ANNUAL REPORT 2014

For the year ended March 31, 2014

Sanken Electric Co., Ltd.

Profile

Sanken Electric Co., Ltd. began operations as a spin off from a research institute in 1946 conducting R&D activities in semiconductors, which was then a new field of electronics. Technology gained through these activities was used to manufacture a growing line of power supply products.

Having grown in tandem with the electronics industry since then, today Sanken Electric has forged a commanding presence as a manufacturer in the field of power electronics. This reputation enables the Company to offer customers high-quality solutions in power supplies and peripheral business domains that meet their diverse needs. Along with a focus on growth in its core business of semiconductor devices, Sanken Electric is determined to enhance the competitiveness of products for the fast-growing fields of automotive electronics and energy-saving consumer products. Underpinned by an extensive track record and expertise gained over the years, Sanken Electric will strive to supply products that are more original and advanced than ever before, and consistently rise to meet any challenge by remaining a consummate innovator in power electronics.

Contents

Forward-Looking Statements

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

Sanken at a Glance

As the market for "eco-friendly and energy-saving" products spreads to every corner of the world, stages upon which Sanken's advanced proprietary technology on power electronics and time-proven application-specific expertise do thrive will widen rapidly.

As the worldwide trend for achieving a low-carbon society gathers momentum, it is becoming increasingly clear that the "eco-friendly and energy-saving" solutions long pursued by Sanken Electric are in ever greater demand from various markets.

For automobiles, for instance, note-worthy moves are surfacing as the use of electronic components is expanding, internal combustion cars are pressing for lower fuel consumption, and hybrid and electric vehicles are steadily on the rise. In white goods, inverters are finally making inroads, particularly in air conditioners. Furthermore, the use of natural energy, such as solar and wind power, as well as concepts such as the "Smart City," are spreading worldwide.

To bring to real life the potential of these novel ideas, the power electronics technology and expertise of Sanken and its affiliates are indispensible. Sanken has more than half a century of experience in development, production and marketing of products that meet the "eco-friendly and energy-saving" needs of the market, and is now actively engaged in technological research and product development to achieve growth on a global scale.

Power solution technologies that are essential to the "eco-friendly and energy-saving" concept

- Process technologies
  (Power semiconductors, control ICs)
- Package technologies
- Circuit technologies
- Device technologies, etc.

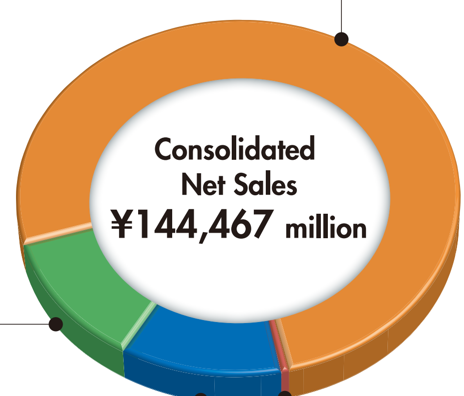
Composition of consolidated net sales by business segment (FY 2013)

11.5%
Power System Business

Main Products
- UPS
  (Uninterruptible Power Supplies)
- Inverters
- DC Power Supplies
- Instruments for New Energy Sources
- High-intensity Aircraft Warning Lights

77.5%
Semiconductor Device Business

Main Products
- Power ICs
- Hall-effect Sensors
- Driver ICs
- Transistors
- Diodes
- LEDs
  (Light Emitting Diodes)



10.9%
Power Module Business

Main Products
- SMPS
  (Switching Mode Power Supplies)
- AC Adapters
- Transformers
- Reactors
- Modules

0.1%
CCFL Business

Main Products
- CCFLs
  (Cold Cathode Fluorescent Lamps)

Dear Fellow Shareholders

Sadatoshi Iijima, President
Sanken Electric Co., Ltd.

FY 2013 Business Environment and Operating Results Trend

Toward the path to net sales growth and higher earnings

During fiscal year 2013, the harsh business environment that had continued until last year finally turned in a favorable direction. The trend overall became one of gradual expansion, with the U.S. economy turning to an improving trend, and even Europe's economy moving toward a recovery from its prolonged economic slump. China's economy also continued to expand, and in Japan the economy moved in the direction of economic recovery.

Given these circumstances, the semiconductor device business in which we selectively focused our management resources over the past few years maintained its excellent performance, enabling us to achieve strong consolidated operating results for the fiscal year, with substantial growth in net sales and earnings. Net sales for the fiscal year were ¥144.5 billion, a 14.3% increase from the previous year, operating income was ¥7.8 billion, a gain of 69.6%, ordinary income was ¥7.6 billion, up 90.0%, and consolidated net income for the year was ¥5.0 billion, a 117.4% jump over the previous year.

Factors behind the growth in net sales were the strong performance of the semiconductor device business, plus the positive effect resulting from depreciation of the yen. In addition to the boost from higher net sales, the improvements in the product mix, achieved by our focus on the automotive device market and the white goods home appliance market in the semiconductor device business, as well as our profitability improvement programs, including restraints on fixed costs, all contributed greatly as key factors behind the growth in operating income.

Steady expansion of the semiconductor devices business

With the “eco-friendly and energy-saving” and related markets associated with “green energy,” Sanken is striving to develop new products and expand overseas sales with products supporting automotive components, white goods household appliances, OA and industrial machinery, LED lighting fixtures and other energy-saving technologies. At the heart of this effort is our semiconductor device business, where I am pleased to be able to claim that we have established a sound and reliable growth path. In fiscal year 2013, we achieved strong growth in our semiconductor device business and increased consolidated net sales in that segment by 16.9% from the previous year. When this result is reviewed market by market, sales exhibited high growth in all segments, with the largest jump in sales of products for automotive applications of ¥61.8 billion, an 18.8% increase compared with the previous year, sales for white goods household appliances of ¥17.7 billion, a 21.1% rise over the same period last fiscal period, and sales for OA and industrial machinery of ¥25.2 billion, a gain of 17.7% over the previous consolidated fiscal year. In automotive devices, both Sanken Electric and our U.S. subsidiary Allegro MicroSystems LLC maintained respectable growth.

At present, automotive devices have become Sanken Group’s largest business. Of all Sanken Electric’s efforts over the past five years, we directed the largest amount of resources and accelerated our multifaceted approach to the automotive market and, as a result, compared with five years ago net sales of automotive devices have expanded 83% on a consolidated basis, and this business has become one of the stable pillars supporting the Company’s growth.

The products for white goods household appliances have shown the most remarkable expansion in terms of growth rate in recent years. Two changes in surrounding conditions have been responsible for this rapid growth. First, as countries in Asia continued to grow rapidly, they have found themselves confronting difficulties in which they must simultaneously take steps to address environmental problems and electric power shortage issues. Second, compared with Japan where the electricity rates are extremely high, developed nations including the U.S. had been slow to adopt inverter technology, which is highly effective for controlling the amount of electric power used. All of a sudden, however, demand for this technology has surged in recent years, due to various factors such as the rising petroleum prices, the spreading notion of prevention of global warming, and even geopolitical national energy security. Sanken is currently undertaking efforts to develop new devices and new products that support the broader uses of inverters, and strengthen its marketing functions, with the geographical focus on Asia where designing and production of inverter-driven white goods is concentrated.

In the OA and industrial machinery sector, demand for office automation equipment in particular is expanding. In the European market, the economic downturn has bottomed-out, and demand for high-end models is on a recovery trend. In addition, in the newly developing countries of Asia and other regions there is a rising new demand centered on models tailored to the particular needs of these emerging markets.

We expect the semiconductor devices business to maintain a high growth rate in excess of 10% in fiscal year 2014, and serve as a driver for Sanken's sustained growth.

Basic Strategies for FY2014

Continue our pursuit of "sales growth" and "overseas expansion"

Sanken will continue to focus its efforts on the "eco-friendly and energy-saving" market and on the "green energy" market, based on our fundamental policies of "sales growth" and "overseas expansion."

In our core semiconductor device business, in order to accelerate the early launch to the market of new products we strengthen our technical marketing organization and overseas sales organization, develop products in advance and in anticipation of the emergence of market's needs and seek to expand sales by addressing actual market dynamics.

To further expand our automotive business, which accounts for more than 50% of net sales in our core semiconductor device business, we will actively respond to markets for new functions and new applications. The need for devices to control vehicle "start-stop systems", for example, is forecast to expand rapidly with the start of the enforcement in 2014 of the "Euro 6," the exhaust emission regulations in Europe modeled on city driving, and Sanken has already begun the development and introduction of a new line of products to meet this fuel efficiency requirement.

Furthermore, as we moved ahead to develop and launch to the market of inverter products for white goods household appliances, we have been able to broaden the sectors we support, first for air conditioners and then for washing machines and refrigerators. Historically, in the global market for air conditioner "fan" motors, Sanken has been at the top market share position, and we are leveraging this commanding position to penetrate into air conditioner "compressor" motor inverters in China, first, and then to spread into inverters used in washing machines and refrigerators manufactured in Korea, the two countries being the world's largest exporters of white goods appliances. Further still, inverters are recently being adopted for other group of applications such as small lifestyle-related home electrical appliances; fans, air purifiers, vacuum cleaners and dish washers, etc. and as the next step Sanken will accelerate product development for this promising market.

In the power module business, in addition to our products for printers and copiers we will enter new markets such as network terminals, data-center servers, measurement and testing instruments and medical equipment. We also pursue opportunities to enter the automotive market, and we already commenced and will gradually ramp up mass production of in-vehicle circuit boards for speed sensors and for power windows. In the power system business, we are broadening our lineup of electric power storage systems, in order to achieve growth in the private sector market in addition to the stable telecommunications and the public sector market.

Expand capital investment to lay the foundation for the next stage of growth

To lay the foundation for its next stage of growth, Sanken plans to implement increased capital investments.

During fiscal year 2013, we undertook expansion of front-end production capacity at our Polar Semiconductor and Yamagata facilities to respond better to the increasing demand from the Chinese air-conditioner market. Our capital expenditure programs were focused around eight-inch wafer capacity for motor-driver inverter ICs, which in their package have two basic kinds of components; controller ICs and six of power management elements called IGBT (Insulated Gate Bipolar Transistors), thus requires much more wafer surface to manufacture a single piece of final products.

In fiscal year 2014, we plan to further expand our front-end capacity in order to meet additional demand for inverter ICs coming from Korean manufacturers of washing machines and refrigerators. We will at the same time carefully watch our back-end, package production capacity at our Ishikawa facility since this area may require a next phase of major capacity expansion once all capital expenditure is completed at the front-end.

At Allegro MicroSystems LLC, which makes automotive magnetic sensors for use in vehicles, we have continually added production capacity at its packaging plant in the Philippines, which is now almost fully used up and has no more room for expansion, thus we started to build a brand-new production facility in Thailand and we are aiming at actual production start sometime in the first half of 2015.

Medium-Term Outlook

Achieve “eco-friendly and energy-saving” on a worldwide basis

The global market is facing a period of rapid growth that will be driven by the key words “eco-friendly and energy-saving.” Based on these key words, Sanken has steadily laid the foundations for its growth and positioned itself on a sustainable path to expansion.

Through close customer relationships and swift responses customized to answer very demanding specifications, we have been able to build trust with customers in each market. From a technical perspective, we have honed, evolved and developed our expertise through the power solutions that will be indispensable for making “eco-friendly and energy-saving” a reality. For each of the markets we serve, we have pursued comprehensive and integrated solutions that enable us to respond with a broad range of products, including semiconductor devices, modules, circuit boards and systems.

Sanken’s technologies and products are best positioned to satisfy increasing demand in the global market in the future. Sanken will work to improve further our level of quality assurance and management to be the best among our peers, and strengthen our marketing capabilities to proactively seek for perceived or even potential needs, and offer solutions derived from our rich history and track record of actively keeping customer trust.

To our investors, we ask for your continued understanding of Sanken’s ability to achieve technological innovation, to streamline operations and to establish responsive sales and marketing organization, while on our part we strive to capture every opportunity to reach the strategic goals and objectives that we set in our Mid-Term Strategic Plan.

July 2014

Sadatoshi Iijima
President

Accelerate the growth

on the basis of "eco–

For automobiles

180%

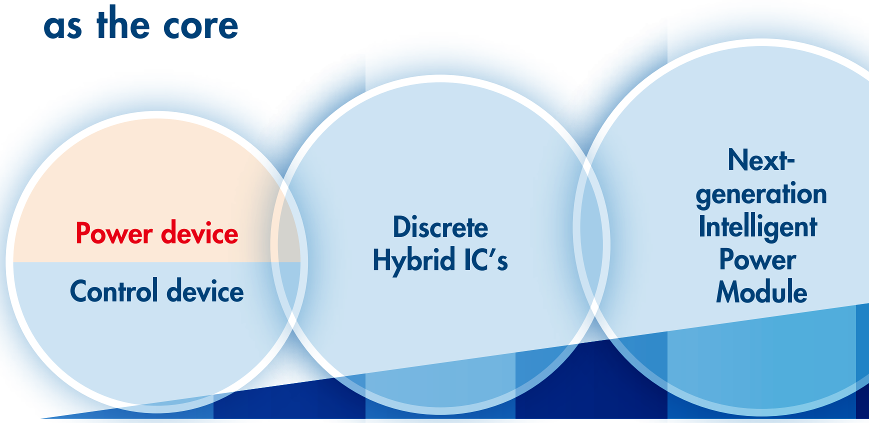
Strategic products
Five-year growth rates (consolidated)
FY2008 >>> FY2013

Sanken has built and strengthened its "business structure around the semiconductor devices business as a core". Using "eco-friendly and energy-saving" and "green energy" as key words, we have pursued a growth strategy by ascertaining growth markets in sectors such as automobiles, white goods household appliances, industrial machinery, LED lighting, power storage system and sensors. As a result, sales of in-vehicle devices, devices for white goods household appliances, LED lighting and other products have expanded rapidly, and Sanken has secured its growth path.

In the future, Sanken Electric will drive the processing and assembly evolution and pursue advances such as higher efficiency, larger-scale integration and greater reliability, work to improve its market share and expand the application sectors it supports, and establish a solid market presence in the "eco-friendly and energy-saving" market and "green energy" market, two future markets that will enjoy further growth, while maintaining power devices as the core of its business.

Devices strategic vision

Pursuing technology and product strategies with power devices as the core



Direction of evolution

1 Evolution of processes/assembly

2 Higher

strategy

friendly and energy-saving" technologies

For white goods

204%

For LED lighting fixtures

454%*

* Note: For LED lighting fixtures the growth rate shown is for three years because we commenced this business from fiscal year 2010

Highly-integrated Discrete

efficiency, smaller footprint, greater reliability

"Eco-friendly and energy-saving" market and "green energy" market

For renewable energy-related applications

- LED lighting fixtures
- Solar power generation
- Energy storage system

For industrial machinery and communications devices

- Industrial inverters
- UPS
- Server power supplies
- Digitally controlled power supplies

For automobiles >>> See P8

For white goods >>> See P9

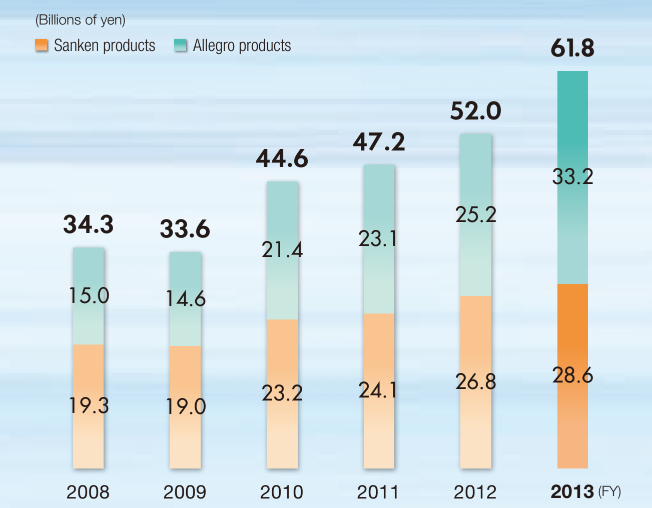
Market expansion

Special Features

For automobiles

The adoption of more electronic components for automobiles is growing faster than the growth of worldwide vehicle unit production. While Sanken has already developed and supplies more than 800 automotive products, the sectors we support are further increasing hand in hand with the growing adoption of electronic components in autos. One change in particular that is common to all of internal combustion engine, hybrid and electric automobiles is that various mechanisms previously driven by hydraulics have been converted to motorized control, a development that has broadened the stage for Sanken Electric's business. In addition, the sensors that Allegro develops are increasing the number of new applications, such as current sensors. Sanken will seek to grow at a rate faster than the pace at which electronic content in autos is raised.

Change in sales of semiconductors for automobiles



Summary of Sanken's growing automotive device lineup

Internal Combustion Engines　EV/Hybrid　Common to three types

Internal Combustion Engines
- Regulator ICs for Alternators
- Rectifier Diodes for Alternators
- Igniter ICs for New Ignition Systems
- High Voltage Diodes for Igniters
- DC/DC Converters

EV/Hybrid
- DC/DC Converters
- AC/DC Converters for Charge
- Inverter Driver ICs
- IPM for Auxiliary Motors
- IGBT and Driver ICs for Main Motors
- Drivers and Module for High Voltage and Large Current
- Cell Balance ICs for Battery Control

New market growth sectors in recent years

Start/Stop system
- Expected to expand rapidly in Europe, mainly for city driving, in conjunction with "Euro6" regulations
- Integration of alternator and starter
- Supporting 48v system, and/or regeneration systems

Mild hybrids
- Power assist when internal combustion engine automobile is started and accelerates
- Auxiliary inverter

Strong hybrids

Electric Water Pumps Electric Oil Pumps
- Motor Driver ICs
- Current Sensors

Electric Fan Motors
- Motor Driver ICs

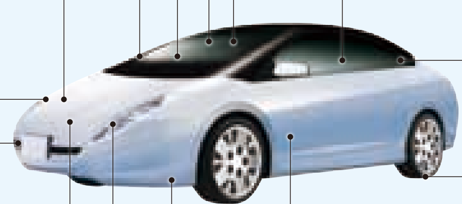
Navi, Audio
- Regulator ICs
- LED

Switches
- Power Switch ICs

Electric Compressors (Air Conditioners)
- Motor Driver ICs
- Current Sensors

Electric Power Steering
- Motor Driver ICs
- Current Sensors, Angle Sensors
- Power MOS-FET

Power Windows
- Position Sensors
- Motor Driver ICs



Seat Belts
- Position Sensors
- Actuator Driver ICs

Anti-lock Braking Systems (ABSs)
- Power Switch ICs
- Speed Sensors

Engines
- Cam Sensors
- Injector Control ICs
- Angle Sensors
- Regulator ICs for ECU

Fuel Injectors
- Switching Transistors

Suspension Control
- Position Sensors

Headlights
- HID Driver ICs
- Motor Driver ICs
- LED Driver ICs

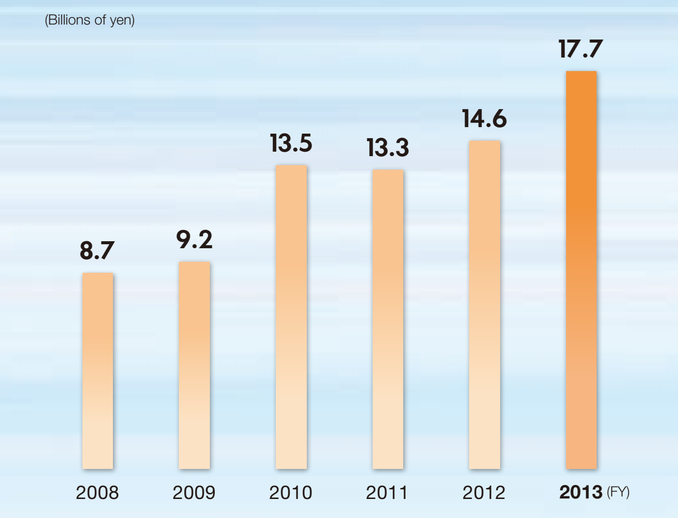
Transmission
- Solenoid Driver ICs
- Power Switch ICs
- Speed Sensors, Position Sensors, Angle Sensors, Gear Tooth Sensors

For white goods

The adoption of inverters for white goods household appliances to get higher power efficiency is currently progressing rapidly against the backdrop of electric power constraints in developing nations and their environmental problems, and sales of Sanken, which supplies these indispensable devices, are expanding rapidly.

While white goods household appliances such as air conditioners, refrigerators and washing machines are already at the center of the market at present, the high energy efficiency scope is exhibiting signs of rippling effect to small lifestyle home electrical appliances such as fans, vacuum cleaners and air cleaners. Fans that utilize DC motors, for example, have spread widely on the market due to their operational functionalities as well as their quietness while operated. Sanken will seek to cultivate markets of motor-driven appliances and ultimately contribute to the energy-efficient life of the people in the world.

Change in sales of semiconductors for white goods and others



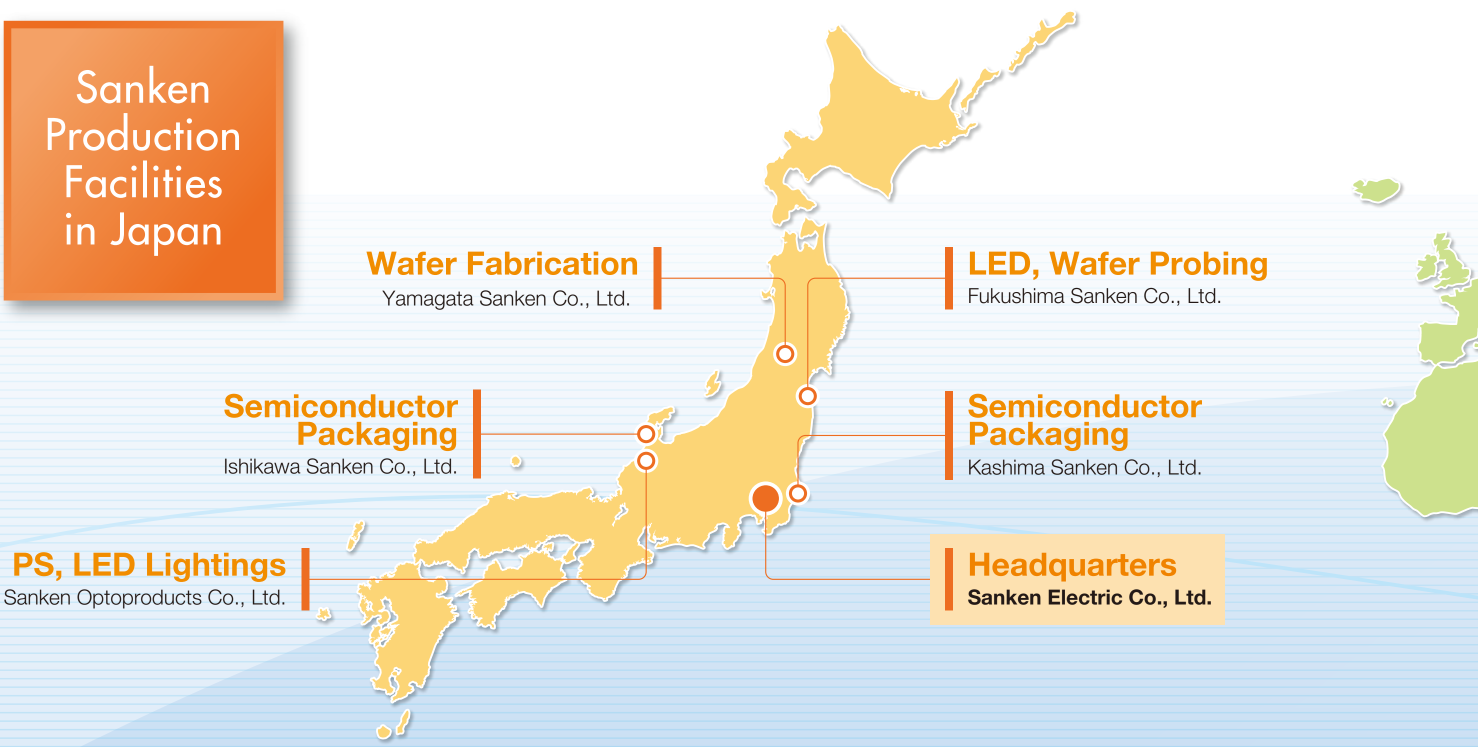
Visualization of growth in semiconductors for home appliances

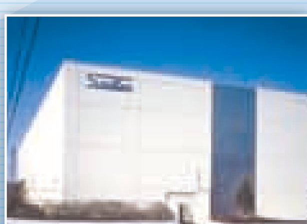
Global Network

Sanken Electric and its affiliated companies in total have sales and production facilities in 11 countries and regions including Japan, and are trying to expand their business on a global scale through application of their unique proprietary technologies.

With the exercise of appropriate management decision-making on a global basis for both the development and production aspects of business, Sanken always strives to choose “the best available decision from “the overall group-wide perspective.” This management philosophy is best represented in the arrangement in the semiconductor segment, where Sanken and its group companies are trying to shorten the development cycle time for highly sophisticated multi-functional products through a collabo-

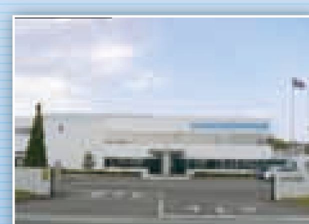
Sanken Production Facilities in Japan





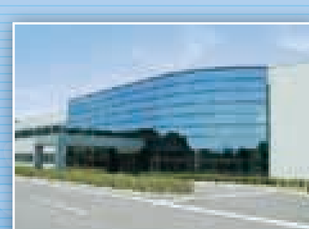
Sanken Electric Co., Ltd.

Yamagata Sanken Co., Ltd.



Fukushima Sanken Co., Ltd.

Kashima Sanken Co., Ltd.



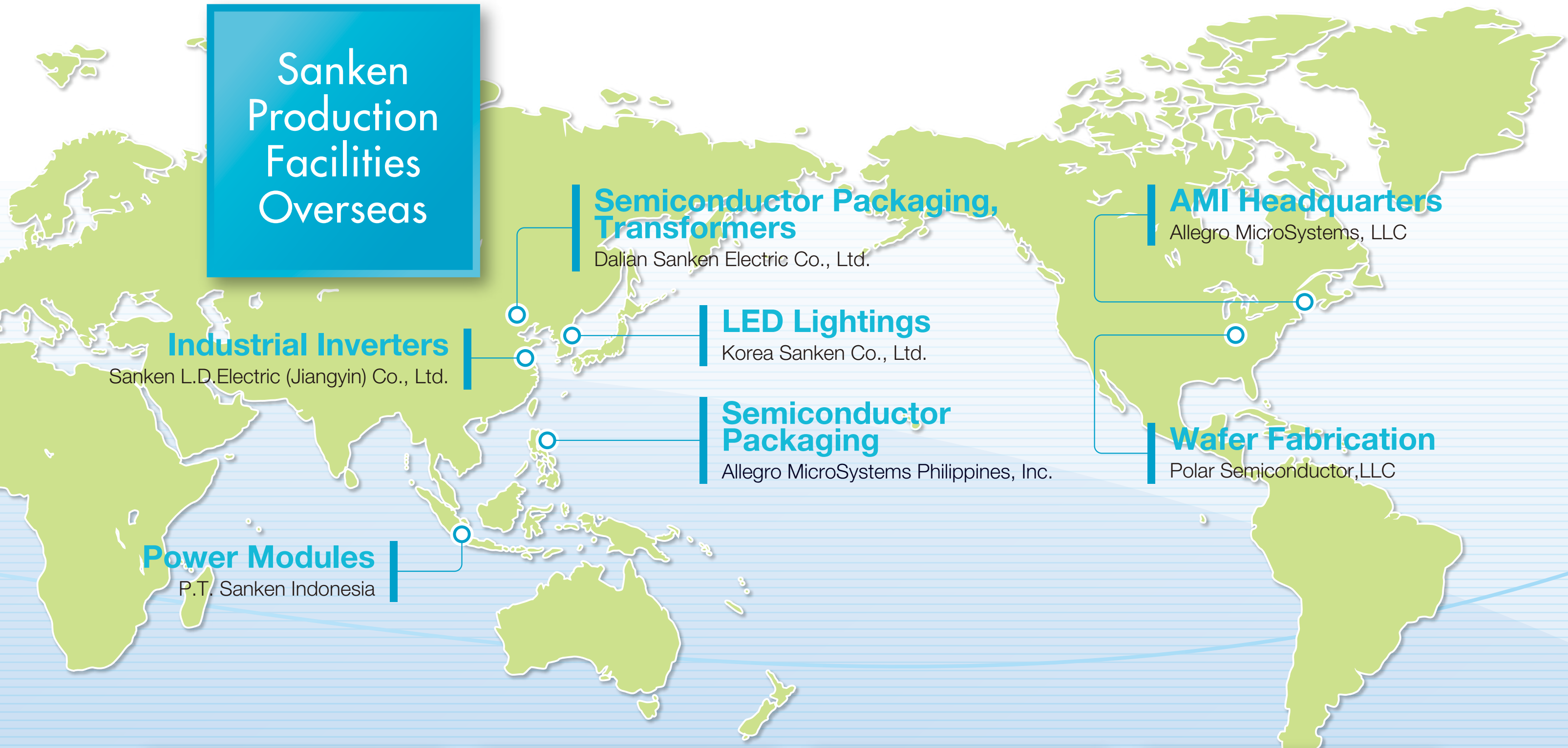
Ishikawa Sanken Co., Ltd.

Sanken Optoproducts Co., Ltd.

rative trilateral arrangement combining Sanken Electric's power semiconductor technology including packaging technology, Allegro MicroSystems, LLC's (AMI) digital and high integration technologies, and Polar Semiconductor, LLC's (PSI) wafer processing technology.

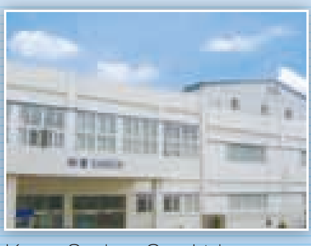
In addition to the combination and collaboration of technologies, Sanken and its affiliates are aggressively expanding production capacity in response to the high growth potential of the "eco-friendly and energy saving" market, and in particular improving the wafer supply system and raising cost competitiveness by expanding the front-end wafer processing capacity at PSI.

Sanken Production Facilities Overseas

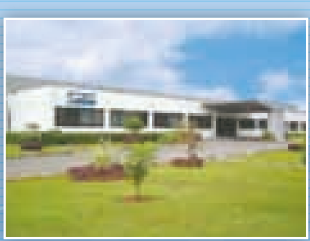


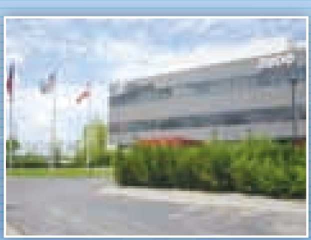

Sanken L.D.Electric (Jiangyin) Co., Ltd.


Dalian Sanken Electric Co., Ltd.


Korea Sanken Co., Ltd.


Allegro MicroSystems Philippines, Inc.


P.T. Sanken Indonesia


Polar Semiconductor, Inc.


Allegro MicroSystems, Inc.

Review of Operations Semiconductor Devices Business

Semiconductor devices sit at the center of Sanken's entire business, and our products in this core business segment range from power ICs to high-voltage large-current transistors and diodes, as well as Hall-effect sensor ICs. Most of our semiconductor devices belong to an engineering field known as power electronics and deal with conversion and management of electric power. They are used as key components in various consumer and commercial products, including auto mobiles, home appliances, industrial machinery, AV equipment (IT and mobile equipment) and LED lighting fixtures.

Sanken Electric and its US subsidiary, Allegro MicroSystems, LLC, strive to accelerate product development with our ample reservoir of proprietary technologies, and offer to the market products best suited to satisfy the specific needs of our customers.

Market Conditions

The general tide of the market is moving steadily in the direction of the dual concepts of "eco-friendly and energy-saving," which Sanken has pursued for many years. The "smart city concept" is advancing gradually in countries around the world, while in many nations, initiatives such as the "International ENERGY STAR Program" and "Green IT Projects" are being implemented and efforts to create low-carbon societies are moving ahead.

In the automotive sector, the demand for power semiconductors for vehicles has risen sharply as the result of the rapid increase in the percentage of electronic components adopted for internal combustion engine automobiles and the increasing popularity of hybrid vehicles and electric cars.

Moreover, in the white goods sector, products that have adopted inverters to achieve significant power savings are exhibiting a steeply rising demand worldwide. This adoption of inverters, which initially progressed primarily for air conditioners, the largest consumers of electric energy in homes and offices, has since spread to other appliances such as refrigerators and washing machines.

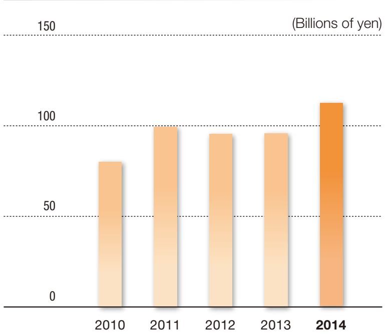
During FY2013, demand exhibited a broad recovery trend that was driven by several factors, including improvement of the U.S. economy, the bottoming-out of the downturn in Europe and the ongoing economic growth in China.

Fiscal 2013 Results

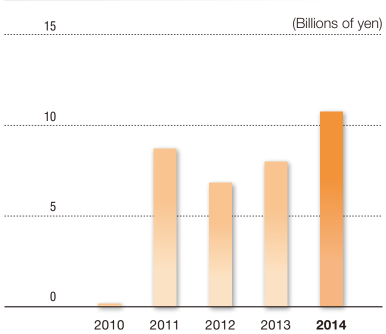
Sanken has ascertained market sectors such as automobiles, white goods, industrial machinery, power conditioners and sensors to be the growth markets, and has worked to achieve aggressive expansion of its business by using the key words "eco-friendly and energy-saving" and "green energy" to forge an organization that is capable of preparing timely, accurate execution of strategies that are aligned with the attributes of each market.

For our core market for automotive products, we undertook the expansion of sales volume through miniaturization and enhanced performance of products for existing applications such as ignition, battery charging and sensors, and simultaneously developed new applications in response to the progress of motor controls found commonly in low-fuel

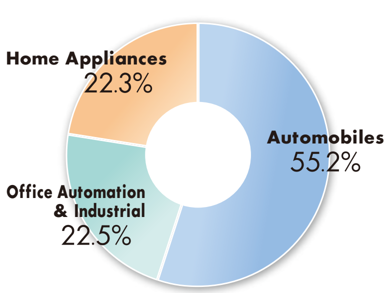
Net Sales
Years ended March 31



Operating Income
Years ended March 31



Semiconductor Devices Sales by Market
Years ended March 31



consumption internal-combustion engine automobiles, hybrid vehicles and electric cars. As a result, automotive products maintained steady growth while being supported by further advances in the application of electronic components for automobiles and showed strong growth from the previous year, rising 18.8%.

In products for white goods home electrical appliances, which are growing remarkably, in response to the expanding worldwide application of inverters, we sought to capture the markets in China and Korea in particular, and focused on attracting customers in those countries. We undertook aggressive development in the power supply sector as well, including multipurpose development of ICs for AC/DC power supplies for such applications as LED lighting, white goods household appliances and IT and mobile instruments, and expansion of the general purpose DC/DC power supply market for industrial machinery and OA, and telecommunications and IT. Consequently both product segments achieved strong growth, with products for white goods, a segment on which we have focused in particular, continuing to expand steadily and climbing 21.1% compared with the previous year, and industrial machinery and OA products also increasing by 17.7% for the year.

As a result of these efforts, consolidated net sales in the semiconductor devices business were ¥111,937 million, an increase of ¥16,244 million or 17.0% from the previous year. Consolidated operating income was ¥10,716 million, an increase of ¥2,726 million or 34.1% from the previous year.

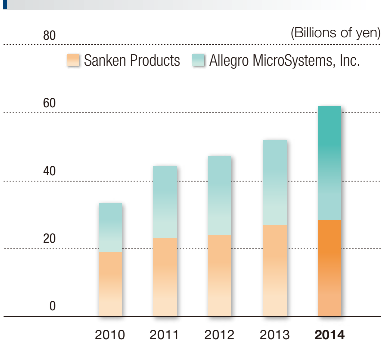
Agenda for the Future

Going forward, Sanken will work to further strengthen the "business structure built around semiconductor devices," which Sanken has worked to solidify through its continuing efforts, across all areas of development, production and sales.

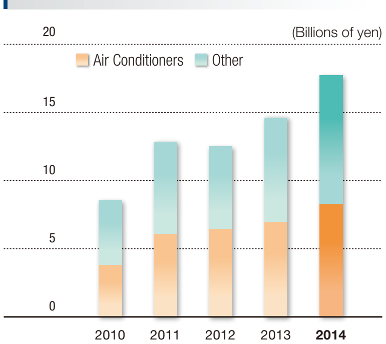
From a technological development aspect, Sanken will continue to rapidly develop and quickly introduce to the market in the future new products aimed at expanding sales and accelerating overseas market penetration, based on the key words "eco-friendly and energy-saving" and "green energy." In terms of production, we will make capacity enhancements to front-end fabrication processes at our plants in Japan and the U.S., and respond accurately to the future growth in demand to ensure no opportunity is lost. From a sales perspective, we will strengthen our technical marketing organization in order to pursue development that stays accurately abreast with global technology trends, and work to enhance our overseas sales organization to achieve steady sales growth in focus areas such as Asia, the principal region for production of white goods.

With regard to marketing for automotive products Sanken will push ahead to capture the growth of its existing markets and accelerate its global expansion. The "shift to motorized control" that is common to all internal combustion engine automobiles, hybrid vehicles and electric cars for parts such as transmission power steering, cooling fans, water pumps, oil pumps and compressors is advancing. Sanken will move first to capture the largest share of this market. In addition, through Allegro MicroSystems LCC, Sanken will pursue the development of next-generation sensors with higher sensitivity, finer resolution, and smaller footprint and the development of automotive ICs. In particular, to maintain its No. 1 global market share position in automotive magnetic sensors, Sanken will seek to increase the added value of its

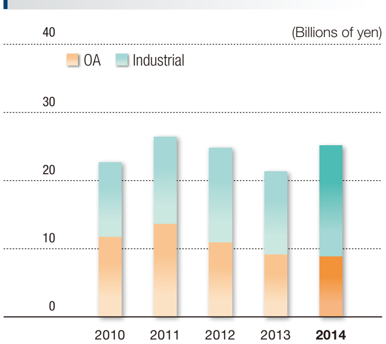
Focus Market: Automotive
Years ended March 31



Focus Market: White Goods
Years ended March 31



Focus Market: OA & Industrial
Years ended March 31



products through the development of smaller design-rule processes and improved digital integration, and simultaneously act aggressively to respond to new applications such as current sensors. When automotive sales growth is examined for a long period of time, consolidated net sales of automotive products have increased at an average of about 10% on average, and Sanken will strive to raise this rate of growth even further.

In white goods, Sanken will drive to capture the accelerating trend toward the adoption of inverters and widen its presence in the markets for small home electrical appliances manufactured in Korea and China. In the air conditioner market in China, although the government subsidy program was terminated, the percentage of inverter-driven air conditioners is rising steadily, but the absolute level still remains low at about 30%, leaving further opportunities for growth. Furthermore, over 70% of the refrigerators and washing machines developed by Korean manufacturers are exported, and in this sector inverter adoption is advancing rapidly and currently stands at about 50%. Products for these air conditioners, refrigerators and washing machines are expected to enjoy further growth in demand in the future. The adoption of inverters has now extended to even small home electrical appliances such as fans, air cleaners, vacuum cleaners and dishwashers. Sanken will accelerate its development for this market in the future as well.

Finally, in the market for devices for power supply circuitry, Sanken will closely follow its strategy to promote products developed for non-TV markets and the early release to market next-generation devices.

Details of actions by market

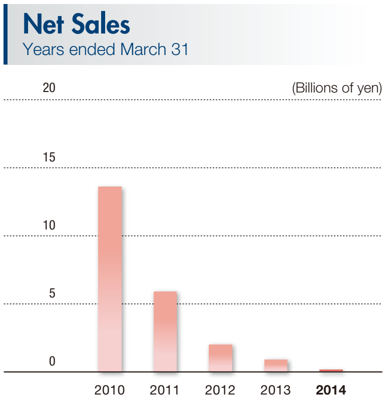
Automotive	Sanken Electric	● Continue growth of domestic and existing markets ● Accelerate global expansion
	Allegro	● Develop next-generation sensors (higher sensitivity and smaller size) ● Develop automotive ICs
White goods		● Capture adoption of inverters in Korea and China ● Enter global market for small home electrical appliances
Power supplies		● Accelerate entry into non-TV markets ● Broaden line-up of DC/DC area products
Next-generation Devices		● Early release to market SiC and GaN

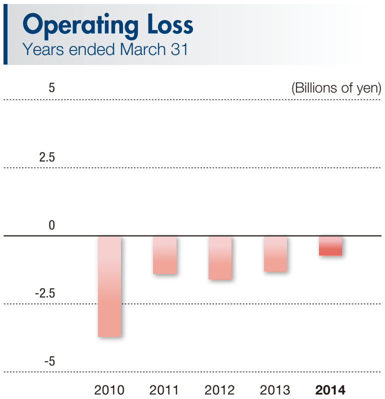
Review of Operations CCFL Business

Fiscal 2013 Results

In the CCFL business, which continues to shrink in reverse to the increased acceptance of LED backlights, Sanken is moving forward with a balanced contraction program to systematically reorganize and downsize its production system and organization to levels appropriate for current market conditions. Consolidated net sales in the CCFL business were ¥144 million, down ¥736 million or 83.6% compared with the previous year, and the consolidated operating loss was ¥720 million, compared with a consolidated operating loss of ¥1,316 million last year.

In light of this unfavorable change in market conditions, Sanken Electric judged that continuing this business is not justifiable, and it has decided to withdraw from the business, and appropriated adequate reserves on its income statements.





Review of Operations Power Module Business

The power module business illustrates Sanken's advantage gained from the combination of its superior semiconductor technologies and power-supply circuitry technologies. This domain is shifting away from the traditional structure centered on television, and we are seeing it broaden to encompass products such as the high efficiency adapters required for FPD-TV, printers and telecommunications and networks and to power supplies for industrial machinery and servers, and in the future we will expand to encompass even the automobile board business.

Fiscal 2013 Results

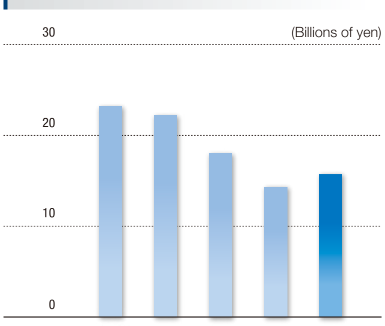
In the power-module (PM) business, sales of adapter products for printers increased steadily due to Sanken's effort to meet customer needs, including cost reductions through common use of parts and components and the simplification of circuitry designed to satisfy safety standards, while sales of adapter products for communications devices rose significantly, while the power supply board business for flat panel TVs, that in the past had accounted for the majority of net sales reached the end of its life. Sales of power supply products for multifunction printer/copier systems for offices remained robust.

As a result, consolidated net sales in the PM business were ¥15,791 million, up ¥1,495 million or 10.5% from the previous year. As for earnings, results were affected by disposal of the discontinued flat-panel TV power supply board inventory amounting to approximately ¥800 million, and a consolidated operating loss of ¥1,251 million was reported, compared with the consolidated operating loss of ¥1,038 million in the prior year.

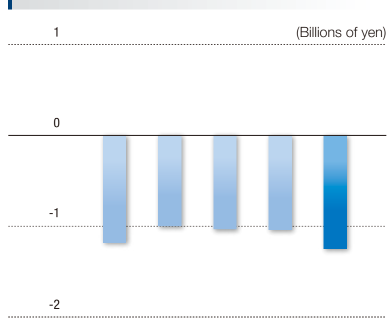
Agenda for the Future

In the PM business, Sanken will strengthen its support for new applications, new markets and automotive products, in order to re-establish a profitable business structure based on reshuffling the markets it serves and its product mix. For AV and office automation equipment, which was our main focus traditionally with power supply boards, we will instead develop adapter products with features such as stronger surge protection especially required by markets with unstable power distribution grid and low-energy consumption and expand into new high-volume markets including extra-thin panel TVs, printers and telecommunications and network equipment, and also push to expand in new domains such as high-performance power supplies for manufacturing equipment and servers, and modules for automobiles. As for automotive products, we are approaching mass production phase of board products for applications starting with speed sensors and power windows on the production line we installed exclusively for auto products, separate from the conventional production lines for consumer product, at P.T. Sanken Indonesia, and have made great strides in improving the product portfolio.

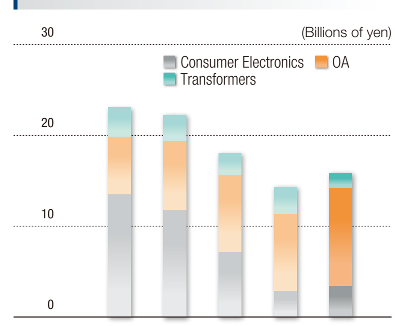
Net Sales
Years ended March 31



Operating Loss
Years ended March 31



Power Module Sales by Use
Years ended March 31



Review of Operations Power System Business

The power system business is the origin of our company and the source of our "excellence in manufacturing" tradition. This segment's products, such as large DC power supplies, high-intensity aircraft warning lights, or "strobes," uninterruptible power supplies, and general purpose inverters for industrial motors, have earned customer trust and a reputation for excellence in socially critical facilities where power interruptions are absolutely unacceptable, such as airport control towers, telecommunications systems, power transmission substations and highway tunnels and toll systems.

Fiscal 2013 Results

In the power system (PS) business, sales of products for communications equipment were stronger in the second quarter, offsetting the effects of the ongoing difficult environment that included cutbacks in capital investment by electric companies, while sales of products for government and municipal offices including disaster recovery demand also remained brisk. In addition, sales of products for green energy also expanded beginning from the third quarter.

As a result, consolidated net sales in the PS business were ¥16,593 million, up ¥1,076 million or 6.9% from the previous year. Consolidated operating income was ¥1,148 million, up ¥70 million or 6.5% from the prior year.

Agenda for the Future

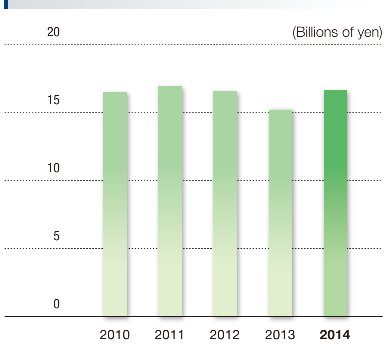
Sanken's basic direction in the existing telecommunications market will continue to be a focus on securing highly stable business from the major carriers in Japan. In addition to this, we will push expansion of the business into the power generation, transmission, consumption and storage markets, based on the key words "green energy." With the smart house and the smart city concepts garnering attention, Sanken will push to expand its sales of power storage systems (ESS: Energy Storage System), most notably used in conjunction with solar power generation, and strengthen its efforts in the BEMS (Building Energy Management System) and HEMS (Home Energy Management System) markets.

In ESS, we will move to broaden our product line-up as a series of comprehensive systems through new cooperation with manufacturers of the most advanced battery cells.

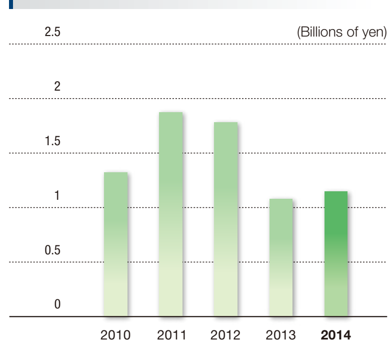
Some of our products are already installed in public schools where, in case of natural disasters such an earthquake or flooding, people would evacuate and seek temporary shelter.
Sanken's ESS serves as emergency supply of electric power.

For BEMS-related activities, Sanken already has an established track record of completing joint projects with real estate developers and construction companies, and will push forward with aggressive expansion plans by applying this experience together with Sanken's comprehensive array of power electronics technologies.

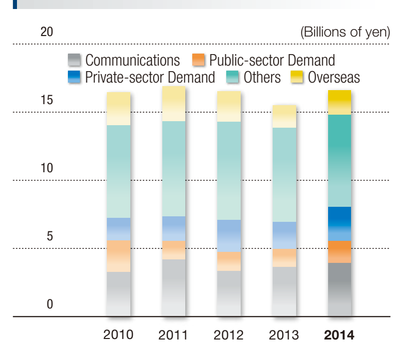
Net Sales
Years ended March 31



Operating Income
Years ended March 31



Power System Sales by Use
Years ended March 31

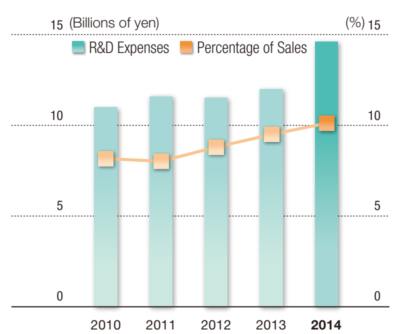


R&D and Intellectual Property

The "eco-friendly and energy saving" and "green energy"-related technological capabilities of Sanken in "Power Electronics," which are the result of our aggressive research and development activities over the past several years, demonstrate our extremely significant competitive advantage and have undoubtedly elevated our presence in a global market.

While Sanken has already established a position that assures it has the industry's dominant global and domestic market share in many product sectors, in the future we will accelerate our development of new technologies and new products aimed at the development of new markets and new applications that will further broaden the stage on which we conduct our activities.

R&D Expenses
Years ended March 31



Research and Development Policy

Sanken has defined its business domain to be "Power Electronics," and is pursuing its research and development activities by focusing on the most promising growth stages in this sector.

We are conducting our research and development under the following two guidelines as our basic policy.

(1) Achieve a growth strategy with the concepts "eco-friendly and energy saving market" and "green energy market" positioned as its core.
(2) Facilitate new product development based on the establishment of technological marketing and efficient development management.

Key Research and Development Goals and Sanken's Strengths

Currently, the Company is advancing its research and development efforts in two directions. The first is to put "eco-friendly" features into our products by raising "efficiency" in our electric power conversion and motion control devices and to bring out smaller and lighter products. The second is to offer "energy-saving" features by reducing power consumption while the machine is in a stand-by or lower than full power mode.

The Company itself is a globally unique existence which keeps within itself the comprehensive set of elemental technologies related to electric power supply, ranging from development and manufacture of semiconductor devices, circuit design and manufacture of power supply boards. And this whole range of technological assets give the Company a great advantage in trying to make real the concepts of "eco-friendly" and "energy-saving."

In the semiconductor business, Sanken's core, it is placing emphasis on the development of high value added products in response to the latest market requirements such as lower power loss, higher switching frequency, lower power consumption, attention to environmental impact and customer value maximization, in the areas of power conversion, and motion control, and the BCD wafer process technologies. The Company also has accelerated development to achieve early release to market of next-generation power devices such as SiC (silicon carbide) and GaN (gallium nitride). Furthermore, in February 2014 Sanken acquired digital control technology of "mixed signal MCU products". As a result, the Company will be able to complete earlier the development of its latest-design power modules and power supply ICs with the help of the digital control technology, that significantly raises efficiency across the whole range of operation from low, stand-by mode to full load.

Sanken has ascertained market sectors such as automobiles, white goods, telecommunications and industrial machinery, and sensors as its immediate targets going forward, and will undertake focused research and development activities that are aimed at quickly capturing these target markets.

Research and Development Achievements in Fiscal 2013

In the semiconductor devices business, Sanken is concentrating on development of products to lead its shift to growth markets, through the introduction of technological marketing in product development, and measures that include aggressively tackling issues such as more rapid completion of development projects, and thus enhancements to development process management, and the creation of standard products for newly developing countries that are exhibiting remarkable growth.

In the motion control area, the Company is reinforcing its product lineup to cover a broad range of operating frequencies and output capacities. In Sanken's newest IGBT products, which succeeded in further reducing switching loss, we added a new lineup to broaden our offerings to current ratings of 30-50A, and these products have become the optimum product for applications such as commercial-use air conditioners, auxiliary motors in automobiles, industrial machinery and small appliance such as IH stove top. In new generation MOSFET, which has significantly improved switching performance, we expanded our lineup to cover rating voltages from 30 V up to 100 V. Our large-current stepping motor drivers for bipolar drives, which combine a control IC that uses Sanken's proprietary BCD process and a Sanken-designed MOSFET in a single package, are the industry's first products to support a wide current region with a 60 V voltage rating and 5 A current rating and can be used with motors with an actual current of 3 A. The diodes we developed using next-generation power semiconductor SiC achieve a maximum voltage of 650 V, and will contribute to further energy saving, including server power supply loss reduction, and the smaller size of electric and electronic equipment. The application spe-

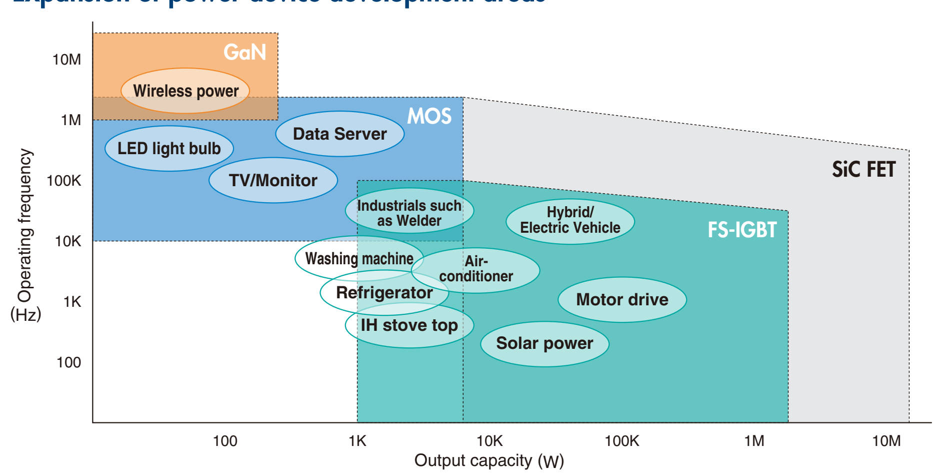
cific standard power ICs we newly developed for LED lighting combine power MOSFET and control ICs, together supporting a combination of features such as a 5 V-58 V input voltage range and a wide range of applications at variable frequencies of 100 kHz-500 kHz, will help reduce the number of components based on enhanced protection capabilities.

In LED-related products, along with developing a highly efficient flat LED that achieved "best in industry" class illumination of 170 lm/W and LED lighting fixtures for high indoor ceilings, which can greatly reduce power consumption compared with conventional mercury lamps and realized a 57% weight reduction compared with other flood lights in its class. The LED lighting apparatus developed by Sanken was awarded a "Good Design Award 2013" as a product that offers both "energy-saving" and "comfort."

In the power module business, the Company sought to develop eco-friendly and energy saving-related products and high value-added products, taking into account the segment's immediate take of re-establishing profitability structure to generate stable flow of earnings through the realignment of its focus markets and its product mix. Newly-developed products included power supplies with an output of 66 W to support dimming of LED lighting that can contribute to energy saving, and general-purpose power supplies that used Sanken's proprietary IC and transformer soft switching technology to achieve greater efficiency, smaller size and low noise emission.

In the power system business, Sanken took "green energy" as its key words to expand its business into power generation, transmission, distribution, consumption and storage, where we are pursuing the highest level of efficient power conversion technology and working to continually create new products applying the technology. Other actions included the commercialization of uninterruptible power supply units suitable for public emergency facilities, and the development of uninterruptible power supply units that can be configured, when combined with a controller unit, to alternatively store electricity or serve as an emergency power supply.

Expansion of power device development areas



R&D and Intellectual Property

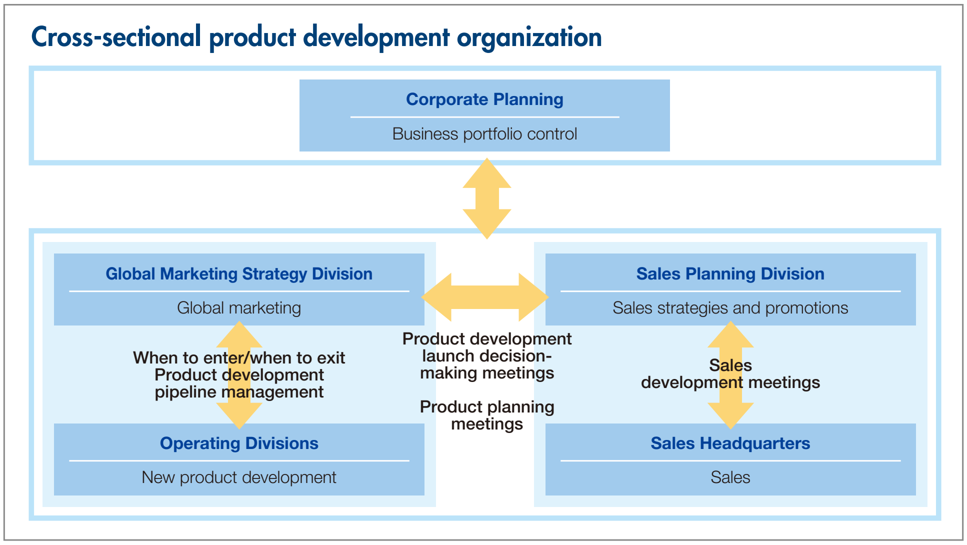
Research and Development Organization

The R&D organization formed around Sanken's Engineering Headquarters, which is located at the Company's head office, undertakes worldwide cooperative development activities aimed at the efficient creation of new technologies, based on mutually complementary development between two companies – Sanken's headquarters in Japan and Sanken North America, Inc. Sanken's most important overseas subsidiaries are Allegro Microsystems, LLC (AML), which specializes in the design of products such as sensors and motor drivers, and Polar Semiconductor, LLC (PSL), which manages a design center for handling new circuit development. These two companies are playing an important role in Sanken's worldwide cooperation and development under the direction of Sanken North America, Inc.

The organization of the Engineering Headquarters at the Company's head office is comprised of three operating divisions for "AMD" (Automotive Devices), "MCD" (Motion Control Devices) and "PCD" (Power Conversion Devices), corresponding to the Company's three "automotive," "motors" and "application specific standard power supplies (AC/DC and DC/DC)" markets, respectively, in Sanken's core semiconductor business. The Company is aggressively pursuing technology development along these three axes and undertaking efforts to coordinate each and every development project so that development resources are most effectively and efficiently deployed, instead of sporadically and dispersedly discharged.

Coordination with the Marketing Division

Sanken Electric has shifted the axis of its development orientation from a lineup centered on conventional custom products to application specific standard products whose markets are enjoying greater expansion. As the new organization to ensures its standard products business successfully, Sanken has established a cross-division product development management organization capable of responding accurately to changes in market needs. Sanken regularly convenes a decision-making meeting and product planning meetings between the Global Marketing Strategy Division in the Engineering Headquarters and Marketing Planning Division in the Sales Headquarters, and will make maximum use of the technology intelligence and market and customer information collected and retained by both divisions for product development. In addition, the Global Marketing Strategy Division works to standardize and unify development policies across the entire company, and manages and is responsible for the orientation of each operating division's product development.



Intellectual Property

It is of utmost importance to protect effectively the intellectual property rights that are related to our core technologies, side by side with creating innovative, high value added products through continuous research and development, in order to remain competitive in the semiconductor market place. To this end, Sanken has taken steps, not only to create intellectual property and legalize the respective rights, and to make effective use of this intellectual property, but also has laid out a system to accelerate development of new products and technologies through sharing of information between the research and development and the intellectual property organizations from the initial stages of development. By these actions the Company is able to improve the quality and increase the quantity of the patents it holds.

Alternatively, to support its global business expansion the Company has applied for and obtained a large number of patents in both the United States and in emerging countries in Asia, and in FY2013 the number of patents held was the highest in the Company's history. In the future, Sanken will continue to pursue development that emphasizes the acquisition of patents in other countries.

Sanken has set its patent strategy to secure a cluster of patents covering both basic and improved inventions, and to strengthen our position to keep our competition away. We are also actively making progress in the replacement of older patents with newer ones, creating an intellectual property portfolio which keeps pace with the latest changes in the business environment.

There are a few fundamental directions which our intellectual property organization is following. The first of such strategic direction is to coordinate with the research and development organization to try to form a cluster of patents at the early stages of technology and product development. Also by doing a comprehensive analysis of technological trends in other companies, we will then be able to have a number of alternatives to respond to potential patent negotiations and secure access to a wide range of outside intellectual properties, including such options as an offer to create a technical cooperation arrangement. For this reason the intellectual property organization is actively conducting training sessions to encourage our development engineers to engage in intellectual property activities from an early stage of product development. We believe we will be able to further invigorate this coordinated activity through the Global Marketing Division established within the Engineering Headquarters.

The second strategy is to adapt to the trend for globalization. In particular, the Company is making efforts to increase its acquisition of patents in emerging countries such as China, and is working to strengthen its network of patent professionals overseas and to expand is intellectual property portfolio outside Japan.

The third strategy is to provide support to accelerate the Company's research and development activities. Through its access to patent and other technical information, the intellectual property organization from time to time renews Sanken's own patent database while simultaneously providing the latest technological trends and related information to the research and development organization, and promotes the effective use of the Company's own patents, to stimulate innovation and to give direction to research and development activities.

CSR Initiatives

1 CSR Policies and System for Advancing CSR

Sanken Electric and the Sanken Group of companies clearly define the role of Corporate Social Responsibility ("CSR") as "social contribution through practice of our Management Philosophy," and are engaged in various aspects of CSR initiatives based on the following fundamental policies.

Fundamental CSR Policies

1. **Fair and just conduct in compliance with ethics and laws and ordinances**
   An enterprise is a member of society. As such, the Company will respond to society's trust with honest conduct of its business.
2. **Energy-saving products developed and marketed through integrated application of technological capabilities**
   To move closer to the ultimate goal to realize a sustainable society, the Company will use its portfolio of proprietary technologies and strive to solve environmental problems.
3. **Good relationships with all stakeholders**
   The Company will conduct necessary dialogue and cooperate with individuals, groups, and communities with which it has various forms of relationships.

The CSR Committee

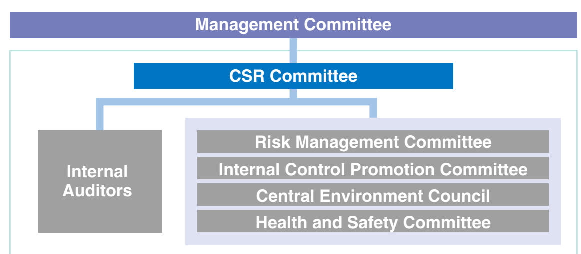
Sanken seeks to continually improve its over-all corporate value by pursuing responsible business activities. As a special corporate-wide, cross-functional organization, the CSR Committee works to promote dissemination of the CSR concept and encourage CSR actions at all Group companies.

- Basic Directions of the CSR Committee -

1. **To align CSR activities with the management philosophy and business plans.**
2. **To exercise appropriate control of economic, legal, and ethical risks.**
3. **To disclose the outcomes of our CSR activities, and maintain dialogue with the various parties involved.**

The CSR Committee is an organization whose members include the heads of each headquarters, and is responsible for monitoring the CSR efforts conducted at Group companies.

CSR Promotion Framework



CSR Promotion Forum

Sanken adopts a company-wide, grass-root approach to motivate its employees to participate in its wide array of CSR activities.

The Company created an organization called the CSR Promotion Forum, comprised of the so-called "CSR advocates" selected from among younger generation associates, taking into account the diversity of gender and national origin. They regularly meet and discuss such topics as what is included in a CSR awareness raising programs, how to implement specific CSR activities including comminity works and school visits, and what the future of Sanken's CSR should be.

2 Corporate Governance

To raise the Company's corporate value and fulfill its social responsibilities, Sanken constructs and aims to continually enhance "a framework for corporate governance" to ensure the appropriate formulation of its management goals and implementation of those goals.

Basic Approach to Corporate Governance

Sanken is striding forward to enhance accountability and ensure appropriate strategic decision-making by the Board of Directors, and strengthen the board's supervisory role, in order to boost efficiency, improve transparency and maintain sound management. At the same time, the Company is working to strengthen its corporate governance system through the activities of its CSR Office and IR Group. Additionally, we have set the term of office of directors at one year with the aim of ensuring that the Board of Directors is more responsive to changes in the business environment and to clarify that the performance of the duties of the Board of Directors is evaluated each year corresponding to the Company's fiscal period.

Corporate Governance Structure

The Company, a global business enterprise, believes that it must select "a corporate governance system that is best suited for the current unique nature of the Company," taking into consideration such factors as the need to open wide channels of communication with various stakeholders including overseas investors. Based on this thinking, the Company has adopted an Audit and Supervisory Board system comprised of the seven-member Board of Directors (including one Independent Outside Director) and a four-member Audit and Supervisory Board (including two Outside Statutory Auditors).

Furthermore, the adoption of the corporate officer system has enabled the Company to effectively separate business execution from strategic decision-making and supervisory functions. This system is also designed to facilitate rapid responses to changes in the business environment. As of the end of March 2014, Sanken had 20 corporate officers, five of whom are serving concurrently as directors.

The Company believes the independence of both the Outside Director and the two Outside Statutory Auditors has been established, and that there is no concern of a conflict of interest arising with the general shareholders.

Internal Audits, Audits by Statutory Audits, and Financial Audits

For internal audits, Sanken has an internal audit group within the CSR Office that is staffed by ten individuals. The CSR Office is involved in on-site and off-site auditing and evaluating all corporate activities performed by employees, formulating proposals for improvements and providing execution support, and holding compliance education and training sessions.

The Statutory Auditors sit on the Board of Statutory Auditors, and meet to set audit policies and audit plans, and to decide other matters as prescribed by law, as well as to share audit information among Statutory Auditors. In accordance with the division of duties determined by the Board of Statutory Auditors, the Statutory Auditors attend Board of Directors' meetings, management committee meetings and other important meetings, as well as inspect important documents. The findings of their audits are reported to the Board of Statutory Auditors. The Statutory Auditors also meet regularly for discussions with directors, the head of the CSR Office and the Accounting Auditors to improve the efficacy of audits performed. Furthermore, strict monitoring is performed through auditing visits at the Group's business locations both in Japan and overseas, with the results reported to the Board of Statuary Auditors.

The Statuary Auditors are responsible for assessing the status of the Company's operations and assets, as well as the execution of other inspection duties. To this end, the Statuary Auditors, in their efforts to carry out effective audits, maintain close contacts with those in charge of monitoring functions within the Internal Auditing Group of the CSR Office and other units involved in internal control systems.

The independence of the two Outside Statutory Auditors has been reviewed, and the Company concludes that no conflict of interest exists between the Outside Statutory Auditors and the Company's general shareholders.

Internal Control System and Compliance System

The Company has compiled Conduct Guidelines, which are a practicable form of the code of conduct based on the Company's statement of Management Philosophy. The Company also strives to construct and operate a highly effective system for internal control through such efforts as organizational adjustments, the introduction of a new framework of operations and the enactment of rules and regulations, in order to ensure compliance with laws and regulations by both management and employees, to improve the efficiency of operations, and to maintain the reliability of financial reports. To place its compliance organization on a solid footing, Sanken also is working to enhance its rules and systems through measures such as setting up the "Helpline System," a whistleblowing mechanism, which serves as an internal information reporting channel and consultation desk for employees.

The Company sends its Corporate Officers to Group companies as necessary as directors, in order to facilitate close communication of the Group's strategies, stay actively involved in important operational decision-making and work to implement effective management processes in general. Moreover, the Company enacted a set of policies such as the Affiliated Company Management Regulations and the Management Guidelines to clarify the duties and authority of each company in the Group. The Company has assigned from among its departments a unit that is principally responsible for overseeing group companies, and works to maintain close sharing of information and remain engaged in management guidance and performance control.

Risk Management System and Related Activities

Sanken has established a Risk Management Committee, which reports directly to the President, to strengthen overall risk management for the entire Group and promote risk-event preparedness. In addition to measures to cope with natural disasters, the Committee studies, evaluates and analyzes a wide range of risks encountered by the Group during the course of business operations, and proposes and implements business continuity management plans to ensure integrated and cross-divisional risk management across the entire Group.

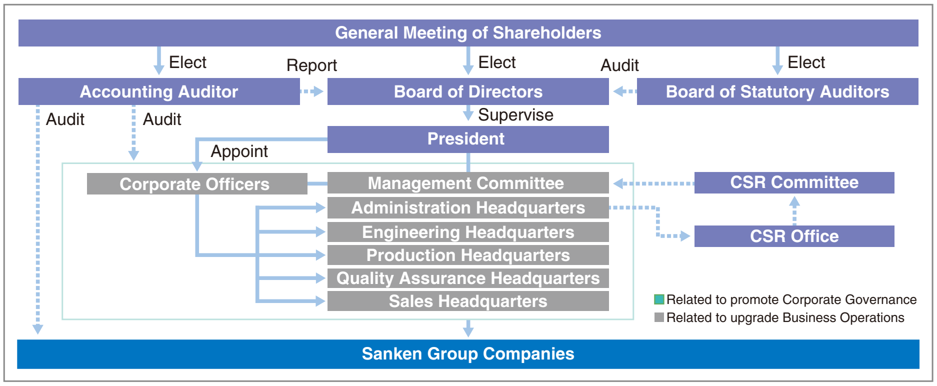
With respect to crisis management, the Group has taken specific measures that assume the occurrence of a serious disaster. These include the identification of the major risks associated with disasters such as earthquakes or fires, the establishment of a system to verify the safety of employees, and the formulation and use of a "Disaster Prevention Manual" and a "Business Continuity Plan," which describe how to minimize damage and injuries if a disaster were to occur, as well as a process for recovery.

Furthermore, for management of the safety of its employees at overseas offices, the Company has prepared an “International Crisis Response Manual” and taken steps to expedite its actions in an emergency.

Disclosure System

The General Affairs Section continuously collects, confirms and examines information on material decision-making and material facts, and makes timely disclosures without delay after authorization by the decision-making body or occurrence of the relevant facts in accordance with applicable laws and regulations. The IR Group, meanwhile, actively provides corporate information, including financial results, to shareholders, investors, analysts, the media and other parties, carries out public relations activities, operates the Company’s website and holds financial result presentation sessions. This group also implements debt investor relations in the form of IR activities provided for financial institutions, bond holders and other investors, and conducts mid-term explanatory briefings.

Information security is an issue that applies to all corporate secrets, including the terms and conditions of contracts with customers, technical information and manufacturing requirements. To strengthen its protection and control of information assets, Sanken has prepared Information Management Rules that it has fully implemented throughout the entire Group. Moreover, from time to time the Company prepared manuals defining the scope of information that must be protected, as well as control procedures, in accordance with the Act on the Protection of Personal Information and Unfair Competition Prevention Act.



3 Environmental Initiatives

Sanken and its Group companies have placed as a critical part of our CSR activities the basic philosophy of a union between business and environmental activities. Accordingly, we are actively promoting “eco-friendly and energy-saving” activities as a management strategy, with the goal to create a low-carbon, recycling-oriented society that lives in harmony with nature.

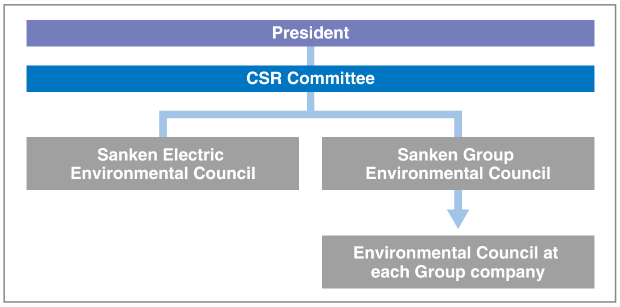
The Sanken Group Environmental Charter and Action Plan

Together with introducing an environmental management system (EMS) in fiscal 1998, Sanken Electric enacted The SG Environmental Charter in 2000 as an environmental vision for the Sanken Group, and has pledged to act in an environmentally friendly manner, with sincerity and ingenuity, in every aspect of its corporate activities. In addition, the Company formulates and implements an SG Environmental Action Plan each year as its specific program for action. Each Group company also establishes an Environmental Policy and undertakes ongoing measures to reduce its negative environmental impact, while taking into consideration its business attributes and regional characteristics.

Environmental Management Organization

To efficiently and accurately promote environmental management, Sanken has established a CSR Committee as a parent entity reporting directly to the Company’s president, and created a Group-wide, cross-functional environmental protection organization.

Sanken currently has established environmental management systems for its production bases at thirteen domestic locations and eight overseas offices, all of which have obtained ISO14001 certification.



Conservation Activities

To improve its environmental activities, the Company conducts its own environmental audit annually to determine, for example, whether it is in compliance with all relevant regulations and has made sufficient progress on its yearly plan. In addition, annual inspections by third-party organizations are conducted each year to verify the effectiveness of the Company's environmental management system.

The Company also has drawn up a Chemical Agents Control Manual, and by working to properly control chemicals strives to comply with all laws and statutes, protect the global environment, prevent accidents, maintain worker safety and health and ensure safe products. For chemicals management we put into place controls on environmental risk, which include reports to the central government on materials handled in amounts annually at each office of one ton or more for Class 1 Designated Chemical Substances, and in amounts of 0.5 tons or more for Specified Class 1 Designated Chemical Substances, based on the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof (the "PRTR Law").

The Energy Conservation Committee was established in 2007 with the goal of bolstering activities to reduce CO_2 emissions at the Company's business sites. In addition to resolving issues confronting various divisions working to improve and identifying solutions that can be disseminated to other divisions, the committee conducts patrols once a year to verify the status of operations and identify points for further improvement.

Transition to Eco-Friendly Factories

As part of the reduction of CO_2 emissions volume from its factories, in 2012 Sanken developed a system to recover and recycle all of the electric power discharged into the atmosphere as thermal energy during the PS Division's inspection process for large-scale uninterruptible power supplies, a measure that successfully achieved a 70% reduction in energy consumption during testing. As a next step, in fiscal 2013, the Company used fly-wheel batteries to develop a system that enables input electrical power to be maintained to a certain extent even if the electric power load changes abruptly. The Company will continue to improve the reliability of these systems in the future, and by putting them to practical use, promote the application and expansion of this "eco-friendly factory" approach to other inspection processes.

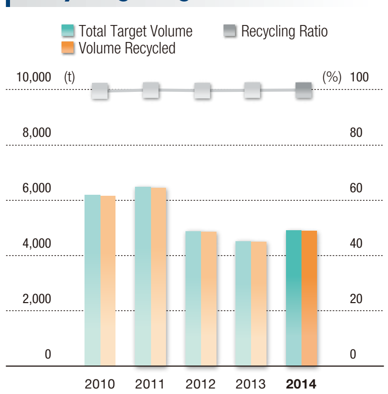
Corporate registration in the "Saitama Prefecture Environmental Learning Support Corps"

Sanken Electric is also a registered corporate member of the "Saitama Prefecture Environmental Learning Support Corps," a group formed to provide and assist environmental learning programs for elementary, junior high and senior high schools in Sanken Electric's home territory in Saitama Prefecture. Based on requests from the prefecture, Sanken Electric will conduct its own unique school visits in the future.

Environmental Responsiveness of Products

Sanken has adopted a number of measures such as the introduction of environmentally friendly design of products and "green procurement" mechanisms, in order to comply with international regulations governing hazardous substances. In response to the European Union's RoHS Directive restricting the use of six substances, including cadmium and lead, and other regulations, Sanken's steps toward achieving more environmentally friendly products include its diligent work in collaboration with Group companies to complete the transition to the use of lead-free solder, and its effort to strengthen controls on products containing hazardous substances, mainly through enforcement of "green procurement" mechanisms. As a result of these early adoptions of the regulations, Sanken and its Group companies are recognized by client companies with rigorous environmental policies as the source of choice for "green procurement." Since fiscal 2009 we have promoted "eco-friendly and energy-saving" as a priority policy, and successfully developed and brought to market numerous products that have achieved low power consumption and resource savings.

Waste Volume and Recycling Progress



*Years ended March 31

Financial Highlights

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013, 2012, 2011, 2010, 2009 and 2008

	Millions of yen					
	2014	2013	2012	2011	2010	2009
Statements of income						
Net sales	¥ 144,467	¥ 126,386	¥ 131,803	¥ 144,882	¥ 134,134	¥ 147,003
Cost of sales	108,656	98,211	104,820	114,741	117,626	127,107
Gross profit	35,810	28,174	26,982	30,141	16,508	19,895
Selling, general and administrative expenses	28,033	23,549	22,934	23,991	21,990	24,787
Operating income (loss)	7,777	4,625	4,048	6,149	(5,482)	(4,891)
Other income (expenses), net	(2,308)	(526)	(1,502)	(5,004)	(12,684)	(5,719)
Income (loss) before income taxes and minority interests	5,468	4,099	2,545	1,144	(18,166)	(10,611)
Net income (loss)	5,029	2,272	436	(922)	(18,950)	(15,773)
Balance sheets						
Total current assets	¥ 100,764	¥ 92,077	¥ 84,280	¥ 84,414	¥ 83,725	¥ 82,900
Total investments and long-term receivables	5,404	3,803	3,624	3,724	4,309	5,376
Property, plant and equipment, net	54,975	50,945	47,301	43,430	43,029	58,501
Other assets	3,618	1,691	922	813	842	990
Total assets	164,762	148,517	136,130	132,384	131,908	147,768
Total current liabilities	71,376	76,948	65,930	68,469	61,233	61,078
Total long-term liabilities	44,277	32,132	36,906	30,394	32,913	28,871
Total net assets	49,108	39,436	33,293	33,520	37,761	57,818
Total liabilities and net assets	164,762	148,517	136,130	132,384	131,908	147,768

	%					
Financial indicators						
Return on assets	4.84	2.84	2.25	3.76	(4.33)	(4.80)
Return on equity	11.44	6.30	1.32	(2.62)	(40.09)	(23.38)
Return on sales	3.48	1.80	0.33	(0.63)	(14.13)	(10.73)
Equity ratio	29.6	26.4	24.3	25.1	28.2	38.8
Current ratio	141.2	119.7	127.8	123.3	136.7	135.7

	Yen					
Per share						
Total net assets per share	¥ 401.75	¥ 322.92	¥ 272.21	¥ 274.05	¥ 306.54	¥ 471.98
Net income (loss) per share	41.47	18.73	3.60	(7.60)	(156.05)	(129.85)
Cash dividends per share	6.00	6.00	3.00	6.00	0.00	10.00

Financial Section

Contents

Management's Discussion and Analysis

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

OVERVIEW

Management Strategy

Sanken has mobilized technological and creative capabilities into its core semiconductor business and has worked to promote and develop a global business through the use of its proprietary technologies. At the same time, the Company has steadily worked to build a strong management base which ensures that we are maximizing corporate value, while also meeting our social responsibilities and our commitment to coexist with the natural environment.

In the electronics industry to which the Company belongs, the demand is growing stronger for electronic components that contribute to "eco-friendly and energy-saving," particularly the electronic components for automobiles and white goods in which Sanken Electric specializes.

Set against this backdrop, we have defined our business to be centered upon "Power Electronics", and by using our advanced eco-friendly and energy-saving technologies as our leverage, we are looking to expand into global markets, advance the factors of development, production, sales and human resources that support the Company's world-wide operations, and become a company that has an edge against the competition.

As part of our medium-term management strategy, we have outlined five main themes for the Company. They are 1) transform the corporate culture of the Company to enable us to become a truly global company; 2) realize growth strategies that focus on the eco-friendly, energy-saving and green energy markets; 3) promote the development of new products through the formation of forward-looking technical marketing organizations, and the efficient management of development process; 4) pursue innovative products and increase competitiveness by enhancing FAE functions; and 5) maximize the use of the Company's resources and improve the financial conditions.

More specifically, we are strengthening our efforts in the "eco-friendly and energy-saving, and green energy", "global market place" and "standard products" target markets, based on our policies of "expand sales" and "penetrate global market". To support this effort, from a production aspect we are implementing an aggressive increase in production at our domestic and overseas semiconductor production facilities and moving to strengthen our quality control organization. In addition, from a technology development perspective, together with establishing a new technology center that will work closely with customers we are focusing efforts on improving our ability to create new products based on technical innovations.

Fund Procurement and Liquidity

The Company raises funds in a number of ways, including bond and commercial paper issuance, committed line of credit agreements and bank loans. As of March 31, 2014, short-term loans totaled ¥27,030 million, commercial paper totaled ¥15,000 million, bonds payable totaled ¥30,000 million and long-term loans totaled ¥5,000 million. The Company's basic policy is to fund working capital and capital expenditures through internally generated funds. In some cases, however, in order to retain a sufficient level of cash flow to fund the working capital and capital expenditures necessary to maintain the Company's growth, we may raise outside funds by utilizing ¥15,000 million of unused commercial paper issuance facilities, ¥16,100 million of unused overdraft and ¥12,500 million in committed line of credit agreements, in addition to utilizing internally generated cash-flow from operations.

Dividend Policy

As a basic policy for distributing profits, Sanken recognizes that returning profits to shareholders is one of its most important management priorities. Accordingly, we seek to implement stable and steady dividends by improving earnings capabilities and strengthening our financial position, while maintaining the internal reserves necessary to develop our businesses and strengthen our management foundation for the future.

In accordance with this basic policy, the Company distributes its capital surplus to shareholders twice a year in the form of interim and year-end cash dividends. The decision-making bodies for dividends are the Board of Directors for interim dividends and the General Meeting of Shareholders for year-end dividends.

Based on our consideration of operating results for the current consolidated fiscal year, the future business environment and other factors, we have set the annual dividend at ¥6, consisting of the interim dividend of ¥3 per share and a year-end dividend of ¥3 per share. Please note that the funding source for the year-end dividend is the Company's other capital surplus.

RESULTS OF OPERATIONS

Summary

In the electronics industry in which Sanken is developing its business, demand generally followed a gradual recovery trend, as automotive sales remained strong, the number of products sold for white goods increased as a result of the progress in the adoption of inverters, and sales of products for office automation equipment such as multifunction printer/copier recovered as well hand in hand with the economic recovery in Europe.

Given such circumstances, Sanken strove to develop new products and expand its overseas sales by targeting "eco-friendly and energy-saving" and "green energy"-related markets, mainly with products that supported energy-saving technology for automobiles, white goods, industrial machinery and LED lighting. The Company also worked to improve its semiconductor front-end and back-end production capacities required for that purpose.

Looking at consolidated operating results for the current fiscal year, net sales were ¥144,467 million, up 14.3% compared with the previous consolidated fiscal year. This reflected factors such as steady growth in sales of semiconductor device products, plus the positive effect provided by the depreciation of the yen. From an earnings perspective, operating income came to ¥7,777 million, an increase of 68.1% compared with the previous consolidated fiscal year. In addition to the growth in sales, earnings were higher because we realized the effects of our profitability improvement measures, which included product portfolio enhancements resulting from the Company's focus on automotive products and white goods markets, together with the effects of various measures to improve earnings structure by constraining fixed costs. Moreover, although we reported an extraordinary loss in conjunction with our withdrawal from the CCFL business, net income came to ¥5,029 million, an increase of 121.3% compared with the previous consolidated fiscal year, reflecting among other factors the recording of income taxes-deferred resulted from the deferred tax assets posted by a US subsidiary.

Results of Operations by Business Segment

Semiconductor Devices Business

Consolidated net sales for the semiconductor devices segment were ¥111,937 million, an increase of ¥16,244 million (17.0%) compared with the previous consolidated fiscal year.

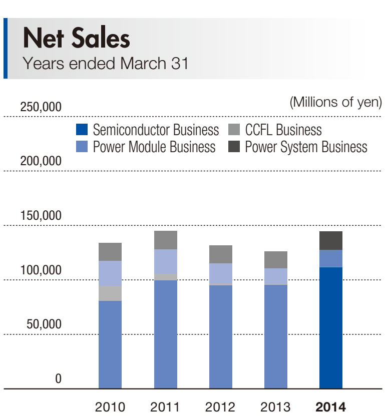
In this segment, sales of products for AV applications continued to suffer from harsh conditions, but sales of products in our main markets increased steadily, and for the business as a whole we were able to maintain a positive growth. Sales of automotive products progressed favorably, thanks to the progress of higher electronic content in autos, and sales of products for white goods also remained strong as we focused our efforts focused on increasing sales of products for refrigerators and washers along with air conditioners.

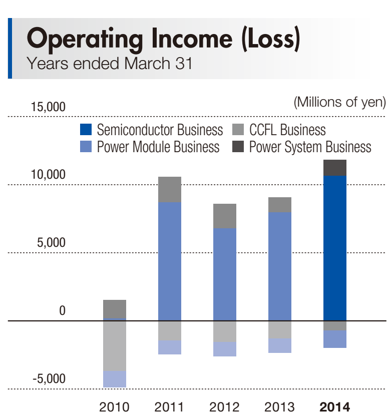
As a result, operating income in this segment rose ¥2,725 million (34.1%) compared with the previous consolidated fiscal year to ¥10,716 million.

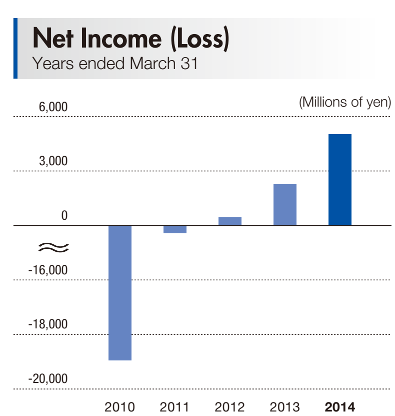
CCFL Business

Consolidated net sales for the CCFL segment were ¥144 million, making a significant drop of ¥736 million (83.6%) compared with the previous consolidated fiscal year. Factors negatively affecting results were the demand for CCFLs for TVs, which reached the end of their life cycle, and a decrease in sales of products for public bulletin boards. From a profit and loss aspect, we recorded a consolidated operating loss of ¥720 million, in conjunction with the decline in sales. However, we were able to reduce the size of the loss compared with the previous consolidated fiscal year, when we reported a consolidated operating loss of ¥1,316 million.

Because of the significant decline in sales in the CCFL business in the current consolidated fiscal year, the Company determined it is no longer feasible to continue this business, and at the Board of Directors meeting held on March 25, 2014 the Company decided to discontinue its CCFL business.







Power Module Business

Net sales for the power module business were ¥15,791 million, an increase of ¥1,495 million (10.5%) compared with the previous consolidated fiscal year.

As the power-supply boards business for LCD TVs, which previously had accounted for most of the sales of this segment, reached the end of its life cycle, entries to new markets progressed favorably. Sales of adapter products rose steadily, due to our effort to address customer needs for cost reduction through shaving of parts and components and simplification of circuit design to satisfy safety standards. Sales of adapters for telecommunication equipment also progressed favorably.

With regard to income, however, we recorded a consolidated operating loss of ¥1,251 million, compared with a consolidated operating loss of ¥1,038 million in the previous consolidated fiscal year. Negative factors included the effects of inventory reserves resulting from the termination of the power-supply boards business for TVs.

Power System Business

Net sales for the power system business were ¥16,593 million, an increase of ¥1,076 million (6.9%) compared with the previous consolidated fiscal year.

Decreasing capital investments at electric power companies continued to put strains on our operating environment, but sales of products for telecommunication carriers progressed favorably from the second quarter onward, and sales of products for government agencies, including products to meet earthquake disaster recovery demand, also rose steadily. In addition, sales of green energy products increased from the third quarter onward.

As a result of these market conditions, operating income for this business was ¥1,148 million, an increase of ¥69 million (6.5%) compared with the previous consolidated fiscal year.

Other Income (Expenses) and Extraordinary Items

Other income (expenses) deteriorated by ¥1,783 million compared with the previous consolidated fiscal year, resulting in expenses of ¥2,309 million. For the period, we reported foreign exchange gains of ¥161 million and subsidy income of ¥698 million. We recorded an extraordinary loss on termination of business totaling ¥2,079 million yen related to our withdrawal from the CCFL business.

FINANCIAL POSITION

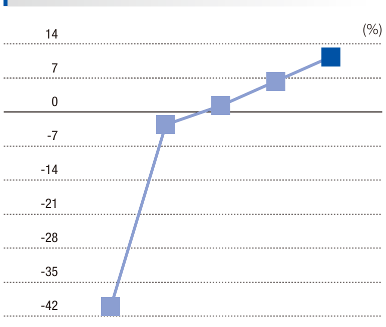
Assets

Total assets as of the end of the current consolidated fiscal year were ¥164,762 million, an increase of ¥16,245 million from the end of the previous consolidated fiscal year. Current assets increased by ¥8,687 million compared with the end of the previous consolidated fiscal year to ¥100,764 million. This was mainly due to an increase in cash and deposits of ¥2,864 million, an increase in notes and accounts receivable-trade of ¥2,041 million and an increase in inventories of ¥2,144 million. Investments and long-term receivables increased by ¥1,601 million compared with the end of the previous consolidated fiscal year to ¥5,404 million. This mainly reflected an increase in investments in securities. Property, plant and equipment (net) increased by ¥4,030 million compared with the end of the previous consolidated fiscal year to finish at ¥54,975 million. This mainly was the result of increases in land and in machinery and equipment.

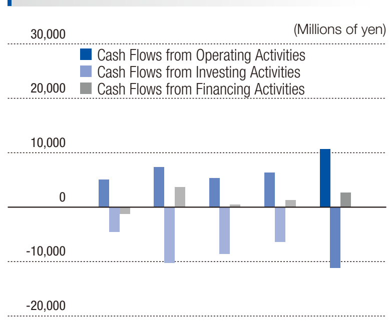
Liabilities

Current liabilities at the end of the current consolidated fiscal year fell by ¥5,572 million compared with the end of the previous consolidated fiscal year to finish at ¥71,376 million. This was mainly the result of a ¥12,225 million increase in

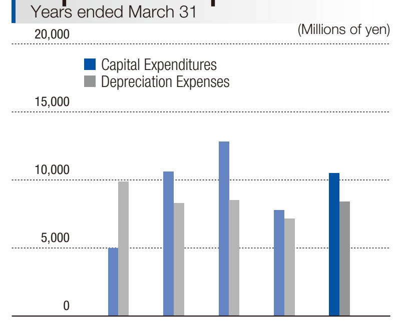
Return on Equity
Years ended March 31



Cash Flows
Years ended March 31



Capital Expenditures/ Depreciation Expenses
Years ended March 31



short-term bank loans, a ¥2,110 million increase in notes and accounts payable-trade, a ¥2,000 million increase in commercial paper and a decrease of ¥20,000 million in current portion of bonds. Non-current liabilities at the end of the current consolidated fiscal year under review totaled ¥44,277 million, an increase of ¥12,145 million from the end of the previous consolidated fiscal year. This was mainly due to decreases of ¥7,500 million in long-term debt and ¥5,128 million in accrued employees' retirement benefits, and an increase of ¥20,000 million in bonds payable.

Net Assets

Total net assets at the end of the current consolidated fiscal year were ¥49,108 million, an increase of ¥9,672 million from the end of the previous consolidated fiscal year. Shareholders' equity (net assets minus stock acquisition rights and minority interests) increased by ¥4,273 million compared with the end of the previous consolidated fiscal year to finish at ¥48,310 million. This was the result of a decrease of ¥6,545 million in capital surplus, an increase of ¥10,847 million in retained earnings, an increase of ¥3,389 million in translation adjustments and an increase of ¥1,561 million as an adjustment related to re-measurements of defined benefit plans. Finally, the equity ratio at the end of the current consolidated fiscal year stood at 29.6%, an increase of 3.2% points from the end of the previous consolidated fiscal year.

Cash Flows

Net cash provided by the operating activities of Sanken, including increases in income before income taxes and minority interests and notes and accounts payable-trade, totaled ¥10,658 million, an increase of ¥4,319 million compared with the previous period. Net cash used in investing activities was ¥11,176 million, an increase of ¥4,786 million compared with the previous consolidated fiscal year, which reflected, among other changes an increase in funds used for purchases of property, plant and equipment. Net cash provided by financing activities was ¥2,714 million, ¥1,420 million higher than in the previous consolidated fiscal year, mainly reflecting increases in proceeds from short-term loans payable and issuance of commercial paper. As a result, the balance of interest-bearing debt at the end of the current consolidated fiscal year under review rose by ¥5,875 million compared with the end of the previous consolidated fiscal year to ¥80,575 million, bringing the ratio of interest-bearing debt to total assets to 48.9%. As a result of the above, the balance of cash and cash equivalents at the end of the current consolidated fiscal year under review totaled ¥14,820 million, an increase of ¥2,784 million compared with the end of the previous consolidated fiscal year.

Capital Expenditures

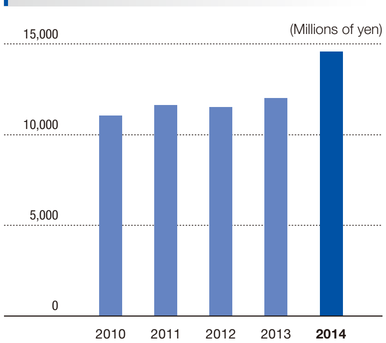
Sanken's capital expenditures during the current fiscal year totaled ¥10,492 million and primarily consisted of purchases of production, testing and research equipment.

In the semiconductor business, Sanken Electric made capital expenditures of ¥503 million for production, testing and research equipment, and consolidated subsidiaries including Ishikawa Sanken Co., Ltd., Yamagata Sanken Co., Ltd., Fukushima Sanken Co., Ltd., Dalian Sanken Electric Co., Ltd., Allegro MicroSystems, Inc. and Polar Semiconductor, Inc. made capital expenditures of ¥9,302 million to enhance production testing and research equipment.

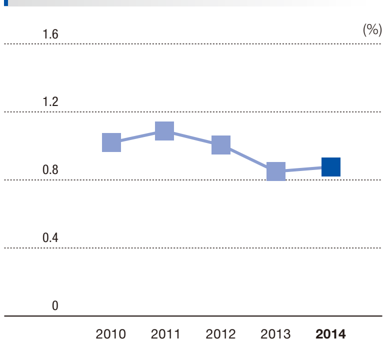
In the PM business, Sanken Electric made capital expenditures of ¥23 million for items such as product molds, and consolidated subsidiaries including P.T. Sanken Indonesia made capital expenditures of ¥417 million for production equipment and purchases of materials.

In the PS business, Sanken Electric made capital expen-

R&D Expenses
Years ended March 31



Asset Turnover
Years ended March 31



ditures of ¥44 million for purchases of items such as product molds, and consolidated subsidiaries including Sanken L.D. Electric (Jiang Yin) Co., Ltd. made capital expenditures of ¥61 million including purchases of production equipment.

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

BUSINESS RISKS

Management has identified the following issues as posing potential risks to the Company's business performance and financial condition. Concerning risks to business strategy, forecasts regarding the future presented here are judgments made as of the end of the consolidated fiscal year under review (March 31, 2014). It is important to keep in mind that actual outcomes may deviate considerably from these forecasts due to inherent uncertainties.

Strategy risk

New product development

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

Price competition

Price competition in the electronics industry is escalating. The emergence of competitors using production bases in Southeast Asia, and particularly China, has had a major impact on the determination of prices for the Company's products. While price competition is expected to continue escalating, the Company is responding by working to further reduce its cost of goods sold and to introduce high-value-added products that leverage its inherent technologies. However, the Company's profitability, earnings, and financial condition could suffer due to the emergence of products made by companies with a greater ability to respond to price reductions or to changes in demand by its customers.

Fund procurement

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

Intellectual property

The Company takes steps to differentiate its products from those of competitors by using proprietary technologies and know-how. Although the Company files and registers intellectual property rights as necessary to protect these technologies, such protections are inadequate in some nations and regions. As such, in some cases it may be impossible to effectively prohibit third parties from manufacturing analogous products that use the Company's intellectual property. Should a third party gain intellectual property rights related to the Company's business or possess such intellectual property rights without the Company's knowledge, the Company may be requested to pay royalties, prohibited from using the applicable intellectual property rights, or have a lawsuit brought against it by a third party asserting infringement of intellectual property rights. Such actions could give rise to an increase in costs and may limit the development and sales of products.

External risk

Economic environment

In addition to Japan, the Company produces products in several other nations and regions, including Asia, North America, and Europe. Overseas production value accounted for 44.0% of consolidated production value for the year ended March 31, 2012, 45.4% for the year ended March 31, 2013 and 50.5% for the year ended March 31, 2014. Overseas sales on a consolidated basis as a proportion of total sales were 53.0% for the year ended March 31, 2012, 52.1% for the year ended March 31, 2013 and 56.0% for the year ended March 31, 2014 respectively. As a consequence, the Company's earnings and financial condition could be adversely affected by changes in the operating environment, including economic trends, in the relevant areas.

Exchange rates

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

Exports as a share of the Company's sales were 34.1% for the year ended March 31, 2012, 33.9% for the year ended March 31, 2013 and 36.8% for the year ended March 31, 2014. Of these exports, the proportion denominated in foreign currencies were 90.4% for the year ended March 31, 2012, 89.9% for the year ended March 31, 2013 and 91.2% for the year ended March 31, 2014. To manage the exchange risk associated with transactions, the Company engages in risk hedging, including through the hedging of the balances of payables, receivables, and turnover, by expanding overseas procurement of products and raw materials and through the use of forward currency contracts. By doing so, the Company aims to minimize the impact of short-term fluctuations in the exchange rates of major currencies, including the U.S. dollar and the Japanese yen.

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

Internal risk

Legal restraints

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

Quality issues

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

Environmental problems

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

In addition to the risks described above, there is a possibility that demand for the Company's products will decrease because of a sudden change in the trend of electronics products, technologies used in the Company's products or in the market environment. Furthermore, in addition to a sharp increase in the cost of raw materials and the possible occurrence of a calamity such as natural disaster or fire at a production plant or materials supplier or damage to social or telecommunications infrastructure, there may be unforeseeable country risks such as a war, terrorist attack, epidemic of infectious disease, or significant changes to laws or the taxation system in a particular country or region.

Alternatively, there is the risk of legal action or the obligation to make compensation payments that could arise from a product defect causing the loss of life or impacting society, the environment, or business activities. Other risks include potential changes to the compulsory corporate contribution to retirement benefits and the increasing risk of improper or illegal use of company information, including personal information, as the use of information systems expand.

If any one or more of these potential risks occurs, and such an occurrence results in a lowering of public trust, suspension of business operations, or significant financial loss, there could be a detrimental impact on business performance.

Consolidated Balance Sheets

Sanken Electric Co., Ltd. and Consolidated Subsidiaries

Assets	2014	2013	2014
	As of March 31,		
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Current assets:			
Cash and deposits (Notes 4 and 6)	¥ 14,943	¥ 12,079	$ 145,205
Notes and accounts receivable (Notes 5 and 6):			
Trade and other	36,777	33,809	357,376
Less allowance for doubtful receivables	(61)	(61)	(594)
	36,716	33,747	356,781
Inventories (Note 9)	46,110	43,967	448,070
Deferred tax assets (Note 18)	1,614	1,210	15,685
Other current assets	1,379	1,073	13,409
Total current assets	100,764	92,077	979,151
Investments and long-term receivables:			
Investments in other securities (Notes 6 and 7)	2,265	1,769	22,012
Deferred tax assets (Note 18)	888	196	8,629
Other long-term receivables	2,493	2,079	24,225
Less allowance for doubtful receivables	(242)	(242)	(2,351)
Total investments and long-term receivables	5,404	3,803	52,515
Property, plant and equipment, at cost (Note 10):			
Land	5,183	4,921	50,370
Buildings	59,958	56,794	582,632
Machinery and equipment	117,644	109,671	1,143,177
Construction in progress	5,699	5,758	55,383
	188,486	177,146	1,831,564
Less accumulated depreciation and impairment losses	(133,510)	(126,201)	(1,297,355)
Property, plant and equipment, net	54,975	50,945	534,209
Other assets (Note 10)	3,618	1,691	35,162
Total assets	¥ 164,762	¥ 148,517	$ 1,601,039

Liabilities and net assets	2014 (Millions of yen)	2013 (Millions of yen)	2014 (Thousands of U.S. dollars) (Note 3)
	As of March 31,		
Current liabilities:			
Short-term bank loans (Notes 6 and 10)	¥ 19,530	¥ 14,805	$ 189,786
Current portion of long-term debt (Notes 6 and 10)	7,500	20,000	72,879
Commercial paper (Note 6)	15,000	13,000	145,758
Notes and accounts payable (Note 6):			
Trade and other	18,311	16,199	177,937
Construction	33	36	327
	18,345	16,235	178,264
Accrued expenses	8,532	8,818	82,913
Lease obligations	1,248	1,238	12,136
Income taxes payable	157	526	1,527
Deferred tax liabilities (Note 18)	1	0	16
Other current liabilities	1,060	2,323	10,300
Total current liabilities	71,376	76,948	693,584
Long-term liabilities:			
Long-term debt (Notes 6 and 10)	35,000	22,500	340,103
Lease obligations	2,296	3,157	22,311
Accrued retirement benefits for directors	18	20	183
Asset retirement obligations	60	60	585
Liability for retirement benefits (Note 17)	3,087	5,128	30,003
Deferred tax liabilities (Note 18)	1,951	868	18,959
Other long-term liabilities	1,863	397	18,105
Total long-term liabilities	44,277	32,132	430,252
Net assets (Note 19):			
Shareholders' equity:			
Common stock:			
Authorized – 257,000,000 shares			
Issued and outstanding: 2014 – 125,490,302 shares	20,896	—	203,058
2013 – 125,490,302 shares	—	20,896	—
Capital surplus	11,028	17,573	107,170
Retained earnings	20,340	9,493	197,648
Less treasury stock, at cost: 4,223,339 shares in 2014 and 4,177,195 shares in 2013	(3,954)	(3,926)	(38,429)
Total shareholders' equity (Note 23)	48,310	44,037	469,448
Accumulated other comprehensive income:			
Net unrealized gain on securities	461	141	4,486
Translation adjustments	(1,615)	(5,004)	(15,696)
Retirement benefit liability adjustments	1,561	—	15,171
Total accumulated other comprehensive income (loss)	407	(4,862)	3,961
Minority interests	390	262	3,791
Total net assets	49,108	39,436	477,201
Total liabilities and net assets	¥ 164,762	¥ 148,517	$ 1,601,039

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 year ended March 31,		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales	¥ 144,467	¥ 126,386	$ 1,403,823
Cost of sales (Notes 17, 20 and 22)	108,656	98,211	1,055,843
Gross profit	35,810	28,174	347,980
Selling, general and administrative expenses (Notes 12, 17, 20 and 22)	28,033	23,549	272,406
Operating income	7,777	4,625	75,574
Other income (expenses):			
Interest expense	(784)	(695)	(7,618)
Interest and dividend income	39	35	386
Foreign exchange gain	161	277	1,567
Depreciation on idle assets	—	(248)	—
Gain on sales of fixed assets (Note 13)	0	242	2
Impairment loss on fixed assets (Note 14)	—	(88)	—
Impairment loss on other securities (Note 7)	—	(47)	—
Loss on termination of business (Note 15)	(2,079)	—	(20,205)
Other, net	353	(1)	3,431
	(2,308)	(526)	(22,435)
Income before income taxes and minority interests	5,468	4,099	53,138
Income taxes (Note 18):			
Current	415	2,133	4,040
Deferred	1	(272)	13
Income before minority interests	5,051	2,238	49,085
Minority interests in income (loss)	21	(34)	212
Net income (Note 23)	¥ 5,029	¥ 2,272	$ 48,872

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

Consolidated Statements of Comprehensive Income

Sanken Electric Co., Ltd. and Consolidated Subsidiaries

	For the year ended March 31,					
	2014		2013		2014	
	(Millions of yen)				(Thousands of U.S. dollars) (Note 3)	
Income before minority interests	¥	5,051	¥	2,238	$	49,085
Other comprehensive income:						
Net unrealized gain on securities		320		125		3,114
Translation adjustments		3,443		4,514		33,461
Total other comprehensive income		3,764		4,640		36,575
Comprehensive income (Note 16)	¥	8,815	¥	6,878	$	85,660
Breakdown:						
Comprehensive income attributable to shareholders of the Sanken Electric Co., Ltd.	¥	8,738	¥	6,879	$	84,917
Comprehensive income (loss) attributable to minority interests		76		(1)		743

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 year ended March 31, 2014				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at April 1, 2013	¥ 20,896	¥ 17,573	¥ 9,493	¥ (3,926)	¥ 44,037
Deficit disposition	—	(5,816)	5,816	—	—
Cash dividends paid (other capital surplus)	—	(727)	—	—	(727)
Net income	—	—	5,029	—	5,029
Acquisition of treasury stock	—	—	—	(27)	(27)
Disposition of treasury stock	—	(0)	—	0	0
Net changes in items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2014	¥ 20,896	¥ 11,028	¥ 20,340	¥ (3,954)	¥ 48,310

	For the year ended March 31, 2014					
	Accumulated other comprehensive income					
	Net unrealized holding gain on securities	Foreign currency translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
	(Millions of yen)					
Balance at April 1, 2013	¥ 141	¥ (5,004)	¥ —	¥ (4,862)	¥ 262	¥ 39,436
Deficit disposition	—	—	—	—	—	—
Cash dividends paid (other capital surplus)	—	—	—	—	—	(727)
Net income	—	—	—	—	—	5,029
Acquisition of treasury stock	—	—	—	—	—	(27)
Disposition of treasury stock	—	—	—	—	—	0
Net changes in items other than shareholders' equity	320	3,388	1,561	5,270	128	5,398
Balance at March 31, 2014	¥ 461	¥ (1,615)	¥ 1,561	¥ 407	¥ 390	¥ 49,108

	For the year ended March 31, 2014				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Thousands of U.S. dollars) (Note 3)				
Balance at April 1, 2013	$ 203,058	$ 170,767	$ 92,251	$ (38,158)	$ 427,918
Deficit disposition	—	(56,524)	56,524	—	—
Cash dividends paid (other capital surplus)	—	(7,072)	—	—	(7,072)
Net income	—	—	48,872	—	48,872
Acquisition of treasury stock	—	—	—	(271)	(271)
Disposition of treasury stock	—	(0)	—	1	1
Net changes in items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2014	$ 203,058	$ 107,171	$ 197,647	$ (38,428)	$ 469,448

	For the year ended March 31, 2014					
	Accumulated other comprehensive income					
	Net unrealized holding gain on securities	Foreign currency translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
	(Thousands of U.S. dollars) (Note 3)					
Balance at April 1, 2013	**$ 1,372**	**$ (48,626)**	**$ —**	**$ (47,254)**	**$ 2,546**	**$ 383,210**
Deficit disposition	**—**	**—**	**—**	**—**	**—**	**—**
Cash dividends paid (other capital surplus)	**—**	**—**	**—**	**—**	**—**	**(7,072)**
Net income	**—**	**—**	**—**	**—**	**—**	**48,872**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**—**	**(271)**
Disposition of treasury stock	**—**	**—**	**—**	**—**	**—**	**1**
Net changes in items other than shareholders' equity	**3,114**	**32,930**	**15,171**	**51,215**	**1,245**	**52,460**
Balance at March 31, 2014	**$ 4,486**	**$ (15,696)**	**$ 15,171**	**$ 3,961**	**$ 3,791**	**$ 477,200**

	For the year ended March 31, 2014				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at April 1, 2012	¥ 20,896	¥ 18,302	¥ 7,220	¥ (3,922)	¥ 42,497
Cash dividends paid (other capital surplus)	—	(727)	—	—	(727)
Net income	—	—	2,272	—	2,272
Acquisition of treasury stock	—	—	—	(6)	(6)
Disposition of treasury stock	—	(1)	—	1	0
Net changes in items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2013	¥ 20,896	¥ 17,573	¥ 9,493	¥ (3,926)	¥ 44,037

	For the year ended March 31, 2013				
	Accumulated other comprehensive income				
	Net unrealized holding gain (loss) on securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
	(Millions of yen)				
Balance at April 1, 2012	¥ 15	¥ (9,485)	¥ (9,469)	¥ 265	¥ 33,293
Cash dividends paid (other capital surplus)	—	—	—	—	(727)
Net income	—	—	—	—	2,272
Acquisition of treasury stock	—	—	—	—	(6)
Disposition of treasury stock	—	—	—	—	0
Net changes in items other than shareholders' equity	125	4,481	4,606	(3)	4,603
Balance at March 31, 2013	¥ 141	¥ (5,004)	¥ (4,862)	¥ 262	¥ 39,436

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

Consolidated Statements of Cash Flows

Sanken Electric Co., Ltd. and Consolidated Subsidiaries

	For the year ended March 31,		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Operating activities			
Income before income taxes and minority interests	¥ 5,468	¥ 4,099	$ 53,138
Depreciation and amortization	8,432	7,151	81,937
Impairment losses	—	88	—
Decrease in allowance for doubtful receivables	(6)	(13)	(59)
Increase (decrease) in provision for retirement benefits for employees	(543)	985	(5,285)
Interest and dividend income	(39)	(35)	(386)
Interest expense	784	695	7,618
Increase in notes and accounts receivable	(870)	(652)	(8,456)
Increase in inventories	(483)	(1,406)	(4,699)
Decrease in notes and accounts payable	1,056	(3,445)	10,262
Other	(1,547)	1,788	(15,041)
Subtotal	12,248	9,254	119,026
Interest and dividends received	41	36	402
Interest paid	(716)	(673)	(6,967)
Income taxes paid	(914)	(2,279)	(8,888)
Net cash provided by operating activities	10,658	6,339	103,573
Investing activities			
Purchases of property, plant and equipment	(10,052)	(5,921)	(97,680)
Proceeds from sales of property, plant and equipment	88	200	859
Purchases of intangible assets	(889)	(807)	(8,643)
Increase in loans receivable	(8)	(13)	(82)
Proceeds from loans receivable	14	23	137
Other	(328)	127	(3,196)
Net cash used in investing activities	(11,176)	(6,390)	(108,605)
Financing activities			
Increase (decrease) in short-term bank loans	2,802	(5,159)	27,227
Increase (decrease) in commercial paper	2,000	(1,500)	19,434
Proceeds from issuance of long-term debt	—	5,000	—
Repayment of long-term debt	—	(5,032)	—
Proceeds from issuance of corporate bonds	19,908	9,898	193,459
Redemption of corporate bonds	(20,000)	—	(194,344)
Repayment of finance lease obligations	(1,290)	(1,181)	(12,541)
Proceeds from sales of treasury stock	48	0	474
Purchase of treasury stock	(27)	(6)	(270)
Cash dividends paid	(726)	(725)	(7,058)
Net cash provided by financing activities	2,714	1,294	26,379
Effect of exchange rate changes on cash and cash equivalents	586	969	5,703
Net increase in cash and cash equivalents	2,783	2,213	27,050
Cash and cash equivalents at beginning of the year	12,036	9,822	116,962
Cash and cash equivalents at end of the year (Note 4)	¥ 14,820	¥ 12,036	$ 144,013

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

Notes to Consolidated Financial Statements

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
March 31, 2014

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

The accompanying consolidated financial statements for the year ended March 31, 2014 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.

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

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, 2014, the number of consolidated subsidiaries was 30 (30 in 2013). Three subsidiaries are consolidated by using their financial statements as of their respective fiscal year end, i.e., December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31. Significant intercompany transactions and account balances have been eliminated in consolidation. Generally, the differences, if significant in amounts, between the cost and the equity in the underlying net assets at fair value of consolidated subsidiaries at the date acquired are capitalized in the year of acquisition and amortized principally over a five-year period.

(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 the lower of cost and net realizable value. Cost is determined principally by the first-in, first-out method.

(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 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) Employees' Retirement Benefits

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

The retirement benefit obligation for employees is attributed to each period based on the accumulated points allocated to employees each period according to their job classification and their performance.

Accrued retirement benefits for employees have been provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

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 18 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 10 through 18 years) which are shorter than the average remaining years of service of the employees.

(i) 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.

The retirement benefits system for directors and corporate auditors of the Company was abolished in June 23, 2006.

(j) 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 minority interests as components of net assets in its consolidated financial statements.

(k) Derivatives

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

(l) 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.

(m) Consumption Taxes

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

(n) Consolidated Taxation System

The Company and its domestic consolidated subsidiaries have applied the consolidated taxation system from the fiscal year ended March 31, 2012.

2. Accounting Changes

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) effective the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as liability for retirement benefits. In addition, unrecognized actuarial gain or loss and unrecognized prior service costs are recorded as liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the year ended March 31, 2014 have been recorded in retirement benefit liability adjustments through accumulated other comprehensive income. As a result of this change, liability for retirement benefits was recognized in the amount of ¥3,087 million ($30,003 thousand) and accumulated other comprehensive income increased ¥1,561 million ($15,171 thousand) as of March 31, 2014. In addition, net assets per share increased by ¥12.87 ($0.12).

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥102.91 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2014. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and deposits with cash and cash equivalents as of March 31, 2014 and 2013:

	As of March 31,		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and deposits	¥ 14,943	¥ 12,079	$ 145,205
Restricted cash	(122)	(42)	(1,192)
Cash and cash equivalents	¥ 14,820	¥ 12,036	$ 144,013

The following table represents significant non-cash transactions as of March 31, 2014 and 2013:

	As of March 31,		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
The values of assets and obligations relating to finance lease transactions	¥ 373	¥ 1,274	$ 3,628

5. Notes and Accounts Receivable

The retroactively adjusted liability upon transfer of export receivables was ¥317 million ($3,089 thousand) and ¥183 million at March 31, 2014 and 2013, respectively.

6. 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 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 risk. 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, 2014 and 2013 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)

	As of March 31, 2014					
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
Assets						
(1) Cash and deposits	¥ 14,943	¥ 14,943	¥ —	$ 145,205	$ 145,205	$ —
(2) Notes and accounts receivable-trade	33,986	33,986	—	330,254	330,254	—
(3) Investment securities Other securities	2,171	2,171	—	21,102	21,102	—
Total	¥ 51,101	¥ 51,101	¥ —	$ 496,562	$ 496,562	$ —
Liabilities						
(1) Notes and accounts payable-trade	¥ 18,345	¥ 18,345	¥ —	$ 178,264	$ 178,264	$ —
(2) Short-term bank loans and current portion of long-term debt	27,030	27,030	—	262,665	262,665	—
(3) Commercial paper	15,000	15,000	—	145,758	145,758	—
(4) Bonds	30,000	30,306	(306)	291,516	294,493	(2,976)
(5) Long-term debt (except for bonds)	5,000	5,008	(8)	48,586	48,672	(86)
(6) Lease obligations	3,545	3,486	58	34,448	33,881	566
Total	¥ 98,921	¥ 99,178	¥ (256)	$ 961,239	$ 963,736	$ (2,496)
Derivative transactions (*)	¥ (246)	¥ (246)	¥ —	$ (2,397)	$ (2,397)	$ —

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

	As of March 31, 2013		
	Carrying amount	Fair value	Difference
		(Millions of yen)	
Assets			
(1) Cash and deposits	¥ 12,079	¥ 12,079	¥ —
(2) Notes and accounts receivable-trade	31,945	31,945	—
(3) Investment securities Other securities	1,675	1,675	—
Total	¥ 45,700	¥ 45,700	¥ —
Liabilities			
(1) Notes and accounts payable-trade	¥ 16,235	¥ 16,235	¥ —
(2) Short-term bank loans and current portion of long-term debt	14,805	14,805	—
(3) Commercial paper	13,000	13,000	—
(4) Bonds	30,000	30,036	(36)
(5) Long-term debt (except for bonds)	12,500	12,506	(6)
(6) Lease obligations	4,395	4,289	106
Total	¥ 90,936	¥ 90,873	¥ 62
Derivative transactions (*)	¥ (1,190)	¥ (1,190)	¥ —

(*) 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 7. 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 on floating interest rates is nearly equal to the carrying value as market rate is reflected in a short period. The fair value of long-term debt on 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 contract.

Derivative transactions

Contract amounts and estimated fair value are described in "Note 8. Derivatives"

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

	As of March 31,		
	2014 Carrying amount	2013 Carrying amount	**2014** Carrying amount
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities and others	**¥ 93**	¥ 93	**$ 909**

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, 2014			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
	(Millions of yen)			
Cash and deposits	**¥ 14,943**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable-trade	**33,986**	**—**	**—**	**—**
Investment securities				
Other securities with maturities	**10**	**—**	**—**	**—**
Total	**¥ 48,939**	**¥ —**	**¥ —**	**¥ —**

	As of March 31, 2014			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
	(Thousands of U.S. dollars)			
Cash and deposits	**$ 145,205**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable-trade	**330,254**	**—**	**—**	**—**
Investment securities				
Other securities with maturities	**97**	**—**	**—**	**—**
Total	**$ 475,557**	**$ —**	**$ —**	**$ —**

	As of March 31, 2013			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
	(Millions of yen)			
Cash and deposits	¥ 12,079	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	31,945	—	—	—
Investment securities				
Other securities with maturities	—	10	—	—
Total	¥ 44,025	¥ 10	¥ —	¥ —

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

	As of March 31, 2014					
	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
	(Millions of yen)					
Short-term bank loans	**¥ 27,030**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Commercial paper	**15,000**	**—**	**—**	**—**	**—**	**—**
Bonds	**—**	**4,100**	**25,900**	**—**	**—**	**—**
Long-term debt (except for bonds)	**—**	**5,000**	**—**	**—**	**—**	**—**
Lease obligations	**1,248**	**1,203**	**906**	**168**	**15**	**1**
Total	**¥ 43,279**	**¥ 10,303**	**¥ 26,806**	**¥ 168**	**¥ 15**	**¥ 1**

	As of March 31, 2014					
	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
	(Thousands of U.S. dollars)					
Short-term bank loans	**$262,665**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Commercial paper	**145,758**	**—**	**—**	**—**	**—**	**—**
Bonds	**—**	**39,840**	**251,676**	**—**	**—**	**—**
Long-term debt (except for bonds)	**—**	**48,586**	**—**	**—**	**—**	**—**
Lease obligations	**12,136**	**11,697**	**8,812**	**1,641**	**149**	**9**
Total	**$420,560**	**$100,124**	**$260,489**	**$ 1,641**	**$ 149**	**$ 9**

	As of March 31, 2013					
	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
	(Millions of yen)					
Short-term bank loans	¥ 14,805	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	13,000	—	—	—	—	—
Bonds	20,000	—	4,100	5,900	—	—
Long-term debt (except for bonds)	—	7,500	5,000	—	—	—
Lease obligations	1,238	1,151	1,094	801	109	0
Total	¥ 49,043	¥ 8,651	¥ 10,194	¥ 6,701	¥ 109	¥ 0

7. Securities

(1) Other securities

Marketable securities classified as other securities at March 31, 2014 and 2013 are summarized as follows:

	As of March 31, 2014					
	Carrying amount	Acquisition cost	Net unrealized gain (loss)	Carrying amount	Acquisition cost	Net unrealized gain (loss)
	(Millions of yen)			(Thousands of U.S. dollars)		
Securities whose carrying amount exceeds their acquisition cost:						
Equity securities	¥ 2,171	¥ 1,457	¥ 714	$ 21,102	$ 14,158	$ 6,943
Securities whose acquisition cost exceeds their carrying amount:						
Equity securities	—	—	—	—	—	—
	¥ 2,171	¥ 1,457	¥ 714	$ 21,102	$ 14,158	$ 6,943

	As of March 31, 2013		
	Carrying amount	Acquisition cost	Net unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥ 1,017	¥ 705	¥ 312
Securities whose acquisition cost exceeds their carrying amount:			
Equity securities	658	751	(93)
	¥ 1,675	¥ 1,457	¥ 218

(2) Impairment of other securities

Impairment losses on securities classified as other securities for the year ended March 31, 2013 amounted to ¥47 million.

8. Derivatives

Summarized below are the contract amounts and estimated fair value of the Company's open derivatives positions at March 31, 2014 and 2013, for which deferral hedge accounting has not been applied:

	2014		2013		2014	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
	(Millions of yen)				(Thousands of U.S. dollars)	
Forward foreign exchange contracts:						
Sell U.S. dollars	¥ 11,786	¥ (246)	¥ 8,867	¥ (1,190)	$ 114,528	$ (2,397)

9. Inventories

Inventories at March 31, 2014 and 2013 were as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	¥ 13,760	¥ 11,735	$ 133,715
Work in process	20,885	21,090	202,950
Raw materials and supplies	11,464	11,140	111,404
	¥ 46,110	¥ 43,967	$ 448,070

The book values of inventories were written down to reflect the decline in profitability by ¥190 million ($1,848 thousand) for the year ended March 31, 2014 and ¥570 million for the year ended March 31, 2013. The inventory write-downs were included in "Cost of sales."

10. Short-Term Borrowings and Long-Term Debt

Short-term bank loans generally represent notes and overdraft. The related weighted average interest rates at March 31, 2014 and 2013 were approximately 0.78% and 0.92%, respectively. The weighted average interest rate applicable to the current portion of long-term debt (excluding lease obligations) was approximately 0.67% at March 31, 2014. The weighted average interest rates applicable to commercial paper at March 31, 2014 and 2013 were approximately 0.30% and 0.29%, respectively. The weighted average interest rates applicable to current portion of lease obligations at March 31, 2014 and 2013 were approximately 1.89% and 1.85%, respectively.

Long-term debt at March 31, 2014 and 2013 is summarized as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Loans payable in yen with a weighted average rate of 0.96% at March 31, 2014 and 0.99% at March 31, 2013	¥ 12,500	¥ 12,500	$ 121,465
1.66% bonds due 2013	—	20,000	—
1.80% bonds due 2015	4,100	4,100	39,840
0.60% bonds due 2017	5,900	5,900	57,331
1.81% bonds due 2016	10,000	—	97,172
1.10% bonds due 2016	10,000	—	97,172
Lease obligations with a weighted average rate of 1.87% at March 31, 2014 and 1.82% at March 31, 2013	3,545	4,395	34,448
	46,045	46,895	447,430
Less current portion	(8,748)	(1,238)	(85,015)
	¥ 37,296	¥ 45,657	$ 362,414

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. Under certain loan agreements relating to long-term debt, the creditors may require the Company to submit proposals for appropriations of retained earnings (including the payment of dividends) for the creditors' review and approval prior to their presentation to the shareholders. None of the creditors has ever exercised these rights.

At March 31, 2014 and 2013, the assets pledged as collateral for short-term bank loans and long-term debts were as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Land	¥ 638	¥ 638	$ 6,202
Buildings	2,599	2,672	25,264
Other assets	9	8	94
	¥ 3,247	¥ 3,318	$ 31,561

At March 31, 2014 and 2013, short-term bank loans and long-term debt secured by collateral were as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term bank loans and current portion of long-term debt	¥ 86	¥ 69	$ 843
Long-term debt	5,000	5,000	48,586
	¥ 5,086	¥ 5,069	$ 49,429

11. 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, 2014 and 2013 are summarized as follows:

	2014	2012	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Total committed lines of credit and overdraft	¥ 39,948	¥ 37,521	$ 388,185
Outstanding balance	11,264	7,169	109,455
Remaining balance	¥ 28,684	¥ 30,351	$ 278,730

12. Selling, General and Administrative Expenses

The principal components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are summarized as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and bonuses	¥ 11,456	¥ 9,453	$ 111,325
Packing and shipping expenses	718	638	6,978
Outside services	2,514	1,593	24,432
Retirement benefit expenses	248	594	2,414
Provision for doubtful receivables	2	5	23
Provision for directors' retirement benefits	6	5	64

13. Gain on Sales of Fixed Assets

Gain on sales of fixed assets for the years ended March 31, 2014 and 2013 primarily resulted from the sales of machinery and equipment in the amounts of ¥0 million ($2 thousand) and ¥242 million, respectively.

14. Impairment Loss on Fixed Assets

Fixed assets are grouped by business segments with idle properties along with individual properties constituting a separate group.

Impairment losses were recognized on the following asset group for the year ended March 31, 2013.

Use	Location	Asset category
PM products manufacturing facilities, and others	P.T. Sanken Indonesia (Bekasi, West Java, Indonesia), and others	Machinery and equipment, and others

The PM business recognized net operating loss for the year ended March 31, 2013 due to a steady decline in sales of consumer products such as TVs, and future cash flows from this business segment cannot be expected. As a result, the PM business recognized impairment losses of ¥88 million on those assets by devaluing their carrying amounts to the recoverable amounts, which are their net selling prices.

15. Loss on Termination of Business

Loss on termination of business for the year ended March 31, 2014 relates to the decision to discontinue the CCFL business, and mainly consists of the inventory write-downs.

16. Reclassification Adjustments and Tax Effect Relating to Other Comprehensive Income

Reclassification adjustments and tax effect relating to other comprehensive income for the years ended March 31, 2014 and 2013 are summarized as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Net unrealized gain on securities			
Change during the year	¥ 495	¥ 147	$ 4,818
Reclassification adjustments	—	47	—
Amount before tax effect	495	194	4,818
Tax effect	(175)	(68)	(1,704)
Net unrealized gain on securities	¥ 320	¥ 125	$ 3,114
Translation adjustments			
Change during the year	¥ 3,443	¥ 4,514	$ 33,461
Translation adjustments	¥ 3,443	¥ 4,514	$ 33,461
Total other comprehensive income	¥ 3,764	¥ 4,640	$ 36,575

17. Retirement Benefit Plans

For the year ended March 31, 2014

The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows (excluding plans for which the simplified method is applied):

	2014	2014
	(Millions of yen)	(Thousands of U.S. dollars)
Retirement benefit obligation at April 1, 2013	¥ 26,249	$ 255,075
Service cost	1,268	12,323
Interest cost	436	4,237
Actuarial loss	175	1,708
Retirement benefit paid	(1,339)	(13,018)
Other	(0)	(0)
Retirement benefit obligation at March 31, 2014	¥ 26,790	$ 260,324

The changes in plan assets during the year ended March 31, 2014 are as follows (excluding plans for which the simplified method is applied):

	2014	2014
	(Millions of yen)	(Thousands of U.S. dollars)
Plan assets at April 1, 2013	¥ 21,434	$ 208,287
Expected return on plan assets	702	6,824
Actuarial gain	1,515	14,731
Contributions by the Company	1,453	14,125
Retirement benefit paid	(1,329)	(12,915)
Other	(2)	(25)
Plan assets at March 31, 2014	¥ 23,775	$ 231,027

The changes in the retirement benefit obligation calculated by the simplified method during the year ended March 31, 2014 are as follows:

	2014	2014
	(Millions of yen)	(Thousands of U.S. dollars)
Retirement benefit obligation at April 1, 2013	¥ 56	$ 545
Service cost	14	141
Retirement benefit paid	(5)	(57)
Other	7	76
Retirement benefit obligation at March 31, 2014	¥ 72	$ 705

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheet at March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2014	2014
	(Millions of yen)	(Thousands of U.S. dollars)
Retirement benefit obligation	¥ 26,423	$ 256,767
Plan assets at fair value	(23,775)	(231,027)
	2,648	25,740
Unfunded retirement benefit obligation	438	4,210
Net liability for retirement benefits in the balance sheet	¥ 3,087	$ 30,003
Liability for retirement benefits	3,087	30,003
Net liability for retirement benefits in the balance sheet	¥ 3,087	$ 30,003

The components of retirement benefit expense for the years ended March 31, 2014 are outlined as follows:

	2014	2014
	(Millions of yen)	(Thousands of U.S. dollars)
Service cost	¥ 1,268	$ 12,323
Interest cost	436	4,237
Expected return on plan assets	(702)	(6,824)
Amortization of actuarial loss	362	3,522
Amortization of prior service cost	(435)	(4,229)
Retirement benefit expenses calculated using simplified method	14	141
Retirement benefit expense for defined benefit plans	¥ 943	$ 9,172

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are outlined as follows:

	2014	2014
	(Millions of yen)	(Thousands of U.S. dollars)
Unrecognized prior service cost	¥ (2,409)	$ (23,410)
Unrecognized actuarial loss	860	8,364
Total	¥ (1,548)	$ (15,046)

The fair values of plan assets, by major categories, as percentages of total plan assets as of March 31, 2014 are as follows:

	2014
Bonds	**34%**
Stocks	**38%**
General accounts of life insurance	**10%**
Other	**18%**
Total	**100%**

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:

	2014
Discount rate	**1.7%**
Expected rate of return on plan assets	**3.2%**

For the year ended March 31, 2014, contributions to the defined contribution pension plan and the advance payment plan, which are recognized as expenses, totaled ¥578 million ($5,624 thousand).

For the year ended March 31, 2013

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheet at March 31, 2013 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2013
	(Millions of yen)
Retirement benefit obligation	¥ (26,305)
Plan assets at fair value	21,434
Unfunded retirement benefit obligation	(4,871)
Unrecognized actuarial loss	2,584
Unrecognized prior service cost	(2,841)
Net retirement benefit obligation	(5,127)
Prepaid pension cost	0
Accrued retirement benefits	¥ (5,128)

The components of retirement benefit expenses for the year ended March 31, 2013 are outlined as follows:

	2013
	(Millions of yen)
Service cost	¥ 1,519
Interest cost	479
Expected return on plan assets	(57)
Amortization of actuarial loss	969
Amortization of prior service cost	(176)
Total	¥ 2,733

For the year ended March 31, 2013, contributions to the assets of the defined contribution pension plan, which are recognized as expenses, totaled ¥406 million.

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

	2013	
	Domestic companies	Overseas companies
Discount rates	1.5%	4.0% – 6.0%
Expected rates of return on plan assets	0.0%	4.0% – 9.0%

(Additional Information)
The Company and its domestic subsidiaries had applied a discount rate of 1.5% for the year ended March 31, 2013, however, as a result of reconsidering the discount rate at March 31, 2014, certain domestic subsidiary revised discount rate to 1.0% for the year ended March 31, 2013 because the variation in the discount rate associated with lower market interest rates had a significant effect on the amount of projected benefit obligation.

Effective April 1, 2013, the Company and certain domestic subsidiaries changed the content of their funded defined benefit pension plans to cash balance plan. In connection with this change, the Company and these domestic subsidiaries have adopted "Accounting Treatment for Transfer between Retirement Benefit Plans" (ASBJ Guidance No.1 issued on January 31, 2002) and "Practical Solution on Accounting Treatment for Transfer between Retirement Benefit Plans" (ASBJ Practical Issues Task Force (PITF) No.2 issued on March 29, 2002). Consequently, the projected benefit obligation decreased by ¥1,930 million and the same amount of prior service cost was incurred.

18. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 37.8% for the years ended March 31, 2014 and 2013.

The reconciliation between the effective tax rates reflected in the consolidated statements of operations and effective statutory tax rate for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Effective statutory tax rate	37.8%	37.8%
Effect of:		
Non – deductible expenses for income tax purposes	5.8	8.1
Non – taxable dividend income	(13.7)	(14.7)
Inhabitants' per capita taxes	0.6	0.7
Foreign tax rate difference	2.4	30.7
Changes in valuation allowance	(24.4)	(15.6)
Other, net	(0.9)	(1.6)
Effective tax rates	7.6%	45.4%

The "Act for Partial Revision of the Income Tax Act etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the special reconstruction corporate tax effective for fiscal years beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 37.8% to 35.4% for the temporary differences expected to be realized or settled in the fiscal year beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was not material as of and for the year ended March 31, 2014.

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Net operating loss carryforwards	¥ 14,400	¥ 14,842	$ 139,935
Accrued retirement benefits	1,596	1,803	15,513
Inventories	2,938	2,180	28,558
Accrued bonuses	879	666	8,547
Net unrealized holding gain	396	527	3,857
Tax credit carryforwards	686	1,035	6,667
Impairment losses	577	824	5,614
Other	1,155	1,881	11,228
Gross deferred tax assets	22,632	23,760	219,922
Valuation allowance	(19,866)	(21,562)	(193,046)
Total deferred tax assets	2,765	2,198	26,876
Deferred tax liabilities:			
Fixed assets	(1,691)	(1,306)	(16,437)
Reserve for special depreciation	(14)	(28)	(143)
Net unrealized gains on securities	(252)	(77)	(2,456)
Other	(257)	(247)	(2,499)
Total deferred tax liabilities	(2,216)	(1,659)	(21,537)
Net deferred tax assets	¥ 549	¥ 538	$ 5,338

Note: Net deferred tax assets as of March 31, 2014 and 2013 are reflected in the following accounts in the consolidated balance sheet:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Current assets - deferred tax assets	¥ 1,614	¥ 1,210	$ 15,685
Investments and other assets - deferred tax assets	888	196	8,629
Current liabilities - deferred tax liabilities	(1)	(0)	(16)
Long-term liabilities - deferred tax liabilities	(1,951)	(868)	(18,959)

19. 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 Code, companies were 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 equaled 25% of common stock.

Under the Code, 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 Code, 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.

At the annual shareholders' meeting held on June 20, 2014, the shareholders resolved cash dividends amounting to ¥727 million ($7,071 thousand) by using capital surplus. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014 and are recognized in the period in which they are resolved.

At the annual shareholders' meeting held on June 21, 2013, the shareholders resolved cash dividends amounting to ¥727 million by using capital surplus.

20. Research and Development Expenses

Research and development expenses for the years ended March 31, 2014 and 2013 were ¥14,596 million ($141,834 thousand) and ¥12,023 million, respectively.

21. Leases

Future minimum lease payments subsequent to March 31, 2014 and 2013 for noncancellable operating leases are as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Due in 1 year or less	¥ 481	¥ 450	$ 4,678
Due after 1 year	1,706	2,033	16,582
	¥ 2,188	¥ 2,483	$ 21,261

22. 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 has its business units identified by products. Each business unit plans its comprehensive domestic and overseas strategy for its products, and operates its business activities. Therefore, the Company consists of its business units, identified by principal products, which are the four reportable segments of the "Semiconductor Devices Business," the "CCFL Business," the "Power Module Business" and the "Power System Business."

The Semiconductor Devices Business mainly manufactures and sells power ICs, control ICs, Hall-effect ICs, bipolar transistors, MOSFET, IGBT, thyristors, rectifier diodes and light emitting diodes (LEDs). The CCFL Business manufactures and sells cold cathode fluorescent lamps. The Power Module Business mainly manufactures and sells switching mode power supply units and transformers. The Power System Business mainly manufactures and sells uninterruptible power supplies (UPS), inverters, DC power supplies, airway beacon systems and general purpose power supplies.

At a meeting held on March 25, 2014, the Company's Board of Directors resolved to discontinue the operations of the Company's CCFL Business.

b. Calculation methods of the reportable segment sales, income (loss), assets, and other items

The accounting method applied for reportable segments is 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 segments**

	Reportable segments						
	Semiconductor Devices Business	CCFL Business	Power Module Business	Power System Business	Total	Adjustments	Consolidated
				(Millions of yen)			
As of and for the year ended March 31, 2014							
Sales:							
(1) Sales to customers	¥ 111,937	¥ 144	¥ 15,791	¥ 16,593	¥ 144,467	¥ —	¥ 144,467
(2) Intersegment sales and transfers	1,419	—	677	5	2,102	(2,102)	—
Total sales	113,357	144	16,468	16,598	146,569	(2,102)	144,467
Segment income (loss)	¥ 10,716	¥ (720)	¥ (1,251)	¥ 1,148	¥ 9,893	¥ (2,116)	¥ 7,777
Segment assets	¥ 121,977	¥ 368	¥ 16,478	¥ 11,331	¥ 150,156	¥ 14,606	¥ 164,762
Others:							
Depreciation and amortization	7,868	72	56	118	8,115	316	8,432
Increase in property, plant, equipment and intangible assets	10,354	1	224	160	10,741	1,760	12,501
				(Thousands of U.S. dollars)			
As of and for the year ended March 31, 2014							
Sales:							
(1) Sales to customers	$ 1,087,726	$ 1,407	$ 153,446	$ 161,243	$ 1,403,823	$ —	$ 1,403,823
(2) Intersegment sales and transfers	13,795	—	6,583	50	20,429	(20,429)	—
Total sales	1,101,522	1,407	160,029	161,294	1,424,253	(20,429)	1,403,823
Segment income (loss)	$ 104,135	$ (6,999)	$ (12,156)	$ 11,162	$ 96,141	$ (20,567)	$ 75,574
Segment assets	$ 1,185,284	$ 3,583	$ 160,029	$ 110,109	$ 1,459,105	$ 141,933	$ 1,601,039
Others:							
Depreciation and amortization	76,456	701	550	1,150	78,859	3,077	81,937
Increase in property, plant, equipment and intangible assets	100,619	16	2,179	1,557	104,373	17,108	121,482

Notes:

1. Adjustments for segment income (loss) of ¥(2,116) million ($(20,567) 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 ¥14,606 million ($141,933 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 ¥316 million ($3,077 thousand) are mainly administrative expenses.
4. Adjustments for increase in property, plant, equipment and intangible assets of ¥1,760 million ($17,108 thousand) are assets related to administrative departments of the Company.

	Reportable segments						
	Semiconductor Devices Business	CCFL Business	Power Module Business	Power System Business	Total	Adjustments	Consolidated
	(Millions of yen)						
As of and for the year ended March 31, 2013							
Sales:							
(1) Sales to customers	¥ 95,692	¥ 880	¥ 14,295	¥ 15,517	¥ 126,386	¥ —	¥ 126,386
(2) Intersegment sales and transfers	1,253	—	881	0	2,135	(2,135)	—
Total sales	96,946	880	15,176	15,517	128,521	(2,135)	126,386
Segment income (loss)	¥ 7,990	¥ (1,316)	¥ (1,038)	¥ 1,078	¥ 6,714	¥ (2,089)	¥ 4,625
Segment assets	¥ 108,329	¥ 3,753	¥ 14,714	¥ 10,046	¥ 136,843	¥ 11,673	¥ 148,517
Others:							
Depreciation and amortization	6,667	72	65	92	6,898	253	7,151
Impairment losses	—	—	88	—	88	—	88
Increase in property, plant, equipment and intangible assets	7,951	15	143	89	8,200	808	9,008

Notes:
1. Adjustments for segment income (loss) of ¥(2,089) 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 ¥11,673 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 ¥253 million are mainly administrative expenses.
4. Adjustments for increase in property, plant, equipment and intangible assets of ¥808 million are assets related to administrative departments of the Company.

d. Related information

Information about geographical area

As of and for the year ended March 31, 2014

(1) Sales

Japan	Asia	North America	Europe	Others	Total
(Millions of yen)					
¥ 63,584	¥ 49,561	¥ 16,664	¥ 14,545	¥ 111	¥ 144,467
(Thousands of U.S. dollars)					
$ 617,866	$ 481,603	$ 161,928	$ 141,341	$ 1,083	$ 1,403,823

(2) Property, plant and equipment

Japan	North America	Asia	Others	Total
(Millions of yen)				
¥ 25,774	¥ 23,773	¥ 5,035	¥ 390	¥ 54,975
(Thousands of U.S. dollars)				
$ 250,461	$ 231,016	$ 48,931	$ 3,799	$ 534,209

As of and for the year ended March 31, 2013

(1) Sales

Japan	Asia	North America	Europe	Others	Total
		(Millions of yen)			
¥ 60,562	¥ 41,293	¥ 13,689	¥ 10,839	¥ 1	¥ 126,386

(2) Property, plant and equipment

Japan	North America	Asia	Others	Total
		(Millions of yen)		
¥ 26,811	¥ 19,287	¥ 4,493	¥ 352	¥ 50,945

23. Amounts per Share

Amounts per share as of and for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013	2014
	(Yen)		(U.S. dollars)
Net income – basic	¥ 41.47	¥ 18.73	$ 0.40
Net assets	401.75	322.92	3.90

Diluted net income per share for the years ended March 31, 2014 and 2013 are not disclosed as there were no dilutive shares.

Net income per share was calculated on the following basis:

	2014	2013	2014
	(Millions of yen, except number of shares)		(Thousands of U.S. dollars, except number of shares)
Net income	¥ 5,029	¥ 2,272	$ 48,872
Amounts not available to shareholders of common stock	—	—	—
Net income attributable to shareholders of common stock	5,029	2,272	48,872
Average number of shares outstanding during the year (Thousands of shares)	121,293	121,323	—

Net assets per share were calculated on the following basis:

	2014	2013	2014
	(Millions of yen, except number of shares)		(Thousands of U.S. dollars, except number of shares)
Net assets	¥ 49,108	¥ 39,436	$ 477,201
Amounts deducted from net assets:	390	262	3,791
Stock acquisition rights	—	—	—
Minority interests	(390)	(262)	(3,791)
Net assets attributable to shareholders	48,718	39,174	473,410
Number of shares outstanding at the end of the year (Thousands of shares)	121,266	121,313	—

Independent Auditor’s Report

The Board of Directors
Sanken Electric Co., Ltd.

We have audited the accompanying consolidated financial statements of Sanken Electric Co., Ltd. and consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management’s Responsibility 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity’s internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanken Electric Co., Ltd. and consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 20, 2014
Tokyo, Japan

Board of Directors

As of June 20, 2014

Directors and Auditors

Director, President	Sadatoshi Iijima	
Directors	Takashi Wada	Masao Hoshino
	Akira Ota	Kazunori Suzuki
	Yoshihiro Suzuki	
Outside Director	Richard R. Lury	
Standing Statutory Auditor	Tatsuo Okino	
Statutory Auditors	Noboru Suzuki	Mikihiko Wada
	Jin Takeda	

Corporate Officers

Executive Vice President	Takashi Wada	
Senior Vice Presidents	Masao Hoshino	Akira Ota
Senior Corporate Officers	Kinji Kudo	Mitsuo Ueki
	Yoshihiro Suzuki	Kouichi Shimura
	Kazunori Suzuki	
Corporate Officers	Masahiro Sasaki	Yukiyasu Taniyama
	Kiyoshi Murakami	Shigeru Ito
	Hiroyuki Ouchi	Takeshi Soroji
	Kiyonori Orito	Hideki Nakamichi
	Hideo Takani	Masaki Kanazawa
	Makoto Iwata	Myungjun Lee

Investor Information

As of March 31, 2014

Company name	Sanken Electric Co., Ltd.
Founded	September 5, 1946
Headquarter	3-6-3 Kitano, Niiza-shi, Saitama-ken 352-8666, Japan Phone : +81-48-472-1111 Facsimile : +81-48-471-6249
Employees	10,377
Common stock	Authorized : 257,000,000 shares Issued : 125,490,302 shares
Shareholders	12,370

Distribution by type of shareholders		
	Financial Institutions	43.85%
	Individuals	22.84%
	Foreigners	24.47%
	Other	8.84%
Distribution by number of shares owned		
	1,000,000 or more	52.36%
	100,000 or more	22.16%
	10,000 or more	9.33%
	Less than 10,000	16.15%

Principal Shareholders

Shareholders	Number of shares held (in thousands)	Percentage of ownership
Japan Trustee Services Bank, Ltd. (Trust Account)	15,258	12.15%
The Master Trust Bank of Japan,Ltd. (Trust Account)	15,148	12.07%
Saitama Resona Bank, Limited	6,011	4.79%
The Chase Manhattan Bank N.A. London Secs Lending Omnibus Account	3,191	2.54%
Juniper	3,045	2.42%
International Rectifier Corporation	2,500	1.99%
The Hachijuni Bank, Ltd.	1,556	1.24%
Northern Trust Co. (AVFC) Re Exempt UK Pension Funds	1,499	1.19%
NIPPONKOA Insurance Company, Limited	1,443	1.15%
CBHK CBLDN - Fund 135 T&D Asset Management Limited	1,376	1.09%

Note : The Company holds 4,223,339 (3.36%) shares of treasury stock but is excluded from the principal shareholders listed above.

Bonds

Type of bonds	Date of issue	Balance of bonds (in Yen)
The 5th unsecured bonds	December 14, 2012	4,100,000,000
The 6th unsecured bonds	March 25, 2013	5,900,000,000
The 7th unsecured bonds	June 17, 2013	10,000,000,000
The 8th unsecured bonds	December 13, 2013	10,000,000,000

Sanken Electric Co., Ltd.
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