management plan, as we start Medium-Term Management Plan 2018. The slogan embodies Sanken Electric's aspiration as a company to contribute through power electronics to the innovations of its customers, its individual employees, and society.

Corporate Philosophy

Our mission is to provide optimal solutions in our core semiconductor businesses for power electronics and peripheral fields, thereby contributing to the advancement of industries, economies, and cultures all over the world.

We will strive constantly to innovate our technological strengths and creative power as we pursue reliable quality.
Moreover, we will share our customers' values as we develop our business globally, leveraging our proprietary technologies.

We will respect each of our employees and treat all of them fairly.
Our employees will strive to grow as trustworthy individuals and as businesspeople.

We will carry out our duties with a highly ethical perspective as businesspeople who value technology and creativity. We will treat our customers and suppliers with fairness and integrity.

We will strive to maximize our corporate value for the sake of our shareholders, while fulfilling our social responsibilities and striving for harmony with the environment.

Profile

In 1937, the Toho Industrial Research Laboratory was established by Yasuzaemon Matsunaga, then president of the former Toho Electric Power Co., Ltd., as a 50th anniversary project of the company intended to conduct industrial development that is realistically useful to society. Tetsuji Kotani, who was chief of the semiconductor laboratory of the Toho Industrial Research Laboratory, took over the engineers and facilities of the laboratory when it was dissolved at the end of World War II, and established Toho Sanken Electric Co., Ltd. in 1946. Later, in 1962, the company adopted its current name, Sanken Electric Co., Ltd.

The Company established a dedicated semiconductor factory based on results of work on copper oxide and selenium rectifiers that had been ongoing since the research laboratory days. In 1958, we succeeded in creating a prototype for an innovative heat-dissipating silicon diode, and subsequently a silicon power transistor. Thereafter, we grew in step with the electronics industry, establishing a strong position as a power electronics manufacturer. We have kept pace with the changes in the times and provided high-quality solutions in the power supply and peripheral business fields to meet the diverse demands of society and our customers. We will continue as we have done in the past to provide original, cutting-edge products and striving to be a leading innovator in the field of power electronics.

Yasuzaemon Matsunaga

Tetsuji Kotani

"In 2021, we began a fresh start as a specialized semiconductor manufacturer.

Sanken Electric Co., Ltd. is a company which has strong competitiveness in the global market by providing energy savings and solutions, based on our cutting-edge power conversion and motion control technologies. In FY2021, we began a fresh start as a specialized semiconductor manufacturer for products such as power modules, power devices, and sensors.

Electricity and electronics are indispensable to modern life. Power semiconductors are devices needed every time electricity is used. Sanken Electric products are used in familiar things like cars, air conditioners and televisions and also in places that aren't as visible. For over 70 years, our products have supported people's lives.

Addressing environmental problems and saving energy on a global scale have become urgent challenges. With a large number of products and technologies that lead to high efficiency and energy savings, Sanken Electric makes a major contribution to global energy conservation through products for inverters used in air conditioners and for low fuel consumption and increased efficiency in automobiles. Additionally, we will promote activities such as carbon offsetting to reduce CO_2 generated from business activities and aim to be a company that can achieve continual growth and social contributions.

While business opportunities will be successively generated by the new industrial revolution being driven by IoT, AI, big data, autonomous driving, and 5G, the sustainability of global society is at a major turning point, reflecting the impact of the pandemic on the economy, society and other developments. Since its establishment in 1946, Sanken Electric has been constantly involved in research and development. We will continue to work on perpetually innovating technological capabilities and providing products of assured quality to help solve global environmental and social issues and further develop industries, the economy and culture. I thank you for reading this report and would be delighted should it deepen your understanding of our operations.

Hiroshi Takahashi
Representative Director, President

Takashi Wada
Director, Chairman

Hiroshi Takahashi
Representative Director, President

Contents

Overview of Medium-Term Management Plan 2021

The Sanken Group will complete restructuring and put development reforms firmly on track in fiscal 2021 (the year ending March 2022) and demonstrate the results of optimizing production and realizing growth strategies during Medium-Term Management Plan 2021.

We aim to drive a focused organization to become a highly profitable company that contributes to innovation for our society through the development and implementation of unique technologies.

Business Portfolio Rebuilding

Power modules, power devices, and sensors

Growth

Sales growth outpacing semiconductor market growth

KPIs

FY2023 Consolidated Targets

- Operating profit margin: At least 13%
- Net sales: At least ¥170 billion
- ROE: At least 12%

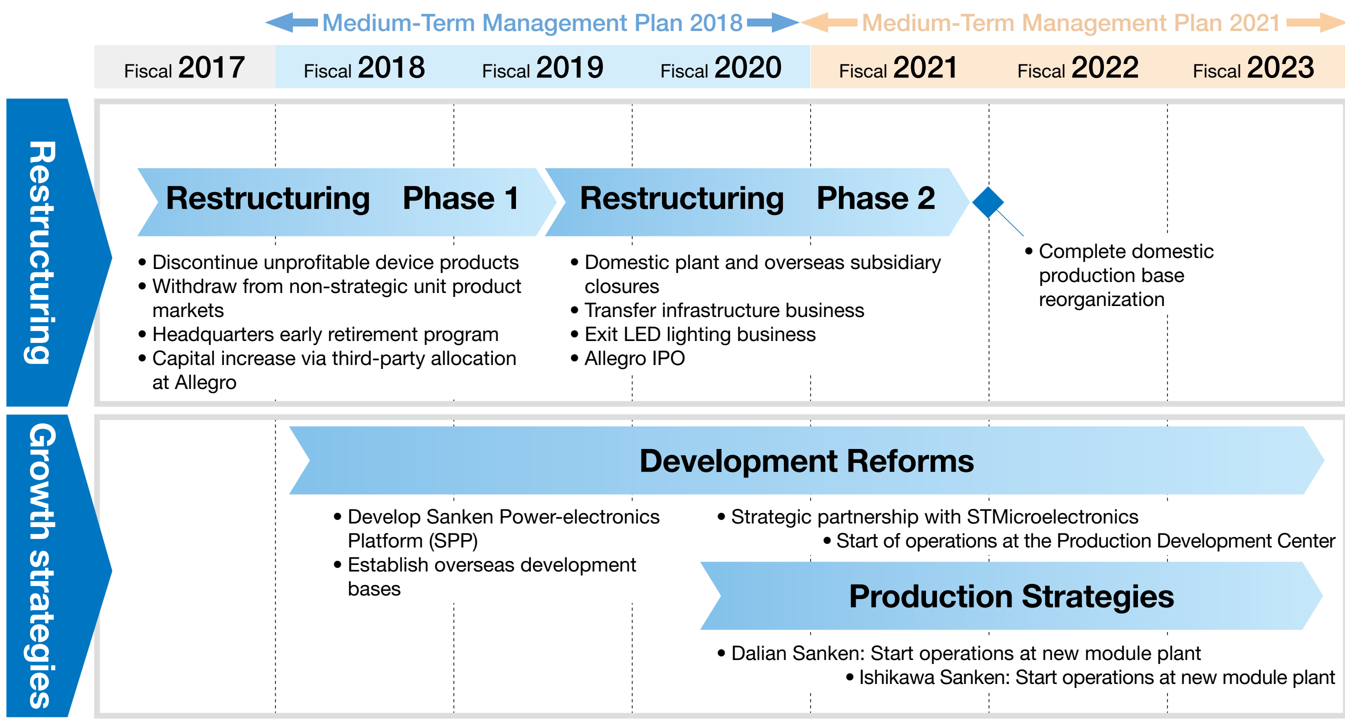
◆Overview of Medium-Term Management Plans

2017	Medium-Term Management Plan 2018	Medium-Term Management Plan 2021
• Begin restructuring • Capital increase via third-party allocation at Allegro	• Execute restructuring • Launch development reforms and growth strategies • Allegro IPO	• Complete restructuring • Realize growth strategies A three-year period for completing restructuring, including production base reorganization, and demonstrating results from development reforms

- Medium-Term Management Plan 2018 and Medium-Term Management Plan 2021 continue with an integrated management strategy
  Aiming to realize a recovery of the Sanken Core over the six years they cover
- Allegro continues to collaborate with technologies, development, and sales as a consolidated subsidiary

Note: Sanken Core: Sanken Electric semiconductor business excluding Allegro

◆Initiatives to Enhance Corporate Value



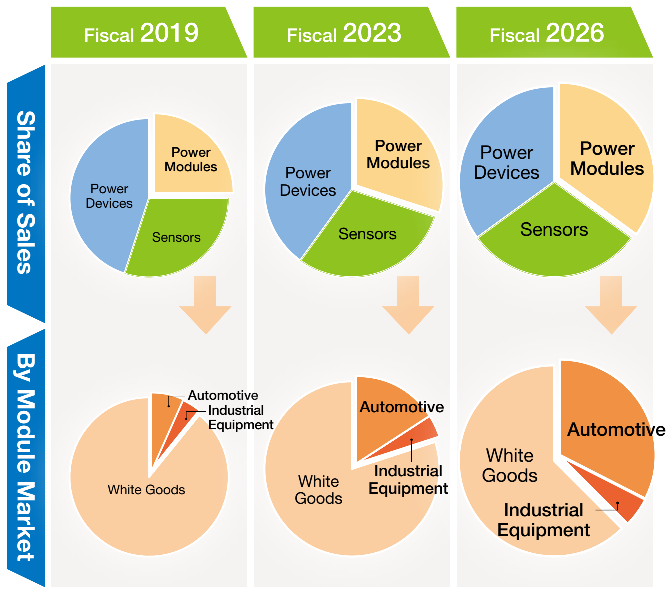
Finish restructuring, optimize production and realize growth strategies via Medium-Term Management Plan 2021

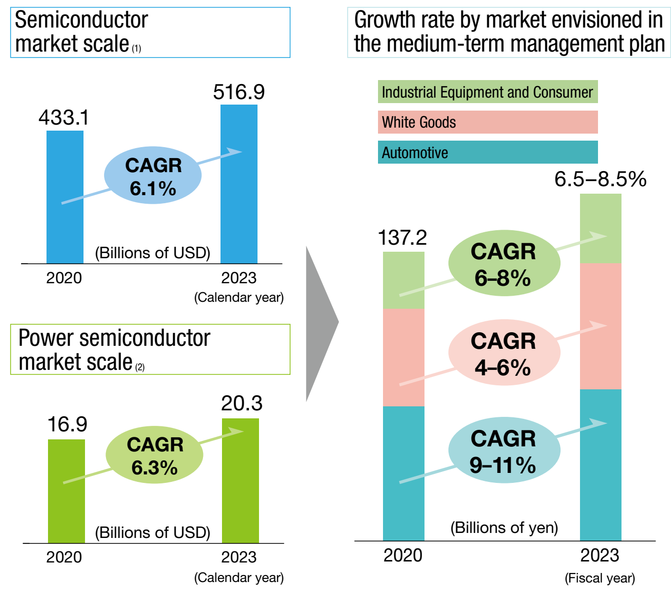
Growth in the three pillars of power modules, power devices, and sensors

Strengthen power modules by increasing sales for automobiles and industrial equipment

Target sales growth outpacing market growth for the Sanken Group overall

Power semiconductor market headed for full-fledged uptrend on tailwinds from eco-friendly vehicles and digital transformation





Source: (1) Prepared by the Company based on World Semiconductor Trade Statistics (WSTS) forecast released in December 2020
(2) Prepared by the Company based on Power Semiconductor Market 2020 by Yano Research Institute Ltd.

Striving to Speed Up Management Through a Generational Change and Advancing to a New Growth Stage

Takashi Wada
Director, Chairman

Supporting the Sanken Group's Growth Strategies Together with the New President, Based on the Results of Simultaneous Restructuring and Growth Strategies Implemented to Date

Looking back at market conditions since my appointment as president in 2015, I believe that the markets experienced a tumultuous six-year period due to events such as intensified trade friction between the US and China, economic stagnation, and the spread of COVID-19 from 2020. Initially, when I was appointed as president, the Sanken Core was facing the issue of declining profitability. To break through this impasse, a new strategy was needed to create numerous attractive products. Under these conditions, we explored ways to put the Sanken Group back on a growth trajectory and decided to simultaneously implement restructuring and growth strategies. Since 2017, after we raised funds from a capital increase via third-party allocation at our US subsidiary Allegro MicroSystems, Inc. (Allegro), restructuring advanced from Phase 1 to Phase 2. Development reforms shifted from establishing overseas development bases to formulating a platform development concept (the Sanken Power-electronics Platform (SPP)). In these and other ways, we steadily implemented management policies aimed at improving corporate value under Medium-Term Management Plan 2018.

However, the times have changed over the past few years. In this new era, corporate management must be guided by the assumption that paradigm shifts can—and will—happen following unexpected changes. Therefore, I wanted to speed up management through a generational change. We now expect to complete restructuring, and we achieved the listing of Allegro's shares on the Nasdaq Stock Market in 2020. I also wanted to show both internally and externally that the Sanken Group is now taking a new step forward. For these reasons, I decided to proceed with a change in president. Personally, I have no regrets, and I believe that I have fully accomplished my duties as president. During this period, restructuring did entail some painful changes. However, under Medium-Term Management Plan 2021, which began in fiscal 2021 (the year ending March 2022), I believe the Sanken Group has now entered a phase when it can focus on realizing its growth strategies.

Looking ahead, we will clearly separate the roles of the chairman and president from a governance perspective. As part of my role as chair of the Board of Directors, I will strive to maintain and strengthen Group governance, including Allegro, which is a publicly listed company, along with focusing on advancing ESG management. The president serves as chair of the Executive Committee and has final authority over management decision-making. The Board of Directors must be managed while considering how these management decisions will be evaluated externally. Moreover, opportunities have been provided to hold exhaustive prior discussions with external directors on important matters. Through these efforts, we have established a management structure that facilitates even more effective governance. Going forward, I'd like to support the Group's growth strategies, including the recovery of the Sanken Core, together with the new president.

Establish an Independent Business Model and Steadily Seize Opportunities in the Global Market

Currently, the power semiconductor companies that compete with us are becoming increasingly larger, thereby strengthening their market share and ability to control prices. In contrast, I believe that the final-product manufacturers who are Sanken Electric's customers are constantly seeking "independent medium-sized companies that have unique technological capabilities and that are not controlled by any specific company." These customers regularly approach Sanken Electric with requests to support their needs for modules and devices. I see this as proof of my belief. Since our foundation, we have established an independent business model that is not affiliated with any corporate group. For example, in the automotive sector, we have built relationships with Tier 1 companies, which serve as sales channels that lead to various OEM companies, regardless of corporate group. In the white goods sector, we deliver Sanken Electric's products not only to the domestic market in Japan, but also to leading local companies in China and South Korea. In these ways, the Sanken Group's core strength lies in the fact that it has an expansive customer base in Japan and overseas. It is precisely because we have such a business model that we will have growth opportunities in the global market.

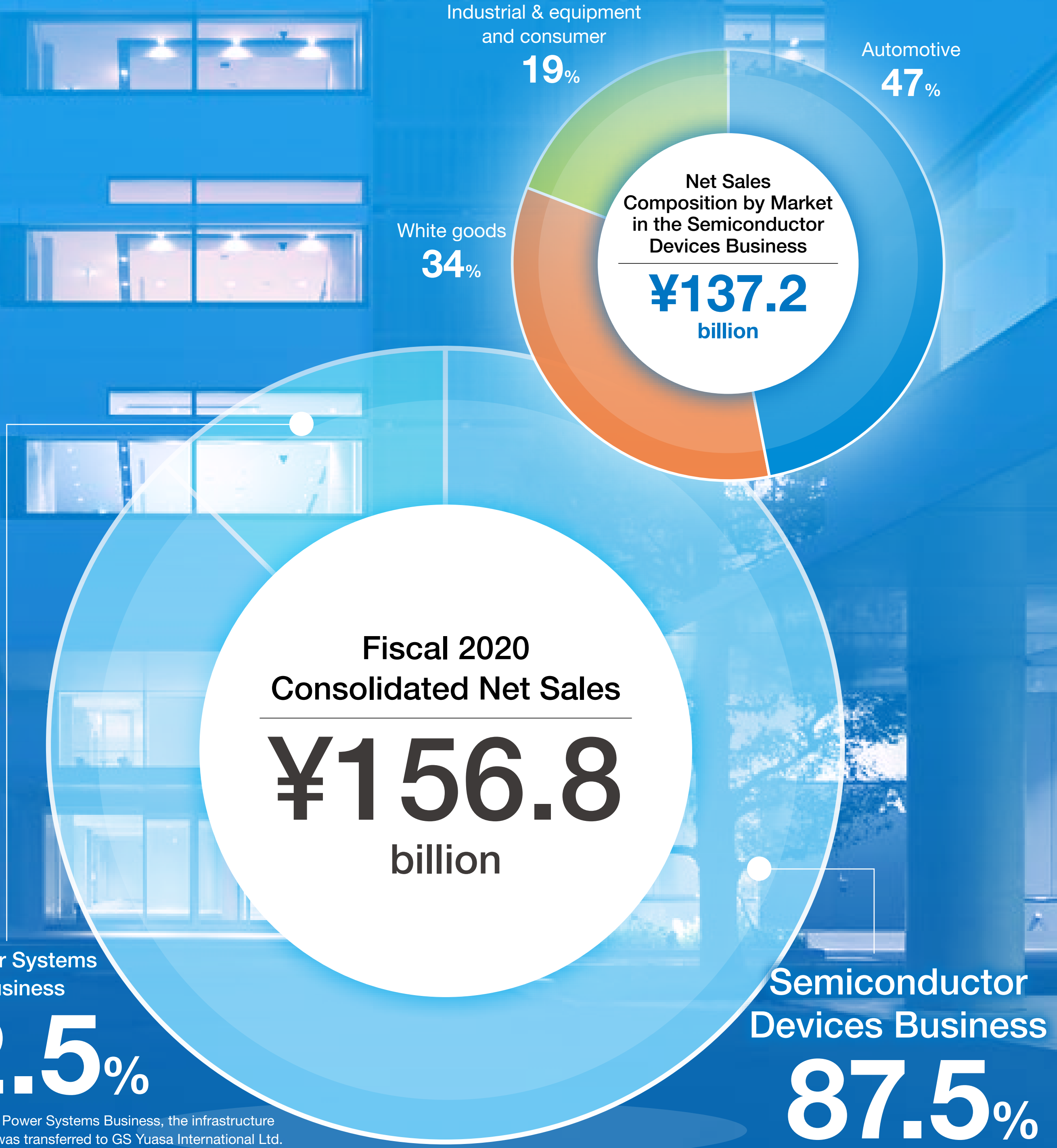
In addition, "For the Innovation of Our Customers and Individual Employees" has been adopted as the slogan of Medium-Term Management Plan 2021. To realize this slogan, power semiconductors will become the core of our future business model. Moreover, we will shift from our conventional business model of supplying customized products for specific customers to providing products based on platform development (SPP). I believe that this shift will allow the Sanken Group to achieve steady growth.

I'd Like the New President to Steadily Advance Medium-Term Management Plan 2021, Striving to Realize the Recovery of the Sanken Core and Laying the Groundwork for the Future from the Next Medium-Term Management Plan Onward

In the process of selecting a new president, candidates were considered from a wide range of perspectives from both within and outside the Company in the voluntary Nomination Committee, which is chaired by an external director. Following repeated discussions, we ultimately decided to appoint Mr. Hiroshi Takahashi, who is highly knowledgeable about matters such as engineering, customers, and product development, as our new president. Mr. Takahashi has a background in engineering. He gained professional experience as a department manager in the motion control business field and played a leadership role in expanding business for current intelligent power module (IPM) products for white goods. Mr. Takahashi also possesses leadership experience in production departments and is expected to further enhance the product capabilities of the Sanken Core. In the near term, I'd like Mr. Takahashi to steadily advance Medium-Term Management Plan 2021. By executing our growth strategies, I'd like him to strive for the recovery of the Sanken Core and to lay the groundwork for the future from the next medium-term management plan onward. I also want Mr. Takahashi to envision what the world might look like even further into the future. From 2030 onward, there will be many issues such as carbon neutrality, digital transformation (DX), and work style reforms. In this context, I'd like him to strengthen our power semiconductors and the Sanken Group's strategic role in society.

Looking ahead, I believe that ESG management will be an essential requirement for the survival of companies. Activities such as reducing CO_2 emissions and supporting environmental protection efforts have been inseparable from the businesses we have undertaken over many years. In fact, sustainability is the starting point for our activities. As we mark the 75th anniversary of our foundation in 2021, I'm determined to do my utmost to support our new management team based on the activities described above, with the aim of advancing the Sanken Group to an even higher stage.

Striving for innovations in our technological strengths and creative power in our core business of semiconductors while promoting global business development



* Within the Power Systems Business, the infrastructure business was transferred to GS Yuasa International Ltd. on May 1, 2021.

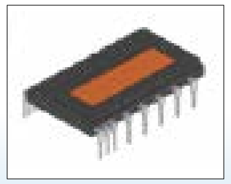
Sanken Electric's Core Products

Automotive Products

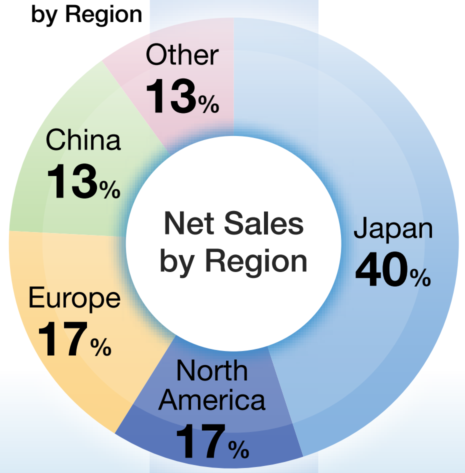
Automotive components are rapidly progressing with electrification in pursuit of comfort, safety, and driving performance. In the past few years we have been steadily adding products for hybrid vehicles and electric vehicles to our existing products, such as alternator diodes and regulator ICs, which have proven to be strong performers. We also have a leading position in the global market for magnetic sensors for automobiles.


Magnetic sensor


Alternator diode


High-voltage three-phase motor driver IC

■ Net Sales of Automotive Products by Region

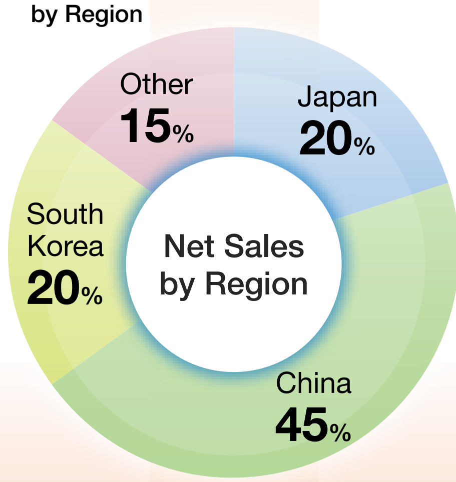


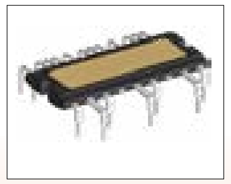
Products for White Goods

As countries around the world respond to background environmental issues by tightening CO_2 regulations and electricity supply restrictions, the move to adopt energy-saving inverters for electrical appliances such as air conditioners, washing machines, and refrigerators is accelerating. Sanken Electric's intelligent power modules (IPMs), which serve as the cornerstone of motion control, are helping to reduce household power consumption around the world.


Refrigerator compressor driver IPM

■ Net Sales of Products for White Goods by Region




Air conditioner driver IPM


Air conditioner outdoor unit fan motor driver IPM


Air conditioner indoor unit fan motor driver IPM

Hiroshi Takahashi

Representative Director, President

Profile

April	1986	Joined Sanken Electric
October	2010	IPM Project Leader, Engineering Headquarters
April	2012	Vice General Manager, MCD Division, Engineering Headquarters
April	2015	General Manager, MCBD Division, Engineering Headquarters
April	2018	Head, Production Headquarters, Device Business Corporate Headquarters
June	2018	Corporate Officer
June	2020	Director and Senior Corporate Officer
June	2021	Representative Director and President

Please tell us about your resolutions and aspirations on your appointment as president.

On my appointment as president, I've decided to focus my energies on three themes: "changing the Company," "clarifying and further enhancing our technological strengths and advantages," and "changing the mindset of employees."

First of all, in "changing the Company," in addition to further growth of Allegro MicroSystems, Inc. (Allegro), I also view improving the profitability of the Sanken Core other than Allegro as the most important issue. The main approaches to this improvement are optimizing production, which we have been promoting in our structural reforms, and expanding sales of highly profitable new products through development innovation, which we have been working on since Medium-Term Management Plan 2018. In Medium-Term Management Plan 2021, we have carried on the slogan of the previous medium-term management plan, "Power Electronics for Your Innovat!on," promoting selection and concentration aimed at transforming ourselves into a globally competitive, dedicated power semiconductor manufacturer with high earning capability. I am confident that this is the path we should take.

Next, looking at the "technological strengths" of the Sanken Core, when I consider where our strength and competitive advantage lies, I think that it is in our technological strengths in bringing things together and combining them, and I believe we should develop this strength even further. In addition to our chip process and packaging technologies, we will also look to increase the level of our elemental technologies that support manufacturing, such as production technology and evaluation and testing technology. These complex combinations will create higher value products that I believe will be the strength of the new Sanken Core. This is really the realm of power modules and I consider it to be part of our portfolio that we should focus on.

Moreover, the Sanken Power-electronics Platform (SPP) development concept enables us to share each of the elemental technologies as a platform when we develop products, so that we can efficiently realize market-oriented product development projects. The Program Management Office is solely in charge of carrying out finely detailed progress management, creating a structure that can reliably deliver outputs in line with the development roadmap. Moreover, we have concentrated the key production technology development resources needed for manufacturing, which were previously distributed across our plants, and in 2021 we opened the Production Development Center at our Headquarters. Under this initiative, we have concentrated our resources so that we can extend our elemental technology development capabilities quickly and over the long term, enabling us to engage in better product development by platforming our combined technologies based on the SPP concept. This new structure is playing a central role in our development reforms.

Finally, in "changing the mindset of employees," while we have many employees who strive very sincerely on the production front, I feel that there is still not enough awareness of the need to make a profit. We need to change their thinking so that they recognize value in terms of customer needs and marketing, and reorient their mindset with more strategic ideas and concepts. If they have the idea of converting value into money, then there are customers who will buy attractive products for an appropriate price. If we focus on this and manage our costs, then we will naturally generate profits. We will change our organizational structure to make this possible, clarifying responsibility and establishing an environment that is easier to work in. If we create a well-designed organization and structure, then we will be able to apply our comprehensive capabilities when our thinking is at an impasse, helping to find the answers to save time and solve problems. Rather than having one person thinking about a problem, it will be better to deal with it as an organization. In-house, we always say "aim to demonstrate creativity, promote self-transformation, and break through status quo bias."

Please tell us about your own career.

I joined the Company as a new graduate in 1986. I was assigned to the Engineering Headquarters, where I worked in product development for 30 years. In recent years, I have been in charge of production, and I have led our plant consolidation and elimination project as part of structural reforms, which is currently in its final stage. In the Engineering Headquarters, I started my career as an engineer from the development of small, low-voltage motor drivers for use in printers and so forth. I was actively engaged not only in development, but in picking up on customers' desires. It was this experience that taught me the importance of communication, and the joy of making customers' desires a reality. This was where I first learned to value relationships with people, as I still do today.

Another turning point in my professional life occurred in 2010, when I was selected to lead a special project for development of high-voltage IPMs aimed at capturing the Chinese and South Korean markets, which were seeing strong growth in home appliances. Prior to that, I have developed high-voltage IPMs myself and had been active mainly in selling them in Japan. However, they hadn't grown into a business pillar, and it was a big move for the Company. At this point, I was given a large amount of authority that I hadn't had before in my position at the time, and with the powerful support of the management team I was able to make rapid decisions on the ground to roll out bold sales expansion and marketing activities. A few years after entering those countries, we managed to capture a significant share of the market. I struggled somewhat with cultural differences, but I knew that we could succeed by acting with sincerity and realizing customers' demands. My experience there helped to shape not only my career, but also my personality. I am sure it has been one of the factors that enables me to act with confidence. I am the first engineer to become a president of this company since the founder, and I plan to use my experience to date in managing the Company.

Please share your attitude and thoughts regarding the management vision.

Our long-term vision for Sanken Electric is expressed in our management vision below.

Drive a focused organization to become a highly profitable company that contributes to innovation for our society through the development and implementation of unique technologies.

I consider it my mission as president to realize this management vision.

The Company conducts business in the area of power semiconductors and peripheral fields. To succeed amid increasingly tough global competition, we must further refine our original technologies. To achieve this, it is important that each individual employee aims to grow a little compared to their past selves, and that the organization, which is the group made up of these individuals, leverages their individual growth in synergy. Then, we must condense these daily efforts and results into our semiconductor products, supplying them to various countries, customers, markets, and applications, enriching the lives of people and contributing to innovation that helps to realize safe and stable societies as a highly profitable corporation. It is my vision that we should become such a corporation.

Please talk about your goals for the new Medium-Term Management Plan 2021 and your strategies for achieving them.

The important issues to tackle for increasing the Company's corporate value are improving the profitability of the Sanken Core and the further growth of Allegro. The framework of Medium-Term Management Plan 2021 is based on these, and the plan calls for growth in the three pillars of our business portfolio: power modules, power devices, and sensors. We will also aim to realize sales growth that exceeds the semiconductor market growth rate, and we have set KPIs for the final year of the plan, fiscal 2023, of an operating income margin of 13% or higher, net sales of ¥170.0 billion or higher, and ROE of 12% or higher. We are aiming to clarify our original technological capabilities and advantages and increase business efficiency as a result of selection and concentration. Our overall vision for the medium-term management plans is a management strategy that unifies Medium-Term Management Plan 2018 and Medium-Term Management Plan 2021, with our most important mission being to revitalize the Sanken Core over the six-year period.

The specific measures of Medium-Term Management Plan 2021 are to pursue expanded sales and profits through "products that meet the needs of future markets," transform the Company into a corporation that is recognized for its technologies through "penetration and thorough implementation of SPP," build a solid value chain and ensure global competitiveness through "innovative production," realize growth strategies by "strengthening marketing" in growth markets and promoting constant "work style reforms and digitalization," "respect diversity" and realize an organizational culture in which stakeholders will place their trust, and "contribute to the realization of a sustainable society" through the development of products that help to preserve the earth's environment and environmental impact reduction activities. These goals form the framework supporting the management vision, and we intend to implement them in our business activities.

Please tell us about the objective and details of the recent reorganization.

The organization had been separated by functions up until fiscal 2020. We revamped it with an emphasis on the unity and efficiency of strategies and organizations and reorganized it so that the organization system and functions clarified responsibility. The former Engineering Division was reformed into an organization that emphasizes marketing that converts value demanded by the market into profit under the market-in concept. We concentrated all of the Engineering Division involved from development to production and integrated the marketing functions that were in the Sales and Engineering Division, strengthening our structure for conducting new product development matched to market needs and establishing an environment where people can focus intensively on new product development. We will also reorganize a production and sales organization responsible for sales, profits, and inventories of each product, in conjunction with the rebuilding of our portfolio into power modules and power devices and realize a customer-centric structure that emphasizes the supply chain.

We have also established a new organization to provide cross-divisional control over the Sanken Core's development progress and profitability management, quality management, and materials procurement.

Based on management accounting for helping to make management decisions and improve business performance, the organization will support improvements in new product development and merchandizing capabilities that we aim to achieve under Medium-Term Management Plan 2021.

In addition, our corporate staff function will work as an organization directly led by the president to accelerate important management themes, such as strengthening our financial structure, reforming work styles, and promoting DX.

This new structure has been under consideration for more than one year before my appointment as president. With the organizational structure as our axis, we will actively work to solve various management issues, aiming to improve the profitability of the Sanken Core.

Please explain your ideas and initiatives regarding environmental, social, and governance (ESG) management.

Recently, there has been a surge in the importance of corporate initiatives regarding ESG. This trend has given companies pause to reflect on what they want to be, and their vision for themselves, and they are being called upon to publicly disclose their initiatives. In this environment, we have also been accelerating our response to ESG. To execute these initiatives, it is necessary to spend some resources, but this is an essential issue to address in order for us to fulfill our corporate social responsibility and to survive and grow as a company. To put it another way, we believe there is no future for companies that do not engage seriously with ESG, and we will therefore engage in promoting ESG as the main axis of management going forward.

Even before the concept of ESG became popular, we had developed many products that were eco-friendly and saved energy. We will now expand these even further and contribute to reducing CO_2 emissions by promoting our main business. For example, the IPMs used in inverter air conditioners are a key component affecting the performance of the inverter units. They have a tremendous effect on reducing power consumption and are said to use around 30% less energy than a non-inverter unit. A tentative calculation based on the number of IPMs sold by the Company indicates an energy-saving effect of around 29.4 billion kWh. By comparison, the annual electric power generated by a medium-sized thermal power station is around 4.0 billion kWh. This shows that the energy-saving impact of the Company's IPMs is equivalent to about seven thermal power stations, so they are having an extremely powerful impact.

In addition, as part of the Group's activities to reduce its environmental impact, at Ishikawa Sanken, we have established the Horimatsu Plant Carbon Offset Promotion Project, which is a plan to achieve zero CO_2 emissions from the use of electricity in the Horimatsu District by 2025. We will set up solar power generation equipment on-site at the Horimatsu Plant and replace some electricity with the abundant hydropower-generated electricity of the Hokuriku District. In this way, to become a company that is growing sustainably going forward, the Company must plan and communicate its own activities to reduce CO_2 emissions from corporate activities. The Company will continue to promote product development that will help to save energy and thereby contribute to society through its main business.

In our efforts to reform work styles, we have reformed our systems for remote work and so forth. At the Production Development Center, guided by the concept of making it easy for people coming into the office to work, we have created a quieter area as a free space where people can concentrate on creating ideas, as well as an area mainly for communication where people can have free discussions. The idea is to focus on providing environments that are easy to work in and that people can select depending on their work that day and the people they need to connect with. In terms of personnel systems, from a perspective of strengthening our human resources, we are also making an effort in internal training, while actively pursuing recruitment of external personnel, such as mid-career engineers. We plan to promote the securing of high-quality human resources both in Japan and at our production centers overseas, as well as stepping up our recruitment of non-Japanese and female employees, and increasing the number of female managers.

On the governance front, the voluntary Nomination and Compensation Committees serve as advisory bodies for the Board of Directors and they function thoroughly with the three external directors as the core. The Structural Reform Committee, which has been operating for a while, has changed its name to the Growth and Reform Committee and meets once a month. The focus of the committee's discussion has shifted from structural reforms to a more active discussion regarding growth. At the Ordinary General Meeting of Shareholders held in June 2021, we welcomed onboard an external director who is an experienced corporate manager with a deep technical knowledge of the semiconductor industry. We are looking forward to receiving advice from an external director with a different career background and knowledge from ourselves in our discussion of various growth strategies for increasing the corporate value of the Sanken Core.

I believe that what our stakeholders want from us is to contribute to customers' profits and contribute to society through high-quality products. In particular, from a perspective of ESG management, I don't think we will be recognized by society simply by taking actions required by various systems. We should have higher aspirations to fulfill our social responsibilities. I hope you will expect great things from Sanken Electric going forward.

We aim to improve the profitability of the Sanken Core and expand our business over the medium to long term through the completion of structural reforms and the realization of growth strategies.

The Sanken Group will rebuild its portfolio, starting from Medium-Term Management Plan 2021, and will arrange its products under three pillars: power modules, power devices, and sensors. These are mainly used in the field called power electronics, in products that use motion control or electric power conversion technologies. They are used as key devices in a wide range of applications including automobiles, white goods, industrial devices, office automation equipment, and TV and audio.

Kazunori Suzuki
Director and Senior Vice President
Head of Semiconductor Business
Corporate Headquarters

Fiscal 2020 Results

Net sales ¥137.2 billion Operating income ¥1.2 billion*

* Recorded ¥5,128 million as IPO-related expenses following the listing of U.S. subsidiary Allegro MicroSystems, Inc. on the Nasdaq Stock Market.

In fiscal 2020 (the year ended March 31, 2021), net sales in the Semiconductor Devices Business were ¥137,233 million, recovering to around the same level as the previous fiscal year after a dramatic decline in the first quarter due to the impact of the novel coronavirus (COVID-19) was turned around in the second half.

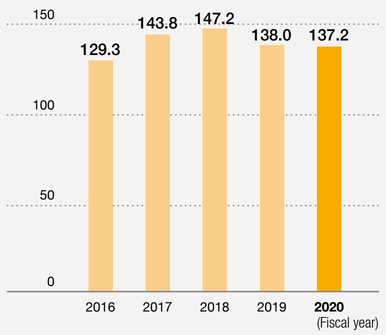
By market, sales of automotive market products decreased by 8.8% year on year to ¥64,045 million, reflecting the impact of a global decrease in production due to COVID-19. Sales to this market recovered sharply from the third quarter, so that fourth quarter sales were up 8.5% year on year.

In white goods, such as air conditioners, washing machines, and refrigerators, an increase in the rate of shifting to inverters in China due to unification of air conditioner standards along with support from increased demand in Europe and the United States drove brisk performance in mainstay IPM products. As a result, net sales for the white goods market increased by 4.1% year on year to ¥46,268 million.

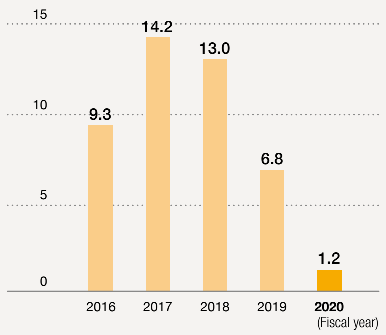
In the industrial equipment and consumer markets, sales increased by 15.5% year on year to ¥26,920 million, atop an increase in telecommunications demand due to expansion in the use of remote environments and growth in stay-at-home demand during the COVID-19 pandemic.

With regard to profits, the Company saw a sharp decrease in operating income, which fell 82.5% year on year to ¥1,190 million. This was mainly due to the impact of production adjustments from the latter part of the first half to the early part of the second half, as well as recording ¥5,128 million in IPO-related expenses associated with the listing of U.S. subsidiary Allegro on the Nasdaq Stock Market.

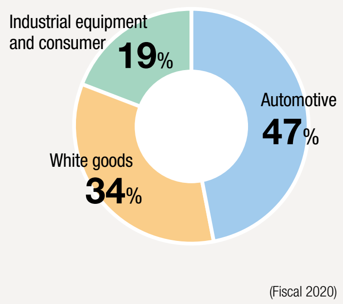
Net Sales



Operating Income



Net Sales Composition by Market



Growth Strategies of the Sanken Core

Strategies for each market are set out in Medium-Term Management Plan 2021. In the automotive market, new products for xEVs* are expected to expand from fiscal 2023, driven by the shift to electrification. In our flagship product for xEVs—power modules for traction motors—the sales peak period for ordered projects is expected to arrive earlier than initially expected due to the recent acceleration in the shift to EVs. An increase in models adopting these products will make them a major pillar of automotive module growth. In addition, we plan to release in-house modules with SiC in 2025, as a next-generation traction motor power module product. Meanwhile, our business for internal combustion engines is also expected to maintain a certain ratio of sales.

In the white goods market, we expect to see continuous growth due to the shift to inverters. The ratio of inverter-driven air conditioners is expected to continue increasing through 2026, and the global air conditioner market is projected to continue expanding after that. In washing machines, growing demand for large eco-friendly models is expected to drive the shift to inverters even faster than initially envisaged. We will accelerate the expansion of SPP-developed products in order to reliably increase our profits in this white goods market.

Moreover, in the industrial equipment market, we will promote sales expansion of IPM products jointly developed with STMicroelectronics.

In the ratio of new products in net sales, the results of development during Medium-Term Management Plan 2018 have emerged during the period of Medium-Term Management Plan 2021 and are expected to exceed the target of 15%. We will take measures to maintain the target thereafter. In our initiatives to improve profits, at the design stage, we will work to shrink chips, change and standardize materials, and reduce component numbers; while at the production stage, we will focus on efforts to build mixed production lines, promote automation via inspection imaging utilizing IoT, raise productivity via equipment management utilizing AI, and thoroughly automate transport.

To achieve the targets of Medium-Term Management Plan 2021, we will achieve a higher level of growth for the Group and revitalize the Sanken Core.

* xEV is a collective term covering electric vehicles (EVs or BEVs), hybrid vehicles (HEVs or HVs), plug-in hybrid electric vehicles (PHEVs or PHVs) and fuel cell vehicles (FCEVs or FCVs).

New Products' Share of Sales

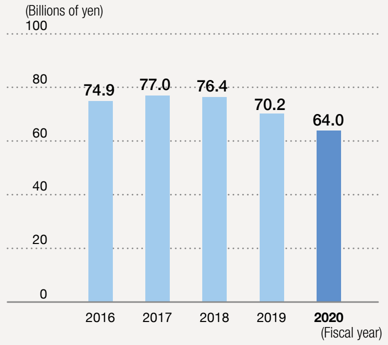
* New products are defined as products released within 3 years for automotive and 1.5 years for other applications, and include customized products besides SPP-developed products.

Measures to improve profit

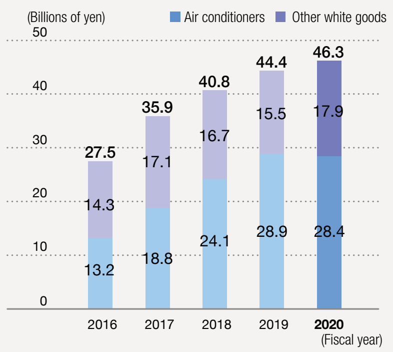
Design
- Chip shrinking
- Standardize/change materials
- Reduce the number of components

Production
- Build mixed production lines
- Promote automation via inspection imaging utilizing IoT
- Raise productivity via equipment management utilizing AI
- Thoroughly automate transport

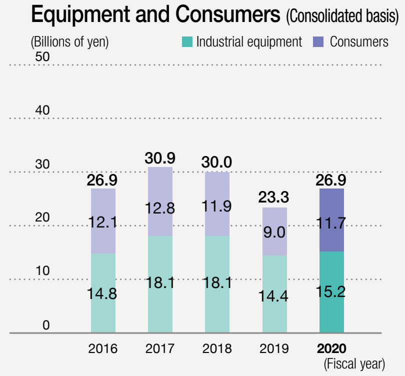
Sales of Semiconductors for Automobiles (Consolidated basis)



Sales of Semiconductors for White Goods (Consolidated basis)



Sales of Semiconductors for Industrial Equipment and Consumers (Consolidated basis)



"Through a shift to technology development focused more on marketing, we will realize market-oriented product development with an emphasis on the customer.

Hideki Nakamichi
Director and Senior Corporate Officer
Deputy Head of Semiconductor Business Corporate Headquarters

The Marketing Headquarters is driving market-oriented elemental technology development and taking charge of growth strategies

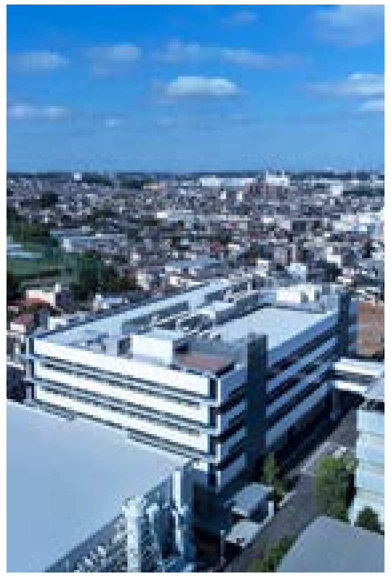
An organizational restructure carried out in April 2021 merged the Product Development Division, Elemental Technology Development Division, and the marketing functions to create a new Marketing Headquarters. The new headquarters organizes these functions as a major axis of the growth strategy to promote market-oriented elemental technology development. It consolidates all elemental technology development divisions, from chips to packages and production line design (production development). As a strategy of Medium-Term Management Plan 2018, we worked to reform development and spent three years building the Sanken Power-electronics Platform (SPP). Through this, we will realize market-oriented product development with an emphasis on the customer, which is the intended role of the Marketing Headquarters.

We have positioned Medium-Term Management Plan 2021 as a phase for demonstrating concrete results from this development reform, as we shift from our previous development approach of custom development based on customer needs to platform development. This platform shares the elemental technologies mentioned previously, such as chips, packages, control circuits, and ICs, thereby reducing development lead times and realizing other cost reductions through standardization of materials and production methods. It enables new product development with a greater emphasis on profit, aiming to improve the profitability of the Sanken Core.

To improve profitability, we have adopted a sales ratio for new products of at least 15% as a KPI, and we intend to replace existing products for white goods, which is the volume zone for the Sanken Core's sales, with new, highly profitable products. Specifically, we plan to increase the output of new products through SPP development, starting with new high-performance IPM products that began mass production in the current fiscal year.

The Marketing Headquarters will manage market trends, customer tends, and competition trends, as well as all aspects from product planning through to progress management on platform development. This will help to promote a shift towards technology development with a greater emphasis on marketing, and we will expand our lineup of products used not only by individual customers, but in a wide range of markets and applications. Furthermore, with SPP development, we will update platformed elemental technologies every six months after launch based on customer feedback, enabling us to keep pace with the rapidly changing markets. Looking ahead, through this development reform based on SPP, we will transform into a highly profitable corporation capable of sustainable growth, while pursuing innovative production and accelerating production reforms to generate cash flow. Furthermore, we have positioned the automotive market as our priority focus, as it changes against the background of electrification and automation, and we plan to expand sales and profits in products for EVs and ADAS.

In fiscal 2021, we will work to expand development and sales to achieve the targets of Medium-Term Management Plan 2021, using the ratio of new products in net sales, the number of commercialized products, and the number of ES samples for customers as indicators. In addition, we recognize that our technologies and products should contribute to energy and resource saving, as well as CO_2 reduction. We are committed to carrying out our mission of contributing to the benefit of society by solving social issues.



Role and Expected Effect of the Production Development Center

At the Production Development Center, we aim to concentrate necessary technologies for SPP development and strengthen our systems from new product development to mass production. We have brought together the technology development that was previously conducted independently at each plant, along with the engineers involved, and concentrated them at the Production Development Center, in an effort to increase efficiency and unify our direction.

Over the past few years, we have encountered significant issues with losses occurring amid time constraints on elemental technology development and in starting up mass production, even when prototype testing has been carried out. We will proceed to create an environment to improve this situation, including advance development of platforms and establishment of pilot production lines that can be tested for mass production equipment.

We will steer towards an original development style of deploying elemental technologies established as platforms in new product development in order to increase the speed of development. We will also keep pace with the move towards digitalization by upgrading the functions of our development environment around the three pillars of imaging, automation, and adoption of IT.

We will actively introduce digital technologies that make full use of DX, IoT, and AI, including shifting from human visual monitoring to AI-Verify system-based image processing judgement, building an automated system for transporting work between processes (i-TS: intelligent transport system), which was previously conducted by human operators, and incorporating process and equipment data gathering by BI tools. In this way we will accelerate abnormality detection and predictive safety initiatives. Through these activities, we aim to halve our development cycle and double the speed of our production with a view to expanding profits.

Kazuo Akaishi
Corporate Officer
General Manager, Production Development Center
Deputy Head of Marketing Headquarters,
Semiconductor Business Corporate Headquarters

CSR Vision

Sanken Electric addresses environmental (E), social (S) and governance (G) issues to realize a sustainable society and connects them through creation

New Value Creation

To achieve sustainable corporate growth, we have organized various social issues into risks and opportunities as issues the Sanken Group should address.

Basic Stance on Social Issues

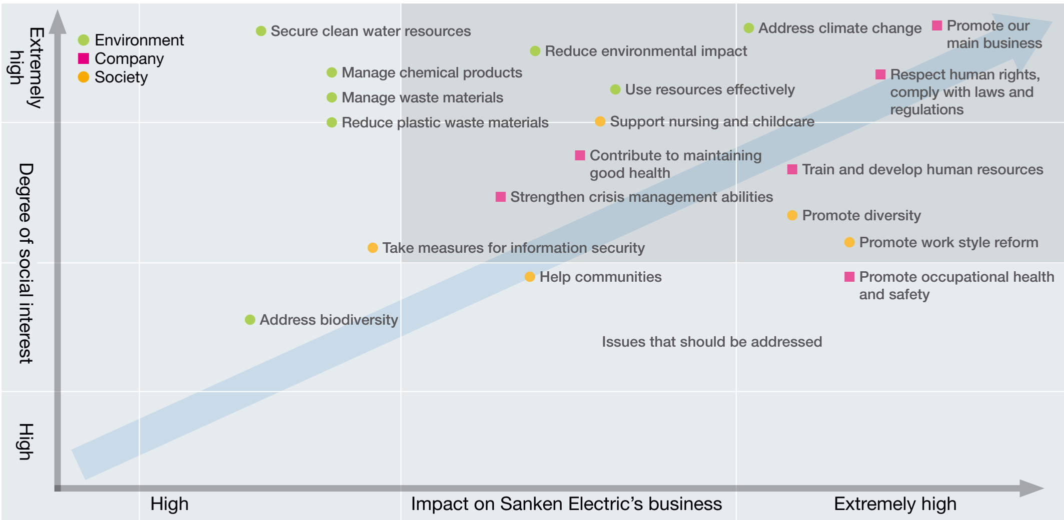
The Sanken Group's corporate philosophy is "Our mission is to provide optimal solutions in our core semiconductor businesses for power electronics and peripheral fields, thereby contributing to the advancement of industries, economies, and cultures all over the world," which expresses the Company's basic stance for addressing social issues.

The management policy of Medium-Term Management Plan 2021 calls for establishing specific methods for addressing social issues with the aim of expanding sales of products that meet the needs of future markets by accelerating electrification and digitalization. This approach is expressed in the slogan "Power Electronics for Your Innovat!on."

Method for Identifying Materiality

The Sanken Group examined materiality from comprehensive viewpoints, including with regard to the medium-term management plan. The process involved mapping the degree of social interest with the impact on Sanken Electric's business to identify the Sanken Group's materiality.

Organizing Materiality　Priority and Impact



Sanken Electric's Materiality

Through the process of confirming our corporate philosophy and analyzing materiality, social issues the Sanken Group should work toward resolving were determined to be "CO_2 reductions through promotion of our main business (energy savings, higher efficiency)" and "reduce the environmental impact of our business activities."

CO_2 reductions through promotion of our main business (energy savings, higher efficiency)

Reduce the environmental impact of our business activities

Connecting Materiality to ESG Management

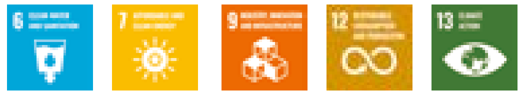
Sanken Electric links its contribution to society with its sustainable development by incorporating identified materiality into ESG management. We have set and manage progress toward KPIs and goals in each theme.

Contributing to a sustainable society through promotion of the main business
Efforts to reduce environmental impact

Social issues to which the Sanken Group can contribute (Materiality)

E　Contributions through products Reduce the environmental impact of our business activities

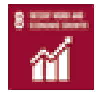
- Reduce CO_2 emissions from products to prevent global warming
- Contribute to saving water by improving water use efficiency
- Use clean energy in production
- Introduce production processes considerate of the environment
- Reduce CO_2 and water discharged at each base
- Reduce waste materials and plastics generated at each plant



S　Value creation to improve work environments

Create workplace environments where anybody can work with peace of mind and satisfaction

- Reduce occupational accidents and make safe and secure workplace environments
- Promote good mental and physical health among employees and balance professional and private lives
- Provide opportunities equally to all and eliminate inequality in workplace environments
- Create workplaces where diverse human resources can thrive
- Offer flexible work styles to preserve a work-life balance

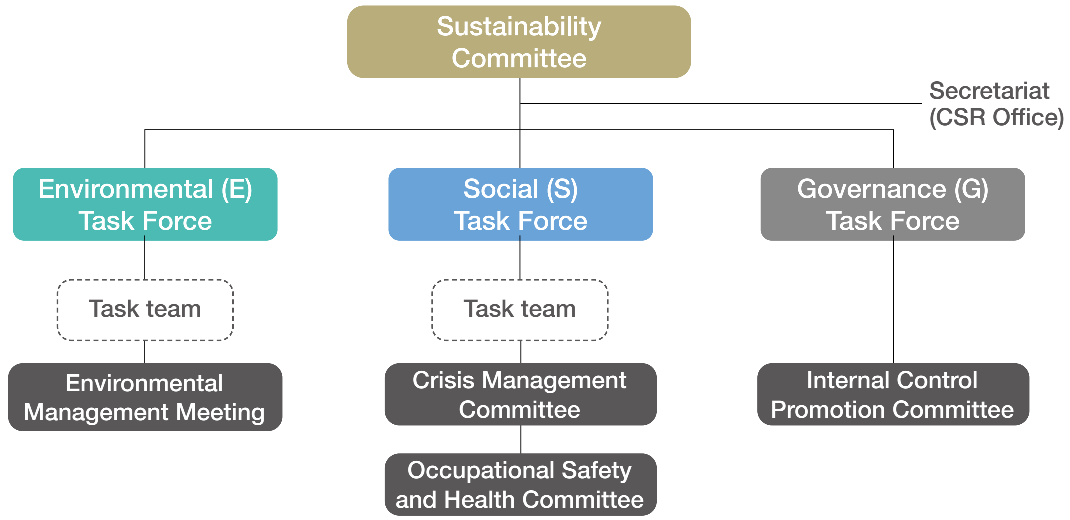


G　Strengthen governance

- Fair corporate management
- Appropriate information disclosure
- Respect human rights
- Enhance the crisis management framework
- Information security

ESG Management Promotion Organization

Identified materiality is further categorized into environmental, social and governance, KPIs are stipulated and the entire Group is working together on ESG management.



Contribution of Sanken Electric's Products to a Sustainable Society

Sanken Electric's Devices Offer Solutions to Global Warming

The Sanken Group is pursuing the possibilities of devices, with the goal of developing eco-friendly products with higher efficiency. As a leading company in power devices, we are committed to saving energy, designs that conserve resources, and other measures that reduce environmental impact. Our diverse workforce is advancing research and development based on a variety of development themes to that end.

Process Design at an Overseas Technology Center

Product Development 5th Year Ms. L

Near a technopark, the Seoul office allows staff to take breaks outside to recharge

Research focused on enhancing the reliability and improving the conversion efficiency of SBD products for OBCs and MOSFETs for EV inverters

APTC's*1 process design team handles property simulations, design engineering, and performance evaluations via measurements for the SiC*2 substrates metal oxide semiconductor field effect transistors (MOSFETs) and SBDs*3.

All of the electronic products we use consume power. Semiconductors that reduce power loss during transmission and conversion, and are used at high voltages, high currents, and high frequencies are called power semiconductors. SiC performs better than Si at high temperatures and high voltages, which is also its most important benefit for the power semiconductor field.

These power semiconductors can be used to reduce the loss of energy that is needed to harness electricity. Also, substituting SiC semiconductors for electric vehicle (EV) components enables simpler cooling systems, less electricity consumption, and efficient energy use. Therefore, they play a major role in resolving environmental and pollution problems.

*1 APTC: Advanced Power-device Technologies Co., Ltd. *2 SiC: Silicon carbide, a silicon (Si) and carbon (C) compound semiconductor material
*3 SBD: Schottky barrier diode

Compound Semiconductor SiC/SBD Development

Product Development 14th Year Mr. M

Communicating with subordinates while checking on development progress

In charge of developing SBDs using SiC

Our department is developing SiC-SBDs for application in power factor correction (PFC) circuits for switching power supplies with the goal of reducing power loss.

PFC works by turning on silicon fast recovery diodes (FRDs) using high-speed switching, but the recovery current when FRDs are turned off causes power loss. While using silicon SBDs capable of suppressing the recovery current can therefore offer improvement in terms of power loss, they cannot deliver the same level of voltage resistance as FRDs. That problem can be addressed by using SiC, which has a wider band gap than silicon, for SBDs to raise voltage resistance while reducing recovery current to bring about lower loss.

That said, SiC does not just have advantages like those mentioned above. Its low surge resistance is a disadvantage. However, we worked to improve that by changing the chip structure. That will make it possible to manufacture outstandingly robust equipment with circuits that do not break even if there is a power surge due to abnormal operation.

In this way, we want to contribute to the SDGs by developing low loss products.

Development of IPMs Using SAM2 Packages

IPM Development 17th Year Ms. N

Managing joint projects with corporate collaboration partners overseas

My main job is managing joint projects with corporate collaboration partners overseas concerning the development of intelligent power modules (IPMs) that use SAM2 packages.

Our target application for the products we are developing is motor control, which is the foundation for technological innovation in the growing electrified vehicle (xEV) and industrial equipment markets.

By conferring with collaboration partners overseas, we also believe we can incorporate actions to meet CO_2 reduction targets and resolve global environmental issues.

We are following xEV trends overseas as well, and developing products to meet the especially strict environmental regulations in Europe. At the same time, we believe this will end up heightening our company's environmental responsiveness.

I miss being able to travel, which had been my hobby when I was stationed overseas, and can't wait for COVID-19 to subside

SIM689xM Series Development

Product Development 7th Year Mr. Y

Motor driver series development

I am in charge of development of the SIM689xM series of IPMs. They are primarily used in motor drivers to drive compressors and fans in white goods (refrigerators, washing machines, air conditioners, etc.).

We mainly supply this series of products to customers in Asia, including Japan, China, South Korea, and India. The series features stronger protective functions than with previous products, and is extremely popular in the market.

We enhanced product performance by installing a temperature monitoring function in the MIC, which is in high demand in the white goods industry.

The SIM689xM series lineup is extensive. It includes products with output elements incorporating SJ-MOS*1 and FS-IGBT*2, which realize even lower loss than conventional products. I really feel that by bringing these products into greater use, our developments are contributing to eco-friendliness and higher efficiency not just in Japan but around the world.

*1 SJ-MOS: MOSFET with a super junction structure
*2 FS-IGBT: IGBT with a field stop structure

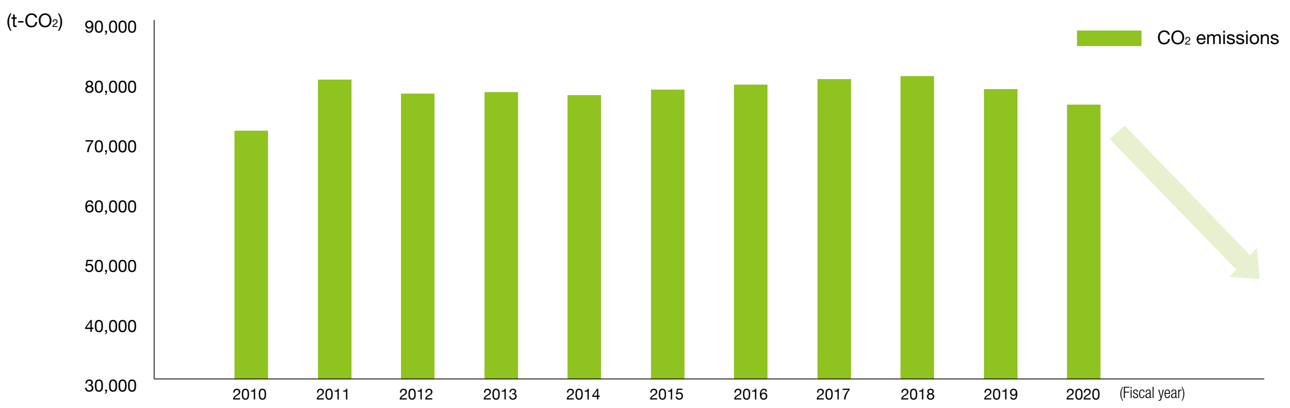
The new Production Development Center is being used to switch gears between work and leisure

Contributing to Reductions in the Environmental Impact of Our Business Activities

Addressing Climate Change (Carbon Offsetting Initiatives)

With natural disasters growing in scale and intensity, it is imperative that climate change is addressed, and we are working on that as a top priority. Sanken Electric's domestic CO_2 emissions are roughly 76,000 tons (Scope 1 and 2). We will advance plans to reduce that level as well as promptly ascertain and reduce CO_2 emissions from upstream and downstream business processes (Scope 3).

Historical CO_2 Emissions



We are currently examining plans for reducing CO_2 emissions looking to 2030. Going forward, the entire Sanken Group will focus on the initiatives below.

Our Approach to Reducing CO_2

The Sanken Group will work on carbon offsetting based on the two policies described below.

1) Understanding the current situation and information disclosure

It is very important to have an accurate understanding of actual CO_2 conditions. Accordingly, the Sanken Group will promptly ascertain not just its Scope 1 and 2 CO_2 emissions but also Scope 3 CO_2 emissions stemming from activities such as materials procurement and product disposal. Also, we plan to advance the disclosure of information and understanding of risks in line with the Task Force on Climate-related Financial Disclosures (TCFD).

2) CO_2 reduction activities and establishment and adoption of renewable energy

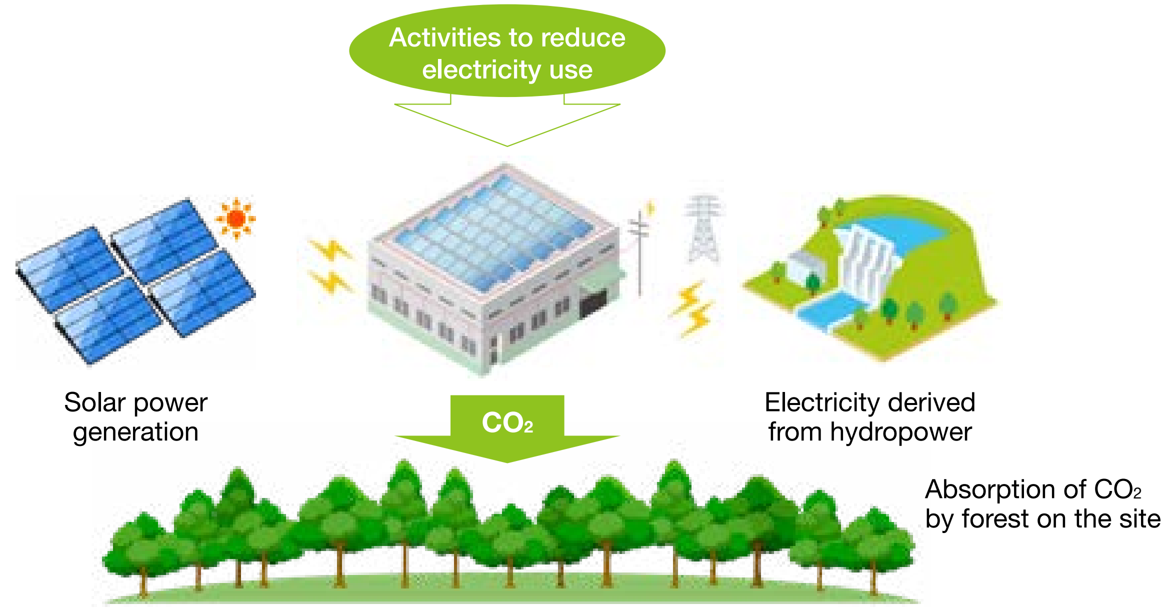
In addition to the energy-saving activities we have been engaging in at our plants and offices hitherto, we will work on installing solar power generation equipment, updating facilities to energy-saving equipment, and so forth. Moreover, we will actively employ electricity that does not emit CO_2, such as hydropower. A concrete example is Ishikawa Sanken's carbon offsetting initiatives for its Horimatsu Plant.

Specific Carbon Offsetting Measures

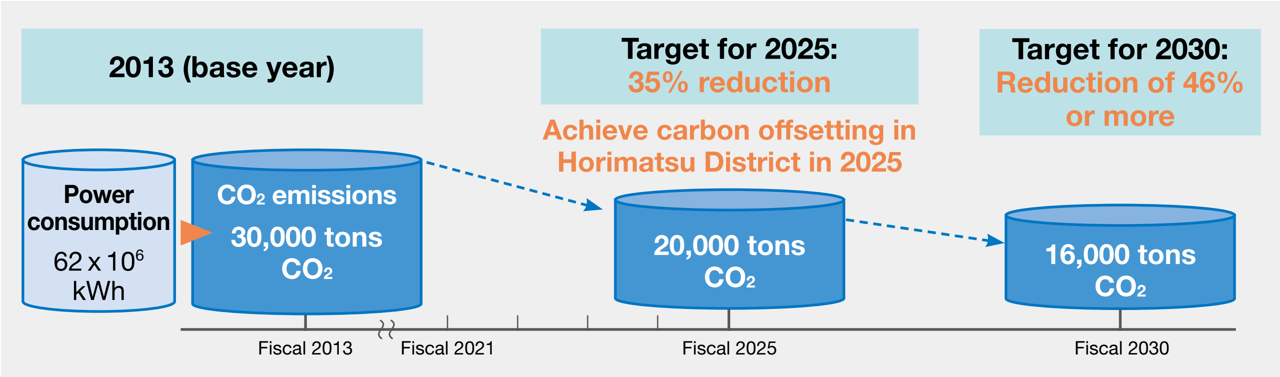
Carbon Offsetting Plan for Ishikawa Sanken's Horimatsu Plant

- ◆ Final goal: Reduce CO_2 emissions from power use to "zero" by 2025
- ◆ Breakdown of CO_2 reductions

  Solar power generation: 15%, electricity from hydropower: 80%, power-saving initiatives and forest absorption: 5%



Aim to reduce Horimatsu District CO_2 emissions to zero by 2025, and Ishikawa Sanken's overall CO_2 emissions by at least 46% in 2030 vs. 2013



▲ Overall view of Ishikawa Sanken Horimatsu District
Site area: 306,543 m^2
Total floor space: 24,680.46 m^2

▲ Horimatsu Plant B and the Advanced Technology Promotion Center
Total floor space: 10,253.25 m^2

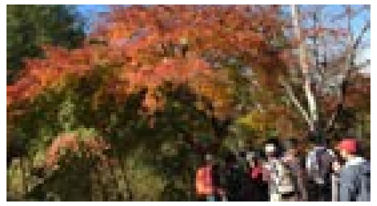
Helping Out People and Society

We are working on many fronts to contribute to employees and society.

Realizing a Health-Oriented, Non-Smoking Company

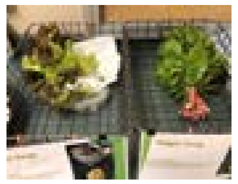
—To Promote the Health and Happiness of Our Employees and Their Families—

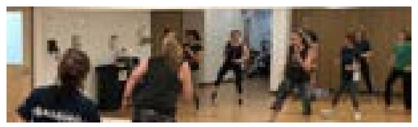
At Sanken Electric, we believe it is important that our employees and their families are physically and mentally well. In 2018, we established the Sanken Health Declaration to create a motivating work environment for employees by promoting their health and wellbeing. In February 2020, Sanken Electric was recognized as an outstanding organization under the Certified Health & Productivity Management Organization Recognition program as in the previous year. We were also recognized as a White 500 enterprise among the top 500 in the large enterprise category. Furthermore, we received an A rank in the Development Bank of Japan's Health Management Rating System in May 2020.



Allegro's Health Management: **Promotion of** Wellness@Allegro **Activities**

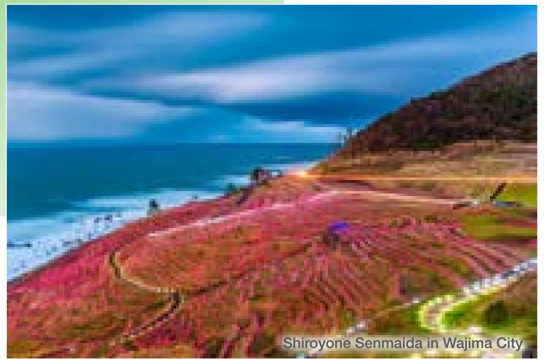
Our US subsidiary Allegro MicroSystems, Inc. (Allegro) is fostering a health-conscious culture and promoting individual and professional productivity by helping employees and their families make healthy lifestyle choices as a part of health management. In 2016, Allegro launched a cross-functional team devoted to wellness. The team is made up of volunteers who are employees from all ranks of the business and have various job roles. It designs and implements wellness-related programs with the cooperation of an external benefits consultant and health insurance company. It is concentrating especially on promoting organization-wide programs in the four areas of weight management, physical activity promotion, nutrition management, and stress management, and is proud of the Wellness@Allegro brand's momentum.





Activities to Support Society

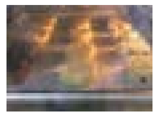
Regional promotion utilizing the simple, ecological Pet Botaru® illumination system



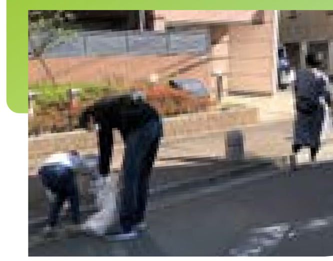
Shiroyone Senmaida in Wajima City

Leveraging our unique expertise in areas like environmental education and electrical knowledge **to foster development of the next generation**

Supporting people with disabilities with the aim of increasing their opportunities to participate in society



Encouraging **individuals to contribute to society** by volunteering



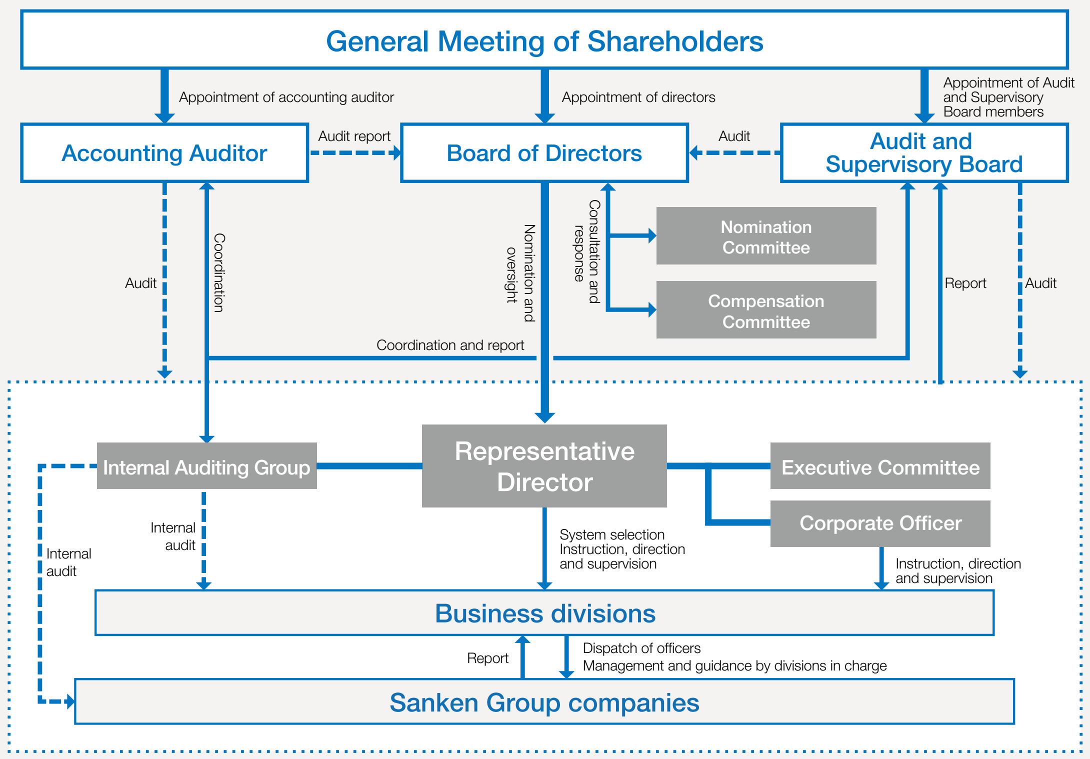
Corporate Governance

With the objective of increasing management efficiency, improving transparency and maintaining soundness, Sanken Electric has voluntarily established the Nomination Committee and Compensation Committee and also appointed external directors and external Audit and Supervisory Board members in order to ensure rapid and accurate decision-making by the Board of Directors while reinforcing supervisory functions for business execution.

Corporate Governance Structure

As a company with global operations, Sanken Electric believes that it should select "a corporate governance system that is best suited for the current nature of the Company," taking into consideration such factors as the need to open wide channels of communication with various stakeholders. Based on this thinking, we have adopted an Audit and Supervisory Board structure, with 9 directors, including 3 external directors, and 4 Audit and Supervisory Board members, including 2 external members, making up the Board of Directors and Audit and Supervisory Board. We have also adopted a corporate officer system that separates management decision-making and supervision functions from business execution functions, completing a structure able to rapidly address changes in the business environment. As of June 30, 2021, Sanken Electric had 13 corporate officers, including 4 who also concurrently serve as directors. We believe the appropriate execution of duties by three external directors and two external members of the Audit and Supervisory Board ensure the objective and neutral management supervisory functions. Going forward, Sanken Electric will continue the examination of the appropriate system for the Company, taking into consideration stakeholders and matters such as social requirements related to corporate governance.

Corporate Governance Structure



Policy and Process for Nominating Officer Candidates

We believe it is important for members of the Board of Directors to be independent and diverse from the standpoint of knowledge, experience and skills, in order to ensure the independence and objectiveness of the Board of Directors as it effectively performs its duties and responsibilities. In this context, candidates for the position of senior executive director who are well-versed in the Company's businesses and related issues are nominated in order to align management in the same strategic direction. For candidates for external director positions, individuals who are independent, have diverse knowledge and backgrounds, and are able to contribute to ensuring fairness in business execution from an objective standpoint are nominated. These candidates are expected to provide advice that will lead to improvements in corporate value.

Based on these policies, the Nomination Committee, which is comprised by a majority of independent external directors, is consulted to advise on candidates for director and corporate officer positions. This committee deliberates and reports to the Board of Directors, which makes decisions while paying the utmost respect to the committee's report. For Audit and Supervisory Board member candidates, individuals with the skills, experience and knowledge necessary for audits of the Company are nominated, and decisions are made by the Board of Directors after obtaining the agreement of the Audit and Supervisory Board.

Officer Compensation

Sanken Electric recognizes the officer compensation system (system for compensating executive officers) is an important item in corporate governance, and has the following basic approach.

- The system should contribute to the recruitment of outstanding human resources
- Compensation should be appropriate for the rank of the role and scope of its responsibility
- The system should be a motivator in improving Sanken Electric's corporate value and sustainable growth
- The system should ensure transparency and objectivity in procedures for deciding compensation

Based on the above basic approach and taking into account the results of deliberation by the Compensation Committee comprised of a majority of independent external directors, the Board of Directors decides on the policy for determining the details of compensation for individual directors, with a summary of that policy as follows.

- Compensation for the Company's directors consists of basic compensation in a fixed amount decided on in accordance with rank and role and paid monthly, and performance-linked compensation that changes depending on the degree of achievement of earnings targets. Performance-linked compensation is structured to provide short-term incentives that vary based on short-term performance and are paid each fiscal year, and stock-based compensation (stock delivery trust type), which varies based on medium- to long-term performance and is, in principle, a long-term incentive in which the Company's shares are delivered upon retirement.
- In regard to setting the level of compensation for directors, a standard amount of compensation is stipulated for each rank, and to ensure market competitiveness, the results of a compensation survey in which the largest companies in the country are used as a benchmark and the appropriateness of the level of the standard amount is verified each year. Performance-based compensation indicators and ratios are set on the basic approach outlined above and the results of deliberation by the Compensation Committee. The ratio of performance-based compensation for fiscal 2020 was designed to be roughly 30% if all performance targets were achieved. For fiscal 2021, we are reviewing the design so that the ratio is roughly 40%.
- Compensation for external directors consists only of basic compensation based on the nature of responsibilities for the position, and it is not linked to performance. Also, compensation for Audit and Supervisory Board members consists solely of basic compensation paid upon consultation with the corporate auditors based on the nature of responsibilities for the position, and it is not linked to performance.

Fixed portion	Fluctuating portion	
	Performance-based compensation 30%	
Basic compensation 70%	Short-term incentives 20%	Long-term incentives (stock-based compensation) 10%

Note: For fiscal 2021, performance-based compensation is designed to account for a ratio of roughly 40%.

Short-term incentives vary within a range of 0–150% of standard pay, in principle, and are linked to performance indicators for individual fiscal years in order to further raise the motivation of directors to achieve the Company's performance targets for that fiscal year. The performance-linked indicators for all directors have been determined through deliberations by the Compensation Committee, and consist of net sales and operating income, the Company's key performance targets. Additional individual indicators are set depending on the results expected of each director. The results of performance indicators (common items) for short-term incentives for fiscal 2020 were as follows.

	Target value	Actual value	Rate of achievement
Net sales	¥150.5 billion	¥156.7 billion	104%
Operating income	¥6.0 billion	¥7.8 billion	130%

Note: The actual value for operating income is the non-GAAP value excluding one-off expenses.

With regard to long-term incentives, a stock remuneration plan has been introduced to enhance the incentive to contribute to medium- and long-term corporate value, align the interests of directors with those of shareholders, and raise the motivation to achieve such goals as performance targets and structural reform stated in the Company's medium-term management plan. Long-term incentives vary within a range of 0–150% of standard pay, in principle, and are linked to rank and performance indicators for the duration of the medium-term management plan. The performance-linked indicators for all directors have been determined in deliberations by the Compensation Committee, and operating income and ROE have been designated as common items as they are important for raising business profitability over the medium and long terms. In addition, as an expression of the Company's commitment to raising shareholder value, which includes appropriate shareholder returns, relative total shareholder return (value relative to the TOPIX Electric Appliances Exchange) has been set as a performance-based indicator.

Based on these policies, compensation for directors is decided by the Board of Directors with due respect paid to the advice and report following deliberations by the Compensation Committee, the majority of which is independent external directors.

Activities of the Compensation Committee

- Composition: Chaired by an external director, with external directors making up a majority of members
- Number of meetings: Five (fiscal 2020)
- Overview of deliberations: The committee deliberates on setting, etc. of the compensation amounts for individual short-term incentives for directors and corporate officers and the performance indicators related to performance-linked remuneration, then reports its determination to the Board of Directors

Status of Initiatives Regarding Ensuring the Efficacy of Audit and Supervisory Board Members' Audits

Audit and Supervisory Board members share information and make decisions about auditing policy, audit plans and other legal matters. Each member is assigned duties determined by the Audit and Supervisory Board, participates in meetings of the Board of Directors, Executive Committee and other important bodies, reads important documents and reports their findings to the Audit and Supervisory Board. Periodically or when necessary, members convene meetings with directors, the CSR Office, which is the internal audit department, and the accounting auditor to exchange information and enhance the effectiveness of audits. Moreover, the members conduct on-site audits of the business locations of Sanken Group companies inside and outside Japan, and report their findings to the Audit and Supervisory Board.

We have enlisted Ernst & Young ShinNihon as our accounting auditor based on the Companies Act and as our auditing firm to conduct audits based on the Financial Instruments and Exchange Act. Briefings are scheduled for the accounting firm and the Audit and Supervisory Board to exchange opinions and enhance collaboration. There are no particular conflicts of interest between the accounting firm or its corporate officers and the Company.

Internal Control System and Compliance System

Sanken Electric has drawn up Conduct Guidelines for adhering to ethical standards, laws and regulations, in addition to its Code of Conduct governing employee behavior. The representative director thoroughly instills within management and employees the spirit and importance of compliance. Through ongoing compliance training, we aim to thoroughly ensure adherence to laws, regulations and the Articles of Incorporation. For our internal reporting system, we have set up the Helpline System as a means for employees to report and consult about internal matters, and we make concerted efforts to improve rules and systems in order to maintain our compliance structure.

As necessary, officers are dispatched to Group companies to assume the position of director and work to instill the Sanken Group's management policies, make decisions about important business execution, and promote efficient management. The Affiliated Company Management Regulations and Management Guidelines serve to clarify the scope of responsibilities and authorities of Sanken Electric and Group companies. We determine responsible organizations at Group companies and closely share information for the purpose of providing necessary guidance for managers and business performance management at each Group company.

Risk Management System and Activities

The Sanken Group created the Risk Management Committee, directly under the control of the president, as an organization tasked with strengthening the overall risk management structure and advancing measures that address certain risks. The Risk Management Committee holds meetings on a regular basis, during which information is shared about improving emergency preparedness such as stockpiling emergency supplies, preparing various types of Disaster Countermeasure Manuals, previous responses to disasters, and effective training methods. A variety of measures are being taken, including measures to raise the entire Group's ability to respond to disasters.

Moreover, the Sanken Group issued the Disaster Countermeasure Manual and the Business Continuity Plan (BCP), which set out procedures for minimizing and recovering from damage caused by disasters, in order to address the risk of major damage that impairs business continuity, such as an earthquake or fire. We have also introduced an employee safety confirmation system as a means of making contact in emergency situations. Through regular training to ensure these measures are effectively implemented, we continue to engage in activities to further improve our responsiveness to major disasters.

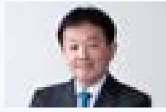
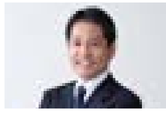
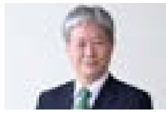
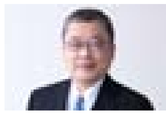
Information Security

For information security, the Company has established the Information Management Rules to reinforce the protection and management of company secrets, including contract terms with business partners, technical information and manufacturing specifications, personal information and information assets. The Company ensures its information management system is thorough and rigorous through such measures as training for the entire Sanken Group and audits of information management procedures and other related processes.

Sanken Electric is keen to reinforce the security of its externally connected communications networks to protect against illicit intrusions. We ensure the effectiveness of network security by formulating guidelines for protecting and monitoring network communications and using networks. We also have guidelines for cybersecurity, and periodically conduct emergency response drills.

Skills Matrix under the New Management Structure

The Sanken Group requires its directors and Audit and Supervisory Board members to supervise business execution and make important decisions. Therefore, they need to have a wide range of experience as well as diverse and high-level skills. The Company selects these officers based not on their gender, age, or nationality, and so forth, but rather on the basis of their individual qualities and knowledge.

Name	Corporate Management	Finance and Accounting	Industry Knowledge	R&D and Manufacturing	Sales and Marketing	Internationality	Legal Affairs and Risk Management
 Takashi Wada Director, Chairman	●	●	●	●		●	
 Hiroshi Takahashi Representative Director, President	●	●	●	●		●	
 Yoshihiro Suzuki Director	●	●	●	●		●	
 Kazunori Suzuki Director	●	●	●		●	●	
 Hideki Nakamichi Director	●		●	●	●	●	
 Satoshi Yoshida Director			●		●	●	
 Richard R. Lury External Director						●	●
 Noriharu Fujita External Director		●				●	
 Takaki Yamada External Director	●	●	●	●	●	●	
 Akira Ota Standing Audit and Supervisory Board Member	●	●	●			●	●
 Noboru Suzuki Audit and Supervisory Board Member		●	●				●
 Atsushi Minami External Audit and Supervisory Board Member							●
 Hideki Hirano External Audit and Supervisory Board Member	●	●					

List of Officers

As of July 1, 2021

Directors (9)


Takashi Wada Director, Chairman


Hiroshi Takahashi Representative Director, President


Yoshihiro Suzuki Director


Kazunori Suzuki Director


Hideki Nakamichi Director


Satoshi Yoshida Director


Richard R. Lury External Director


Noriharu Fujita External Director


Takaki Yamada External Director

Audit and Supervisory Board Members (4)


Akira Ota
Standing Audit and Supervisory Board Member


Noboru Suzuki
Audit and Supervisory Board Member


Atsushi Minami
External Audit and Supervisory Board Member


Hideki Hirano
External Audit and Supervisory Board Member

Messages from External Directors

Richard R. Lury

External Director

U.S. Lawyer in New York
External Director,
Hitachi Zosen Corporation
Independent Director,
Allegro MicroSystems, Inc.
Director of the Company
since 2014

"Committees comprising a majority of external directors play an important role in helping the Company to achieve its medium- to long-term goals.

The past fiscal year posed many challenges for the Company. Apart from the impact of COVID-19 on the Company's sales and profits, COVID-19 also affected the functioning of the Board of Directors and its committees, as travel restrictions compelled two of the external directors to attend all meetings remotely. Fortunately, we were able to remain fully engaged in oversight responsibilities aimed at ensuring that Sanken is well-positioned to successfully complete the structural reforms to reorganize its businesses to enhance its competitive standing and profitability before the onset of the worldwide pandemic. As you are aware, in addition to the discretionary Nomination Committee and Compensation Committee, a few years ago the Board of Directors established the Structural Reform Committee. These committees are comprised of a majority of the external directors, and they have been instrumental in positioning Sanken to be able to achieve its mid-term and longer-term objectives.

The Compensation Committee developed and implemented, with the board's approval, a shift in the compensation structure of senior executives and managers whereby a very substantial percentage of their annual compensation is tied to performance of key metrics and long-term individual compensation is linked to overall company performance and relative shareholder return. There has been a gradual roll-out of the changes in the compensation structure, but for the current fiscal year, all company officers and key managers will be subject to the new compensation formulation. Management identified and the Compensation Committee reviewed, evaluated, modified and approved for each individual the key performance initiatives and goals and the percentage of annual compensation linked to these objectives. For most of the executives, the focus has been on improving the profitability of Sanken Core business excluding Allegro. I am optimistic that over the course of the next few years, the continued emphasis on linking overall compensation to important KPIs will be a catalyst for improving the Company's financial performance.

The Structural Reform Committee was instrumental in the Company's decision to divest its Power Systems Business. The committee felt it did not make sense to continue investing in a business that had little reasonable prospect of becoming profitable in the foreseeable future while under the Sanken umbrella. The committee also worked with Sanken's management to consolidate production facilities and to implement other structural reforms to target cost reductions, make transformative technological improvements and enhance productivity. Although it will take several years for the full benefit of these reforms to be realized, I am confident that we have established a solid foundation for Sanken's future success. Going forward, our focus will be to continue to encourage the management team to develop and implement changes in strategy, direction and operations to more effectively target growth and profitability.

I would be remiss if I did not also comment on the significant contribution made by Allegro during the past year. The decision to take Allegro public generated significant cash enabling Sanken to reduce its debt load and to cover some of the costs of the structural reforms it had implemented. Additionally, this extracted Sanken's corporate value and significantly improved its market valuation. In the coming year, as a member of the Boards of Directors of both Sanken and Allegro, I remain committed to pursuing efforts aimed at enabling both companies to realize their true potential.

Noriharu Fujita

External Director

Partner, Ernst & Young, LLP
New York Office (retired from the entity in June 2007)
Independent Non-Executive Director, CITIC Limited (retired from the entity in April 2018)
Independent Director,
Allegro MicroSystems, Inc.
Director of the Company
since 2016

"I will continue to contribute to the Sanken Group by leveraging my role as a monitoring and advisory function.

I believe that external directors have two roles, broadly speaking. One is the role of monitoring from a corporate governance perspective, and the other is an advisory role to the management team to support the sustainable development of the company. To meet the expectations of stakeholders such as shareholders, customers, and employees, I believe it is important to carry out these two roles in a well-balanced manner.

First, regarding the monitoring function, it is important to have vigorous discussion in the Board of Directors. Moreover, at Sanken, a study session known as the External Officers Discussion, is held several times a year to provide an opportunity for them to understand the Company's business and the thinking of the management team. It is also a forum for a lively exchange of opinions.

The Company has not adopted the company-with-committees structure, but it has established its own discretionary Nomination Committee and Compensation Committee, comprising three external directors who make up a majority. The important role of the Nomination Committee in fiscal 2020 was the selection of a new president. The three external directors interviewed each director individually and had frank discussions with them about the current challenges facing the Company, how it should change going forward, and who would be a suitable leader able to execute these changes. Furthermore, some of the corporate officers were also invited to individual interviews to hear their analysis of the current state of the Company and exchange opinions about its future outlook. Through this highly transparent process, the members of the Nomination Committee, including the current chairman, Mr. Wada, unanimously selected President Takahashi, and the decision was reported to the Board of Directors. Furthermore, the Compensation Committee also increased the proportion of performance-linked remuneration to motivate directors to increase corporate value and work for sustainable growth.

For the other advisory function, the external directors have played a prominent role over the past two years in the Structural Reform Committee, in which they make up the majority. We closed and merged plants in order to optimize the production system of the Semiconductor Devices Business, and conducted the sale of the Power Systems Business. In July 2021, the chair of the committee changed to President Takahashi, and the focus shifted from structural reform to growth strategies. At the same time, continuing reforms is also important, therefore the name of the committee was changed to the Growth and Reform Committee. The committee aims to achieve a revival of Sanken's core businesses and transform it into a company that can demonstrate earning ability.

Allegro MicroSystems, Inc. listed on the Nasdaq Stock Market in 2020. I aim to maintain a high level of technological capability and profitability and carry out my role as an external director of Allegro so that it can continue to contribute to the Sanken Group.

Takaki Yamada

External Director

President, Semiconductor Production Company,
Oki Electric Industry Co., Ltd.
(retired from the entity in July 2012)
Vice President,
Thai Special Gas Co., Ltd.
Director of the Company
since 2021

"I will anticipate potential risks and changes in order to realize the Company's growth and earnings targets, and support the Company by taking measures in advance.

I was appointed external director in June 2021. I accepted the appointment with the full understanding that it is an extremely important responsibility. Sanken Electric has worked swiftly to optimize its business portfolio, promote structural reforms, reform development as seen in SPP, and develop modules, among other initiatives to create a foundation for new growth. The Company has indicated that its vision is to become the first port of call for power semiconductors in the automotive, industrial machinery, and household appliance markets. To liken it to the Olympics, the Company will be a medalist in the power semiconductor category, and there are high expectations of it. Therefore, it will do everything it can to create as many top-share products as it can. Sanken Electric already has top-level products. These are the tremendous results of excellent leadership, an environment that allows people to take on challenges, and the dedicated work of employees with an ownership mindset. I believe it is important to refine these strengths to a higher level and create development resources. I look forward to enthusiastic discussions with the management team regarding the concept of the Company's vision.

Under Medium-Term Management Plan 2021, the Company has presented new management targets and strategies. To realize its management targets amid growth in uncertainty across a wide range of factors, I believe it is important for the Company to maintain a "feedforward" approach, learning humbly from past struggles and failures, then looking ahead and identifying potential risks, predicting changes, assigning priorities and taking the initiative ahead of time.

For example, to realize the sales target, the Company must look forward and consider risks, capture opportunities and set targets. If a lack of opportunities were to arise, the key to analyzing the issues and achieving sales is to develop new products and new customers. For large projects, the Company will identify risks through analysis of the required conditions for receiving the order and the competition, consider countermeasures, and visualize a scenario up to the point of receiving the order. However, in its activities to advance to a higher stage, the Company will have to struggle, and at these times, solving issues through detailed observational ability offers great opportunities for improvement. The management team will also get involved and by steadily remedying these issues, I believe that we can increase the power of our commitment by elevating opportunity management to the highest level.

I believe that things that appear to be unconnected are in fact connected. Struggling in the face of unexpected trials is a nourishing experience that helps to develop the mental capacity to solve issues and break through barriers with unstoppable force. This continues to be useful later on.

As an external director, I will gain deep knowledge of Sanken Electric's business, listen carefully to the ideas of the management team, and support them by engaging them in discussion from the perspective I have gained in order to achieve management targets.

Key Consolidated Financial and Non-Financial Data (11 Years)

Millions of yen

Financial data (Fiscal year)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
(Results of operations)											
Net sales	¥144,882	¥131,803	¥126,386	¥144,467	¥160,724	¥155,919	¥158,772	¥ 175,209	¥ 173,650	¥ 160,217	**¥ 156,795**
Operating income (loss)	6,149	4,048	4,625	7,777	11,199	6,803	5,930	12,026	10,531	4,309	**(1,198)**
Operating margin (%)	4.2	3.1	3.7	5.4	7.0	4.4	3.7	6.9	6.1	2.7	**(0.8)**
Profit (loss) before income taxes	1,144	2,545	4,099	5,468	11,575	2,068	4,582	(6,505)	9,028	(1,638)	**(7,197)**
Profit (loss) attributable to owners of parent	(922)	436	2,272	5,029	7,942	171	1,739	(11,421)	3,967	(5,559)	**(6,952)**
(Cash flows)											
Net cash provided by (used in) operating activities	7,392	5,345	6,339	10,658	9,973	7,799	19,237	14,521	14,604	13,118	**7,629**
Net cash provided by (used in) investing activities	(10,272)	(8,614)	(6,390)	(11,176)	(14,234)	(11,344)	(10,931)	(16,644)	(21,783)	(8,311)	**(12,294)**
Net cash provided by (used in) financing activities	3,728	509	1,294	2,714	5,692	5,044	(3,360)	13,233	(1,990)	12,215	**21,086**
(Financial indicators)											
Return on assets (ROA) (%)	3.8	2.2	2.8	4.8	5.8	2.0	2.7	6.4	4.9	1.4	**(1.6)**
Return on equity (ROE) (%)	(2.6)	1.3	6.3	11.4	14.3	0.3	3.2	(20.8)	7.0	(10.3)	**(10.4)**
(Per share)*											
Total net assets per share (yen)	274.05	272.21	322.92	401.75	516.22	441.96	448.87	2,283.31	2,405.01	2,063.21	**3,463.44**
Profit (loss) per share (yen)	(7.60)	3.60	18.73	41.47	65.50	1.41	14.35	(471.22)	163.70	(229.83)	**(287.96)**
Cash dividends per share (yen)	6.00	3.00	6.00	6.00	6.50	3.50	3.50	30.00	30.00	30.00	**0.00**

* Figures for the fiscal year ended March 31, 2018 onward have been adjusted to reflect a 5:1 stock consolidation implemented on October 1, 2018.

Non-financial data (Fiscal year)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
CO_2 emissions*1 (t-CO_2)	71,466	80,004	77,632	77,870	77,415	78,291	79,158	80,069	80,609	78,463	**75,803**
Water usage*1 (m^3)	2,585,823	2,206,556	2,190,217	2,112,286	2,186,104	2,262,152	2,405,162	2,364,990	2,328,615	2,193,787	**2,075,822**
Waste emissions*1 (t)	6,462	4,871	4,508	5,295	5,146	4,417	4,623	5,277	5,127	4,620	**4,507**
Employees (people)	9,981	9,788	10,427	10,377	10,454	10,044	9,770	9,725	9,481	9,183	**8,431**
└Domestic employees (people)	—	—	—	—	—	—	3,623	3,502	3,437	3,327	**3,092**
└Overseas employees (people)	—	—	—	—	—	—	6,102	6,223	6,044	5,856	**5,339**
└Percentage of overseas employees (%)	—	—	—	—	—	—	62.7	64.0	63.7	63.8	**63.3**
└Percentage of managerial positions held by women*2 (%)	—	—	—	—	—	—	0.9	0.9	1.3	2.3	**2.2**
Rate of paid annual leave usage*2 (%)	—	—	—	—	67.74	69.13	68.82	70.46	69.57	62.80	**52.90**
Employment rate of people with disabilities*2 (%)	—	—	—	—	2.39	2.32	2.32	2.40	2.29	2.05	**1.96**
Frequency rate of workplace accidents*2 (%)	—	—	—	—	—	0.00	0.45	0.00	0.00	0.54	**0.00**
Severity rate of workplace accidents*2 (%)	—	—	—	—	—	0.000	0.003	0.000	0.000	0.019	**0.000**

*1 Total for domestic manufacturing sites
*2 Sanken Electric (non-consolidated)

Business Risks

The Sanken Group has identified the following risks that could affect its business performance, financial position, and other aspects. The forward-looking statements in this section are based on information available as of March 31, 2021 and contain uncertainties. Therefore, actual results in the future may differ significantly from these statements.

1. Business Risks

(1) Infectious disease

The Sanken Group conducts production and sales in Japan and other countries and regions around the world. If an infectious disease, like the novel coronavirus (COVID-19), spreads in any of these regions, the economy could be negatively affected. In the case of COVID-19, until vaccines become widely available, the outbreak of variant strains may cause the spread of infections, and this risk may lead to delays in economic recovery in regions where COVID-19 is spreading. As a result, the Group's earnings and financial position could be negatively affected. The Group has taken measures to mitigate the spread of COVID-19, which are led by a special response headquarters set up in the previous fiscal year. These measures include gathering information about and addressing the impact of COVID-19 on business, introducing measures to prevent infections, making teleworking a regular practice and establishing the necessary IT infrastructure, and providing PCR tests to employees who seek such tests.

(2) Business restructuring

The Sanken Group is carrying out business restructuring to fundamentally improve its earnings structure. This restructuring will incur a certain amount of cost and may prove difficult to carry out or not produce the benefits initially planned due to changes in the economic and business environment, future uncertainties or other unpredictable factors. Such outcomes could negatively affect the Group's earnings and financial position.

(3) New product development

The Sanken Group must develop and bring to market products that fulfill market needs. The Sanken Group engages in R&D while constantly monitoring market trends. If the Company is unable to introduce products in a timely fashion or if markets reject its products, the Sanken Group's profitability may worsen, and its earnings and financial position may deteriorate. To mitigate this risk, the Sanken Group is promoting across-the-board development reforms in line with the development flow in all areas of the semiconductor design, including concept, process, packaging, 12 software programs, production lines, and quality and reliability assessment to bolster its ability to create new products.

(4) Price competition

Price trends in the semiconductor industry can be volatile in response to fluctuations in demand. Nonetheless, it is essential to ensure competitiveness by reducing prices over the long term. Notably, the emergence of overseas rivals has exerted a major impact on the Company's ability to set prices for its products. Going forward, price competition is likely to grow more intense in the future. The Sanken Group will address this trend by, for example, striving to reduce costs further and bringing to market high-value-added products that feature the Company's proprietary technologies. However, in the event that rivals introduce products at prices the Company cannot match or if customer demand changes, the Sanken Group's profitability may worsen, and its earnings and financial position may deteriorate. To mitigate this risk, the Sanken Group is reforming procurement by standardizing parts and reducing material costs starting from the design stage.

(5) Foreign exchange rates

The Sanken Group conducts production and sales in Japan and foreign countries in Asia, North America and other regions. Therefore, changes in the environment, such as economic trends in each of those regions, could have a negative impact on the Group's earnings and financial position. Moreover, its accounting practices are denoted in the local currencies of these countries and regions, or in US dollars. Accordingly, the prevailing exchange rate at the time these currencies are translated into yen could have an impact on earnings. In addition, an increase in the value of currencies in countries and regions where the Sanken Group manufactures products may push up the cost of production and procurement. Higher costs could undermine the Sanken Group's profit margins and price competitiveness, and have a negative impact on earnings. The Sanken Group takes out balance hedges for receivables, payables and other transactions in accordance with growth in products and the overseas procurement of raw materials, as well as risk hedges through forward exchange contracts. These hedges are taken in a bid to minimize any adverse impact caused by short-term fluctuations in foreign exchange rates for key currencies including the US dollar and yen.

(6) Capital procurement

The Sanken Group procures funds needed for purposes such as capital investment and R&D through such means as issuing bonds and commercial paper, taking out commitment lines, and borrowing from banks. In the event that the Group's credit worthiness worsens on the bond market or with financial institutions, this could restrict the aforementioned means of procuring funds or increase the cost of fund procurement, and have an adverse impact on the Company's earnings and financial position.

(7) Intellectual property

In foreign countries and regions there may be inadequate protections for intellectual property rights, making it impossible for the Company to effectively prevent a third party from using its intellectual property to manufacture similar products. In the event that a third party successfully claims intellectual property rights related to the Sanken Group's businesses or if intellectual property rights exist that the Sanken Group is unaware of, the Company may be required to pay royalties to a third party that claims their intellectual property rights were infringed upon or may be sued or enjoined from using certain intellectual property rights. In this event, costs may increase or the Company may be restricted from developing and selling products. The Sanken Group aims to differentiate its products from those of rivals through the technologies and expertise it has developed on its own. In order to protect these proprietary technologies, the Company applies for and registers all possible intellectual property rights.

(8) Information security

For information security, the Company has established the Information Management Rules to reinforce the protection and management of company secrets, including contract terms with business partners, technical information and manufacturing specifications, personal information and information assets, in addition to the introduction of systematic protection functions. The Company ensures its information management system is thorough and rigorous through such measures as training for the entire Sanken Group and audits of information management procedures and other related processes.

Meanwhile, in the event of a breach of information security or other type of misconduct, there could be a negative impact on the Sanken Group's brand image and reputation or businesses, or the Sanken Group could be held legally responsible. The Sanken Group undertakes information security measures to prevent losses, and implements information security measures and controls, such as preventing and detecting unauthorized intrusions, responding to unauthorized intrusions, and implementing data access restrictions. Despite these measures, given that cyberattacks are becoming increasingly sophisticated and tools and resources are becoming even more easily accessible, there is no guarantee that the Sanken Group can assure completely safe information security. Consequently, the Sanken Group is exposed to the risk that the systems or businesses of the Group or its customers may be destroyed because of the loss, destruction, leakage, misuse, or alteration of business information including private information or unauthorized access to such information by a third party who does not obtain permission. These information security-related events could cause the Sanken Group to incur significant restoration costs. Moreover, the Sanken Group could experience lost sales; deterioration in relationships with customers and other third parties; or unauthorized leakage, alteration, destruction or misuse of information, among other events. These events could have a negative impact on the Sanken Group's businesses and other activities. In addition, these events could impair the Sanken Group's brand image and reputation. As a result, the Sanken Group's earnings and financial position could be adversely affected.

(9) Disasters

If there is a major disaster, power outage or related event, the Sanken Group's facilities and business activities may suffer damage, which could disrupt supply chains and the execution of business operations in manufacturing and other areas. Such disruptions could have a negative impact on the Sanken Group's earnings. Many production bases of the Sanken Group are in Japan, where the risk of earthquakes is relatively high. If there is a major earthquake in Saitama, where the Group's headquarters are located, or in the Tohoku or Hokuriku regions, where its production bases are situated, then buildings, machinery and equipment, and inventories could be damaged. Also, the Sanken Group could be hindered by the suspension of production activities at those production bases. Moreover, the Sanken Group, its materials suppliers and other business partners operate bases and facilities around the world that are used for raw materials, components, networks, information and telecommunication system infrastructure, R&D, materials procurement, manufacturing, logistics, and sales. These bases and facilities could be destroyed, become temporarily inoperative, or otherwise be impaired due to unpredictable events such as natural disasters, the outbreak of diseases such as infectious diseases, terrorism, or large-scale power outages. If any of these bases or facilities suffer severe losses due to the catastrophic events listed above, there could be suspensions in business activity; delays in design, development, production, shipment or recognition of sales; or substantial costs for repairing or replacing the sites or facilities. In these cases, there could be a negative impact on the Sanken Group's earnings and financial position.

(10) Laws and regulations

The Sanken Group has production and sales bases in 13 countries and regions around the world, including Japan. The Company's operations are subject to various laws, regulations and restrictions (hereinafter, "legal regulations") in effect in each country and region. Moreover, the Sanken Group imports and exports technologies, products, and materials needed for production and sales around the world. These business activities are subject to legal regulations in each country and region that relate to tariffs, trade, exchange rates, strategic goods, certain technologies, anti-monopoly, patents and the environment. In the event of failure to adhere to these legal regulations, the Sanken Group's business activities may be restricted and lead to a decline in social trust. This may have an adverse impact on the Sanken Group's earnings and financial position.

2. Quality and Environmental Risk

(1) Quality problems

The Sanken Group supplies products that satisfy the quality standards of customers and itself. In order to maintain and improve its quality management system, the Company has obtained the international standard ISO 9001 and IATF 16949 certifications for quality management, and also obtains as necessary UL certification and other product safety certifications. However, there is no guarantee in the future that all of its products will be free from defects, and that no recalls, repairs, or other such actions pertaining to products will occur. In the event of product defects that lead to major product recalls, repairs, or responsibilities to compensate for damages, the Company may incur considerable costs or lose the trust of society. This may have an adverse impact on the earnings and financial position of the Sanken Group.

(2) Environmental problems

In addition to complying with legal regulations for preventing environmental pollution and public nuisances in countries and regions where the Sanken Group has production bases, as part of our SDGs activities, we have clearly identified our materiality as a Company in our medium-term management plan, and we seek to realize our vision to be a Company that helps to solve environmental problems. Moreover, we have implemented environmental measures such as obtaining ISO 14001, an international standard for environmental protection systems. Furthermore, the Sanken Group endeavors to measure and reduce substances contained in its products and used in production processes that impact the environment. If the Company is unable to comply with legal regulations, an accident occurs that releases a large volume of substances that impact the environment, or prohibited substances that impact the environment cannot be eliminated from products, significant costs may be incurred to improve such products. In addition, restrictions may be imposed on business activities, compensation may need to be paid to customers, or our social trust may be impaired. These factors may have an adverse impact on the earnings and financial position of the Sanken Group.

3. Treatment of Listed Subsidiary

We believe that unified management of the Sanken Group's listed subsidiary should be continued from the perspective of ensuring consistency across growth strategies, such as development and business portfolio strategies. We expect this approach to pave the way for maximizing the Sanken Group's corporate value. However, there is a possibility that the anticipated benefits may not be derived due mainly to changes in the economic and business environment and uncertain and unpredictable factors in the future.

In addition to the aforementioned items, there is the possibility that demand for the Company's products will decline as a result of technological trends in electronic products or rapid changes in the market environment. Moreover, there is a risk of an increase in raw material costs and unforeseen risks in various countries and regions, including major changes to production bases and tax codes and wars and trade friction. Furthermore, there is a risk that product defects could lead to lawsuits or compensation for loss of life, social or environmental damage, or adverse impacts on corporate activities. There are also risks related to changes in base rates for calculating retirement benefit obligations or collaborative businesses with other companies not benefiting due to factors such as large-scale market fluctuations.

In the event that one or several of these risks materialize, it could lead to loss of social trust, stagnation of business activities, or significant losses, which may have an adverse impact on the earnings and financial position of the Sanken Group.

Consolidated Balance Sheets

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2021 and 2020

Assets	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars (Note 5) 2021
Current assets:			
Cash and deposits (Notes 7 and 9)	¥ 60,990	¥ 40,779	$ 550,849
Notes and accounts receivable – trade (Notes 9)	36,962	31,888	333,839
Less allowance for doubtful receivables	(46)	(114)	(420)
Inventories (Note 12)	41,240	41,079	372,473
Other current assets	9,027	3,741	81,530
Total current assets	148,173	117,375	1,338,271
Non-current assets:			
Property, plant and equipment (Note 13):			
Land	5,812	5,699	52,492
Buildings and structures, net	20,635	20,383	186,373
Machinery, equipment and vehicles, net	30,328	31,577	273,917
Tools, furniture and fixtures, net	1,317	1,788	11,903
Leased assets, net	47	74	430
Construction in progress	9,425	6,538	85,125
Total property, plant and equipment	67,566	66,062	610,242
Intangible assets:			
Software	2,065	2,483	18,656
Goodwill	1,959	—	17,701
Other	4,116	2,244	37,178
Total intangible assets	8,141	4,728	73,536
Investments and long-term receivables:			
Investments in other securities (Notes 9 and 10)	990	892	8,949
Deferred tax assets (Note 27)	3,484	1,704	31,470
Assets for retirement benefits (Note 25)	1,776	—	16,043
Other long-term receivables	3,617	3,262	32,673
Less allowance for doubtful receivables	(76)	(2)	(695)
Total investments and long-term receivables	9,792	5,858	88,442
Total assets	¥233,673	¥194,024	$2,110,493

Liabilities and net assets	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars (Note 5) 2021
Current liabilities:			
Short-term bank loans (Notes 9 and 14)	¥ 12,357	¥ 27,619	$ 111,606
Current portion of long-term debt (Notes 9 and 14)	646	10,133	5,840
Current portion of bonds	15,000	15,000	135,476
Commercial paper (Notes 9 and 14)	4,000	10,000	36,127
Notes and accounts payable – trade (Note 9)	20,870	17,774	188,499
Accrued expenses	12,615	10,254	113,942
Lease obligations	31	44	287
Income taxes payable	2,151	659	19,429
Provision for performance-linked compensation for directors	72	16	651
Provision for loss on transfer of business	1,339	—	12,097
Provision for business structure reform	2,414	615	21,804
Other current liabilities	5,128	1,233	46,317
Total current liabilities	76,627	93,351	692,082
Long-term liabilities:			
Bonds payable (Notes 9 and 14)	5,000	20,000	45,158
Long-term debt (Notes 9 and 14)	33,329	1,643	301,027
Lease obligations	23	40	209
Provision for share-based compensation	43	8	396
Provision for retirement benefits for directors (and other officers)	41	39	375
Liabilities for retirement benefits (Note 25)	2,632	3,402	23,774
Deferred tax liabilities (Note 27)	1,018	975	9,201
Provision for business structure reform	—	1,351	—
Other long-term liabilities	1,706	1,435	15,408
Total long-term liabilities	43,795	28,896	395,552
Net assets (Note 29)**:**			
Shareholders' equity:			
Common stock:			
Authorized – 51,400,000 shares			
Issued and outstanding: 2021 – 25,098,060 shares	20,896	20,896	188,735
Capital surplus	60,882	24,465	549,880
Retained earnings	6,599	13,915	59,606
Less treasury stock, at cost: 869,600 shares in 2021	(4,226)	(4,159)	(38,169)
Total shareholders' equity (Note 33)	84,153	55,118	760,053
Accumulated other comprehensive income (loss):			
Unrealized holding gain (loss) on securities	46	(75)	420
Translation adjustments	1,332	(477)	12,032
Retirement benefit liability adjustments	(1,955)	(4,723)	(17,664)
Total accumulated other comprehensive income (loss)	(577)	(5,275)	(5,212)
Non-controlling interests	29,674	21,933	268,017
Total net assets	113,250	71,776	1,022,858
Total liabilities and net assets	¥233,673	¥194,024	$2,110,493

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

Consolidated Statements of Operations

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2021	2020	2021
Net sales	¥156,795	¥160,217	$1,416,142
Cost of sales (Notes 25, 29 and 31)	117,659	121,768	1,062,679
Gross profit	39,135	38,448	353,463
Selling, general and administrative expenses (Notes 16, 25, 30 and 32)	40,333	34,139	364,284
Operating income	(1,198)	4,309	(10,820)
Other income (expenses):			
Interest expense	(891)	(555)	(8,051)
Interest income	91	250	824
Dividend income	28	28	255
Subsidy income	256	—	2,320
Foreign exchange gains (losses)	(615)	(1,115)	(5,562)
Gain on sales of scraps	162	77	1,464
Reversal of product compensation costs	—	—	—
Product compensation costs	(7)	(72)	(66)
Gain on sales of fixed assets	42	3,952	386
Loss on disposal of fixed assets (Note 18)	(212)	(414)	(1,921)
Gain on sales of investment securities	20	—	189
Settlement received	—	112	—
Loss on valuation of investment securities	(54)	(26)	(491)
Impairment loss (Note 19)	(18)	(513)	(165)
Special retirement expenses	—	(350)	—
Loss on liquidation of subsidiaries' and associates' impairment loss	(42)	(205)	(386)
Expenses related to advanced repayment of loans	(960)	—	(8,678)
Business structure reform cost (Note 20)	(1,663)	(5,175)	(15,021)
Provision for business structure reform (Note 21)	(523)	(1,691)	(4,726)
Provision for loss on transfer of business (Note 22)	(1,339)	—	(12,097)
Other income	360	221	3,254
Other expenses	(632)	(469)	(5,710)
	(5,999)	(5,947)	(54,184)
Loss before income taxes	(7,197)	(1,638)	(65,005)
Income taxes (Note 27):			
Current	1,818	2,050	16,425
Deferred	(2,671)	594	(24,131)
For prior periods (Note 23)	(357)	941	(3,228)
Loss	(5,986)	(5,224)	(54,071)
Profit attributable to non-controlling interests	965	334	8,717
Loss attributable to owners of parent (Note 33)	¥ (6,952)	¥ (5,559)	$ (62,789)

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

Consolidated Statements of Comprehensive Income (Loss)

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2021	2020	2021
Loss	¥(5,986)	¥(5,224)	$(54,071)
Other comprehensive income (loss):			
Unrealized holding gain (loss) on securities	121	(120)	1,098
Translation adjustments	3,058	(1,237)	27,625
Retirement benefit liability adjustments	2,652	530	23,952
Total other comprehensive income (loss) (Note 24)	5,832	(827)	52,676
Comprehensive loss	¥ (154)	¥(6,052)	$ (1,395)
Breakdown:			
Comprehensive income (loss) attributable to:			
Owners of parent	¥(2,253)	¥(5,822)	$(20,352)
Non-controlling interests	2,098	(229)	18,957

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

Consolidated Statements of Changes in Net Assets

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2020

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2020	¥20,896	¥24,465	¥13,915	¥(4,159)	¥55,118
Changes during the year:					
Cash dividends paid (other capital surplus)			(363)		(363)
Profit (loss) attributable to owners of parent			(6,952)		(6,952)
Acquisition of treasury stock				(68)	(68)
Disposal of treasury stock		0		1	1
Change in ownership interest of parent due to transactions with non-controlling interests		17,008			17,008
Increase (decrease) in equity due to capital increase of consolidated subsidiaries		16,836			16,836
Share-based payments		2,572			2,572
Net changes in items other than shareholders' equity					—
Total changes during the year	—	36,417	(7,315)	(66)	29,034
Balance at March 31, 2021	¥20,896	¥60,882	¥ 6,599	¥(4,226)	¥84,153

	Thousands of U.S. dollars (Note 5)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2020	$188,735	$220,967	$125,679	$(37,565)	$497,816
Changes during the year:					
Cash dividends paid (other capital surplus)			(3,283)		(3,283)
Profit (loss) attributable to owners of parent			(62,790)		(62,790)
Acquisition of treasury stock				(616)	(616)
Disposal of treasury stock		(0)		11	11
Change in ownership interest of parent due to transactions with non-controlling interests		153,620			153,620
Increase (decrease) in equity due to capital increase of consolidated subsidiaries		152,060			152,060
Share-based payments		23,234			23,234
Net changes in items other than shareholders' equity					—
Total changes during the year	—	328,914	(66,072)	(605)	262,237
Balance at March 31, 2021	$188,735	$549,881	$ 59,606	$(38,170)	$760,053

	Millions of yen					
	Accumulated other comprehensive income (loss)					
	Unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
Balance at April 1, 2020	¥ (75)	¥ (477)	¥(4,723)	¥(5,275)	¥21,933	¥ 71,776
Changes during the year:						
Cash dividends paid (other capital surplus)				—		(363)
Profit (loss) attributable to owners of parent				—		(6,952)
Acquisition of treasury stock				—		(68)
Disposal of treasury stock				—		1
Change in ownership interest of parent due to transactions with non-controlling interests				—		17,008
Increase (decrease) in equity due to capital increase of consolidated subsidiaries				—		16,836
Share-based payments				—		2,572
Net changes in items other than shareholders' equity	121	1,809	2,767	4,698	7,741	12,439
Total changes during the year	121	1,809	2,767	4,698	7,741	41,474
Balance at March 31, 2021	¥ 46	¥1,332	¥(1,955)	¥ (577)	¥29,674	¥113,250

	Thousands of U.S. dollars (Note 5)					
	Accumulated other comprehensive income (loss)					
	Unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
Balance at April 1, 2020	$ (678)	$ (4,310)	$(42,661)	$(47,649)	$198,101	$ 648,268
Changes during the year:						
Cash dividends paid (other capital surplus)				—		(3,283)
Profit (loss) attributable to owners of parent				—		(62,790)
Acquisition of treasury stock				—		(616)
Disposal of treasury stock				—		11
Change in ownership interest of parent due to transactions with non-controlling interests				—		153,620
Increase (decrease) in equity due to capital increase of consolidated subsidiaries				—		152,060
Share-based payments				—		23,234
Net changes in items other than shareholders' equity	1,099	16,342	24,996	42,437	69,916	112,353
Total changes during the year	1,099	16,342	24,996	42,437	69,916	374,590
Balance at March 31, 2021	$ 420	$12,032	$(17,665)	$ (5,212)	$268,017	$1,022,858

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2019	¥20,896	¥26,214	¥20,204	¥(4,023)	¥63,292
Changes during the year:					
Cash dividends paid (other capital surplus)			(729)		(729)
Profit (loss) attributable to owners of parent			(5,559)		(5,559)
Acquisition of treasury stock				(136)	(136)
Disposal of treasury stock		(0)		0	0
Increase (decrease) in equity due to capital increase of consolidated subsidiaries		(1,905)			(1,905)
Share-based payments		156			156
Net changes in items other than shareholders' equity					—
Total changes during the year	—	(1,749)	(6,289)	(135)	(8,174)
Balance at March 31, 2020	¥20,896	¥24,465	¥13,915	¥(4,159)	¥55,118

	Millions of yen					
	Accumulated other comprehensive income (loss)					
	Unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
Balance at April 1, 2019	¥ 45	¥ 212	¥(5,270)	¥(5,012)	¥20,261	¥78,541
Changes during the year:						
Cash dividends paid (other capital surplus)				—		(729)
Profit (loss) attributable to owners of parent				—		(5,559)
Acquisition of treasury stock				—		(136)
Disposal of treasury stock				—		0
Increase (decrease) in equity due to capital increase of consolidated subsidiaries				—		(1,905)
Share-based payments				—		156
Net changes in items other than shareholders' equity	(120)	(689)	547	(263)	1,672	1,409
Total changes during the year	(120)	(689)	547	(263)	1,672	(6,765)
Balance at March 31, 2020	¥ (75)	¥(477)	¥(4,723)	¥(5,275)	¥21,933	¥71,776

Consolidated Statements of Cash Flows

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2021	2020	**2021**
Operating activities:			
Profit (loss) before income taxes	**¥ (7,197)**	¥ (1,638)	**$ (65,005)**
Depreciation and amortization	**12,683**	12,398	**114,555**
Impairment loss	**18**	513	**165**
Business structure reform cost	**1,663**	5,175	**15,022**
Increase (decrease) in provision for business restructure reform cost	**446**	1,691	**4,034**
Provision for loss on transfer of business	**1,339**	—	**12,098**
Decrease (increase) in allowance for doubtful receivables	**7**	(189)	**66**
Decrease (increase) in assets for retirement benefits	**372**	(44)	**3,365**
Increase (decrease) in provision for retirement benefits for employees	**392**	(264)	**3,543**
Interest and dividend income	**(119)**	(279)	**(1,080)**
Share based compensation expenses	**5,128**	—	**46,315**
Interest expense	**891**	555	**8,052**
Loss (gain) on sales of property, plant and equipment	**(42)**	(3,952)	**(387)**
Loss (gain) on sales of investment securities	**(20)**	—	**(190)**
Decrease (increase) in notes and accounts receivable	**(4,975)**	1,219	**(44,934)**
Decrease (increase) in inventories	**225**	(259)	**2,040**
Increase (decrease) in notes and accounts payable	**2,547**	174	**23,011**
Other	**(3,591)**	672	**(32,436)**
Subtotal	**9,769**	15,775	**88,234**
Interest and dividends received	**118**	284	**1,073**
Interest paid	**(908)**	(559)	**(8,206)**
Income taxes paid	**(1,350)**	(2,381)	**(12,196)**
Net cash provided by operating activities	**7,629**	13,118	**68,906**
Investing activities:			
Purchases of property, plant and equipment	**(10,175)**	(11,114)	**(91,902)**
Proceeds from sales of property, plant and equipment	**80**	4,392	**730**
Purchases of intangible assets	**(620)**	(946)	**(5,606)**
Purchases of investment securities	**—**	—	**—**
Proceeds from sales of investment securities	**42**	—	**388**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(1,225)**	—	**(11,066)**
Loan advances	**(4)**	—	**(39)**
Proceeds from loans receivable	**1**	0	**12**
Other	**(393)**	(644)	**(3,557)**
Net cash used in investing activities	**(12,294)**	(8,311)	**(111,040)**
Financing activities:			
Increase (decrease) in short-term bank loans	**(15,090)**	14,754	**(136,297)**
Increase (decrease) in commercial paper	**(6,000)**	(1,000)	**(54,191)**
Proceeds from long-term loans payable	**(45)**	(36)	**(412)**
Repayment of long-term loans payable	**62,931**	—	**568,381**
Proceeds from issuance of corporate bonds	**(41,970)**	(638)	**(379,068)**
Redemption of corporate bonds	**—**	—	**—**
Repayment of finance lease obligations	**(15,000)**	—	**(135,477)**
Proceeds from sales of treasury stock	**—**	0	**—**
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**19,389**	—	**175,125**
Proceeds from issuance of shares	**31,166**	—	**281,489**
Purchases of treasury stock	**(68)**	(136)	**(616)**
Cash dividends paid	**(13,859)**	(4)	**(125,180)**
Dividends paid to non-controlling interests	**(365)**	(724)	**(3,302)**
Net cash provided by financing activities	**21,086**	12,215	**190,452**
Effect of exchange rate changes on cash and cash equivalents	**3,487**	(408)	**31,502**
Net increase in cash and cash equivalents	**19,909**	16,613	**179,820**
Cash and cash equivalents at beginning of the year	**39,902**	23,288	**360,394**
Cash and cash equivalents at end of the year (Note 7)	**¥ 59,812**	¥ 39,902	**$ 540,214**

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

01 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 Financial Instruments and Exchange Law of Japan.

The accompanying consolidated financial statements for the year ended March 31, 2021 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including goodwill, actuarial differences and capitalized development costs.

As permitted by the Financial Instruments 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 subsidiaries. As of March 31, 2021, the number of consolidated subsidiaries was 36 (34 in 2020). Significant intercompany transactions and account balances have been eliminated in consolidation.

Sanken Electric Europe Ltd, Sanken Electric USA Inc. and Sanken Electric Europe GMBH were included in the scope of consolidation following their establishment.

Voxtel, Inc. and LadarSystems, Inc. were included in the scope of consolidation due to the acquisition of shares.

Sanken Electric Singapore Pte. Ltd. was excluded from the scope of consolidation due to the completion of liquidation proceedings.

Sanken Logistics Co., Ltd. was excluded from the scope of consolidation due to an absorption type merger.

Sanken L.D. Electric (Jiangyin) Co., Ltd. was excluded from the scope of consolidation due to the sales of share.

(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. Non-marketable securities classified as other securities are carried at cost. The cost of securities sold is determined by the moving-average method.

(d) Inventories

Inventories held for sale in the ordinary course of business are stated at cost using the moving-average method. The carrying amounts in the accompanying consolidated balance sheets are written down to reflect any decreased profitability.

(e) Property, Plant and Equipment; Intangible Assets; Leased Assets; and Depreciation and Amortization

Property, plant and equipment are recorded at cost. Depreciation at the Company and its subsidiaries is computed principally by the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives are as follows:

Buildings	8 – 60 years
Machinery and equipment	3 – 12 years

Intangible assets are amortized over a period of 5 or 10 years by the straight-line method.

Leased assets under finance lease transactions that stipulate the transfer of ownership of the leased assets to the lessee are depreciated principally over the estimated useful lives of similar owned assets by the straight-line method.

Leased assets under finance lease transactions that do not stipulate the transfer of ownership of the leased assets to the lessee are depreciated over their lease periods by the straight-line method with a residual value of zero.

(f) (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.

(g) Bond Issuance Costs

Bond issuance costs are charged to income when incurred.

(h) Provision for Performance-Linked Compensation for Directors

To prepare for the payment of performance-linked remuneration to directors, an allowance is recorded based on the estimated amount to be paid at the end of the current fiscal year.

(i) Provision for Share-Based Compensation

In order to prepare for the distribution of shares of the Company to directors in accordance with the share distribution provisions, the reserve is provided based on the estimated amount of the share benefit obligation at the end of the current fiscal year.

(j) Provision for Business Structure Reform

In order to provide for the future payment related to business restructuring, a reasonably estimated amount is recorded at year-end in consideration of events in the current fiscal year and prior periods.

(k) Provision for Loss on Transfer of Business

In order to provide for losses expected in the future, the estimated amount to be incurred is recorded.

(l) Employees' Retirement Benefits

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

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 10 through 20 years) which are shorter than the average remaining years of service of the employees.

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 12 through 16 years) which are shorter than the average remaining years of service of the employees.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities based on the assumption that the benefits payable approximates the retirement benefit obligation at year-end.

(m) Retirement Benefits for Directors

To prepare for the payment of retirement benefits to directors and corporate auditors, a reserve for retirement benefits has been provided at the estimated amounts required at the year-end based on the Company's internal rules.

(n) Foreign Currency Translation

All monetary assets and liabilities of the Company denominated in foreign currencies 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.

Assets and liabilities of overseas consolidated subsidiaries are translated into yen at the fiscal year-end exchange rates. Income statements of overseas consolidated subsidiaries are translated into yen at average exchange rates. Differences arising from the translation are presented as translation adjustments and non-controlling interests as components of net assets in its consolidated financial statements.

(o) Derivatives

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

(p) 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.

(q) Amortization Method and Period of Goodwill

Goodwill is amortized by the straight-line method, over the period in which the benefits are realized.

(r) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(s) Consolidated Taxation System

The Company and its domestic consolidated subsidiaries have applied the consolidated taxation system.

02 Accounting Changes

(a) Change in Presentation

Adoption of "Accounting Standard for Disclosure of Accounting Estimates"

"Accounting Standard for the Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) has been applied in preparing the consolidated financial statements as of the end of the fiscal year, and significant accounting estimates are disclosed in the consolidated financial statements.

However, in accordance with the transitional treatment stipulated in the provisions of paragraph 11 of the accounting standard, comparative information for the previous fiscal year is not presented.

(b) Change in Accounting Policy

There are no applicable items.

03 Significant Accounting Estimates

Impairment of Fixed Assets

The Company determined that there were indicators of impairment for the asset group comprising fixed assets (¥22,652 million ($204,593 thousand)) related to Sanken Device products in the Semiconductor Devices Business segment due to a decline in profitability in line with changes in the business environment, but no impairment loss was recorded in the fiscal year ended March 31, 2021.

No impairment loss was recognized as the sum of the undiscounted future cash flows from the asset group over the economic remaining useful life of the major assets of the asset group exceeded the carrying value of the asset group.

Key assumptions used in the calculation of undiscounted future cash flows are forecasts of demand from customers and sales forecasts (unit prices and volumes) based on market growth rates for semiconductors both of which are the basis of the business plans.

These assumptions involve uncertainties in estimates, and changes in the progress of business plans and market growth rates for semiconductors, among other factors, could result in an impairment loss in the consolidated financial statements for the following fiscal year.

04 Accounting Standards Issued But Not Yet Effective

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

In May 2014, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) issued "Revenue from Contracts with Customers," converged guidance on recognizing revenue in contracts with customers (IFRS 15, issued by the IASB, and Topic 606, issued by the FASB). IFRS 15 applies to annual reporting periods beginning on or after January 1, 2018, and Topic 606 applies to annual reporting periods beginning after December 15, 2017. Accordingly, the ASBJ developed a comprehensive accounting standard for revenue recognition and implementation guidance.

As a basic policy with regard to the ASBJ's development of "Accounting Standard for Revenue Recognition," from the viewpoint of comparability between financial statements, the ASBJ incorporated the basic principles of IFRS 15, and for any items to be considered from the perspective of historical accounting practices under Japanese GAAP, the ASBJ also included alternative accounting treatments which do not impair comparability with IFRS 15.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of the accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

On July 4, 2019, the ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Guidance No. 31), "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9), "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10) and "Implementation Guidance on Disclosure of Fair Value, etc. of Financial Instruments" (ASBJ Guidance No. 19).

(1) Overview

"Accounting Standard for Fair Value Measurement" and "Accounting Standard for Disclosure of Accounting Estimates" were developed to improve comparability with international accounting standards, and guidance on how to measure fair value has been established.

The fair value accounting standard is applied to the fair value of the following items.

• Financial instruments in the "Accounting Standard for Financial Instruments"

• Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories"

In addition, "Implementation Guidance on Disclosures of Fair Value, etc. of Financial Instruments" was revised to provide notes regarding the breakdown of fair value of financial instruments by level.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of the accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

05 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 ¥110.72 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2020. 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.

06 Additional Information

With regard to the impact of COVID-19 infectious diseases, despite the unstable situation where the prevalence is still continuing, economic activities in each region are gradually heading toward recovery due to the development of vaccines and other factors. Currently, there are signs of a recovery in the economy, including brisk activity in the semiconductor market, and we expect strong orders to continue in the future. Under these circumstances, the Company made accounting estimates such as the recoverability of deferred tax assets and the accounting for impairment of fixed assets based on the assumption that the impact of COVID-19 on our group will be limited. However, the impact of COVID-19 is highly uncertain, and if it becomes prolonged or worsened in the future, our business performance may be affected.

07 Supplementary Cash Flow Information

The following table represents a reconciliation of cash and deposits with cash and cash equivalents as of March 31, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	2020	2021
Cash and deposits	¥60,990	¥40,779	$550,849
Restricted cash	(1,177)	(876)	(10,635)
Cash and cash equivalents	¥59,812	¥39,902	$540,213

The following table represents significant non-cash transactions as of March 31, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	2020	2021
Assets and obligations relating to finance lease transactions	¥11	¥61	$106

08 Assets and Liabilities of Newly Consolidated Subsidiaries Due to Share Acquisitions

The breakdown of assets and liabilities at the time of consolidation of Voxtel, Inc. and LadarSystems, Inc., which were newly consolidated due to the acquisition of shares, and the relation between the acquisition price of the shares of the companies and the expenditures for the acquisition (net amount) are as follows.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Current assets	¥ 673	¥—	$ 6,080
Non-current assets	1,698	—	15,340
Goodwill	1,978	—	17,867
Current liabilities	(243)	—	(2,197)
Differed tax liabilities	(406)	—	(3,671)
Acquisition cost of share	3,700	—	33,419
Cash and deposits	(32)	—	(293)
Accrued amounts included in acquisition cost	(2,443)	—	(22,060)
Less: Payments for acquisition	1,225	—	11,065

09 Financial Instruments

a. Summary of financial instruments

(1) Policy for financial instruments

The Group raises funds necessary for capital investments, R&D, etc. by bond issuances and bank loans. It manages temporary surplus funds through highly secure financial instruments, and also raises short-term operating funds by issuing commercial paper and obtaining bank loans. The Group follows a policy of using derivatives to hedge foreign currency exchange fluctuation risks and avoids any speculative dealings.

(2) Financial instruments and their risks

Receivables resulting from the ordinary course of business, such as notes and accounts receivable – trade, are exposed to the credit risk of customers. Receivables denominated in foreign currencies derived from global business operations are also exposed to foreign currency exchange fluctuation risks. The Group hedges these risks mainly through the use of forward exchange contracts against positions after netting payables denominated in the same foreign currencies, in principle. Investment securities are mainly composed of the shares of corporations with which the Group has business relationships and therefore are exposed to the risk of market price fluctuations.

Payables from the ordinary course of business such as notes and accounts payable – trade are mostly to be settled in one year. As some of them are denominated in foreign currencies due to importing materials and exposed to foreign currency exchange fluctuation risks, they are constantly maintained within the range of receivables in the same currencies. Short-term bank loans and commercial paper are used for financing mainly in relation to operating funds, while long-term bank loans and bonds are used for the purpose of financing capital investments. Some have floating interest rates and are therefore exposed to the risk of interest rate fluctuation.

Forward exchange contracts are derivative transactions that are entered into in order to hedge foreign currency exchange fluctuation risks associated with foreign currency-denominated receivables and payables arising from the ordinary course of business.

(3) Risk management for financial instruments

<1> Management of credit risk (risk of customer default)

The sales division of the Group regularly monitors the financial position of main customers and manages due dates and outstanding balances due from each customer in accordance with provisions of credit management regulations to minimize the risk of defaults resulting from the deterioration of a customer's financial position.

<2> Management of market risk (foreign exchange risk, interest rate risk and others)

For receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange fluctuation risks by currency each month and enters into forward exchange contracts to hedge such risks. Regarding the market price risk of investment securities, the Group regularly monitors the fair value of such securities as well as financial positions of the issuers. The Group also continuously reviews the status of possessing such securities taking into consideration business relationships with the issuers. When borrowing a bank loan with a floating interest rate, the Group reduces the risk by limiting the loan term to within three years in principle, monitoring the remaining term until the interest rate renewal date, monitoring the interest rate fluctuation trends, and responding in consideration of the balances between short-term loans and long-term loans or between fixed interest rates and floating interest rates.

In regard to derivative transactions, the finance division enters into contracts, confirms balances and keeps accounts based on the corporate policy. The status of derivative transactions is reported monthly to the management meeting.

<3> Management of liquidity risk (risk of failure to repay obligations)

The finance division manages liquidity risk in a timely manner by updating the cash-flow budget based on reports from each business division.

(4) Supplemental explanation of the fair value of financial instruments

Fair values of financial instruments are measured based on the quoted market price, if available, or are reasonably estimated if a quoted market price is not available. The fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used.

In addition, the contract amounts of the derivative transactions described below in "b. Fair value of financial instruments" do not represent the market risk of the derivative transactions.

b. Fair value of financial instruments

The carrying amounts on the consolidated balance sheets, fair value, and difference as of March 31, 2021 and 2020 are as follows. Financial instruments for which it is extremely difficult to measure the fair value are not included. (Please see "Note 2: Financial instruments for which the fair value is extremely difficult to measure," below)

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2021	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Assets						
(1) Cash and deposits	¥60,990	¥60,990	¥ —	$550,849	$550,849	$ —
(2) Notes and accounts receivable – trade	36,962	36,962	—	333,839	333,839	—
(3) Investment securities: Other securities	586	586	—	5,294	5,294	—
Total	¥98,539	¥98,539	¥ —	$889,983	$889,983	$ —
Liabilities						
(1) Notes and accounts payable – trade	¥20,870	¥20,870	¥ —	$188,499	$188,499	$ —
(2) Short-term bank loans	12,357	12,357	—	111,606	111,606	—
(3) Commercial paper	4,000	4,000	—	36,127	36,127	—
(4) Bonds	20,000	19,808	(192)	180,635	178,901	(1,734)
(5) Long-term debt (except for bonds)	33,976	34,549	573	306,868	312,047	5,178
(6) Lease obligations	54	54	(0)	496	491	(4)
Total	¥91,259	¥91,640	¥ 380	$824,234	$827,674	$ 3,439
Derivative transactions*	¥ (780)	¥ (780)	¥ —	$ (7,051)	$ (7,051)	$ —

* Derivative transactions are shown at the net value of the assets and liabilities arising from the transactions.

	Millions of yen		
As of March 31, 2020	Carrying amount	Fair value	Difference
Assets			
(1) Cash and deposits	¥40,779	¥40,779	¥ —
(2) Notes and accounts receivable – trade	31,888	31,888	—
(3) Investment securities: Other securities	516	516	—
Total	¥73,185	¥73,185	¥ —
Liabilities			
(1) Notes and accounts payable – trade	¥17,774	¥17,774	¥ —
(2) Short-term bank loans	27,619	27,619	—
(3) Commercial paper	10,000	10,000	—
(4) Bonds	35,000	34,817	(183)
(5) Long-term debt (except for bonds)	11,776	11,924	147
(6) Lease obligations	84	83	(1)
Total	¥102,255	¥102,218	¥ (37)
Derivative transactions*	¥ (104)	¥ (104)	¥ —

* Derivative transactions are shown at the net value of the assets and liabilities arising from the transactions.

Note 1: Methods to measure the fair value of financial instruments, investment securities, and derivative transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable – trade

The carrying amount approximates fair value because of the short maturities of these instruments.

(3) Investment securities

The fair value of equity securities equals quoted market prices, if available. Information on investment securities classified by holding purpose is described in "Note 8. Securities."

Liabilities

(1) Notes and accounts payable – trade, (2) Short-term bank loans and current portion of long-term debt, and (3) Commercial paper

The carrying amount approximates fair value because of the short maturities of these instruments.

(4) Bonds

The fair value equals quoted market prices.

(5) Long-term debt (except for bonds)

The fair value of long-term debt with floating interest rates is nearly equal to the carrying value as the market rate is reflected in a short period. The fair value of long-term debt with fixed interest rates is based on the present value of the total amount of principal and interest discounted by the interest rates that would presumably apply to similar debt.

(6) Lease obligations

The fair value of lease obligations is based on the present value of the total amount of payments discounted by the interest rates that would presumably apply to similar lease contracts.

Derivative transactions

Contract amounts and estimated fair value are described in "Note 9. Derivatives."

Note 2: Financial instruments for which the fair value is extremely difficult to measure

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	2020	2021
Unlisted equity securities and others	¥404	¥376	$3,655

The above are not included in "Assets (3) Investment securities" because no quoted market price is available and it is extremely difficult to measure the fair value.

Note 3: The redemption schedule for receivables and investment securities with maturities subsequent to the consolidated closing date

As of March 31, 2021	Millions of yen Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥60,990	¥—	¥—	¥—
Notes and accounts receivable – trade	36,962	—	—	—
Investment securities:				
Other securities with maturities	—	—	—	—
Total	¥97,952	¥—	¥—	¥—

As of March 31, 2021	Thousands of U.S. dollars Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	$550,849	$—	$—	$—
Notes and accounts receivable – trade	333,839	—	—	—
Investment securities:				
Other securities with maturities	—	—	—	—
Total	$884,688	$—	$—	$—

As of March 31, 2020	Millions of yen Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥40,779	¥—	¥—	¥—
Notes and accounts receivable – trade	31,888	—	—	—
Investment securities:				
Other securities with maturities	—	—	—	—
Total	¥72,668	¥—	¥—	¥—

Note 4: The redemption schedule for bonds, long-term debt and lease obligations and other liabilities with maturities subsequent to the consolidated closing date

As of March 31, 2021	Millions of yen Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term bank loans	¥12,357	¥ —	¥ —	¥—	¥ —	¥ —
Commercial paper	4,000	—	—	—	—	—
Bonds	15,000	—	—	—	5,000	—
Long-term debt (except for bonds)	646	475	24,500	—	5,586	2,768
Lease obligations	31	11	7	2	1	0
Total	¥32,035	¥486	¥24,507	¥ 2	¥10,588	¥2,768

As of March 31, 2021	Thousands of U.S. dollars Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term bank loans	$111,606	$ —	$ —	$—	$ —	$ —
Commercial paper	36,127	—	—	—	—	—
Bonds	135,476	—	—	—	45,158	—
Long-term debt (except for bonds)	5,840	4,290	221,278	—	50,458	25,000
Lease obligations	287	107	63	18	17	1
Total	$289,339	$4,397	$221,342	$18	$95,634	$25,001

As of March 31, 2020	Millions of yen Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term bank loans	¥27,619	¥ —	¥ —	¥—	¥—	¥ —
Commercial paper	10,000	—	—	—	—	—
Bonds	15,000	15,000	—	—	—	5,000
Long-term debt (except for bonds)	10,133	—	975	—	—	668
Lease obligations	44	25	9	5	—	—
Total	¥62,797	¥15,025	¥984	¥ 5	¥—	¥5,668

10 Securities

(1) Other securities

Marketable securities classified as other securities at March 31, 2021 and 2020 are summarized as follows:

As of March 31, 2021	Millions of yen Carrying amount	Acquisition cost	Net unrealized gain (loss)	Thousands of U.S. dollars Carrying amount	Acquisition cost	Net unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:						
Equity securities	¥439	¥349	¥ 90	$3,971	$3,157	$ 814
Securities whose acquisition cost exceeds their carrying amount:						
Equity securities	146	211	(64)	1,323	1,909	(586)
	¥586	¥560	¥ 25	$5,294	$5,066	$ 228

As of March 31, 2020	Millions of yen Carrying amount	Acquisition cost	Net unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥117	¥ 83	¥ 34
Securities whose acquisition cost exceeds their carrying amount:			
Equity securities	399	526	(127)
	¥516	¥610	¥ (93)

(2) Sales of securities classified as other securities and the aggregate gain and loss for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen 2021	2020	Thousands of U.S. dollars 2021
Sales proceeds:	¥42	¥—	$387
Stocks	42	—	387
Others	—	—	—
Aggregate gain:	20	—	189
Stocks	20	—	189
Others	—	—	—
Aggregate loss:	—	—	—
Stocks	—	—	—
Others	—	—	—

(3) Impairment of other securities

Impairment losses on securities classified as other securities for the year ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Impairment of other securities	¥54	¥26	$491

11 Derivatives

Summarized below are the contract amounts and estimated fair values of the Company's open derivative positions at March 31, 2021 and 2020 for which deferral hedge accounting has not been applied:

	Millions of yen				Thousands of U.S. dollars	
	2021		2020		2021	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Forward foreign exchange contracts:						
Sell U.S. dollars	¥16,141	¥(780)	¥16,360	¥(104)	$145,788	$(7,051)

12 Inventories

Inventories at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Finished products	¥15,864	¥14,422	$143,284
Work in process	19,782	21,231	178,675
Raw materials and supplies	5,592	5,425	50,512
	¥41,240	¥41,079	$372,473

The book values of inventories were written down to reflect the decline in profitability by ¥349 million ($3,157 thousand) and ¥793 million for the years ended March 31, 2021 and 2020, respectively. The inventory write-downs were included in "Cost of sales."

13 Property, Plant and Equipment

Accumulated depreciation of property, plant and equipment for the years ended March 31, 2021 and 2020 was as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Property, plant and equipment	¥164,672	¥156,183	$1,487,286

14 Short-Term Borrowings and Long-Term Debt

Short-term bank loans generally represent notes and overdrafts. The related weighted average interest rates at March 31, 2021 and 2020 were approximately 0.52% and 1.04%, respectively. The weighted average interest rate applicable to the current portion of long-term debt (excluding lease obligations) was approximately 0.90% at March 31, 2021. The weighted average interest rates applicable to commercial paper at March 31, 2021 and 2020 were approximately 0.21% and 0.15%, respectively. The weighted average interest rates applicable to the current portion of lease obligations at March 31, 2021 and 2020 were approximately 2.74% and 3.17%, respectively.

Long-term debt at March 31, 2021 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans payable in yen with a weighted average rate of 0.96% at March 31, 2021 and 0.61% at March 31, 2020	¥ 33,976	¥ 11,776	$ 306,868
0.80% bonds due 2020	—	15,000	—
0.67% bonds due 2021	10,000	10,000	90,317
0.40% bonds due 2021	5,000	5,000	45,158
0.81% bonds due 2025	5,000	5,000	45,158
Lease obligations with a weighted average rate of 2.84% at March 31, 2021 and 2.49% at March 31, 2020	54	84	496
	54,031	46,861	488,001
Less current portion	(15,678)	(25,178)	(141,605)
	¥ 38,352	¥ 21,683	$ 346,395

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 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.

At March 31, 2021 and 2020, the assets pledged as collateral for short-term bank loans were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Buildings	¥—	¥45	$—
Other assets	—	7	—
	¥—	¥52	$—

At March 31, 2021 and 2020, short-term bank loans secured by collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Short-term bank loans	¥—	¥45	$—

15 Lines of Credit

The Company and certain overseas subsidiaries have committed line-of-credit agreements and have entered into overdraft agreements with certain financial institutions in order to raise operating funds efficiently. The balances of credit available at March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total committed lines of credit and overdraft	¥54,333	¥42,688	$490,727
Outstanding balance	7,872	22,699	71,106
	¥46,460	¥19,989	$419,620

16 Selling, General and Administrative Expenses

The principal components of selling, general and administrative expenses for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Salaries and bonuses	¥14,959	¥13,682	$135,112
Packing and shipping expenses	1,549	1,512	13,995
Outside services	4,660	4,144	42,089
Provision for doubtful receivables	6	84	62
Provision for retirement benefits for directors	2	11	22
Provision for performance-linked compensation for directors	59	16	535
Provision for share-based compensation	25	8	229
Retirement benefit expenses	430	266	3,889

17 Gain on Sales of Fixed Assets

The gain on sales of fixed assets for the years ended March 31, 2021 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Land	¥—	¥3,946	$ —
Machinery and equipment	37	4	337
Tools, furniture and fixtures	5	1	49

18 Loss on Disposal of Fixed Assets

The loss on disposal of fixed assets for the years ended March 31, 2021 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Buildings	¥ 9	¥ 26	$ 88
Machinery and equipment	136	27	1,235
Tools, furniture and fixtures	54	0	492
Dismantling and removal costs	11	359	105
	¥212	¥414	$1,921

19 Impairment Loss

Fixed assets are grouped by business segment with idle assets constituting a separate asset group.

Impairment loss was recognized on the following asset groups for the year ended March 31, 2021.

Use	Location	Asset category	Millions of yen	Thousands of U.S. dollars
Idle assets	Commonwealth of Minnesota, USA	Machinery and equipment, net	¥18	$165

Impairment loss of ¥18 million was recognized on idle assets such as manufacturing facilities for the semiconductor devices business, which are no longer being utilized, by writing down the carrying amounts to the recoverable amounts, which are their net selling prices.

Impairment loss was recognized on the following asset groups for the year ended March 31, 2020.

Use	Location	Asset category	Millions of yen
① Product equipment	Kawagoe City, Saitama Prefecture, Japan	Buildings and structures, net	¥ 34
		Machinery, equipment and vehicles, net	170
		Tools, furniture and fixtures, net	95
		Software	19
	Shiga Town, Hakui District, Japan	Machinery, equipment and vehicles, net	20
	Jiangyin City, Jiangsu Province, China	Buildings and structures, net	47
		Machinery, equipment and vehicles, net	33
		Tools, furniture and fixtures, net	43
		Others	9
			475
② Product equipment	Commonwealth of Massachusetts, USA	Buildings and structures, net	38
Total			¥513

① Due to a reduction in profitability, impairment loss of ¥475 million was recognized on assets such as manufacturing facilities for the Power Systems Business by writing down the carrying amounts to recoverable amounts which are their memorandum value.

② Impairment loss of ¥38 million was recognized on idle assets such as manufacturing facilities for the semiconductor devices business, which are no longer being utilized, by writing down the carrying amounts to the recoverable amounts, which are their memorandum value.

20 Business Structure Reform Cost

The business structure reform cost for the years ended March 31, 2021 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Impairment loss*1	¥ —	¥3,838	$ —
Loss on disposal of inventories*2	153	801	1,383
Special retirement expenses*3	1,044	341	9,436
Termination of the qualified pension plan*4	84	193	762
Loss on disposal of fixed assets*5	166	—	1,506
Loss on sales of shares of subsidiaries and associates*6	214	—	1,933
	¥1,663	¥5,175	$15,021

*1 Impairment loss was recognized on the following asset groups for the year ended March 31, 2020.

Use	Location	Asset category	Millions of yen
① Product equipment	Saraburi Province, Thailand	Buildings, structures and others	¥2,200
	Kamisu City, Ibaraki Prefecture, Japan	Buildings and structures, net	695
		Machinery, equipment and vehicles, net	88
		Tools, furniture and fixtures, net	3
		Software	21
		Land	83
	Wajima City, Ishikawa Prefecture, Japan	Buildings and structures, net	354
		Machinery, equipment and vehicles, net	52
		Tools, furniture and fixtures, net	16
		Land	136
			3,653
② Product equipment	Changwon, Korea	Buildings and structures, net	69
		Others	6
	Niiza City, Saitama Prefecture, Japan	Buildings and structures, net	7
		Machinery, equipment and vehicles, net	14
		Others	5
	Shiga Town, Hakui District, Japan	Buildings and structures, net	79
			184
Total			¥3,838

① Business structure reform cost of ¥3,653 million was recognized on assets such as manufacturing facilities for the Semiconductor Devices Business, for which it is unlikely that the investment will be recoverable because of the decision to close the factory due to restructuring, by writing down the carrying amounts to the recoverable amounts, which are their net selling prices.

② Business structure reform cost of ¥184 million was recognized on assets for the LED lamp business, part of the Semiconductor Devices Business and for which a business withdrawal was determined, by writing down the carrying amounts to the recoverable amounts, which are their memorandum value.

*2 Loss on disposal of inventories

Business structure reform cost of ¥153 million ($1,383 thousand) was recognized on loss on disposal of inventories of the Power Systems Business because of reconsideration of the sales plan for the year ended March 31, 2021.

Business structure reform cost of ¥381 million was recognized on loss on disposal of inventories of the LED lamp business because of business withdrawal, and ¥14 million was recognized as loss on disposal of inventories of the Semiconductor Devices Business due to the decision to end production for the year ended March 31, 2020.

Business structure reform cost of ¥405 million ($3,729 thousand) was recognized on loss on disposal of inventories of the Power Systems Business because of reconsideration of the sales plan for the year ended March 31, 2020.

*3 Special retirement expenses

Special retirement benefits were provided amount of ¥177 million ($1,601 thousand) for employees of Ishikawa Sanken Co., Ltd. and ¥542 million ($4,895 thousand) for employees of Korea Sanken Co., Ltd. and ¥325 million ($2,939 thousand) for employees of P.T. Sanken Indonesia for the year ended March 31, 2021.

Special retirement benefits were provided for employees of Allegro MicroSystems (Thailand) Co., Ltd. for the year ended March 31, 2020.

*4 Termination of the qualified pension plan

This represents a loss on termination of the retirement benefit plan at P.T. Sanken Indonesia for the year ended March 31, 2021.

This represents a loss on termination of the retirement benefit plan at Kashima Sanken Co., Ltd. for the year ended March 31, 2020.

*5 Loss on disposal of fixed assets

Business structure reform cost of ¥166 million ($1,506 thousand) was recognized on loss on disposal of fixed assets of Sanken Optoproducts Co., LTD. due to the renovation of plants in conjunction with the optimization of production through the consolidation and closure of plants for the year ended March 31, 2021.

*6 Loss on sales of shares of subsidiaries and associates

Business structure reform cost of ¥214 million ($1,933 thousand) was due to the sale of all shares of Sanken L.D. Electric (Jiangyin) Co., Ltd. for the year ended March 31, 2021.

21 Provision for Business Structure Reform

This represents an expected amount for special retirement benefits amount of ¥234 million ($2,121 thousand) for employees of Ishikawa Sanken Co., Ltd. and ¥288 million yen ($2,604 thousand) for employees of Kashima Sanken Co., Ltd. for the year ended March 31, 2021.

This represents an expected amount for special retirement benefits for employees of Kashima Sanken Co., Ltd. for the year ended March 31, 2020.

22 Provision for Loss on Transfer of Business

At the Board of Directors meeting held on August 4, 2020, on the effective date of March 1, 2021, a resolution was adopted to transfer all of the outstanding shares of Sanken Densetsu Co., Ltd. to GS Yuasa Co., Ltd. and a share transfer agreement was concluded on the same date after succeeding the Social Systems Business of the Company's Power Systems Business to Sanken Densetsu Co., Ltd. by means of an absorption-type split.

The effective date of the share transfer agreement is May 1, 2021. The Group has recorded a provision for loss on transfer of business in the amount of ¥1,339 million ($12,097 thousand), which is the amount expected to be incurred from the transfer.

23 Income Taxes for Prior Periods

In July 2016, PT. Sanken Indonesia, a consolidated subsidiary, received a notice of correction from the Indonesian tax authorities regarding the amount of export transactions declared for the fiscal year ended December 31, 2014. As the content of this notification is unjustified and unacceptable, the Company has challenged the Directorate General of Indonesian Tax and appealed to the tax court of Indonesia. However, income taxes for prior periods of ¥366 million were recorded for the year ended March 31, 2020 because a decision was rendered in September 2019. However, in February 2021, the Supreme Court granted an appeal to the company in December 2019. As a result, the Group recorded ¥(357) million ($3,228 thousand) as income taxes for prior years for the year ended March 31, 2021.

Allegro MicroSystems, Inc. has been investigated by the U.S. tax authorities related to the transfer pricing tax treatment. For the year ended March 31, 2020, the company recorded ¥575 million as income taxes for prior years out of the estimated amount of additional tax to be paid, which is considered probable to be incurred at this time.

24 Reclassification Adjustments and Tax Effect Relating to Other Comprehensive Income

Reclassification adjustments and tax effect relating to other comprehensive income (loss) for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net unrealized holding gain (loss) on securities			
Change during the year	¥ 87	¥ (146)	$ 786
Reclassification adjustments	33	(26)	301
Amount before tax effect	120	(173)	1,087
Tax effect	1	52	10
Net unrealized holding gain (loss) on securities	¥ 121	¥ (120)	$ 1,098
Translation adjustments			
Change during the year	¥3,087	¥(1,443)	$27,883
Reclassification adjustments	(28)	205	(257)
Translation adjustments	¥3,058	¥(1,237)	$27,625
Retirement benefit liability adjustments			
Change during the year	¥2,344	¥(1,588)	$21,173
Reclassification adjustments	977	965	8,825
Amount before tax effect	3,321	(622)	29,999
Tax effect	(669)	1,153	(6,046)
Retirement benefit liability adjustments	¥2,652	¥ 530	$23,952
Total other comprehensive gain (loss)	¥5,832	¥ (827)	$52,676

25 Retirement Benefit Plans

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 Company and certain domestic subsidiaries have a defined contribution plan and an advance payment plan. The Company and certain domestic subsidiaries have adopted a cash balance plan.

The overseas consolidated subsidiaries principally have defined contribution pension plans.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities.

Defined benefit plans

The changes in the retirement benefit obligation during the years ended March 31, 2021 and 2020 are as follows (excluding plans for which the simplified method is applied):

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥27,517	¥29,358	$248,530
Service cost	1,188	1,210	10,732
Interest cost	221	229	1,998
Actuarial (gain) loss	42	(269)	384
Retirement benefit paid	(2,028)	(1,628)	(18,318)
Prior service costs	3	—	33
Reversal due to large-scale retirement	—	(1,489)	—
Other	317	105	2,870
Balance at the end of the year	¥27,262	¥27,517	$246,230

The changes in plan assets during the years ended March 31, 2021 and 2020 are as follows (excluding plans for which the simplified method is applied):

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥24,250	¥26,677	$219,026
Expected return on plan assets	361	1,066	3,265
Actuarial loss	2,402	(1,903)	21,698
Contributions by the Company	1,200	1,238	10,843
Retirement benefit paid	(1,829)	(1,626)	(16,523)
Reversal due to large-scale retirement	—	(1,235)	—
Other	200	33	1,812
Balance at the end of the year	¥26,586	¥24,250	$240,122

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2021 and 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Retirement benefit obligation	¥ 26,956	¥ 27,183	$ 243,461
Plan assets at fair value	(26,586)	(24,250)	(240,122)
	369	2,932	3,338
Unfunded retirement benefit obligation	486	469	4,391
Net liability for retirement benefits in the consolidated balance sheets	¥ 855	¥ 3,402	$ 7,730
Liabilities for retirement benefits	¥ 2,632	¥ 3,402	$ 23,774
Assets for retirement benefits	(1,776)	—	(16,043)
Net liability for retirement benefits in the consolidated balance sheets	¥ 855	¥ 3,402	$ 7,730

Note: Including a system that applies the simplified method.

The components of retirement benefit expenses for the years ended March 31, 2021 and 2020 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥1,188	¥ 1,210	$10,732
Interest cost	221	229	1,998
Expected return on plan assets	(361)	(1,066)	(3,265)
Amortization of actuarial loss	1,044	983	9,433
Amortization of prior service cost	(151)	(189)	(1,370)
Gain (loss) from large-scale retirement	84	193	762
Retirement benefit expenses calculated using simplified method	34	43	310
Retirement benefit expenses for defined benefit plans	¥2,059	¥ 1,404	$18,601

Note: In addition to the above retirement benefit expenses, "restructuring costs" in the amount of ¥1,044 million ($9,436 thousand) and "provision for business structure reform" in the amount of ¥523 million ($4,726 thousand) are recorded as extraordinary losses for the year ended March 31, 2021, and "special retirement benefits" in the amount of ¥350 million, "restructuring costs" in the amount of ¥341 million and "provision for business structure reform" in the amount of ¥1,691 million are recorded as extraordinary losses for the year ended March 31, 2020.

The components of retirement benefit adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2021 and 2020 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Prior service cost	¥ (153)	¥(274)	$ (1,389)
Actuarial gain (loss)	3,475	(348)	31,388
Total	¥3,321	¥(622)	$29,999

The components of retirement benefit adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2020 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized prior service cost	¥ (812)	¥ (966)	$ (7,337)
Unrecognized actuarial gain (loss)	3,556	7,031	32,119
Total	¥2,743	¥6,065	$24,781

The fair values of plan assets, by major categories, as percentages of total plan assets as of March 31, 2021 and 2020 are as follows:

	2021	2020
Bonds	40%	57%
Stocks	29	17
Alternative investments	1	1
General accounts of life insurance companies	9	10
Other	21	15
Total	100%	100%

Note: Alternative investments are primarily investments in funds.

The expected return on plan assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

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

	2021	2020
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	1.4	3.9

Defined benefit plans accounted for using the simplified method

The changes in the retirement benefit obligation calculated by the simplified method during the years ended March 31, 2021and 2020re as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥135	¥132	$1,226
Retirement benefit expenses	34	43	310
Retirement benefit paid	(3)	(28)	(33)
Other	13	(11)	119
Balance at the end of the year	¥179	¥135	$1,623

Defined contribution plans

For the years ended March 31, 2021 and 2020, contributions to the defined contribution pension plan and the advance payment plan, which are recognized as expenses, totaled ¥757 million ($6,840 thousand) and ¥961 million, respectively.

26 Stock Options

Stock option expense included in "Costs of sales" and "Selling, general and administrative expenses" for the years ended March 31, 2021 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Costs of sales	¥ 547	¥ 19	$ 4,943
Selling, general and administrative expenses	4,744	136	42,850

Allegro MicroSystems, Inc., a consolidated subsidiary, has adopted a share-based compensation plan. The purpose of the plan is to raise awareness of the need to contribute to the sustainable improvement of corporate performance and corporate value and to secure talented personnel. The plan is contingent upon service for a fixed period through the vesting date. That is to say, if a grantee loses their position or retires between the grant date and the vesting date, their stock-based remuneration will expire.

As of March 31, 2020, 622,470 shares were granted. Following the listing of the company's share on October 29, 2020, certain shares were converted into common shares, bringing the total to 459,749 shares. The number of shares vested was 50,170 and the number of shares forfeited was 3,252 for the year ended March 31, 2021. As a result, the number of shares granted as of March 31, 2021 was 406,327.

Company name	Allegro MicroSystems, Inc.
Date of resolution	July 13, 2017
Category and number of grantees	Directors and employees of Allegro MicroSystems, Inc. and their subsidiaries (48 people in total)
Type and number of shares	Restricted voting stock 638,298 shares
Grant date	October 2, 2017
Vesting conditions	Continuous employment from the grant date (October 2, 2017) to the vesting date (October 1, 2021)
Service period	From October 2, 2017 to October 1, 2021

For the year ended March 31, 2021, 1,428,932 shares were granted, with 160,063 shares vesting and 43,713 shares forfeited. As a result, the number of shares granted as of March 31, 2021 was 1,225,156.

Company name	Allegro MicroSystems, Inc.
Date of resolution	September 30, 2020
Category and number of grantees	Directors and employees of Allegro MicroSystems, Inc. and their subsidiaries (308 people in total)
Type and number of shares	Restricted voting stock 1,428,932 shares
Grant date	November 2, 2020, November 23, 2020 and February 5, 2021
Vesting conditions	Directors: Vest at the first ordinary general meeting of shareholders from the date of grant Employees: 25% vesting each year from the grant date if service is continued

For the year ended March 31, 2021, 650,302 shares were granted.

Company name	Allegro MicroSystems, Inc.
Date of resolution	September 30, 2020
Category and number of grantees	Employees of Allegro MicroSystems, Inc. and their subsidiaries. (15 people in total)
Type and number of shares	Restricted voting stock 650,302 shares
Grant date	November 2, 2020 and February 5, 2021
Vesting conditions	0% to 200% vest depending on the achievement rate against the three objectives of cumulative three-year EBITDA and cumulative earnings improvement as defined in the medium-term plan approved by the Board of Directors and the comparative TSR assessment with peers.

Estimation method of fair value unit value granted for the year ended March 31, 2021

① Valuation techniques used

Monte Carlo simulation

② Major assumptions and estimation methods

Performance period	2.42 years
Stock price volatility	49.9%
Risk-free interest rate	0.17%
Dividend yield	—%

27 Income Taxes

The reconciliation between the effective tax rates reflected in the consolidated statements of operations and effective statutory tax rates for the years ended March 31, 2021and 2020as as follows:

	2021	2020
Effective statutory tax rate	—%	—%
Effect of:		
Non-deductible expenses for income tax purposes	—	—
Non-taxable dividend income	—	—
Tax deduction	—	—
Inhabitants' per capita taxes	—	—
Foreign tax rate difference	—	—
Changes in valuation allowance	—	—
Expiration of net operating loss carryforwards	—	—
Other, net	—	—
Effective tax rate	—%	—%

The reconciliation for the year ended March 31, 2021 and 2020 are not disclosed because the Company reported a loss before income taxes for the year.

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Net operating loss carryforwards	¥ 11,773	¥ 13,826	$ 106,339
Liabilities for retirement benefits	197	355	1,786
Inventories	960	1,110	8,677
Accrued bonuses	1,686	1,486	15,235
Net unrealized holding gain	277	324	2,508
Depreciation expenses	446	311	4,032
Impairment losses	927	1,209	8,378
Provision for business structure reform	815	570	7,369
Carryforward tax deduction	963	718	8,698
Other	2,308	1,693	20,849
Gross deferred tax assets:	20,358	21,607	183,876
Valuation allowance for net operating loss carryforwards (Note 1)	(10,806)	(13,767)	(97,603)
Valuation allowance for deductible temporary differences	(5,087)	(5,058)	(45,945)
Valuation allowance	(15,893)	(18,825)	(143,549)
Total deferred tax assets	4,465	2,781	40,327
Deferred tax liabilities:			
Fixed assets	(1,324)	(1,541)	(11,962)
Other	(674)	(510)	(6,094)
Total deferred tax liabilities	(1,999)	(2,052)	(18,057)
Net deferred tax assets (liabilities)	¥ 2,465	¥ 729	$ 22,269

Note 1: A breakdown of net operating loss carryforwards and valuation allowance by expiry date as of March 31, 2021 is as follows:

	Millions of yen						
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
Net operating loss carryforwards*	¥ 455	¥ 1,146	¥ 25	¥ 1,400	¥ 1,337	¥ 7,406	¥ 11,773
Valuation allowance	(455)	(1,146)	(25)	(1,400)	(1,337)	(6,439)	(10,806)
Deferred tax assets	¥ —	¥ 0	¥ —	¥ —	¥ —	¥ 967	¥ 967

	Thousands of U.S. dollars						
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
Net operating loss carryforwards*	$ 4,117	$ 10,357	$ 231	$ 12,652	$ 12,082	$ 66,897	$106,339
Valuation allowance	(4,117)	(10,356)	(231)	(12,652)	(12,082)	(58,162)	(97,603)
Deferred tax assets	$ —	$ 0	$ —	$ —	$ —	$ 8,735	$ 8,735

* The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.

A breakdown of net operating loss carryforwards and valuation allowance by expiry date as of March 31, 2020 is as follows:

	Millions of yen						
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
Net operating loss carryforwards*	¥ 2,173	¥ 274	¥ 1,509	¥ 313	¥ 1,865	¥ 7,690	¥ 13,826
Valuation allowance	(2,173)	(268)	(1,492)	(289)	(1,865)	(7,679)	(13,767)
Deferred tax assets	¥ —	¥ 6	¥ 17	¥ 24	¥ —	¥ 11	¥ 58

* The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.

28 Business Combinations

Common control transaction

In accordance with a resolution approved at a meeting of the Board of Directors held on November 6, 2019, The Company absorbed its consolidated subsidiary Sanken Logistics Co., Ltd. effective April 1, 2020.

(a) Transaction summary

(1) Combined entity's name and business description
① Name of companies involved in the business combination:
Sanken Logistics Co., Ltd.
② Business description of Sanken Logistics Co., Ltd.:
Logistics and warehouse management operations

(2) Date of business combination
April 1, 2020

(3) Legal form of business combination
Absorption-type merger in which Sanken Electric Co., Ltd. was surviving company and Sanken Logistics Co., Ltd. was extinguished.

(4) Name following business combination
Sanken Electric Co., Ltd.

(5) Outline and purpose of the transaction
Sanken Logistics Co., Ltd. was engaged in logistics operations within Sanken group, but in order to improve management efficiency and effectively utilize management resources, we decided to absorb and merge it with Sanken Logistics Co., Ltd. as Sanken Electric Co., Ltd.

(b) Accounting treatment

This transaction was accounted for in accordance with "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," as a transaction under common control.

(c) Additional acquisition of subsidiary's shares

Acquisition cost and breakdown are summarized as follows:

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	(Total face value of claims subject to contribution in kind)	¥4,656	$42,786
Acquisition cost		¥4,656	$42,786

At a meeting of the Board of Directors held on August 4, 2020, the Company resolved to hand over the Social Systems Business in the Power Systems Business to Sanken Densetsu Co., Ltd., a wholly owned subsidiary, through an absorption-type company split. On March 1, 2021, the Company conducted an absorption-type company split of the Social Systems Business.

(a) Transaction summary

(1) Combined entity's name and business description
① Name of business involved in the business combination:
Social Systems Business

(2) Date of business combination
March 1, 2021

(3) Legal form of business combination
Absorption-type company split in which we became the absorption-type company split and Sanken Densetsu Co., Ltd. became the absorption-type company split successor

(4) Name following business combination
Sanken Densetsu Co., Ltd.

(5) Outline and purpose of the transaction
Sanken Densetsu Co., Ltd., the successor company to the absorption-type company split, transferred its business to GS Yuasa Co. Ltd. on May 1, 2021. For further details, please refer to Note 34 "Significant Subsequent Events."

(b) Accounting treatment

This transaction was accounted for in accordance with "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," as a transaction under common control.

Business combination through acquisition

In accordance with a resolution approved at a meeting of the Board of Directors held on November 6, 2019, the Company absorbed its consolidated subsidiary Sanken Logistics Co., Ltd. effective April 1, 2020

(a) Transaction summary

(1) Name of the acquired companies and the contents of its business

① Name of the acquired company involved in the business combination:

Voxtel, Inc. and LadarSystems, Inc.

② Business description of the acquired companies:

To develop, manufacture, and sell optical sensors, lead-out ICs, and laser (Eye Safe Laser) products

(2) Date of business combination

August 28, 2020

(3) Legal form of business combination

Acquisition of shares

(4) Name following business combination

The names are unchanged.

(5) Outline and purpose of the transaction

To promote the construction of a wide-ranging portfolio for the rapidly growing Advanced Driver Assistance Systems (ADAS) and the cutting-edge LiDAR (Light Detection and Ranging) required for autonomous driving.

(6) Percentage of voting rights acquired

100%

(7) Main grounds for deciding on the acquiring company

This was due to the acquisition of 100% of shares by our subsidiary in exchange for cash.

(b) Period of performance of the acquired company included in the consolidated financial statements

From August 28, 2020 to March 31, 2021

(c) Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition	Cash	$34,980 thousand
Acquisition cost		$34,980 thousand

(d) Goodwill, reason for recognizing goodwill, amortization method and amortization term

(1) Goodwill

¥1,978 million ($17,867 thousand)*

* The above amounts are provisionally calculated amounts.

(2) Reason for recognizing goodwill

This is generated from the future excess earning power expected from future business development.

(3) Amortization method and amortization term

Straight-line method for 10 years

(e) Amount allocated to intangible assets other than goodwill and amortization period by type of acquisition cost

Breakdown by category	Millions of yen	Thousands of U.S. dollars	Amortization period (years)
Technology assets	¥1,385	$12,515	12
Customer related assets	31	286	6
Trademark rights	21	191	5

(f) Amount and breakdown of assets acquired and liabilities assumed on the date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 673	$ 6,080
Non-current assets	1,698	15,340
Total assets	¥2,371	$21,420
Current liabilities	¥ 243	$ 2,197
Long-term liabilities	—	—
Total liabilities	¥ 243	$ 2,197

(g) Estimated impact on consolidated profit or loss for the current fiscal year assuming the business combination was completed at the beginning of the fiscal year, and the calculation method thereof

The approximate amount of the impact is not stated because it is difficult to make a reasonable calculation.

29 Shareholders' Equity

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and the excess, if any, of 25% of common stock over the total of additional paid-in capital and the legal earnings reserve must be set aside as additional paid-in capital or a legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, companies are required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as a legal earnings reserve until the total of the legal earnings reserve and additional paid-in capital equal 25% of common stock.

Under the Law, the legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and the legal earnings reserve may not be distributed as dividends. Under the Law, however, on the condition that the total amount of the legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting.

Under the Law, all additional paid-in capital and all legal earnings reserves may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

(1) Dividends paid

For the year ended March 31, 2021

	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual General Meeting of the Shareholders on June 26, 2020	Common stock	¥363	¥15.00	$3,282	$0.14	March 31, 2020	June 29, 2020

For the year ended March 31, 2020

	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual General Meeting of the Shareholders on June 21, 2019	Common stock	¥363	¥15.00	March 31, 2019	June 24, 2019
Meeting of the Board of Directors on November 6, 2019	Common stock	¥363	¥15.00	September 30, 2019	December 5, 2019

Dividends with the cut-off date in the year ended March 31, 2020 and the effective date in the year ended March 31, 2021

	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual General Meeting of the Shareholders on June 26, 2020	Common stock	Retained earnings	¥363	¥15.00	March 31, 2020	June 29, 2020

30 Research and Development Expenses

Research and development expenses for the years ended March 31, 2021 and 2020 were ¥17,726 million ($160,098 thousand) and ¥16,948 million, respectively.

31 Leases

Future minimum lease payments subsequent to March 31, 2021 and 2020 for non-cancellable operating leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Due in 1 year or less	¥ 394	¥ 426	$ 3,562
Due after 1 year	1,490	1,429	13,464
	¥1,885	¥1,856	$17,027

32 Segment Information

a. **Outline of reportable segments**

The reportable segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic analysis to determine the distribution of management resources and evaluate their business results.

The Company classifies its business units based on their products. Each business unit plans its own comprehensive domestic and overseas strategies for its products, and conducts its business activities. Therefore, the Company consists of its business units, identified by principal products, which are the following two reportable segments: "Semiconductor Devices Business" and "Power Systems Business."

The Semiconductor Devices Business mainly manufactures and sells power module, power ICs, control ICs, Hall-effect ICs, bipolar transistors, MOSFET, IGBT, thyristors, rectifier diodes and light emitting diodes (LEDs). The Power Systems Business mainly manufactures and sells uninterruptible power supplies (UPS), inverters, DC power supplies, airway beacon systems, switching mode power supply units and transformers.

b. **Calculation methods of sales, income (loss), assets, and other items for reportable segments**

The accounting methods applied for reportable segments are the same as the basis of preparation for the consolidated financial statements. Intersegment sales and transfers are based on the prices in arm's-length transactions.

c. **Information about sales and segment income (loss) by reportable segment**

As of and for the year ended March 31, 2021

	Millions of yen				
	Reportable segments				
	Semiconductor Devices Business	Power Systems Business	Total	Adjustments	Consolidated
Sales:					
(1) Sales to external customers	¥137,233	¥19,561	¥156,795	¥ —	¥156,795
(2) Intersegment sales and transfers	164	533	697	(697)	—
Total sales	137,397	20,095	157,492	(697)	156,795
Segment income (loss)	1,190	882	2,073	(3,271)	(1,198)
Segment assets	174,785	13,922	188,708	44,965	233,673
Others:					
Depreciation and amortization	11,784	61	11,846	716	12,562
Amortization of goodwill	120	—	120	—	120
Impairment losses	18	—	18	—	18
Increase in property, plant, equipment and intangible assets	14,223	166	14,390	101	14,491

As of and for the year ended March 31, 2021

	Thousands of U.S. dollars				
	Reportable segments				
	Semiconductor Devices Business	Power Systems Business	Total	Adjustments	Consolidated
Sales:					
(1) Sales to external customers	$1,239,463	$176,679	$1,416,142	$ —	$1,416,142
(2) Intersegment sales and transfers	1,483	4,816	6,300	(6,300)	—
Total sales	1,240,947	181,496	1,422,443	(6,300)	1,416,142
Segment income (loss)	10,755	7,972	18,727	(29,548)	(10,820)
Segment assets	1,578,628	125,749	1,704,378	406,115	2,110,493
Others:					
Depreciation and amortization	106,433	558	106,992	6,471	113,463
Amortization of goodwill	1,090	—	1,090	—	1,090
Impairment losses	165	—	165	—	165
Increase in property, plant, equipment and intangible assets	128,465	1,504	129,969	914	130,884

Notes:
1. Adjustments for segment income (loss) of ¥(3,271) million ($(29,548) thousand) include corporate expenses. They are mainly general and administrative expenses, which are not allocable to the reportable segments.
2. Adjustments for segment assets of ¥44,965 million ($406,115 thousand) include corporate assets, which are not allocable to the reportable segments. The corporate assets are mainly surplus operating capital (cash and deposits), long-term investments (investment securities) and assets related to administrative departments of the Company.
3. Adjustments for depreciation and amortization of ¥716 million ($6,471 thousand) are mainly administrative expenses.
4. Adjustments for increase in property, plant, equipment and intangible assets of ¥101 million ($914 thousand) are assets related to administrative departments of the Company.
5. Segment income is measured according to operating income.

As of and for the year ended March 31, 2020

	Millions of yen				
	Reportable segments				
	Semiconductor Devices Business	Power Systems Business	Total	Adjustments	Consolidated
Sales:					
(1) Sales to external customers	¥137,981	¥22,235	¥160,217	¥ —	¥160,217
(2) Intersegment sales and transfers	444	228	672	(672)	—
Total sales	138,426	22,464	160,890	(672)	160,217
Segment income (loss)	6,805	548	7,353	(3,044)	4,309
Segment assets	158,755	12,616	171,371	22,652	194,024
Others:					
Depreciation and amortization	11,562	136	11,698	700	12,398
Impairment losses	3,876	475	4,351	—	4,351
Increase in property, plant, equipment and intangible assets	11,510	106	11,617	401	12,019

Notes:
1. Adjustments for segment income (loss) of ¥(3,044) million include corporate expenses. They are mainly general and administrative expenses, which are not allocable to the reportable segments.
2. Adjustments for segment assets of ¥22,652 million include corporate assets, which are not allocable to the reportable segments. The corporate assets are mainly surplus operating capital (cash and deposits), long-term investments (investment securities) and assets related to administrative departments of the Company.
3. Adjustments for depreciation and amortization of ¥700 million are mainly administrative expenses.
4. Adjustments for increase in property, plant, equipment and intangible assets of ¥401 million are assets related to administrative departments of the Company.
5. Segment income is measured according to operating income.

d. Related information

Information about geographical area

As of and for the year ended March 31, 2021

(1) Sales

Millions of yen							
		Asia					
Japan		China	Korea	America	Europe	Others	Total
¥52,225	¥78,855	¥42,283	¥21,991	¥13,531	¥12,099	¥83	¥156,795

Thousands of U.S. dollars							
		Asia					
Japan		China	Korea	America	Europe	Others	Total
$471,689	$712,203	$381,899	$198,626	$122,213	$109,277	$758	$1,416,142

Note: Sales are classified in countries or regions based on location of customers.

(2) Property, plant and equipment

Millions of yen				
Japan	North America	Asia	Others	Total
¥29,758	¥30,555	¥6,993	¥258	¥67,566

Thousands of U.S. dollars				
Japan	North America	Asia	Others	Total
$268,755	$275,969	$63,161	$2,336	$610,242

As of and for the year ended March 31, 2020

(1) Sales

Millions of yen							
		Asia					
Japan		China	Korea	North America	Europe	Others	Total
¥57,807	¥74,010	¥41,502	¥19,714	¥16,135	¥12,195	¥69	¥160,217

Note: Sales are classified in countries or regions based on location of customers.

(2) Property, plant and equipment

Millions of yen				
Japan	North America	Asia	Others	Total
¥28,950	¥24,634	¥12,116	¥360	¥66,062

33 Amounts per Share

Amounts per share as of and for the years ended March 31, 2021 and 2020 were as follows:

	Yen		U.S. dollars
	2021	2020	2021
Net assets	¥3,463.44	¥2,063.21	$31.28
Profit (loss) per share:			
– basic	(287.96)	(229.83)	(2.60)
– diluted	—	—	—

Diluted profit (loss) per share was not disclosed because a net loss per share was recorded for the year ended March 31, 2020.

Profit (loss) per share was calculated on the following basis:

	Millions of yen, except number of shares		Thousands of U.S. dollars, except number of shares
	2021	2020	2021
Profit (loss) attributable to owners of parent	¥ (6,952)	¥ (5,559)	$(62,789)
Amounts not available to shareholders of common stock	—	—	—
Profit (loss) attributable to owners of parent related to common stock	(6.952)	(5,559)	(62.789)
Average number of shares outstanding during the year (Thousands of shares)	24,142	24,189	—

Net assets per share were calculated on the following basis:

	Millions of yen, except number of shares		Thousands of U.S. dollars, except number of shares
	2021	2020	2021
Net assets	¥113.250	¥71,776	$1,022,858
Amounts deducted from net assets:	29,674	21,933	268,017
Non-controlling interests	(29,674)	(21,933)	(268,017)
Net assets attributable to shareholders	83,575	49,842	754,840
Number of shares outstanding at the end of the year (Thousands of shares)	24,130	24,157	—

34 Significant Subsequent Events

Transfer of shares of consolidated subsidiaries

At a meeting of the Board of Directors held on August 4, 2020, the Company resolved to transfer all of the issued and outstanding shares of Sanken Densetsu Co., Ltd. to GS Yuasa Co., Ltd. after transferring the Social Systems Business of the Group's Power Systems Business to a subsidiary, Sanken Densetsu Co., Ltd. through an absorption-type company split. On the same day, the Company concluded a share transfer agreement and transferred it on May 1, 2021.

(a) Purpose of assignment of business

As stated in "Notice Concerning Optimization of Production Structure of Core Businesses and Strategic Review of Non-Core Businesses" on November 6, 2019, the Company has promoted the selection and concentration of business structures in order to accelerate its growth strategy by focusing management resources on its mainstay semiconductor devices and power modules, and in the Power Systems Business, the Company has been considering strategic options, including the sale of businesses. Under these circumstances, the Company decided to aim for sustainable growth of the target business under GS Yuasa, which has strengths in various batteries such as lead-storage batteries and lithium-ion batteries.

Since its foundation in 1946, the Social Systems Business has been supplying power supply equipment. The products of this business play an important role in social infrastructure, such as direct power supply equipment and uninterruptible power supply equipment, and the Company has been highly trusted by its customers. In the market environment surrounding the Social Systems business, demand is expected to increase for base station power sources for the full-scale spread of 5G in the telecommunications market and for river power sources through national resilience policies. On the other hand, against the backdrop of aggressive market entry by overseas competitors in recent years, competition in terms of performance such as power conversion efficiency, in addition to price competition, is expected to become increasingly fierce in the future.

Under these circumstances, GS Yuasa has a solid position in Japan and Southeast Asia in the manufacture and sale of various rechargeable batteries, including lead-storage batteries for automobiles, motorcycles and industrial use and lithium-ion batteries, as well as direct-current power supply units, interchangeable power supply units, lighting equipment, and other products. The Company decided on the absorption-type split and the transfer of shares based on the judgment that it would be best to transfer the target business to the Company, combine the resources and know-how of the target business with the resources of GS Yuasa, and realize sustainable growth.

(b) Name of the transferring company

GS Yuasa Co., Ltd.

(c) Time of transfer

May 1, 2021

(d) Name of the Subsidiary Company to which the assignment is to be made, the contents of business, and the details of transactions with the Company

Name of the subsidiary Company	Sanken Densetsu Co., Ltd. (The company name was changed to GS Yuasa Infra Systems Co., Ltd. on May 1, 2021.)
Description of business	Maintenance, inspection, battery replacement, and other operations and repairs of power supply equipment products, as well as sales of power supply equipment products, construction plans, transportation, installation, circuit work, and on-site adjustment tests, etc.
Business with Sanken Co., Ltd.	The Company has outsourced operations related to commodity transactions, transportation, installation, and other sales support, including accounting, and lease transactions for business offices with the target company. In addition, the Company has loaned funds to the target company.

(e) Transfer price of shares to be transferred, number of shares to be transferred, and ownership ratio after transfer

Transfer price	The Company plans to pay about ¥4,800 million, but the amount will be determined by making a predetermined adjustment as of the transfer date.
Gain or loss on transfer	Gains or losses on transfer is currently being determined.
Ownership ratio after the transfer	0%

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Independent Auditor's Report

The Board of Directors
Sanken Electric Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Sanken Electric Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

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Valuation of fixed assets related to Sanken Device Products in the Semiconductor Devices Business segment

Description of Key Audit Matter	Auditor's Response
As described in Note 03 (Significant Accounting Estimates) to the Consolidated Financial Statements, for the fiscal year ended March 31, 2021, the Company determined that there were indications of impairment for the asset group comprising fixed assets in the amount of ¥22,652 million related to Sanken Device Products in the Semiconductor Devices Business segment due to a decline in profitability as a result of changes in the business environment. However, the Company did not recognize an impairment loss as the total undiscounted future cash flows generated from the asset group exceeded the carrying amount. The estimates of future cash flows generated from the continued use of an asset group are determined based on the business plans approved by the Board of Directors. Significant assumptions in estimating future cash flows include forecasts of demand from customers and forecasts of sales based on semiconductor market growth rates, both of which are the basis of the business plans. Based on the above, we have determined the valuation of fixed assets related to Sanken Device Products in the Semiconductor Devices Business segment to be a key audit matter due to uncertainty of the significant assumptions and necessity of management's judgment.	We have performed the following audit procedures to assess the total estimated undiscounted future cash flows used in determining the recognition of an impairment loss for a group of fixed assets related to Sanken Device products. – Compared estimated periods of future cash flows with the remaining economic lives of major assets. – Examined the consistency of future cash flows with the business plans approved by the Board of Directors. – Compared business plans of prior years with actual performance to assess the effectiveness of management's estimation process. – Assessed the significant assumptions including the forecasts of demand from customers and forecasts of sales based on semiconductor market growth rates, which serve as the basis of the business plans, by discussing with management and comparing the outcome of trend analysis based on past performance to the customer demand forecasts and external market forecast reports prepared by third parties.

Provision for loss on transfer of Social Systems Business	
Description of Key Audit Matter	Auditor's Response
As described in Note 22 (Provision for Loss on Transfer of Business) to the Consolidated Financial Statements, for the fiscal year ended March 31, 2021, the Company entered into an agreement to have Sanken Densetsu Co., Ltd., a subsidiary of the Company, succeed the Social Systems Business of the Power Systems Business through an absorption-type company split, and to transfer all of the outstanding shares of Sanken Densetsu Co., Ltd. to GS Yuasa Corporation as on May 1, 2021. As a result, the Company recorded a loss of ¥1,339 million as a provision for loss on transfer of business. The key assumption involved in the estimation of the provision for loss on transfer of business is the estimated transfer price. As described in Note 34 (Significant Subsequent Events), the transfer price is determined by making prescribed adjustments on the date of transfer. Therefore, the estimated transfer price is calculated in accordance with the conditions stipulated in the share transfer agreement. Based on the above, we have determined the estimation of the provision for loss on transfer of business associated with the transfer of the Social Systems Business as a key audit matter due to its importance for understanding the consolidated financial statements.	We have performed the following audit procedures to assess the provision for loss on transfer of business associated with the transfer of the Social Systems Business. – Inspected the signed carve-out agreement involving the Social Systems Business from the Company to Sanken Densetsu Co., Ltd. and assessed the journal entries recorded for the carve-out with the assets and liabilities determined to be carved-out under the agreement. – Inspected the share transfer agreement signed between the Company and GS Yuasa Corporation to check the estimated transfer price calculated by the Company and performed a recalculation using the financial numbers. – Reviewed the minutes of the Board of Directors meetings and made inquiries with management as to whether there were any changes to the terms of the share transfer agreement signed between the Company and GS Yuasa Corporation after the balance sheet date.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 25, 2021

木村 修

Yoshimi Kimura
Designated Engagement Partner
Certified Public Accountant

田辺 敦子

Atsuko Tanabe
Designated Engagement Partner
Certified Public Accountant

Corporate Information

Company Overview

Name	Sanken Electric Co., Ltd.
Trademark	Sanken
Head office	3-6-3 Kitano, Niiza-shi, Saitama-ken 352-8666, Japan
Paid-in capital	¥20,896,789,680
Number of shares outstanding	25,098,060
Date of establishment	September 5, 1946
Business purpose	1. Manufacture, sale and purchase of electric equipment and apparatus 2. Electrical construction, telecommunications construction and any other works related to the preceding item 3. All matters related to the conduct of the business stated in the preceding items

Business Settlement Information

Business year	From April 1 to March 31
Ordinary General Meeting of Shareholders	June of each year
Record date with respect to above meeting	March 31 of each year
Record date for dividends	Year-end dividends: March 31 of each year Interim dividends: September 30 of each year
Listed stock exchange	First Section, Tokyo Stock Exchange

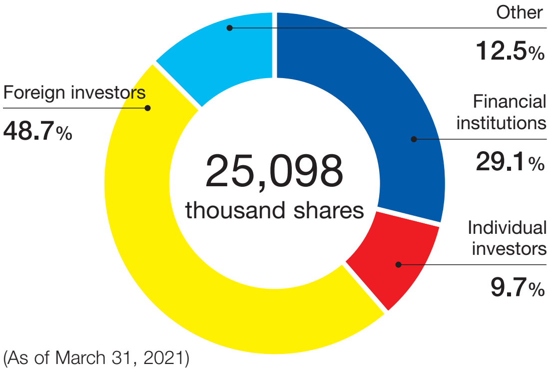
Bonds (As of March 31, 2021)

Bond name	Date of issue	Balance of bonds (Billions of yen)
The 11th unsecured bonds	September 27, 2016	¥10.0
The 12th unsecured bonds	September 20, 2018	¥ 5.0
The 13th unsecured bonds	September 20, 2018	¥ 5.0

Share Information (As of March 31, 2021)

Total number of issuable shares	51,400,000 shares
Number of shares outstanding	25,098,060 shares
Number of shareholders	6,705

Distribution of Shareholders by Category



(As of March 31, 2021)

Principal Shareholders (As of March 31, 2021)

Shareholder name	Number of shares owned (thousands)	Ownership ratio
ECM MASTER FUND SPV 2	2,404	9.92%
THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	1,410	5.82%
CUSTODY BANK OF JAPAN, LTD. (TRUST ACCOUNT)	1,261	5.20%
SAITAMA RESONA BANK, LIMITED	1,202	4.96%
GOLDMAN SACHS INTERNATIONAL	1,022	4.21%
J.P. MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SEGR ACCT	858	3.54%
CREDIT SUISSE AG, DUBLIN BRANCH PRIME CLIENT ASSET EQUITY ACCOUNT	800	3.30%
ECM MF	648	2.67%
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD	634	2.61%
NIDEC CORPORATION	573	2.36%

Notes: 1. The Company holds 869 thousand (3.46%) shares of treasury stock but is excluded from the principal shareholders listed above.
2. Shareholding ratio is calculated by subtracting treasury stock from the total number of shares outstanding.