Sanken Electric Co., Ltd.

For the year ended March 31, 2017

ANNUAL REPORT 2017

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

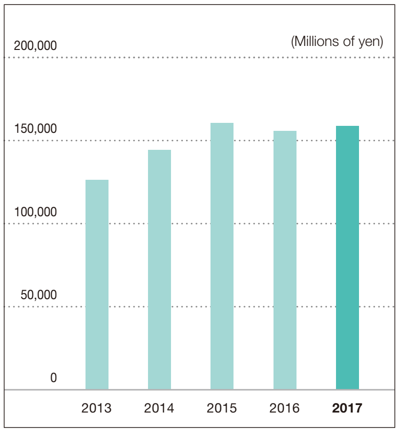
Forward-Looking Statements

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.

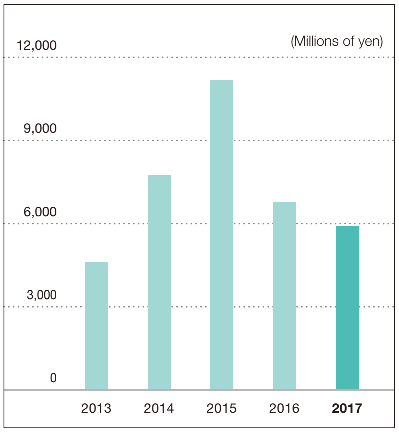
Financial Performance

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017, 2016, 2015, 2014, and 2013

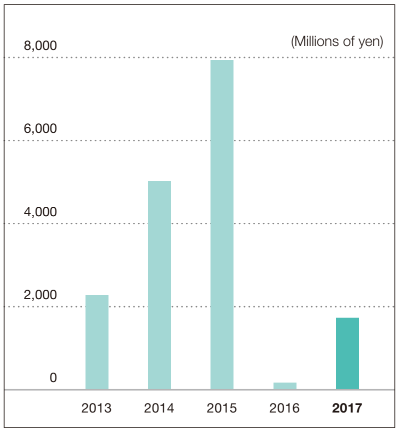
Net Sales
Years ended March 31



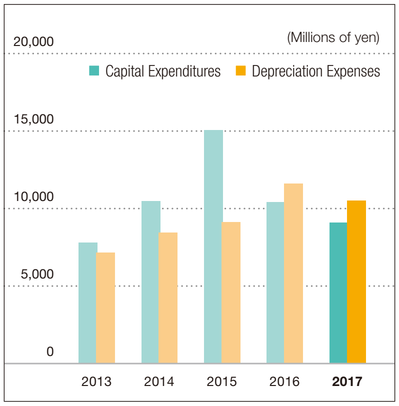
Operating Income (Loss)
Years ended March 31



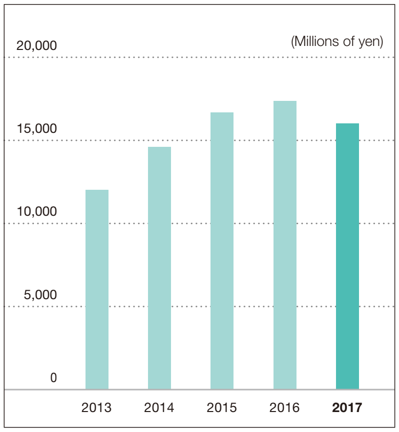
Net Income
Years ended March 31



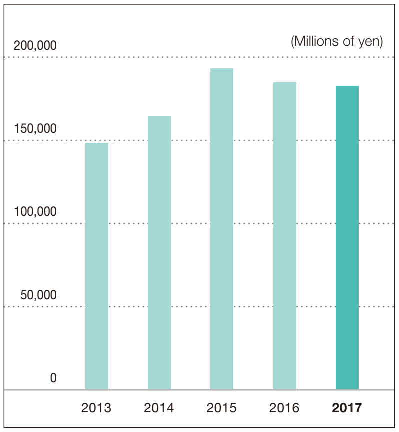
Capital Expenditures/ Depreciation Expenses
Years ended March 31



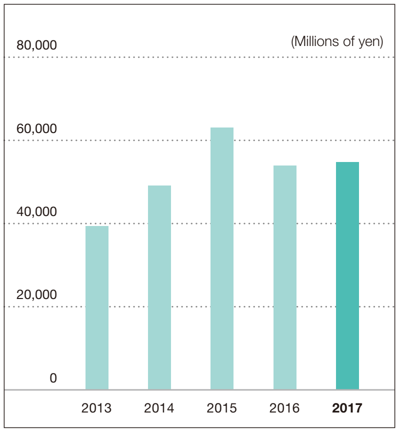
R&D Expenses
Years ended March 31



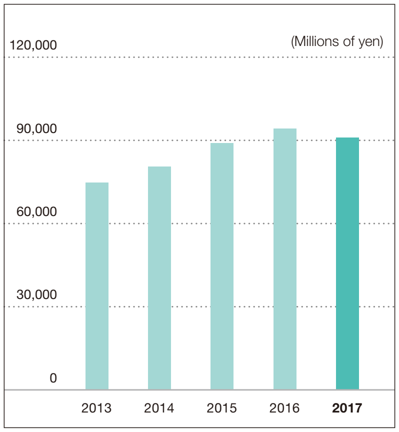
Total Assets
As of March 31



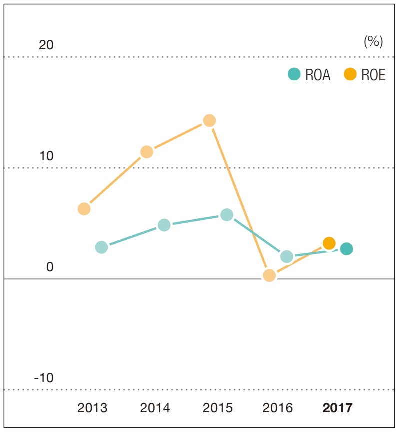
Total Net Assets
As of March 31



Interest-bearing Debt
As of March 31



ROA/ROE
Years ended March 31



Dear Fellow Shareholders

Takashi Wada
President
Sanken Electric Co., Ltd.

Business Performance Trends and Promotion of Structural Reforms during FY2016

Sales declined, due to the impact of currency exchange fluctuations, but net income rapidly recovered as transient negative factors were resolved.

The global economy during FY2016 transitioned at a gradually recovering pace overall.

Demand for inverter equipped, energy-saving white goods increased primarily in China, but also in the Asian region in general. The automotive market recovered in Europe, as the eco-car subsidy program extended in China. All these supported consumption in the electronics market, to which our corporate group belongs, leading to a progressive expansion of the market on a global scale.

The management of our corporate group proceeded with our basic policies for FY2016, "commitment to growth markets" and "enhancement of the financial constitution", as this was occurring. Net sales reached ¥158.772 billion, a 1.8% increase over the previous fiscal year as a result, while the operating income ended at ¥5.93 billion, a reduction by 12.8% and the profit attributable to the owners of the parent company was ¥1,739 billion, an increase by 914.0%.

The foremost factor responsible for increasing our revenue was the favorable transition of sales primarily in overseas markets for products intended for white goods and automotive applications in our semiconductor device business, which is our main strength.

The primary element responsible for causing a decline in sales consisted of an internal factor and an external factor. The semiconductor device business performed well both in domestic and overseas markets, however an internal factor consisted of a downturn in the PM and PS businesses, currently in the process of structural reforms, as they registered an operating loss of ¥380 million and ¥180 million respectively. The external factor consisted of the impact from the currency exchange that transitioned with the appreciation of the yen, leading to a level where the US dollar declined from around ¥120 during the previous year to under ¥110, which then of course led to a loss in sales in US dollars when converted to Japanese yen.

We furthermore had to contend with the issue of contaminated wafer cleaning chemical solutions at our overseas manufacturing plants, which caused transient negative factors during the previous fiscal year. This development led to a decline in income, as operations had to be reduced so that the cause could be identified, while we were also faced with disposal expenses for faulty wafers. These were appropriated as extraordinary losses, all leading to a downturn in income. Such transient extraordinary factors were resolved this fiscal year, leading to a significant reduction in extraordinary losses. This resulted in the rapid recovery of profits attributable to the owners of the parent company this fiscal term.

Series of structural reforms begin.

Fundamental reforms began for our business structure with the concept of “Resolution of Unprofitable Fields” in FY2016. Unprofitable orders were eliminated in our PM business, as we could not previously escape the chronic deficit tendency and we therefore outsourced production to nations with lower labor costs for the purpose of improving costs, while reducing personnel at our manufacturing plant in Indonesia and the like, in order to reduce the extent of deficit. A significant personnel reduction was also implemented at our manufacturing plant in Korea, where profitability had become difficult to secure as it had been engaged in the production of LED lighting apparatuses. The Technical Support Center, located in Wales of the United Kingdom, furthermore, was progressively reorganized and relocated to Germany, as the automotive product sales expansion activities will be centered on the European continent in the future. Domestically, we started our process of consideration to terminate operations for some of our power supply IC products that have already lost their price competitiveness among the products in our semiconductor device business, which is our core business.

Corporate resources have also been re-allocated for device developments in areas where sales increases will be promoted in the future, such as automotive markets and white goods markets, as a part of an expense-control enhancement, while organizational action has also been implemented to prioritize development projects and enhance progress management.

As a result, “expenses were restrained” to improve our business performance, while at the same time an extremely steady performance in the automotive market and white goods market led to successful results with the corporate group overall, including Allegro MicroSystems LLC, recording a favorable business performance.

Enhance Development Organization and Improve Processes in Anticipation for Increased Demand

Our projection of the future predicts a rapid increase in demand for our products, by reason of enhanced regulations on fuel consumption and energy conservation from FY2018, which will move us away from the current “pre-harvest season of technology”, as well as lingering on the “landing of a business performance stairway”. We are pursuing the enhancement of our product development to be timed with rapid increases in such demand, while implementing strategies to boost production in a stable manner.

In terms of augmenting our technical development capabilities, we improved our organizational framework, while keeping in mind a rapid increase in the need for "modularization" in the automotive market. This means that electronic circuits will become progressively complex in association with progressive electrification, while product supplies become a critical aspect in securing and improving reliability in terms of function, due to "modularization". The team developing the circuit boards for automotive applications, part of the PM business division, was reassigned to the Semiconductor Device Division, where the "Module Technology Department" was established as part of our business structural reforms. We have been working to speed up module product developments in such a manner. There is a strong tendency to "customize" products in module developments and this requires two to three years for reliable results to appear, following the start of developments based on customer specifications. We expect to see substantial contributions from module products for automotive applications toward sales and profits from FY2018. In the meantime the "PSL Structural Reform Project", launched in April 2016 by Polar Semiconductor LLC, which comprises part of our global production organization for the preprocess, was an effort to fully exhibit our production capabilities. Fundamental measures for improving stability and the efficiency of production have been implemented through such means as comprehensively reviewing the manufacturing process, as well as advancing management methods and we believe that Polar Semiconductor LLC is now properly oriented toward business performance improvements. Although the situation is limited to FY2016, during which we proceeded with our Structural Reform Project, improvements to business performance figures remained at a low level. This was due to a reduction in the production volume associated with changes to production floor layouts and a temporary reduction in input aimed at rectifying the process flow, which led to reduced operating rates.

Management strategies for FY2017

Penetrate "Automotive Market" and "White goods Market" Where Continued Expansion is Predicted.

The concept of "eco-friendly and energy saving", which our corporate group continuously emphasized in the past, is expected to continue into future, with associated demand expected to increase worldwide against the backdrop of such environmental problems as global warming. The "growth markets", in which we have proceeded to concentrate our management resources in recent years, comprise the "automotive market" and the "white goods market".

Demand for semiconductors in the automotive market is expected to grow globally by about seven to eight percent annually until about 2020, due to the progress of electrification. As for the white goods market, energy efficiency regulations have been further enhanced in China, one of the major consumer markets in the world. In the meantime consumers are starting to focus on energy-saving air conditioners in the nations of Asia, as well as Europe and the United States, with demand steadily increasing for inverter ICs for such white goods as air conditioners, refrigerators and washing machines.

We are implementing a sustained business growth in the automotive market according to the three concepts, "environmental response", "modularization" and "overseas implementation", while keeping in mind such a favorable external environment. The needs of our power semiconductor technology, as well as sensing technology at our consolidated subsidiary of Allegro MicroSystems LLC, will progressively increase in association with the increased number of environmentally compatible vehicles, such as EV and HEV. In addition to single item products, such as various power management IC and sensor products, we will also proactively develop and supply products that combine such items into a single package as power modules. We will also strengthen our collaboration with Allegro for overseas implementation and accelerate our sales activities in principal areas around the world.

We will be looking to grow in the white goods market by increasing the supply of highly reliable inverter ICs, based on the concept of “inverter appliances”. The experience and know-how relating to the operation of motors is essential for introducing high energy-saving performance inverter ICs to the market. We have been supplying motor driver ICs for a variety of different applications and in so doing nurtured a technical competitive advantage and reliable quality. We will endeavor to implement even more advanced differentiating products, utilizing such a background.

Accelerating business structural reforms to create “foundation for Sanken in ten years”.

The basic management policy for FY2017 was established at the onset of the fiscal year, continuing the pursuit of two concepts, “commitment to growth markets” and the “enhancement of the financial constitution”. In order to further accelerate the movement of structural reforms that started the previous year, a new management strategy was formulated in July of 2017, in the middle of the fiscal year, to procure $291 million through a third party allocation at Allegro MicroSystems LLC, while withdrawing from the PM business and disposing of associated inventories, terminating deficit products and optimizing the scale of personnel at the headquarters in order to improve the profitability of the parent company, all in addition to business operations administered according to these basic policies.

Such efforts have vanquished the negative legacy from the past and securely captured a rapid expansion of global demand for our power semiconductor products intended for the automotive and white goods markets, which is expected from FY2018. Such a positive impact will be fully implemented into an increased business performance for the entire corporate group and, as such, what we are experiencing at the present point in time could be considered a “birth pang” for our future since we have devoted ourselves, knowing that we have no choice but to take on challenges with a solid commitment, to the pre-harvest season of technology, while at the “landing on the stairway for business performance” that precedes a period of rapid expansion.

Our current business performance temporarily suffers large losses for a variety of reasons, including the withdrawal from a business operation, however we have unwavering resolve not to look away from the inconvenient truth with the intention of attaining a brilliant future. We therefore sincerely request all our stakeholders, beginning with our shareholders, to grant us your understanding on the matters concerned and continue with your support.

Embracing Challenges to Create New Value for Our Future Society

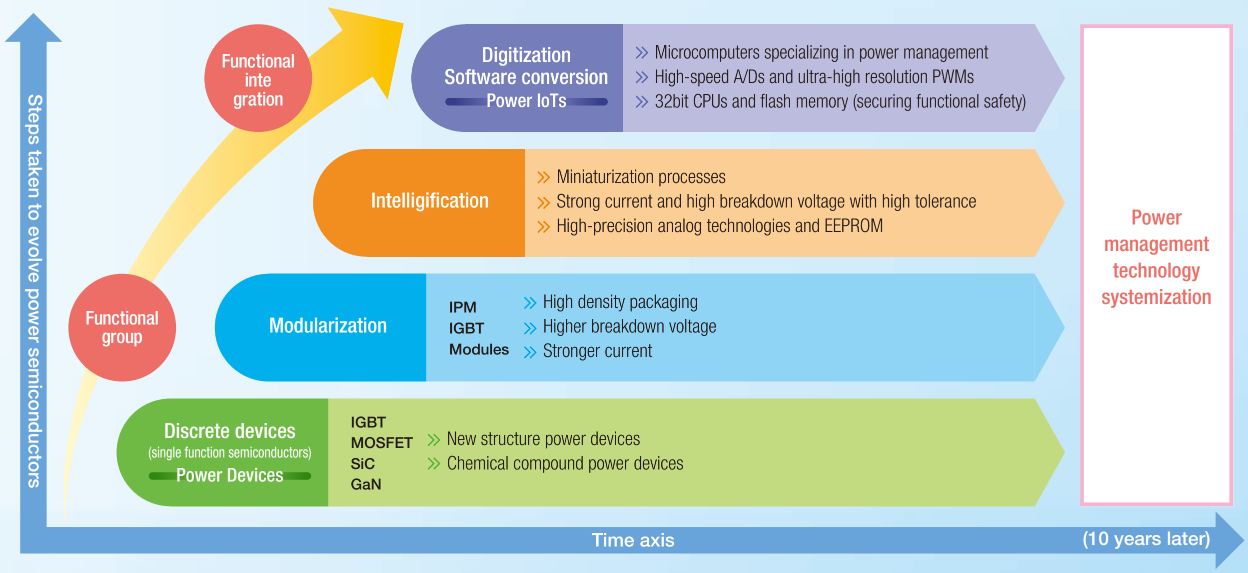
Our world will be undergoing dramatic changes, as the development and implementation of AI, as well as technical innovations and the spread of IoT in society, progress in the future. AI is utilized for searches on the internet, whereas the sale of cars on the market with automatic driving functions has already begun. The era is already entering a significant change.

Our corporate group started taking on challenges for the creation of new value since FY2015, citing “Power IoT” as our concept. We are aware that we still have a long way to go and there are numerous issues which we must address. We intend to take such issues and overcome them one at a time, as we pave the way for our future ahead.

To our investors, we ask for your continued support for our corporate group and hope that you are as excited as we are about the growth of our business operations in the future.

Technical road map of power semiconductors

Leverage low loss, high-power and high-density capabilities to transform from packaging (functional group) to systems (functional integration)



The rate of progress for "power semiconductor" related technologies, which our corporate group seeks to implement with our highly proprietary total resolutions, is expected to accelerate in the future.

For instance in the automotive market, a key market for us, the electrification trend has become increasingly rapid, which in turn amplifies the importance of the role filled by "power semiconductors". Having just a few power semiconductors in a car is a thing of the past as we are now in an era when the number exceeds 100. This means that power management has become progressively complicated and customer requirements for the supply of integrated functions (modules), which provide a variety of functions, are increasing in order to secure highly reliable functions. We are currently at this point in time.

When more and more "power semiconductors" are used in such a manner, the quality of their performance becomes a significant factor that determines the performance of equipment (such as car or home appliances). Firstly, we shall address power loss. Power loss has been occurring to some degree with "power semiconductors" that operate on and off switches, as some power is converted into heat, due to resistance when the power is turned on. A "low-loss" feature that suppresses this to an extreme degree is highly desired. Secondly, the size. The pursuit of "high power density" for "power semiconductors" that can handle outputs with a stronger current in a reduced volume has become an important topic. The transition to next-generation semiconductors, such as SiCs or GaNs, will gradually progress in order to achieve this, since there are limits to improving the performance of conventional Si devices.

The evolution of "power semiconductors", consisting of various functions integrated through intelligification, software conversion and digitization, is projected for the near future.

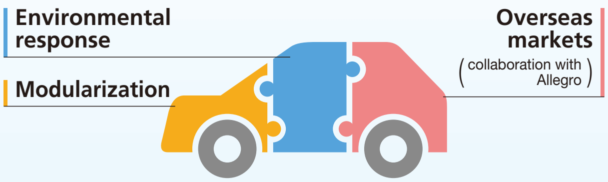
Our corporate group is proceeding with proactive technical developments, using such technology road maps in our perspective, as we continue our pioneering efforts into key fields.

Key field: 1 Automotive market

Implementation of expansion strategy accelerated based on three concepts

The first key field for expanding our semiconductor device business for the corporate group is the "Automotive Market". Expansion strategy concepts are comprised of the "Automotive Market", namely "Modularization", "Environmental Response" and "Overseas Markets". The concept of "Modularization" involves technologies essential for satisfying the quality requirements of automobile manufactures, based on the "Technology Roadmap of Power Semiconductors", described above. The concept of "Environmental Response" is expected to undergo a rapid growth in the future, founded on three pillars, "modularization products for EV and HEV", "exhaust gas emissions regulation response products" and "functional safety requirement response products (ASIL)". The contributions of "appliance integration" and "miniaturization", in particular, are fast becoming critical topics for the development of products for EV and HEV, which will take a leading role in responding to environmental demand in the future. The needs and expectations for modularized products that incorporate our proprietary power semiconductors are growing extensively. The concept of "Overseas Markets", currently being promoted, involves the enhancement of product implementations by our corporate group as a whole. An enhanced framework for European and North American markets is being established through collaboration between our company and our overseas subsidiary, "Allegro MicroSystems LLC". Furthermore, the enhancement of sales and marketing organizations, as well as the acceleration of sales activities, is being sought in the markets of China, Korea and India.

Three Concepts for expansion strategy in automotive market



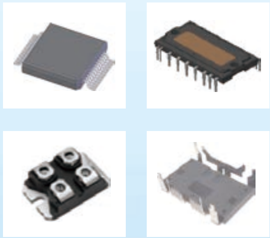
Principal environmental response products

Modularization products for EV and HEV
- IPMs for motors
- Power modules for power supplies
- Large current MOS modules
- Semiconductor relays for ISGs

Exhaust gas emissions regulation response products
- Power management ICs for exhaust gas sensors
- High-efficiency igniter ICs

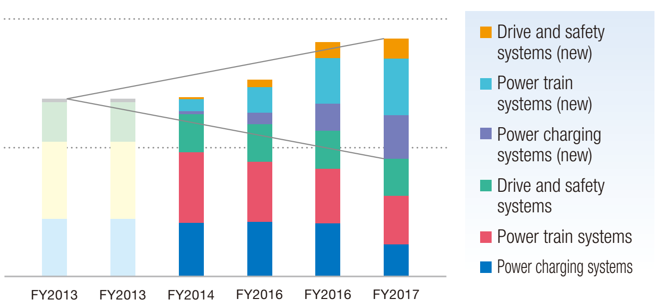
Functional safety requirement response products (ASIL)
- Dual surface radiation mounting packages
- MOS modules and high-efficiency MOS-FETs

Principal overseas market expansion products
- ICs for igniters
- Diodes for alternators
- High-voltage diodes for ignition systems



Promote product implementation in new application markets to accelerate increase in sales from FY2018

Prediction for growth of markets by application

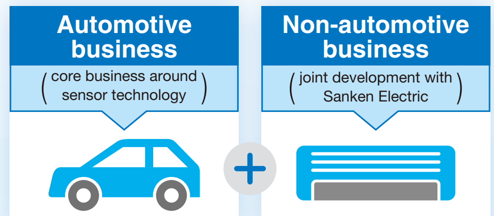


The expansion strategy based on the three concepts described above will rapidly broaden our new product fields, such as "drive and safety systems", "power train systems" and "charging systems" and these are expected to become the driving force behind increased sales in the automotive business-related sales of our corporate group from FY2018.

Key field: ② Subsidiary "Allegro MicroSystems LLC"

Focus efforts on growth of non-automotive business in addition to steady automotive business

Future growth strategy for Allegro



Our consolidated subsidiary "Allegro MicroSystems LLC" is a company attracting attention on a global scale as one of the best sensor IC manufacturers, supplying cutting edge sensing technology primarily to the automotive market. In addition to such a steady automotive business, they also enhanced their framework of joint developments with Sanken Electric, in an bid to grow their non-automotive businesses as well. Our corporate group will develop and provide highly value-added products to non-automotive markets and complete the development and expansion of new application markets using new elementary technologies developed by Allegro.

Principal elemental technologies and products aimed at expanding non-automotive business

Principal elemental technologies

- GMR
- TMR
- Digital controls
- Memory packaging
- Control algorithms
- Miniaturization processes

Principal products

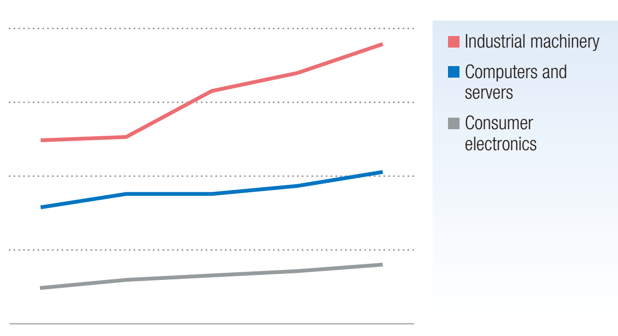
- Current sensors
- Position sensors
- Programmable motor control ICs
- Sensor and motor composite system ICs

Principal application markets targeted for cultivation

- Power meters
- Drones
- Power monitors
- Robots
- IoTs
- Server fans
- Power supplies
- Pumps

Proceed with development of new application markets and increase sales of non-automotive business

Sales forecast in focused market



Two business units are promoting the business expansion strategy at Allegro, namely the "Sensor Group", pursuing sustained growth for the automotive business, which is the core business at Allegro, as well as the "IC Group", pursuing the expansion of the non-automotive business. The plan of the "IC Group" business unit is to drive sales increases with three pillars: "industrial equipment", "computers" and "consumer electronics". The expansion of this field is also being undertaken through joint developments of Allegro and Sanken Electric. The development of ICs for the fan motor drivers of air conditioners, for instance, was achieved with the chip for the control section by Allegro and the chip for the power section by Sanken Electric.

Key field: 3 White goods market

Focus efforts on growth for non-automotive business in addition to steady automotive business

Another key field proposed for the expansion of our semiconductor device business for the corporate group is the “White Goods Market”. Regulations on the efficiency of household appliances is being enhanced by nations around the world, against a backdrop of environmental issues, such as global warming and increased power consumption. There is an escalating trend for “inverter appliances” in association with a growing demand for higher efficiency products. Our corporate group anticipates a rapid increase in orders received for high-voltage inverter ICs (IPM), due to such business environment changes. The corporate group is enhancing our BCP measures as we seek to establish bases at multiple sites for our production organizations for both preprocesses and postprocesses. Endeavors will also be focused on creating a production framework with highly effective suppressed facility investments by relying on the outsourced production of affiliated foundries and subcontractors.

Market environment and our strategy

Market environment

Enhanced efficiency and improved efficiency progressively adopted for regulations in nations around the world

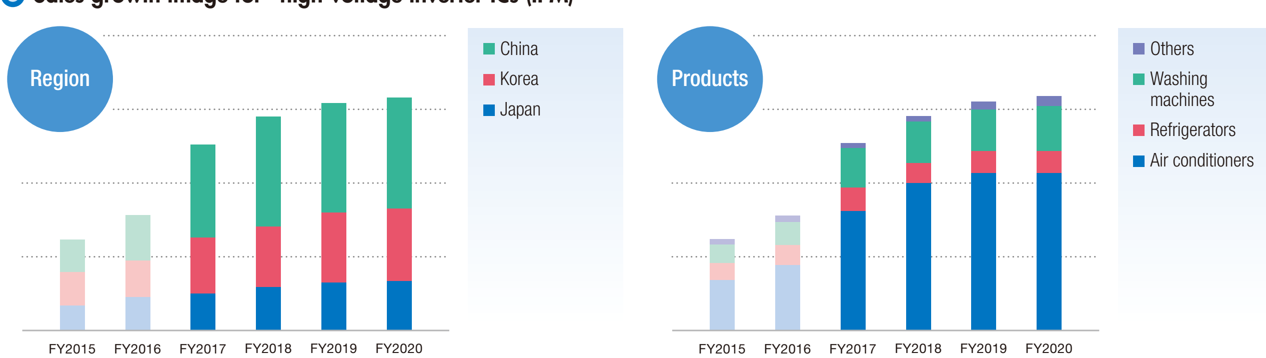
Japan	Top Runner Standards (put into effect from 2016 until 2021)
Korea	Industry oriented to emphasize improved efficiency primarily among major home appliance manufacturers
China	Enhance new efficiency regulations
Worldwide	Freon restrictions (improving compressor efficiency is essential)

Our strategy

Promote improved production organizations in response to increased orders received for high-voltage inverter ICs (IPM)

- Disperse production organizations to multiple sites (= response to BCP)
- Promote outsourcing to foundries and subcontractors (= suppress investments)

Sales growth image for “high-voltage inverter ICs (IPM)”



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 Electric Co., Ltd.

Yamagata Sanken Co., Ltd.

Fukushima Sanken Co., Ltd.

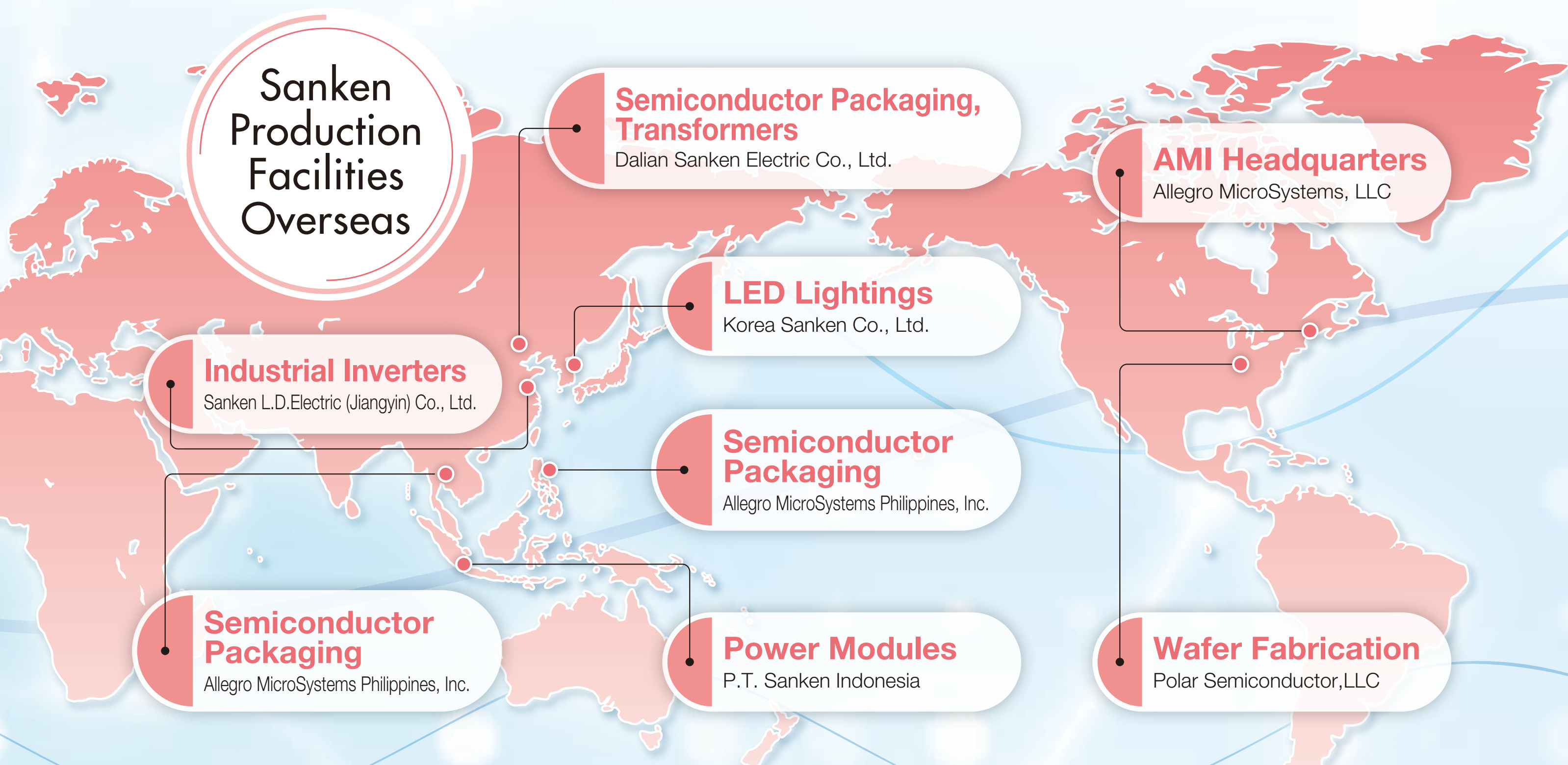
Kashima Sanken Co., Ltd.

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


Dalian Sanken Electric Co., Ltd.


Korea Sanken Co., Ltd.


Allegro MicroSystems Philippines, Inc.

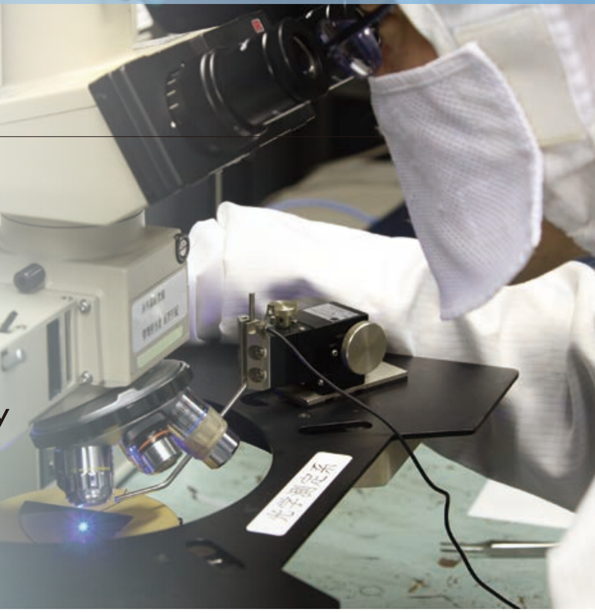

P.T. Sanken Indonesia


Polar Semiconductor, Inc.


Allegro MicroSystems, Inc.


Allegro MicroSystems Thailand, Inc.

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, invert-ers 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, pro-duction 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 develop-ment 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.

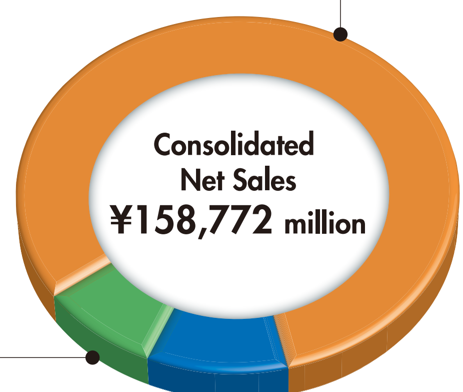
Composition of consolidated net sales by business segment (FY 2016)

8.4%
Power System Business

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

81.4%
Semiconductor Device Business

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



10.2%
Power Module Business

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

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, LEDs, 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 automobiles, home appliances, industrial machinery, AV equipment (IT and mobile equipment), telecommunications 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 market environment during FY2016 showed an overall gradual recovering trend.

The number of motors used in vehicles increased rapidly against a background of increasing electrification rates, as well as an increasing number of hybrid and electric vehicles. The role of automotive power semiconductors, which control such electrical devices, is rapidly becoming increasingly important. Amidst such a situation in FY2016 the automotive electronics market expanded at a steady pace, due to the recovery of the automobile market in Europe, as well as a continued positive trend in the North American market.

In the field of white goods, furthermore, the progress of "conversion to inverter" with significant energy-saving effects, which was falling behind in implementation, has been extended beyond air conditioners to refrigerators and washing machines, leading to a rapid spread in Southeast Asian countries and other emerging nations. Additionally, the efficiency of motors has progressed in recent years, driven by an eco-friendly and energy-saving perspective, with the importance of power semiconductors for efficiently controlling DC motors also increasing. Amidst such a situation we have been able to depart from the situation we were in during the latter half of the previous fiscal year, as we were faced with declining demand associated with inventory adjustments in China, however a positive turn occurred in FY2016 to set our course in the direction of increasing demand overall for energy-saving type white goods incorporating inverters.

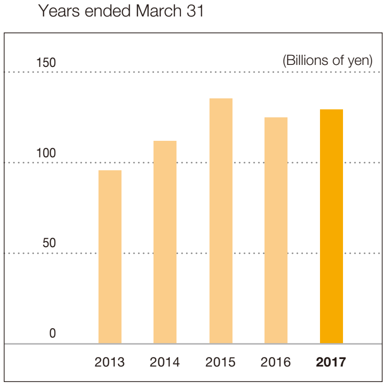
AV related products, primarily consisting of television sets and audio equipment, as well as office equipment and industrial machinery, including printers, continued with a sluggish trend from the previous term.

Fiscal 2016 Results

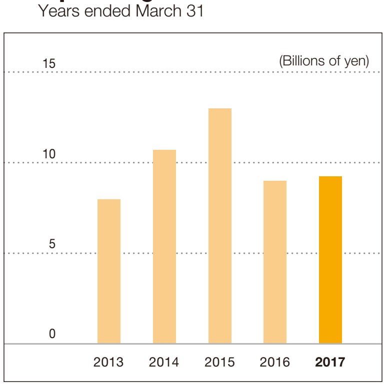
Our corporate group regards the "semiconductor device business" as our mainstay business and we aim to develop our business with a focus on growth markets using the slogan "Eco-friendly and energy saving". Automotive, motors, white goods, industrial machinery, telecommunications and other fields have been identified as our growth markets and aggressive sales expansion strategies have been promoted domestically, as well as in overseas markets.

As for individual markets, firstly the automotive field, we sought to increase sales in China and Korea by estab-

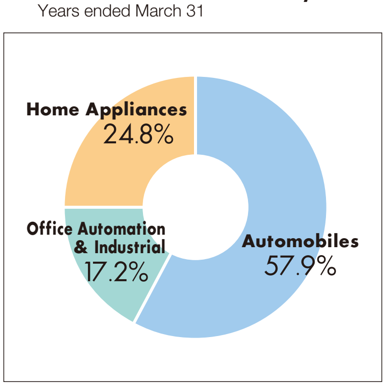
Net Sales
Years ended March 31



Operating Income
Years ended March 31



Semiconductor Devices Sales by Market
Years ended March 31



lishing a new “Overseas Automotive Department,” while enhancing sales and seeking technical collaborations with Allegro MicroSystems LCC in Europe. We also enhanced our product developments for environmentally responsive automobiles, such as EV and HEV, which are expected to increase in the future. An accumulation of business performances in growth fields was sought through the implementation of such new products as magneto-resistance (MR) application technologies and motor drivers, in addition to sensors, which are the core technologies of Allegro MicroSystems LCC. In terms of white goods, we substantiated our product line to accommodate the progression of inverters and the DC conversion of motors to ensure that we capture demand, primarily in the Asian market. Furthermore, efforts have been focused on product developments in the power supply market, using the keywords Power IoT, while advances have been made particularly with the development of automotive LED products in our LED business.

All this resulted in an increase in consolidated sales for the semiconductor business by ¥4.205 billion (3.4% increase) from the previous fiscal year to reach ¥129.322 billion. The consolidated operating income, on the other hand, was impacted by the currency exchange that transitioned with an appreciation of the yen and resulted in an increase of ¥4 million (0.0% increase), compared to the previous fiscal year, to reach ¥9.251 billion.

Agenda for the Future

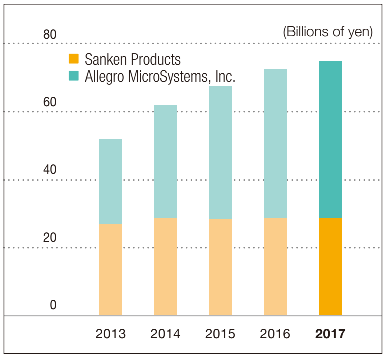
The situation with the global economy is such that the future is unclear due to many factors with many uncertainties, as well as factors of instability. In general, the “eco-friendly and energy saving” market our corporate group is pursuing, however, is generally expected to grow in the future over the medium to long range and the scale of the market is expected to further expand, even if a temporary drop in demand occurs amidst variable changes in the respective fields.

Our corporate group will continue to regard the “semiconductor device business” as our mainstay business and we will aim to develop our business with a focus on growth markets with the slogan “Eco-friendly and energy saving”. We made improvements to our organizational infrastructure as of April 1, 2017 for that purpose. In terms of developments, we will work to improve the efficiency of our technology developments while shortening the lead times by enhancing resources for technology developments, as well as by focusing our efforts on our new product development activities in strategic markets and strategic products. In terms of production we aim to enhance our ability to create profits by intensifying our promotion of cost reductions and production reform activities with our production organization. In terms of quality assurance, we will implement organizational reforms with efforts divided between the quality of products and manufacturing quality to further enhance our quality assurance framework.

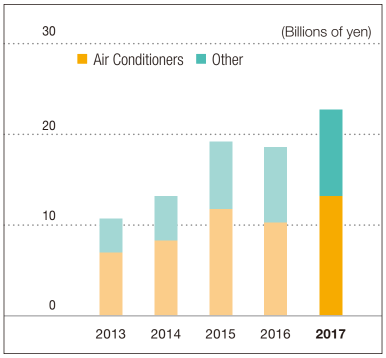
As for individual markets, firstly in the automotive field, we will push forward with our environmental response activities and modularization, whereas in the overseas markets we will continue to increase sales in China and Korea, while further promoting our sales and technical collaborations with Allegro MicroSystems LCC in Europe and North America to continue with our market expansions.

In terms of white goods, furthermore, we will substantiate our production organization for high voltage inverters (IPM) to accommodate further increases with household appliances equipped with inverters, as an

Focus Market: Automotive
Years ended March 31

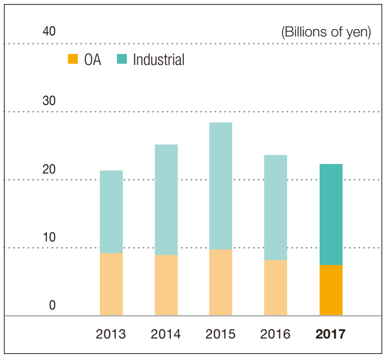


Focus Market: White Goods
Years ended March 31



*Non-consolidated

Focus Market: OA & Industrial
Years ended March 31



enhancement to the efficiency regulation progress both domestically and overseas.

As for the power supply market, we will press on with our product introductions in such strategic markets as white goods and industrial machinery by pursuing product developments using the keywords Power IoT.

In regards to our LED business we intend to sustain a stable growth by adding high value through our unique differentiating technologies, such as optimized packaging, as well as light and color control technologies, primarily with automotive LEDs.

We instituted a logo mark to communicate information about our proprietary **POWERIoT Technology** to the market.

Note: **POWERIoT Technology**
A solution product for power supplies and peripheral devices to achieve an optimum supply of power, by digitally processing and controlling information through coordination with information interface devices, such as sensor and wireless communication devices.

Descriptions of activities by market

Automotive market	Sanken Electric	Continue growth using keywords of environmental response, overseas markets and modularization.
	Allegro	Sustain steady growth of automotive business.
White goods market		Expand the market by responding to enhanced regulations and market demand for improved efficiency. Intensify proactive action for inverter-fitted home appliances. Extend joint development with Allegro to non-automotive businesses.
Power supply market		Create new value for Power IoT products.
LED market		Promote a customization business by adding high value with our differentiating technologies.

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 OA equipment markets to communications, as well as power supplies for industrial machinery and servers. We are promoting a transformation of our business portfolio by broadening our business to an automotive board business, where further future growth can be expected.

Fiscal 2016 Results

We started thorough business structural reforms for the power module (PM) business operations in response to increasing operating losses. Unprofitable products were identified for early withdrawal and personnel were also reduced at P.T. Sanken Indonesia, as part of the relevant personnel planning. About 30% of the engineers were also reassigned to Power System (PS) business operations, while business collaborations with PS business operations were enhanced to improve management efficiency. In terms of automotive boards that are expected to further increase in demand in the future, collaborative efforts have been made with the Semiconductor Device Business Division, which has many years of experience with the automotive business, to accelerate the speed of development.

All this resulted in an increase in consolidated sales for the PM business by ¥230 million (1.5% increase) over the previous fiscal year to reach ¥16.153 billion, due in part to the increased sales of automotive products, for which expansion strategy is currently being promoted as one of the domains for focused efforts. In terms of profits we sustained a consolidated operating loss of ¥384 million (consolidated operating loss of ¥973 million in the previous fiscal year), due to such business structural reforms as the transformation of our product portfolio and a reduction in the fixed expenses described earlier currently being in the process of implementation.

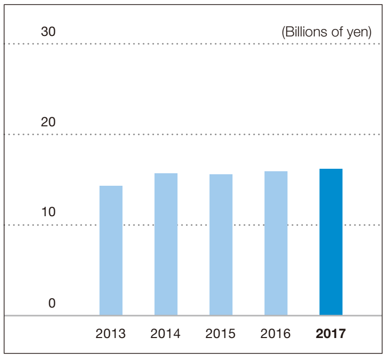
Agenda for the Future

The PM Business Division was integrated with the PS Business Division through our organizational reforms that occurred on April 1, 2017, as a part of the next step in our business structural reforms. Based on such efforts, we will firstly proceed with a reduction in the overlapping functions. Secondly, we will work on our transformation to an optimum business structure by utilizing the "cost reduction capacity" of the PM Business Division and the "quality craftsmanship" of the PS Business Division. Thirdly, we will establish our new "Product Development Administration Department" to concentrate our development resources into strategic products. Fourthly, we will modify our existing organizations based on products and create organizations based on markets to enhance the "market-based marketing functions". Then fifthly, in terms of our sales efforts, we aim to increase sales in strategic markets by promoting the enhancement and substantiation of our sales channels, as well as improve our customer and project management systems.

In terms of our activities intended for individual markets we will continue to substantially rationalize products intended for AV and OA markets, which currently constitute our loss-making segments, while implementing concentrated expansion strategies for automotive, industrial machinery and communications markets, which are considered our markets for concerted efforts in the future as we proceed with our enhancement of transformations for our product portfolio.

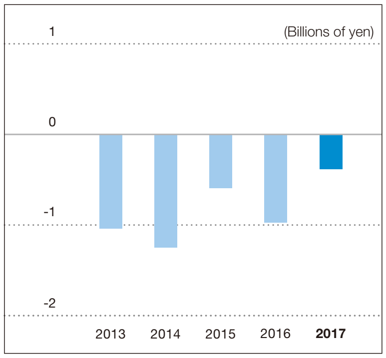
Net Sales

Years ended March 31



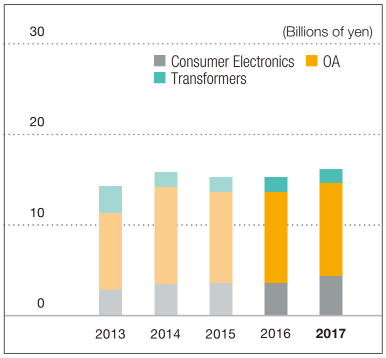
Operating Loss

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 telecommunications systems, dams, power transmission substations, airport facilities, highway facilities, tunnels and the like.

Fiscal 2016 Results

PS business operations will proceed to expand markets, considering the new energy market and the infrastructure market as the two pillars of the business. The new energy market, the "interface unit for connectivity", which connects a variety of equipment that comprises EMS, has been identified as a new target field. Aggressive development and sales expansion efforts were therefore implemented in this new target field. As for the infrastructure market, an updating of the infrastructure for the expressways crisscrossing the entire nation, is being planned and we are taking steps to develop and expand sales with a new "UPS for ETC."

The market environment that surrounded the PS business in FY2016, however, was such that the investments on mobile phone base stations remained in a lull, while even the new energy field, where market expansion was predicted over the medium to long periods, showed a stagnant growth.

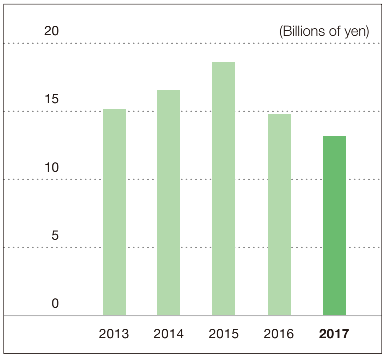
All this resulted in a reduction in consolidated sales for the PS business by ¥1.583 billion (10.6% reduction) compared to the previous fiscal year, to reach ¥13.296 billion. Furthermore, this resulted in a reduction in the consolidated operating loss by ¥180 million (consolidated operating income was ¥973 million for the previous fiscal year), due to a reduction in sales.

Agenda for the Future

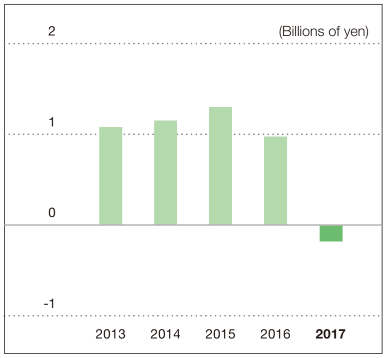
The PM Business Division and the PS Business Division were integrated by the organizational changes implemented on April 1, 2017, as part of the next step for our business structural reforms described earlier, in our efforts to increase sales in strategic markets by promoting activities intended to optimize business structures to better utilize the strengths of these former divisions and concentrate development resources for strategic products, enhance marketing functions for individual markets, as well as improve and enhance the sales organization.

The introduction of new products, such as rectifier units that fulfill the need for compact and high-efficiency products, will be sought in our PS Business Division under the new organization, as the communications market heads for recovery. We will develop and introduce an outdoor UPS in the infrastructure market, for such new applications as communications, signals, road monitoring and crime prevention systems. In the new energy market, we will take steps to create new power and storage systems of the type that constitutes a "move away from FIT", which is projected to become the mainstream product type in the future, in association with the amendment of FIT (Feed-in Tariff Scheme for Renewable Energy).

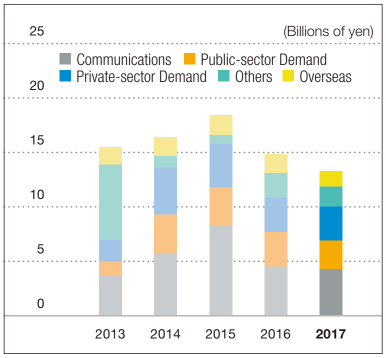
Net Sales
Years ended March 31



Operating Income / Loss
Years ended March 31



Power System Sales by Use
Years ended March 31

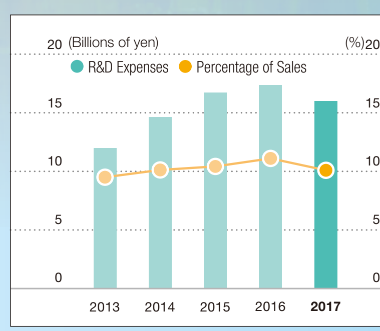


R&D and Intellectual Property

Our corporate group has secured leading global and domestic market shares for a large number of product categories, through the promotion of aggressive research and development based on a foundation of highly competitive technical capabilities, driven by the key words "eco-friendly and energy saving", as well as "green energy". In the future we will continue to 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 tech nological 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.”

This Company will be further accelerating the development of next-generation power devices, such as SiC (silicon carbide) and GaN (gallium nitride), through the achievement of market introductions.

Sanken has ascertained sectors, such as automotive, white goods, telecommunications, industrial machinery, automotive LED, new energy and sensors, as its immediate target markets for going forward and will undertake focused research and development activities that are aimed to capture these target markets.

Research and Development Achievements in Fiscal 2016

In the semiconductor devices business, Sanken is concentrating on the 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.

The standard of functions required of power semiconductors is becoming more sophisticated in the automotive industry, against the backdrop of an expanding range of electrification and an increased number of electric vehicles. To prevent overheating while responding to the demand for large current, diodes, ICs and modular products, needed to be developed with high voltage resistance and low noise levels that are highly efficient all the time. This fiscal year we developed ICs for high voltage resistant hybrid vehicle motors, which are ideal for the air conditioning systems of electric and hybrid vehicles, as well as diodes that support an increased efficiency for the alternators to be fitted on vehicles.

Saving electricity and energy is pursued for white goods and OA equipment on a national level, while regulations for increasing the efficiency of motors have been progressively enhanced, leading to an accelerated move to inverter controls, sensorless controls, as well as from brush DC motors to brushless DC motors. In response to this situation, we developed ICs for driving three-phase brushless motors aimed at intensifying their multifunctionality, as well as control ICs that contribute to energy conservation in fan motor applications. The latter product incorporates MOS FET, which improves the recovery characteristics (reducing losses while sustaining low noise) with a proprietary lifetime control technology.

As for power supply-related products, “digitally controlled power supplies”, which can be optimally controlled according to a variety of conditions by digitizing the control circuit of power supplies, have become the focus of attention and the need for such power supplies has been on the rise irrespective of the area, including the automotive, industrial and consumer fields. In response to such needs we developed



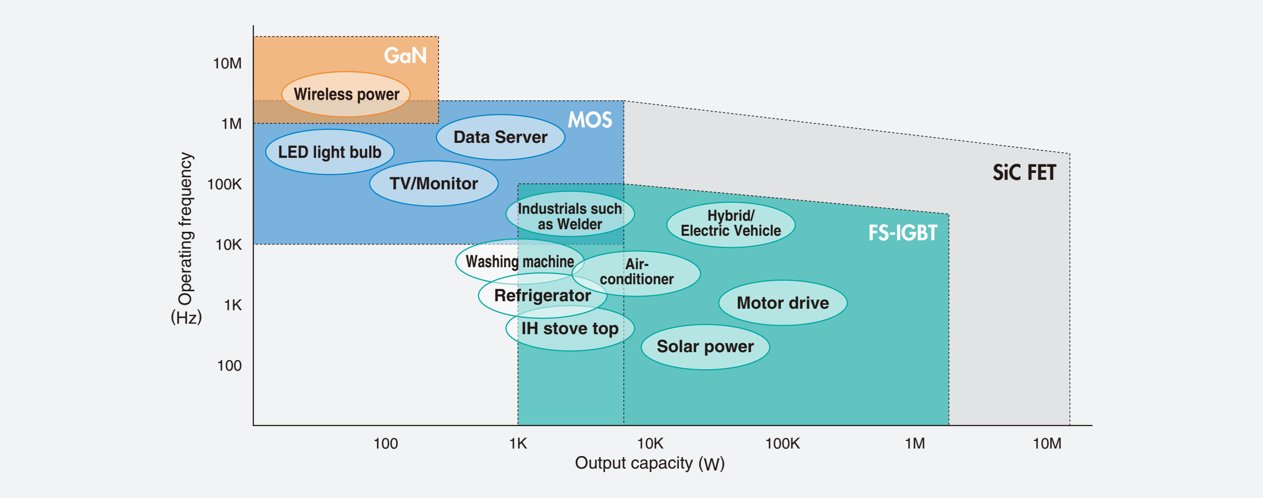
R&D and Intellectual Property

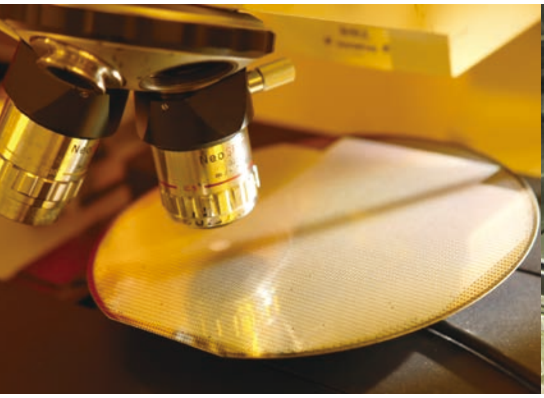
an event processing unit or EPU for digitally controlled power supplies to implement real-time processes with short delays or task switching in zero time. In addition to the "CPU + TinyDSP" built into conventional MD products we developed a new microcomputer specifically made for digitally controlled power supplies by incorporating a dedicated core "EPU" and further enhancing the multi-task processing of power supplies.

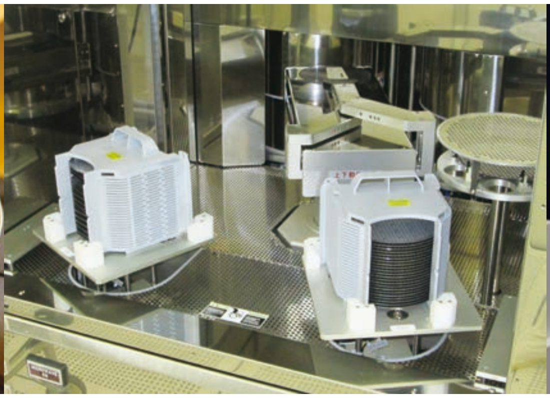
As for LED-related products we developed a new light control module for general-purpose LED lighting equipment. This product attains light control using just a single power supply, whereas in the past two power supply units were required for light control. In terms of LED lighting we developed a product that has realized approximately a 30% improved efficiency in comparison with our existing products, through improvements to the efficiency of LEDs and the adoption of a dedicated power supply.

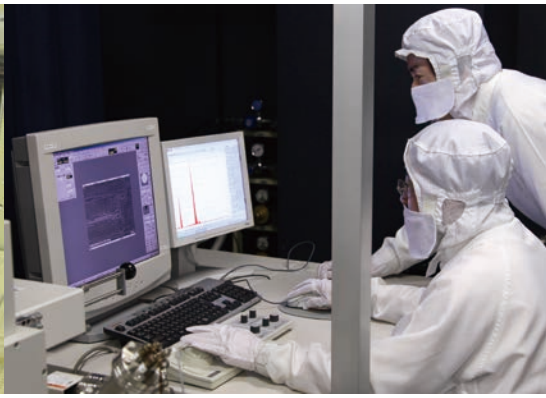
In relation to development activities for next-generation devices we have been working with GaN devices and are currently mass-producing a lateral semiconductor device that utilizes the "GaN on Si" technology derived from the Fundamental Technology Research Facilitation Program of the New Energy and Industrial Technology Development Organization (NEDO). In regards to vertical semiconductor devices that utilize bulk GaN substrates we are participating in the Research and Development Program of the Science and Technology Agency of Japan in order to proceed with our examination of improving performance to exceed that of horizontal semiconductor devices. In terms of SiC devices, we are proceeding

Expansion of power device development areas









with technology developments intended to achieve the practical implementation of high temperature resistant packaging of SiC devices in the Strategic Innovation Creation Program (SIP), while receiving a consignment of development work for the solar power generation-related project at NEDO, in order to develop a highly efficient, highly reliable SiC module.

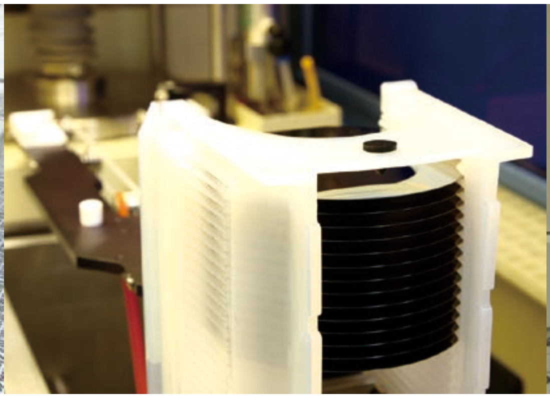
Through the application of these technologies we developed a snubber circuit that reduces surge voltage, a flip chip technology for accomplishing the low inductance necessary to fully utilize the performance of SiC power devices in the "New Material Power Semiconductor Project for Achieving a Low-Carbon Society" of NEDO, as well as high-temperature operating SiC power modules.

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 "AMBD" (Automotive Devices Business Development), "MCBD" (Motion Control Devices Business Development) and "PCBD" (Power Conversion Devices Business Development). The marketing functions for three markets, in which our efforts are focused, will respond to technology trends with bewildering changes in a flexible manner, with each business division taking charge of each market. The "Device Marketing Supervisory Department" supervises such efforts, while engaging in activities to pave the way for IoT-related markets, for which new responsive action is essential. The "Development Supervisory Department" has taken charge of developing new device products and modular products for the expanding technical domain, which has been broadening so rapidly that the operating divisions are unable to keep up, while the "Process Technology Supervisory Department" provides a function for developing semiconductor elements and processes.

The structural reform of FY2017 is aimed to further enhance our development organization. In terms of human resources, we will employ more engineers in our mid-career personnel recruiting efforts, while in terms of our base developments we will promote the establishment and substantiation of R&D bases overseas. Furthermore, we will enhance our joint development efforts with our subsidiary, Allegro MicroSystems LLC, not just for new products but we will also extend our development efforts to process technologies and Aiso technologies.



R&D and Intellectual Property

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.

We are building an intellectual infrastructure, such as the intellectual property database and a patent survey system, while striving to nurture intellectual property personnel.

As for intellectual property strategies, we are deploying strategies with an emphasis on “proactive” action.

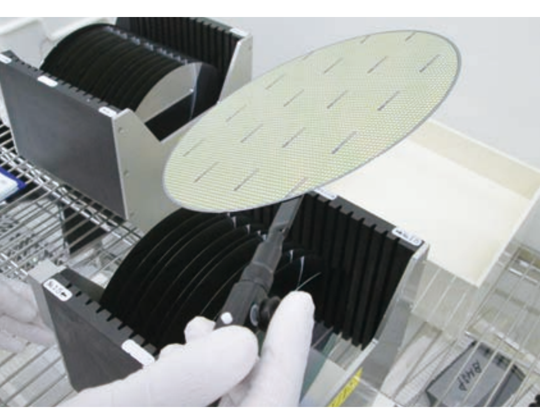
Firstly, we will firmly press forward with the “acquisition of global intellectual property rights.” More specifically, we will expand our patent ownership ratio abroad, in order to heighten the degree of freedom for implementing business activities in global markets. Since an awareness of the emphasis overseas has gradually spread throughout the company through activities implemented thus far, the ratio of patents acquired overseas are steadily increasing.

Secondly, we are aiming for “qualitative improvements to held patents.” The asset value of the patents we hold are improved through patent development activities based on an analysis of the patents held by other companies, as well as by creating counter-patents through reverse engineering and building a “strong patent group” that can be used to conclude advantageous cross-licenses. Patent applications, focused on strategic technical topics from FY2016, are to promote the strategy of “winning in winnable fields.”

Thirdly, we are promoting the “optimization of open & close strategies”. Activities that focus management resources on acquiring effective patents are performed to secure a competitive advantage through closing, with regards to technologies and know-how, which are part of our core technologies, while increasing the ratio of effective patents. As for commodity technologies, however, technical advantages will be sustained by securing know-how.

Fourthly, we will consider the “prevention of intellectual property risk and early solutions” as an important topic and we will conduct activities accordingly. We will enhance our capability to investigate and appraise global patents, while striving to reduce risks through a “discovery” system (evidence disclosure program).

Our intellectual property organization aims to maximize the contribution to business operations and improve cost performance through such 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

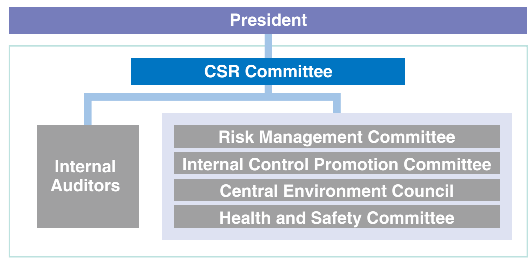
Sanken seeks to continually improve its over-all corporate value by pursuing responsible business activities. As a special corporate-wide, cross-functional organization, the CSR Committee works to promote dissemination of the CSR concept and encourage CSR actions at all Group companies.

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

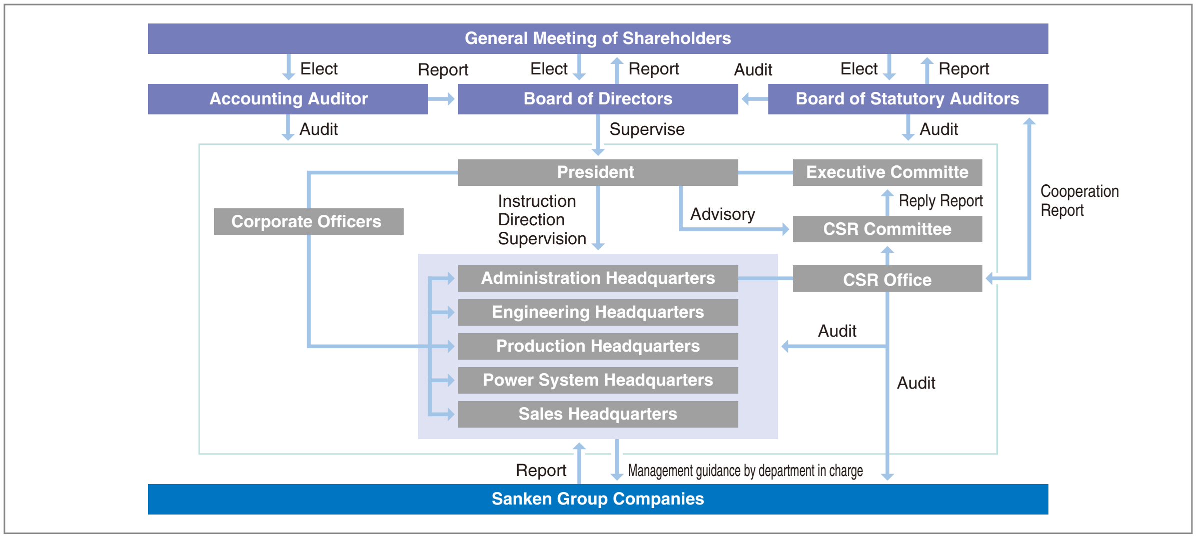
Sanken is striding forward to enhance accountability and ensure appropriate strategic decision-making by the Board of Directors, and strengthen the board's supervisory role, in order to boost efficiency, improve transparency and maintain sound management. At the same time, the Company is working to strengthen its corporate governance system through the activities of its CSR Office and IR Section. 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 eight-member Board of Directors (including two Independent Outside Directors) 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 2017, Sanken had 17 corporate officers, five of whom are serving concurrently as directors.

The Company believes the independence of both the two Outside Directors 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.



■ Related to promote Corporate Governance ■ Related to upgrade Business Operations

Internal Audits, Audits by Statutory Audits, and Financial Audits

For internal audits, Sanken has 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 Statutory Auditors, the Internal Auditing Group, as well as Accounting Auditors, conduct briefing meetings periodically, as well as when needed for the exchange of information and collaborations.

The Statutory 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 Statutory 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.

Internal Control System and Compliance System

We have established a "Code of Conduct" that serves as the standard of behavior for employees, as well as "Conduct Guidelines" that provide standards for observing the laws and ordinances of ethics. Furthermore, executives and employees are made thoroughly aware of the spirit of compliance, as well as the importance of compliance by the CEO, as efforts are made to ensure the thorough observance of the laws, ordinances and Articles of Association through the implementation of continuous education and training. As for the internal reporting system, endeavors to substantiate regulations and programs are made to establish a compliance framework by establishing a "Helpline System" that serves as a point of contact for employees to report internal information, as well as to access consultations. A person in charge of J-SOX was appointed in the Internal Audit Department in order to comply appropriately with the Internal Control Report System (J-SOX), based on the Financial Instruments and Exchange Act, while continuously reviewing and improving the company overall to secure the reliability of financial information.

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

The corporate group established a “Risk Management Committee” as an organization that reports directly to the President, in order to enhance a comprehensive risk management framework and to promote action. The Committee meets regularly. The Committee is engaged in a variety of activities, including preparation for contingencies through such means as substantiating emergency stockpiles, as well as sharing historical disaster responses and effective training methods to raise the base level of response action for disasters in the corporate group as a whole.

The corporate group has established a “Disaster Countermeasure Manual” and “Business Continuity Plan” (BCP) that stipulate procedures to minimize damage when disasters occur and procedures for restoration, as well as a safety confirmation system for employees to be used in case of an emergency in order to deal with risks that present a significant impact to business continuity, such as earthquakes and fire. The Committee is continuously engaged in activities to increase the responsive capabilities for critical disasters, by conducting periodical training and the like to effectively operate these procedures. An “International Crisis Management Manual” has been formulated for personnel safety management at overseas sites in order to share information and secure a rapid response in emergencies during ordinary times.

Information Security

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.

Information security education is taught periodically at the respective departments. The status of implementation for education and information management procedures is being monitored by the CSR Office as well, the results of which are used for enhancing the information management framework of the respective departments.

Preventive measures against unauthorized access have been enhanced for the communication network connected to external networks, while communication records are protected and monitored with the formulation of guidelines for the use of networks, utilizing measures that have been implemented to secure their effectiveness.

Introduction of External Directors and External Auditors

External Director **Richard R. Lury**	Mr. Lury has been a partner at a law firm in the United States for many years, with experience and knowledge in international corporate law. We consider him to be a good source of valuable advice and suggestions from the perspective of promoting global management. We also believe that he will be able to significantly contribute to enhancing the supervisory functions of our board of directors, by monitoring the corporate management from the objective viewpoint of an attorney, as well as an individual with an independent standpoint.
External Director **Noriharu Fujita**	Mr. Fujita is a certified public accountant in Japan, as well as in the United States. He has many years of auditing experience and possesses considerable knowledge relating to financial affairs and accounting. He also has plenty of international experience, including working as a partner at an auditing corporation in the United States. We believe he will be a good source of valuable advice and suggestions from the perspective of promoting global management. We also believe that he will be able to significantly contribute to enhancing the supervisory functions of our board of directors, by monitoring the corporate management from the objective viewpoint of a certified public accountant, as well as an individual with an independent standpoint.
External Auditor **Mikihiko Wada**	Mr. Wada has copious amounts of experience and a broad knowledge as a corporate manager. He spent many years working at a financial institution and possesses extensive knowledge in financial affairs and accounting, based on practical experiences. We believe he is a suitable person to fill the role of an external auditor from an independent standpoint, with a broad and specialized perspective.
External Auditor **Atsushi Minami**	Mr. Minami has the specialized knowledge and experience of an attorney and patent attorney. We believe he is capable of carrying out his duties as an external auditor from the independent standpoint of a law specialist, securing the validity of audits.

3 Created Work Environment

At Sanken, we hold as our management philosophy "respect each and every employee, while interacting with all employees fairly". With this concept as our foundation we are making a concerted effort to create the opportunities necessary to develop the capabilities of our employees, while creating a work environment that is safe and easy to work in.

Diversity

As part of our promotion for diversity we are taking steps to secure a diverse range of personnel, continuing our program of hiring disabled persons through our close association with local public employment security offices. The hiring of new graduates is undertaken through efforts to diversify employees in response to the globalization of our business, including such means as taking proactive action to hire foreign nationals. Two Japanese students have been dispatched to our affiliate in North America, as a part of our internship program for students, through our collaboration with the Overseas Internship Program, which is a project of Saitama Prefecture.

Safety and Security of Work Places

The Health and Safety Committee holds a scheduled meeting each month at the respective business establishments to promote activities for the safety and the security of work places. A quarterly meeting of the Central Health and Safety Committee is convened as a corporate program to implement a variety of activities in association with individual business establishments.

Promotion of active involvement by women

The Sanken Group is implementing a Positive Action Program to promote active involvement by women in the medium to long term, consequentially enrolling approximately 80 individuals in the program since FY2012 (constituting the 1st to the 4th enrollment groups). This program not only involves the superiors of members, who provide on-the-job training (OJT), but also lectures are given by external female managers to provide opportunities for growth, along with seminars on "Logical Thinking", "Power to Promote Involvement" and other activities to improve the environment with active involvement by women.

4 Contributions to Local Communities

Sanken considers the revitalization of local communities leads to the securing of personnel for our corporate group, while enhancing a variety of infrastructure. Based on this concept we contribute with activities to improve our local communities. A major characteristic of community activities contributed by Sanken, includes the utilization of products and technologies developed and manufactured by Sanken.

Local community revitalized by utilizing "Petbotaru©" LEDs

An LED with a solar power generation panel, referred to as "Petbotaru©", utilizes the LED product and circuit technology of our proprietary development. Illumination events utilizing "Petbotaru©" are conducted primarily in regions where the companies of our corporate group are based.

In FY2016 the first event was held in Oita Prefecture in addition to Ishikawa Prefecture (6th event), Toyama Prefecture (4th event) and Fukui Prefecture (2nd event), whereas in Ibaraki Prefecture we were asked by Kamisu City Hall to take part in illuminating the local cherry blossom festival.

Mechanism of "Petbotaru©"

This simple illumination device, comprised of a "solar power generation panel", "rechargeable battery" and "LED", is built into a container to generate and store power using solar energy during the day, turning on an LED automatically when it becomes dark. Power is generated through solar energy rather than the consumption of fossil fuel, resulting in positive evaluations for being gentle on the global environment and economical.

Toyama Prefecture

Fukui Prefecture

Oita Prefecture

Environmental classes for elementary and junior high school students around the country

Sanken provides “Energy Conservation Environmental Classes” and “Craft Classes” that utilize the semiconductor and LED products we produce, such as “Petbotaru©”, as well as various other technologies. Classes in FY2016 were held per the following details:

Venue	Date	Number of participants
Owada Community Center, Niiza City	July 21, 2016	20 persons
Civic Center, Nihonmatsu City, Fukushima Prefecture	July 25, 2016	27 persons
Daito Community Center, Kawasaki City	August 3, 2016	20 persons
Tohoku Community Center, Niiza City	August 23, 2016	15 persons
Elementary schools and junior high schools in Shika Town, Ishikawa Prefecture	During summer vacation	1,340 persons
Uwato Elementary School, Kawagoe City	October 25, 2016	96 persons
Fukushinosato Children’s Center, Niiza City	November 5, 2016	12 persons
Community Center, Niiza City	December 22, 2016	10 persons
Hatanaka Community Center	January 14, 2017	10 persons

Civic Center, Nihonmatsu City, Fukushima Prefecture

Hatanaka Community Center

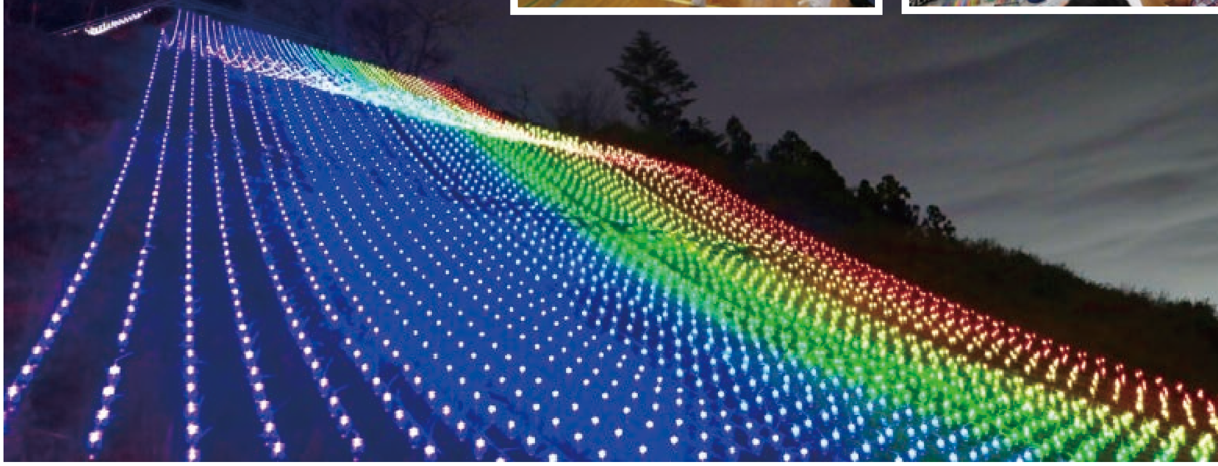
Community Center, Niiza City

Assistance for Recovery from Great East Japan Earthquake

"Petbotaru©" LED units, used in the "Higashimatsushima City Recovery Event" was held on November 19, 2016, were assembled by the children of Higashimatsushima City in their craft class during their Summer vacation. They provided their "dreams for the future" and drawings in message films incorporated in "Petbotaru©" LED units. All the children attending the craft class, held at the Community Center in Niiza City and Kawagoe City, drew message films, which were sent to Higashimatsuyama City and incorporated in "Petbotaru©" LED units.

Naruseouka Elementary School

Higashimatsushima City Community Center



Higashimatsushima City Recovery Event

5 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 promoting environmental activities with the catch phrase, "Contributing to Global Environment with Cutting Edge Eco-friendly and Energy Saving Products."

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 Groupwide, cross-functional environmental protection organization.

Sanken currently has established environmental management systems for its production bases at domestic and overseas manufacturing sites, all of which have obtained ISO14001 certification. Actions are currently being taken systematically toward the acquisition of the new ISO14001 certification (2015 version) and sequential acquisition of certifications at sites is planned to start from January 2017.

Sanken Electric Headquarters, Kawagoe Plant and Niiza Plant were certified for the 2015 version of the ISO14001 standard in March 2017, as the leadoff candidates from the domestic companies of the Sanken Group.

Conservation Activities

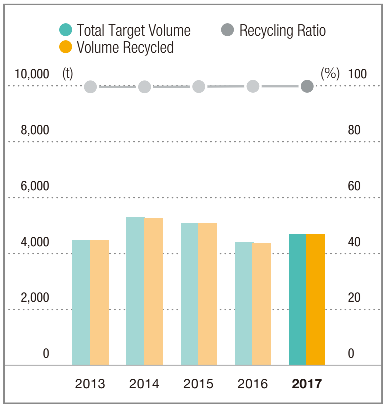
We will take environmental conservation action through the development of products with consideration for the environment and by reducing emissions from waste materials and the consumption of energy resources, while responding to the characteristics of businesses.

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.

Periodical patrols are carried out at locations where chemicals are used and stored, in order to reduce the risks associated with chemical substances. The decomposition chamber has been relocated to a site with a proper working environment in FY2015 and access is controlled with an electronic lock to prevent incidents from occurring.

We take on board the provisions under environment-related laws and regulations and periodically verify our compliance status with such laws and regulations. To ensure we comply with the laws and regulations we established voluntary control values relating to the emissions of gas, effluent, noise, vibration and the like, at each of our locations and these are stricter than the regulatory values set forth by the laws and ordinances. We received no administrative directions or recommendations, nor any environment-related complaints from neighboring communities in FY2016.

Waste Volume and Recycling Progress



Environmental Responsiveness of Products

In order to respond to international regulations governing hazardous substances, the Company has been implementing such measures as the promotion of environmentally friendly designs of products and green procurements. Products that comply with the "Euro6" standard, an exhaust gas emissions regulation in Europe, have been developed for our core market, the automotive industry, as well as products that comply with the "Top Runner Standards" for motor-related markets, primarily for white goods, as our ongoing contribution to environmental measures.

Financial Highlights

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017, 2016, 2015, 2014, 2013 and 2012

	Millions of yen					
	2017	2016	2015	2014	2013	2012
Statements of income						
Net sales	¥ 158,772	¥ 155,919	¥ 160,724	¥ 144,467	¥ 126,386	¥ 131,803
Cost of sales	117,869	115,113	116,834	108,656	98,211	104,820
Gross profit	40,902	40,806	43,889	35,810	28,174	26,982
Selling, general and administrative expenses	34,972	34,003	32,689	28,033	23,549	22,934
Operating income (loss)	5,930	6,803	11,199	7,777	4,625	4,048
Other income (expenses), net	(1,347)	(4,734)	375	(2,308)	(526)	(1,502)
Profit before income taxes	4,582	2,068	11,575	5,468	4,099	2,545
Profit attributable to owners of parent	1,739	171	7,942	5,029	2,272	436
Balance sheets						
Total current assets	¥ 112,415	¥ 112,204	¥ 116,183	¥ 100,764	¥ 92,077	¥ 84,280
Total investments and long-term receivables	4,725	4,820	5,317	5,404	3,803	3,624
Property, plant and equipment, net	60,204	62,015	65,795	54,975	50,945	47,301
Other assets	5,355	5,671	5,971	3,618	1,691	922
Total assets	182,700	184,711	193,267	164,762	148,517	136,130
Total current liabilities	75,967	79,499	87,353	71,376	76,948	65,930
Total long-term liabilities	51,995	51,252	42,892	44,277	32,132	36,906
Total net assets	54,736	53,959	63,021	49,108	39,436	33,293
Total liabilities and net assets	182,700	184,711	193,267	164,762	148,517	136,130

	%					
Financial indicators						
Return on assets	2.7	2.0	5.8	4.8	2.8	2.2
Return on equity	3.2	0.3	14.3	11.4	6.3	1.3
Return on sales	1.10	0.11	4.94	3.48	1.80	0.33
Equity ratio	29.8	29.0	32.4	29.6	26.4	24.3
Current ratio	148.0	141.1	133.0	141.2	119.7	127.8

	Yen					
Per share						
Total net assets per share	¥ 448.87	¥ 441.96	¥ 516.22	¥ 401.75	¥ 322.92	¥ 272.21
Net income (loss) per share	14.35	1.41	65.50	41.47	18.73	3.60
Cash dividends per share	3.50	3.50	6.50	6.00	6.00	3.00

Financial Section

Contents

Management's Discussion and Analysis

Sanken Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

OVERVIEW

Management Strategy

Our corporate group is advancing the globalization of our business operations by implementing proprietary technologies, while striving to achieve innovations with our technological and creative capabilities, according to our "Management Philosophy," which states our mission of providing an optimum solution for power electronics and peripheral domains, with semiconductors as the core business. We are also striving to secure a strong management base to maximize the value of the corporate group through steady efforts in response to the needs of society, while achieving harmony with the environment.

We formulated a medium-term management plan, spanning three years from the fiscal term ending in March 2016 to the fiscal term ending in March 2018, as our medium to long-term management strategy. Two basic policies, "commitment to growth markets" and "enhancement of the financial constitution" were established, with the entire corporate group working toward achieving such objectives during this current fiscal term (fiscal term ending March 2017), which marked the second fiscal year of the current medium-term management plan. More specifically, management resources have been concentrated on fields identified as growth markets, such as automotive, motion control, white goods, industrial machinery, telecommunications and renewable energy, while proactive action has been taken to implement business structure reforms with a focus on "selective concentration" to affect a rapid transformation to such business structures.

Fund procurement and liquidity

The means used to procure funds for the corporate group include the issuing of corporate bonds and commercial papers, the signing of committed lines of credit and bank loans. The balance of accounts as of March 31, 2017 was ¥23.151 billion for short-term loans, ¥15 billion for commercial papers, ¥40 billion for corporate bonds and ¥12.5 billion for long-term loans. Funds for the working capital and capital investments were basically procured from internal resources, however it was considered possible to procure the funds necessary for the working capital and capital investments, required to sustain the growth of the corporate group, from a capacity to create cash flow through sales activities, as well as from ¥15 billion of unused commercial paper issuance facilities, ¥15.9 billion of unused overdrafts and about ¥12.8 billion in committed lines of credit.

Dividend policy

The Company regards the returning of profits to shareholders as the basic policy for distributing profits and recognizes this as one of the most important management priorities. It is therefore the intention of the corporate group to provide stable and steady dividends by improving our earning capabilities, while maintaining the internal reserves necessary to develop our businesses, improve our financial constitution and strengthen our overall management foundation for the future.

As a basic policy the distribution of capital surplus to shareholders is realized twice each year, as interim and year-end dividends. The Board of Directors is the decision-making body for the interim dividends and the General Meeting of Shareholders for the year-end dividends.

With regards to dividends for the current term, a very regrettable decision had to be made to forgo distribution of interim dividends. Furthermore, the business performance for the current fiscal term improved and led to an increased unconsolidated net asset of the parent company, which is the source of dividends, due in part to a reduction in other expenses in comparison with the previous fiscal term. A decision was therefore made to restore dividends at the end of the fiscal term (no dividends issued for the previous fiscal term) and distribute ¥3.50 by adding the 70th anniversary commemorative dividend of ¥0.50 to the ordinary dividend of ¥3.

RESULTS OF OPERATIONS

Summary

In the electronics industry, to which our corporate group belongs, a steady transition occurred in spite of a decline in the audiovisual-related products, consisting primarily of television sets and audio products, while the market for office equipment, such as printers, also transitioned at a low level, supported by an increased demand in the Asian Region, particularly China, for energy-saving types of white goods, such as those incorporating inverters, as well as the recovery of the automotive industry in Europe and the extended availability of subsidies for compact cars in China.

Under such an environment our corporate group supported “a commitment to growth markets” and “the enhancement of the financial constitution” as our basic policies and we have made a concerted effort in the development of new products with a focus on green energy-related strategic markets related to “eco-friendly and energy saving” aspects, in an effort to increase sales and improve our earning power, while also focusing on reducing inventory assets and interest-bearing liabilities.

The consolidated business performance for the current term, in terms of sales was ¥158.772 billion, which is a 1.8% increase from the previous term, due in part to such reasons as beneficial sales for semiconductor device business operations, as the products for white goods and automotive products transitioned favorably, primarily in overseas markets.

In terms of profit, on the other hand, the consolidated operating income was impacted by a currency exchange that transitioned with the appreciation of the yen and resulted in a reduction by 12.8% compared with the previous fiscal year to reach ¥5.93 billion. Furthermore, as other expenses decreased the net profit attributable to the shareholders of the parent company (profit attributable to the owners of the parent company) increased by 914.0% over the previous fiscal term to reach ¥1.739 billion.

Results of Operations by Business Segment

Semiconductor Devices Business

The consolidated sales for the semiconductor device segment was ¥129.322 billion, which was an increase by ¥421 million (3.4%) over the previous term.

The sales of products for office equipment, primarily audiovisual products and printers, decreased, however the sales of products for white goods, such as air conditioners and washing machines, as well as products for automotive applications, transitioned in a favorable manner.

In terms of profits, the consolidated operating income was impacted by the currency exchange that transitioned with the appreciation of the yen, which essentially remained at the same level as the previous fiscal year reaching ¥9.251 billion.

Power Module Business

Net sales for the power module business were ¥16.153 billion, which was an increase of ¥230 million (1.5%) over the previous term.

Sales of audiovisual products and automotive products increased.

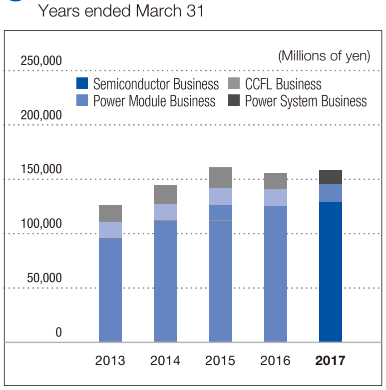
In terms of profits, we sustained a consolidated operating loss of ¥384 million (consolidated operating loss of ¥973 million the previous fiscal year), due to such business structural reforms as the transformation of our product portfolio and a reduction in the fixed expenses currently in the process of implementation.

Power System Business

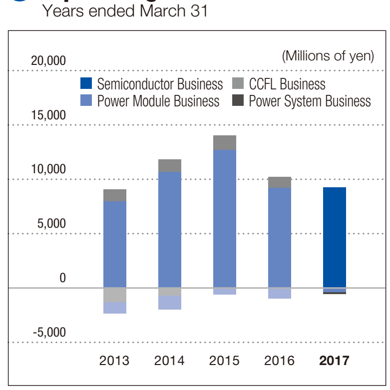
Net sales for the power system business were ¥13.296 billion, a reduction of ¥1.583 billion (10.6%) from the previous term.

In addition to the continued decline in the sale of products for the telecommunications market, we struggled in our efforts to increase the sales of

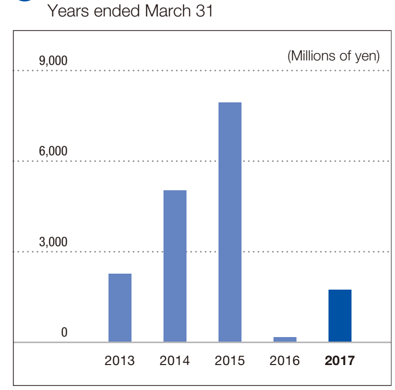
Net Sales
Years ended March 31



Operating Income
Years ended March 31



Net Income
Years ended March 31



products for the new energy market.

In terms of income, the consolidated operating loss was ¥180 million (consolidated operating profit was ¥973 million for the previous fiscal year), due to a reduction in sales.

Other income (expenses)

Other income (expenses) for the previous term was ¥3.495 billion but the figure for the current term was ¥1.601 billion, resulting in a significant reduction over the previous term. Although during the previous term we sustained foreign exchange losses of ¥1.058 billion, with business structure reform costs of ¥621 million, as well as losses of ¥1.032 billion for countermeasures against the abnormal properties of chemicals and the like, however, we were scarcely impacted by any of these during the current term.

FINANCIAL POSITION

Total Assets

The total assets as of the end of the current fiscal year were ¥182.7 billion, a reduction by ¥2.011 billion from the end of the previous term. The current assets were ¥112.415 billion, an increase of ¥211 million from the end of the previous term. This was primarily due to a decrease in inventories by ¥1.424 billion, whereas cash and deposits increased by ¥4.624 billion. Investments and long-term receivables were ¥4.725 billion, which was a decrease of ¥95 million from the end of the previous term. Tangible net assets (net property, plant and equipment) were ¥60.204 billion, a reduction by ¥1.811 billion from the end of the previous term. This was due primarily to the increase in machinery and equipment, while the figure for buildings decreased.

Liabilities

Liabilities at the end of the current term were ¥75.967 billion, a reduction by ¥3.532 billion from the end of the previous term. This was due primarily to an increase in the commercial papers by ¥11 billion, whereas the current portion of long-term debt decreased by ¥25.9 billion.

Long-term liabilities at the end of the current term were ¥51.995 billion, an increase by ¥743 million over the end of the previous term. This was due primarily to a reduction in the liabilities for retirement benefits by ¥1.477 billion, while the long-term debt increased by ¥2.5 billion.

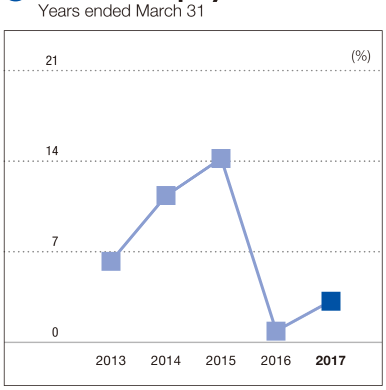
Net Assets

Total assets as of the end of the current fiscal year were ¥54.736 billion, an increase of ¥777 million at the end of the previous term. The total shareholders' equity reached ¥56.371 billion, an increase by ¥1,730 million over the previous term. This was due to an increase in the retained earnings by ¥1,739 million and a reduction in translation adjustments by ¥935 million. Furthermore, the equity ratio at the end of the current term is 29.8%, which is an increase by 0.8 points over the end of the previous term.

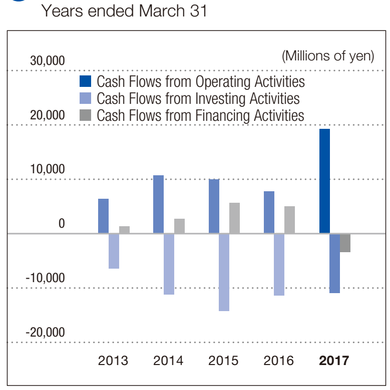
Cash Flows

The funding situation of our corporate group in terms of cash flow from operating activities resulted in an

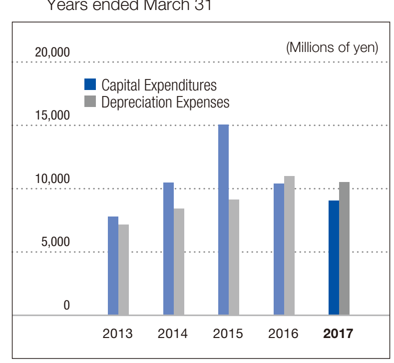
Return on Equity
Years ended March 31



Cash Flows
Years ended March 31



Capital Expenditures/ Depreciation Expenses
Years ended March 31



income of ¥19.237 billion (increase of income by ¥11.438 billion from the previous term), due to an increase in income before income tax and minority interests, as well as increases in notes and accounts payable that led to a reduced expenditure. In terms of “cash flow from investing activities” the results indicated an expenditure of ¥10.931 billion (reduction of expenditure by ¥413 million from the previous term), due in part to a reduction in the purchases of property, plant and equipment. In terms of “cash flow from financing activities” the results indicated an expenditure of ¥3.360 billion (income of ¥5,044 million recorded for the previous term), due in part to the redemption of corporate bonds. As a consequence of the above, the balance of cash and cash equivalents at the end of the current term were ¥22.237 billion, an increase of ¥4.591 billion from the end of the previous term.

Capital Expenditures

The amount of capital investments made by our corporate group during the current term totaled ¥9.071 billion and primarily consisted of purchases for production, testing and research equipment.

In the semiconductor business, the capital expenditure of the corporate group was ¥206 million for the purchase of production, testing and research facilities, while the capital expenditure of consolidated subsidiaries, including Ishikawa Sanken Co., Ltd., Yamagata Sanken Co., Ltd., Fukushima Sanken Co., Ltd., Dalian Sanken Electric Co., Ltd., Allegro MicroSystems, Inc., as well as Polar Semiconductor, Inc., was ¥8.614 billion to enhance production facilities.

In the PM business, the capital expenditure of our Company was ¥8 million for items such as product molds, while the capital expenditures of consolidated subsidiaries, including P.T. Sanken Indonesia was ¥174 million for production facilities, as well as for the purchase of molds and the like.

In the PS business, the capital expenditure of our Company was ¥108 million for items such as product molds, while the capital expenditure of consolidated subsidiaries, including P.T. Sanken Indonesia was ¥164 million for production facilities, as well as for the purchase of molds and the like.

Funds for capital expenditures have been 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, 2017). It is important to keep in mind that actual outcomes may deviate considerably from these forecasts due to inherent uncertainties.

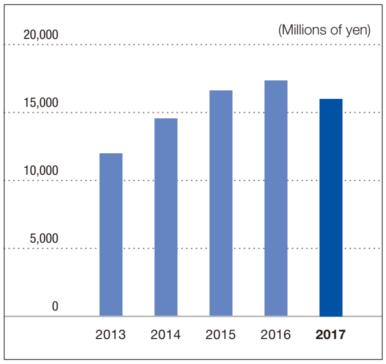
Strategy risk

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

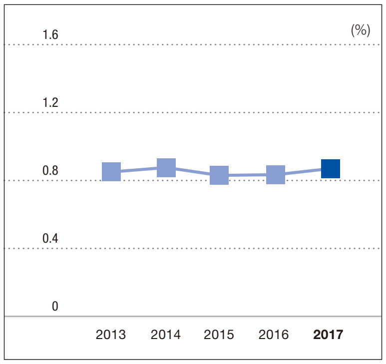
R&D Expenses

Years ended March 31



Asset Turnover

Years ended March 31



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 52.3% of consolidated production value for the year ended March 31, 2015, 56.4% for the year ended March 31, 2016 and 57.5% for the year ended March 31, 2017. Overseas sales on a consolidated basis as a proportion of total sales were 58.3% for the year ended March 31, 2015, 61.4% for the year ended March 31, 2016 and 61.7% for the year ended March 31, 2017 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 39.0% for the year ended March 31, 2015, 41.1% for the year ended March 31, 2016 and 42.7% for the year ended March 31, 2017. Of these exports, the proportion denominated in foreign currencies were 91.6% for the year ended March 31, 2015, 91.0% for the year ended March 31, 2016 and 91.1% for the year ended March 31, 2017. 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 14 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	2017	2016	2017
	As of March 31,		
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Current assets:			
Cash and deposits (Notes 4 and 6)	¥ 22,548	¥ 17,924	$ 201,001
Notes and accounts receivable – trade (Notes 5 and 6)	33,867	33,999	301,906
Less allowance for doubtful receivables	(299)	(10)	(2,665)
Inventories (Note 9)	51,165	52,589	456,104
Deferred tax assets (Note 19)	2,080	2,095	18,550
Other current assets	3,051	5,606	27,198
Total current assets	112,415	112,204	1,002,096
Non-current assets:			
Property, plant and equipment (Note 10):			
Land	5,004	5,039	44,611
Buildings and structures, net	21,643	22,837	192,934
Machinery, equipment and vehicles, net	27,341	26,788	243,727
Tools, furniture and fixtures, net	1,024	1,105	9,130
Leased assets, net	447	1,323	3,986
Construction in progress	4,743	4,921	42,282
Total property, plant and equipment	60,204	62,015	536,673
Intangible assets:			
Software	3,298	3,717	29,401
Other	2,057	1,954	18,341
Total intangible assets	5,355	5,671	47,743
Investments and long-term receivables:			
Investments in other securities (Notes 6 and 7)	1,457	1,204	12,991
Deferred tax assets (Note 19)	204	204	1,826
Other long-term receivables	3,304	3,656	29,459
Less allowance for doubtful receivables	(242)	(244)	(2,157)
Total investments and long-term receivables	4,725	4,820	42,120
Total assets	¥ 182,700	¥ 184,711	$ 1,628,633

Liabilities and net assets	As of March 31, 2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Current liabilities:			
Short-term bank loans (Notes 6 and 11)	¥ 23,151	¥ 20,635	$ 206,377
Current portion of long-term debt (Notes 6 and 11)	7,500	25,900	66,856
Commercial paper (Notes 6 and 11)	15,000	4,000	133,713
Notes and accounts payable (Note 6):	18,391	16,120	163,948
Accrued expenses	9,441	9,490	84,161
Lease obligations	220	924	1,965
Income taxes payable	492	423	4,386
Deferred tax liabilities (Note 19)	—	1	—
Other current liabilities	1,770	2,003	15,779
Total current liabilities	75,967	79,499	677,190
Long-term liabilities:			
Bonds payable (Notes 6 and 11)	40,000	30,000	356,569
Long-term debt (Notes 6 and 11)	5,000	12,500	44,571
Lease obligations	156	329	1,392
Accrued retirement benefits for directors	25	17	227
Liabilities for retirement benefits (Note 18)	2,627	4,104	23,418
Deferred tax liabilities (Note 19)	2,178	2,668	19,416
Other long-term liabilities	2,009	1,633	17,909
Total long-term liabilities	51,995	51,252	463,504
Net assets (Note 20)**:**			
Shareholders' equity:			
Common stock:			
Authorized – 257,000,000 shares			
Issued and outstanding: 2017 – 125,490,302 shares	20,896	—	186,279
2016 – 125,490,302 shares	—	20,896	—
Capital surplus	10,301	10,301	91,826
Retained earnings	29,176	27,437	260,087
Less treasury stock, at cost: 4,293,460 shares in 2017 and 4,275,417 shares in 2016	(4,003)	(3,994)	(35,685)
Total shareholders' equity (Note 24)	56,371	54,641	502,507
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities	425	249	3,791
Translation adjustments	754	1,689	6,725
Retirement benefit liability adjustments	(3,150)	(3,007)	(28,080)
Total accumulated other comprehensive income (loss)	(1,970)	(1,068)	(17,563)
Non-controlling interests	335	387	2,993
Total net assets	54,736	53,959	487,937
Total liabilities and net assets	¥ 182,700	¥ 184,711	$ 1,628,633

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

Consolidated Statements of Income

Sanken Electric Co., Ltd. and Consolidated Subsidiaries

	For the year ended March 31, 2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales	¥ 158,772	¥ 155,919	$ 1,415,337
Cost of sales (Notes 18, 21 and 23)	117,869	115,113	1,050,721
Gross profit	40,902	40,806	364,616
Selling, general and administrative expenses (Notes 13, 18, 21 and 23)	34,972	34,003	311,750
Operating income	5,930	6,803	52,865
Other income (expenses):			
Interest expense	(716)	(843)	(6,389)
Interest income	26	11	239
Dividend income	36	41	329
Subsidy income	162	—	1,444
Foreign exchange gains (losses)	(14)	(1,058)	(126)
Gain on insurance adjustment	—	110	—
Gain on sales of scraps	84	94	753
Product warranting costs	(83)	(646)	(742)
Gain on sales of fixed assets	0	—	3
Loss on sales of fixed assets	(4)	(24)	(39)
Loss on disposal of fixed assets (Note 14)	(440)	(39)	(3,923)
Loss on valuation of securities	—	(4)	—
Business structure reform cost (Note 15)	—	(621)	—
Loss on countermeasures against abnormal properties of chemicals (Note 16)	—	(1,032)	—
Other income	387	226	3,456
Other expenses	(787)	(946)	(7,021)
	(1,347)	(4,734)	(12,014)
Profit before income taxes	4,582	2,068	40,850
Income taxes (Note 19):			
Current	4,062	1,886	36,216
Deferred	(1,196)	13	(10,663)
Profit	1,716	168	15,297
Profit (loss) attributable to non-controlling interests	(22)	(3)	(204)
Profit attributable to owners of parent (Note 24)	¥ 1,739	¥ 171	$ 15,502

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

Consolidated Statements of Comprehensive Income (Loss)

Sanken Electric Co., Ltd. and Consolidated Subsidiaries

	For the year ended March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Profit	¥ 1,716	¥ 168	$ 15,297
Other comprehensive income (loss):			
Unrealized holding gain (loss) on securities	175	(121)	1,567
Translation adjustments	(960)	(4,132)	(8,560)
Retirement benefit liability adjustments	(142)	(4,109)	(1,272)
Total other comprehensive income (loss) (Note 17)	(927)	(8,364)	(8,264)
Comprehensive income (loss)	¥ 788	¥ (8,196)	$ 7,032
Breakdown:			
Comprehensive income (loss) attributable to :			
Owners of parent	¥ 837	¥ (8,150)	$ 7,465
Non-controlling interests	(48)	(46)	(432)

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, 2017				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at April 1, 2016	¥ 20,896	¥ 10,301	¥ 27,437	¥ (3,994)	¥ 54,641
Changes during the year					
Cash dividends paid (other capital surplus)					—
Profit attributable to owners of parent			1,739		1,739
Acquisition of treasury stock				(9)	(9)
Disposition of treasury stock					—
Net changes in items other than shareholders' equity					—
Total changes during the year	—	—	1,739	(9)	1,730
Balance at March 31, 2017	¥ 20,896	¥ 10,301	¥ 29,176	¥ (4,003)	¥ 56,371

	For the year ended March 31, 2017					
	Accumulated other comprehensive income					
	Unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
	(Millions of yen)					
Balance at April 1, 2016	¥ 249	¥ 1,689	¥ (3,007)	¥ (1,068)	¥ 387	¥ 53,959
Changes during the year						
Cash dividends paid (other capital surplus)				—		—
Profit attributable to owners of parent				—		1,739
Acquisition of treasury stock				—		(9)
Disposition of treasury stock				—		—
Net changes in items other than shareholders' equity	175	(934)	(142)	(901)	(51)	(953)
Total changes during the year	175	(934)	(142)	(901)	(51)	776
Balance at March 31, 2017	¥ 425	¥ 754	¥ (3,150)	¥ (1,970)	¥ 335	¥ 54,736

	For the year ended March 31, 2017				
	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, 2016	$ 186,279	$ 91,826	$ 244,585	$ (35,605)	$ 487,085
Changes during the year					
Cash dividends paid (other capital surplus)					—
Profit attributable to owners of parent			15,502		15,502
Acquisition of treasury stock				(80)	(80)
Disposition of treasury stock					—
Net changes in items other than shareholders' equity					—
Total changes during the year	—	—	15,502	(80)	15,422
Balance at March 31, 2017	$ 186,279	$ 91,826	$ 260,087	$ (35,685)	$ 502,507

	For the year ended March 31, 2017					
	Accumulated other comprehensive income					
	Unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
	(Thousands of U.S. dollars) (Note 3)					
Balance at April 1, 2016	$ 2,224	$ 15,057	$ (26,808)	$ (9,526)	$ 3,452	$ 481,011
Changes during the year						
Cash dividends paid (other capital surplus)				—		—
Profit attributable to owners of parent				—		15,502
Acquisition of treasury stock				—		(80)
Disposition of treasury stock				—		—
Net changes in items other than shareholders' equity	1,567	(8,332)	(1,272)	(8,036)	(459)	(8,495)
Total changes during the year	1,567	(8,332)	(1,272)	(8,036)	(459)	6,927
Balance at March 31, 2017	$ 3,791	$ 6,725	$ (28,080)	$ (17,563)	$ 2,993	$ 487,937

	For the year ended March 31, 2016				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at April 1, 2015	¥ 20,896	¥ 10,301	¥ 28,114	¥ (3,981)	¥ 55,331
Changes during the year					
Cash dividends paid (other capital surplus)			(848)		(848)
Profit attributable to owners of parent			171		171
Acquisition of treasury stock				(13)	(13)
Disposition of treasury stock		(0)		0	0
Net changes in items other than shareholders' equity					—
Total changes during the year	—	(0)	(677)	(13)	(690)
Balance at March 31, 2016	¥ 20,896	¥ 10,301	¥ 27,437	¥ (3,994)	¥ 54,641

	For the year ended March 31, 2016					
	Accumulated other comprehensive income					
	Unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
	(Millions of yen)					
Balance at April 1, 2015	¥ 371	¥ 5,778	¥ 1,102	¥ 7,252	¥ 437	¥ 63,021
Changes during the year						
Cash dividends paid (other capital surplus)				—		(848)
Profit attributable to owners of parent				—		171
Acquisition of treasury stock				—		(13)
Disposition of treasury stock				—		0
Net changes in items other than shareholders' equity	(121)	(4,089)	(4,109)	(8,321)	(49)	(8,371)
Total changes during the year	(121)	(4,089)	(4,109)	(8,321)	(49)	(9,061)
Balance at March 31, 2016	¥ 249	¥ 1,689	¥ (3,007)	¥ (1,068)	¥ 387	¥ 53,959

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,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Operating activities			
Profit before income taxes	¥ 4,582	¥ 2,068	$ 40,850
Depreciation and amortization	11,045	11,593	98,465
Decrease (increase) in allowance for doubtful receivables	285	(6)	2,545
Decrease (increase) in net defined benefit assets	981	(1,326)	8,750
Increase (decrease) in provision for retirement benefits for employees	(2,303)	(652)	(20,534)
Interest and dividend income	(63)	(52)	(569)
Interest expense	716	843	6,389
Loss (gain) on sales of property, plant and equipment	3	24	35
Decrease (increase) in notes and accounts receivable	(43)	2,509	(388)
Decrease (increase) in inventories	1,243	(152)	11,082
Increase (decrease) in notes and accounts payable	2,436	(3,880)	21,715
Other	3,777	462	33,672
Subtotal	22,662	11,431	202,015
Interest and dividends received	68	47	610
Interest paid	(809)	(818)	(7,220)
Income taxes paid	(2,682)	(2,860)	(23,916)
Net cash provided by operating activities	19,237	7,799	171,489
Investing activities			
Purchases of property, plant and equipment	(9,896)	(10,239)	(88,216)
Proceeds from sales of property, plant and equipment	27	172	244
Purchases of intangible assets	(1,030)	(1,042)	(9,187)
Increase in loans receivable	(1)	(1)	(15)
Proceeds from loans receivable	8	5	78
Other	(38)	(239)	(345)
Net cash used in investing activities	(10,931)	(11,344)	(97,441)
Financing activities			
Increase (decrease) in short-term bank loans	2,572	(110)	22,934
Increase (decrease) in commercial paper	11,000	(18,500)	98,056
Proceeds from issuance of long-term debt	—	5,000	—
Repayment of long-term debt	—	(5,000)	—
Proceeds from issuance of corporate bonds	9,950	29,867	88,697
Redemption of corporate bonds	(25,900)	(4,100)	(230,878)
Repayment of finance lease obligations	(973)	(1,249)	(8,678)
Proceeds from share issuance to non-controlling shareholders	—	0	—
Purchase of treasury stock	(9)	(13)	(80)
Cash dividends paid	(1)	(849)	(9)
Net cash (used in) provided by financing activities	(3,360)	5,044	(29,959)
Effect of exchange rate changes on cash and cash equivalents	(354)	(1,078)	(3,160)
Net increase in cash and cash equivalents	4,591	421	40,927
Cash and cash equivalents at beginning of the year	17,646	17,225	157,305
Cash and cash equivalents at end of the year (Note 4)	¥ 22,237	¥ 17,646	$ 198,233

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, 2017

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, 2017 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, 2017, the number of consolidated subsidiaries was 34 (33 in 2016). 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 cost using the moving-average method. The carrying amounts in the accompanying consolidated balance sheets are written down to reflect any decreased profitability.

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

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

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

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

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

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

(f) Allowance for Doubtful Receivables

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

(g) Bond Issuance Costs

Bond issuance costs are charged to income when incurred.

(h) Employees' Retirement Benefits

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

Prior service cost is amortized from the year in which the gain or loss is recognized primarily by the declining-balance method over various periods (principally 10 through 20 years) which are shorter than the average remaining years of service of the employees.

Net unrecognized actuarial gain or loss is amortized from the year following the year in which the gain or loss is recognized primarily by the declining-balance method over various periods (principally 10 through 18 years) which are shorter than the average remaining years of service of the employees.

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

(Additional information)

Effective from October 1, 2016, some domestic consolidated subsidiaries transferred their corporate pension plan to a quasi-cash balance pension plan as a defined benefit type corporate pension plan, while at the same time transferring part of the previous corporate pension plan and lump-sum retirement allowances to a defined contribution pension plan and prepaid retirement allowance plan. Accordingly, "Accounting Treatment for Transfer between Retirement Benefit Plans" (ASBJ Guidance No.1, January 31, 2002) and "Practical Solution on Accounting Treatment for Transfer between Retirement Benefit Plans" (ASBJ PITF No.2, revised on February 7, 2007) were applied.

As a result, during the fiscal year ended March 31, 2017 net defined benefit liability decreased by ¥302 million ($2,699 thousand) and accumulated other comprehensive income increased by ¥302 million ($2,699 thousand).

(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.

2. Accounting Changes

There are no applicable items.

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 ¥112.18 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2017. 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, 2017 and 2016:

	As of March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and deposits	¥ 22,548	¥ 17,924	$ 201,001
Restricted cash	(310)	(277)	(2,768)
Cash and cash equivalents	¥ 22,237	¥ 17,646	$ 198,233

The following table represents significant non-cash transactions as of March 31, 2017 and 2016:

	As of March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Assets and obligations relating to finance lease transactions	¥ 46	¥ 28	$ 417

5. Notes and Accounts Receivable

The retroactively adjusted liability upon transfer of export receivables was ¥167 million at March 31, 2016.

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, 2017 and 2016 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, 2017					
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
Assets						
(1) Cash and deposits	¥ 22,548	¥ 22,548	¥ —	$ 201,001	$ 201,001	$ —
(2) Notes and accounts receivable-trade	33,867	33,867	—	301,906	301,906	—
(3) Investment securities Other securities	1,373	1,373	—	12,246	12,246	—
Total	¥ 57,789	¥ 57,789	¥ —	$ 515,153	$ 515,153	$ —
Liabilities						
(1) Notes and accounts payable-trade	¥ 18,391	¥ 18,391	¥ —	$ 163,948	$ 163,948	$ —
(2) Short-term bank loans	23,151	23,151	—	206,377	206,377	—
(3) Commercial paper	15,000	15,000	—	133,713	133,713	—
(4) Bonds	40,000	40,119	119	356,569	357,635	1,066
(5) Long-term debt (except for bonds)	12,500	12,598	98	111,428	112,307	879
(6) Lease obligations	376	372	(3)	3,357	3,323	(34)
Total	¥ 109,419	¥ 109,634	¥ 214	$ 975,392	$ 977,303	$ 1,911
Derivative transactions (*)	¥ (493)	¥ (493)	¥ —	$ (4,402)	$ (4,402)	$ —

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

	As of March 31, 2016		
	Carrying amount	Fair value	Difference
		(Millions of yen)	
Assets			
(1) Cash and deposits	¥ 17,924	¥ 17,924	¥ —
(2) Notes and accounts receivable-trade	33,999	33,999	—
(3) Investment securities			
Other securities	1,120	1,120	—
Total	¥ 53,044	¥ 53,044	¥ —
Liabilities			
(1) Notes and accounts payable-trade	¥ 16,120	¥ 16,120	¥ —
(2) Short-term bank loans	20,635	20,635	—
(3) Commercial paper	4,000	4,000	—
(4) Bonds	55,900	56,053	153
(5) Long-term debt (except for bonds)	12,500	12,631	131
(6) Lease obligations	1,254	1,248	(5)
Total	¥ 110,409	¥ 110,688	¥ 279
Derivative transactions (*)	¥ 698	¥ 698	¥ —

(*) 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,		
	2017 Carrying amount	2016 Carrying amount	**2017** Carrying amount
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities and others	**¥ 83**	¥ 83	**$ 745**

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, 2017			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
	(Millions of yen)			
Cash and deposits	¥ 22,548	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	33,867	—	—	—
Investment securities				
Other securities with maturities	—	—	—	—
Total	¥ 56,416	¥ —	¥ —	¥ —

	As of March 31, 2017			
	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	$ 201,001	$ —	$ —	$ —
Notes and accounts receivable-trade	301,906	—	—	—
Investment securities				
Other securities with maturities	—	—	—	—
Total	$ 502,907	$ —	$ —	$ —

	As of March 31, 2016			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
	(Millions of yen)			
Cash and deposits	¥ 17,924	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	33,999	—	—	—
Investment securities				
Other securities with maturities	—	—	—	—
Total	¥ 51,923	¥ —	¥ —	¥ —

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

	As of March 31, 2017					
	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	¥ 23,151	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	15,000	—	—	—	—	—
Bonds	—	15,000	—	15,000	10,000	—
Long-term debt (except for bonds)	7,500	—	—	5,000	—	—
Lease obligations	220	88	27	20	9	10
Total	¥ 45,871	¥ 15,088	¥ 27	¥ 20,020	¥ 10,009	¥ 10

	As of March 31, 2017					
	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	$206,377	$ —	$ —	$ —	$ —	$ —
Commercial paper	133,713	—	—	—	—	—
Bonds	—	133,713	—	133,713	89,142	—
Long-term debt (except for bonds)	66,856	—	—	44,571	—	—
Lease obligations	1,965	785	244	184	80	96
Total	$408,913	$134,499	$ 244	$178,469	$ 89,223	$ 96

	As of March 31, 2016					
	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	¥ 20,635	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	4,000	—	—	—	—	—
Bonds	25,900	—	15,000	—	15,000	—
Long-term debt (except for bonds)	—	7,500	—	—	5,000	—
Lease obligations	924	126	130	7	16	49
Total	¥ 51,460	¥ 7,626	¥ 15,130	¥ 7	¥20,016	¥ 49

7. Securities

(1) Other securities

Marketable securities classified as other securities at March 31, 2017 and 2016 are summarized as follows:

	As of March 31, 2017					
	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	¥ 1,337	¥ 723	¥ 614	$ 11,924	$ 6,446	$ 5,477
Securities whose acquisition cost exceeds their carrying amount:						
Equity securities	36	38	(2)	321	344	(23)
	¥ 1,373	¥ 761	¥ 611	$ 12,246	$ 6,791	$ 5,454

	As of March 31, 2016		
	Carrying amount	Acquisition cost	Net unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥ 926	¥ 532	¥ 393
Securities whose acquisition cost exceeds their carrying amount:			
Equity securities	194	229	(35)
	¥ 1,120	¥ 761	¥ 358

8. Derivatives

Summarized below are the contract amounts and estimated fair value of the Company's open derivatives positions at March 31, 2017 and 2016, for which deferral hedge accounting has not been applied:

	2017		2016		2017	
	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	¥ 15,485	¥ (493)	¥ 15,297	¥ 698	$ 138,041	$ (4,402)

9. Inventories

Inventories at March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	¥ 18,227	¥ 17,971	$ 162,487
Work in process	24,019	24,778	214,113
Raw materials and supplies	8,918	9,839	79,503
	¥ 51,165	¥ 52,589	$ 456,104

The book values of inventories were written down to reflect the decline in profitability by ¥313 million ($2,794 thousand) and ¥652 million for the years ended March 31, 2017 and 2016, respectively. The inventory write-downs were included in "Cost of sales".

10. Property, Plant and Equipment

Accumulated depreciation of property, plant and equipment for the years ended March 31, 2017 and 2016 was as follows:

	As of March 31,		
	2017 Carrying amount	2016 Carrying amount	2017 Carrying amount
	(Millions of yen)		(Thousands of U.S. dollars)
Property, plant and equipment	¥ 147,487	¥ 142,199	$1,314,740

11. Short-Term Borrowings and Long-Term Debt

Short-term bank loans generally represent notes and overdrafts. The related weighted average interest rates at March 31, 2017 and 2016 were approximately 1.02% and 0.85%, respectively. The weighted average interest rate applicable to the current portion of long-term debt (excluding lease obligations) was approximately 0.40% at March 31, 2017. The weighted average interest rates applicable to commercial paper at March 31, 2017 and 2016 were approximately 0.16% and 0.17%, respectively. The weighted average interest rates applicable to the current portion of lease obligations at March 31, 2017 and 2016 were approximately 2.07% and 2.38%, respectively.

Long-term debt at March 31, 2017 and 2016 is summarized as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Loans payable in yen with a weighted average rate of 0.49% at March 31, 2017 and 0.52% at March 31, 2016	¥ 12,500	¥ 12,500	$ 111,427
0.60% bonds due 2017	—	5,900	—
1.81% bonds due 2016	—	10,000	—
1.10% bonds due 2016	—	10,000	—
0.80% bonds due 2020	15,000	15,000	133,713
0.59% bonds due 2019	15,000	15,000	133,713
0.67% bonds due 2021	10,000	—	89,142
Lease obligations with a weighted average rate of 1.93% at March 31, 2017 and 2.22% at March 31, 2016	376	1,254	3,357
	52,876	69,654	471,355
Less current portion	(7,720)	(26,824)	(68,822)
	¥ 45,156	¥ 42,829	$ 402,533

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, 2017 and 2016, the assets pledged as collateral for short-term bank loans and long-term debts were as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings	¥ 67	¥ 80	$ 604
Other assets	8	9	73
	¥ 76	¥ 89	$ 677

At March 31, 2017 and 2016, short-term bank loans and long-term debt secured by collateral were as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term bank loans and current portion of long-term debt	¥ 81	¥ 86	$ 726

12. 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, 2017 and 2016 are summarized as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Total committed lines of credit and overdraft	¥ 42,419	¥ 42,880	$ 378,142
Outstanding balance	13,636	10,866	121,556
	¥ 28,783	¥ 32,013	$ 256,585

13. Selling, General and Administrative Expenses

The principal components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are summarized as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and bonuses	¥ 13,974	¥ 13,434	$ 124,570
Packing and shipping expenses	1,411	1,247	12,579
Outside services	2,544	2,535	22,678
Provision for doubtful receivables	302	17	2,693
Provision for directors' retirement benefits	9	6	88
Retirement benefit expenses	(42)	(145)	(381)

14. Loss on Disposal of Fixed Assets

The losses on disposal of fixed assets for the years ended March 31, 2017 and 2016 are summarized as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings	¥ 3	¥ 8	$ 29
Machinery and equipment	432	29	3,851
Tools, furniture and fixtures	4	1	42
	¥ 440	¥ 39	$ 3,923

15. Business Structure Reform Cost

Business structure reform cost was incurred in relation to personnel rationalization, etc. at Polar Semiconductor, LLC and other subsidiaries whose profitability has deteriorated, and mainly consisted of special retirement benefits.

16. Loss on Countermeasures Against Abnormal Properties of Chemicals

Loss on countermeasures against abnormal properties of chemicals was incurred in relation to quality problems with chemicals purchased for processing semiconductor wafers by a consolidated subsidiary, and mainly consisted of loss on valuation of inventories.

Related insurance and compensation through insurance claims and other claims for damages are not determined at present and therefore have not been recorded in the consolidated financial statements.

17. 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, 2017 and 2016 are summarized as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Net unrealized gain on securities			
Change during the year	¥ 253	¥ (183)	$ 2,255
Reclassification adjustments	—	(4)	—
Amount before tax effect	253	(188)	2,255
Tax effect	(77)	66	(688)
Net unrealized gain on securities	¥ 175	¥ (121)	$ 1,567
Translation adjustments			
Change during the year	¥ (960)	¥ (4,132)	$ (8,560)
Translation adjustments	¥ (960)	¥ (4,132)	$ (8,560)
Retirement benefit liability adjustments			
Change during the year	¥ (635)	¥ (3,850)	$ (5,660)
Reclassification adjustments	425	(219)	3,792
Amount before tax effect	(209)	(4,069)	(1,868)
Tax effect	66	(39)	596
Retirement benefit liability adjustments	¥ (142)	¥ (4,109)	$ (1,272)
Total other comprehensive loss	¥ (927)	¥ (8,364)	$ (8,264)

18. Retirement Benefit Plans

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

The overseas consolidated subsidiaries principally have defined contribution pension plans.

Certain consolidated subsidiary uses a simplified method for calculating retirement benefit expenses and liabilities.

Effective from October 1, 2016, some domestic consolidated subsidiaries transferred their corporate pension plan to a quasi-cash balance pension plan as a defined benefit type corporate pension plan, while at the same time transferring part of the previous corporate pension plan and lump-sum retirement allowances to a defined contribution pension plan and prepaid retirement allowance plan.

Defined benefit plans

The changes in the retirement benefit obligation during the years ended March 31, 2017 and 2016 are as follows (excluding plans for which the simplified method is applied):

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of the year	¥ 30,948	¥ 28,976	$ 275,884
Service cost	1,317	1,330	11,742
Interest cost	234	372	2,091
Actuarial (gain) loss	(467)	1,790	(4,165)
Retirement benefit paid	(1,292)	(1,337)	(11,524)
Decrease due to transfer of retirement benefit plans	(302)	—	(2,699)
Other	(419)	(183)	(3,737)
Balance at the end of the year	¥ 30,018	¥ 30,948	$ 267,591

The changes in plan assets during the years ended March 31, 2017 and 2016 are as follows (excluding plans for which the simplified method is applied):

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of the year	¥ 26,944	¥ 27,104	$ 240,193
Expected return on plan assets	1,915	1,939	17,076
Actuarial loss	(1,386)	(2,106)	(12,356)
Contributions by the Company	1,384	1,425	12,341
Retirement benefit paid	(1,285)	(1,333)	(11,460)
Other	(66)	(85)	(589)
Balance at the end of the year	¥ 27,507	¥ 26,944	$ 245,204

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, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation	¥ 29,671	¥ 30,338	$ 264,503
Plan assets at fair value	(27,507)	(26,944)	(245,204)
	2,164	3,393	19,298
Unfunded retirement benefit obligation	462	711	4,119
Net liability for retirement benefits in the balance sheet	¥ 2,627	¥ 4,104	$ 23,418
Liability for retirement benefits	2,627	4,104	23,418
Asset for retirement benefits	—	—	—
Net liability for retirement benefits in the balance sheet	¥ 2,627	¥ 4,104	$ 23,418

The components of retirement benefit expense for the years ended March 31, 2017 and 2016 are outlined as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 1,317	¥ 1,330	$ 11,742
Interest cost	234	372	2,091
Expected return on plan assets	(1,915)	(1,939)	(17,076)
Amortization of actuarial loss	711	103	6,345
Amortization of prior service cost	(286)	(323)	(2,552)
Retirement benefit expenses calculated using simplified method	19	17	175
Retirement benefit expense for defined benefit plans	¥ 81	¥ (437)	$ 725

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 are outlined as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Prior service cost	¥ 17	¥ (312)	$ 153
Actuarial gain and loss	(226)	(3,757)	(2,021)
Total	¥ (209)	¥ (4,069)	$ (1,868)

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 are outlined as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized prior service cost	¥ (1,745)	¥ (1,728)	$ (15,561)
Unrecognized actuarial gain and loss	5,010	4,783	44,664
Total	¥ 3,264	¥ 3,055	$ 29,103

The fair values of plan assets, by major categories, as percentages of total plan assets as of March 31, 2017 and 2016 are as follows:

	2017	2016
Bonds	43%	48%
Stocks	26%	21%
General accounts of life insurance companies	10%	10%
Other	21%	21%
Total	100%	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:

	2017	2016
Discount rate	0.9%	0.8%
Expected rate of return on plan assets	6.9%	7.1%

Defined benefit plans accounted for using simplified method

The changes in the retirement benefit obligation calculated by the simplified method during the years ended March 31, 2017 and 2016 are as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of the year	¥ 100	¥ 99	$ 899
Retirement benefit expenses	19	17	175
Retirement benefit paid	(6)	(6)	(60)
Other	1	(9)	16
Balance at the end of the year	¥ 116	¥ 100	$ 1,031

Defined contribution plans

For the years ended March 31, 2017 and 2016, contributions to the defined contribution pension plan and the advance payment plan, which are recognized as expenses, totaled ¥778 million ($6,937 thousand) and ¥830 million, respectively.

19. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of approximately 30.7% and 32.8% for the years ended March 31, 2017 and 2016, respectively.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and effective statutory tax rates for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Effective statutory tax rates	30.7%	32.8%
Effect of:		
Non-deductible expenses for income tax purposes	11.0	2.3
Non-taxable dividend income	(3.0)	(1.6)
Inhabitants' per capita taxes	0.5	1.2
Foreign tax rate difference	2.3	10.1
Changes in valuation allowance	20.1	47.3
Other, net	0.9	(0.2)
Effective tax rates	62.6%	91.9%

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Net operating loss carryforwards	¥ 14,976	¥ 13,490	$ 133,507
Liabilities for retirement benefits	523	324	4,662
Inventories	2,114	3,094	18,849
Accrued bonuses	730	596	6,510
Net unrealized holding gain	414	328	3,692
Impairment losses	317	369	2,829
Other	877	922	7,818
Gross deferred tax assets	19,953	19,124	177,870
Valuation allowance	(18,283)	(17,611)	(162,984)
Total deferred tax assets	1,669	1,513	14,886
Deferred tax liabilities:			
Fixed assets	(1,214)	(1,555)	(10,826)
Net unrealized gains on securities	(183)	(110)	(1,636)
Other	(164)	(218)	(1,463)
Total deferred tax liabilities	(1,562)	(1,884)	(13,926)
Net deferred tax assets (liabilities)	¥ 107	¥ (370)	$ 960

Note: Net deferred tax assets (liabilities) as of March 31, 2017 and 2016 are reflected in the following accounts in the consolidated balance sheet:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Current assets – deferred tax assets	¥ 2,080	¥ 2,095	$ 18,550
Investments and other assets – deferred tax assets	204	204	1,826
Current liabilities – deferred tax liabilities	—	(1)	—
Long-term liabilities – deferred tax liabilities	(2,178)	(2,668)	(19,416)

Additional information

The Company adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the beginning of the fiscal year ended March 31, 2017.

There were no impacts on the consolidated financial statements for the current consolidated fiscal year ended March 31, 2017 as a result of the change.

20. 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.

(1) Dividends paid:

For the year ended March 31, 2017

There are no applicable items.

For the year ended March 31, 2016

	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2015	Common stock	¥ 424	¥ 3.50	March 31, 2015	June 29, 2015
Meeting of the Board of Directors on November 5, 2015......	Common stock	¥ 424	¥ 3.50	September 30,2015	December 4, 2015

(2) Dividends with the cut-off date in the year ended March 31, 2017 and the effective date in the year ending March 31, 2018

	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 23, 2017	**Common stock**	**Retained earnings**	**¥ 424**	**¥ 3.50**	**$ 3,781**	**$ 0.03**	**March 31, 2017**	**June 26, 2017**

Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ended March 31, 2017

There are no applicable items.

21. Research and Development Expenses

Research and development expenses for the years ended March 31, 2017 and 2016 were ¥15,998 million ($142,617 thousand) and ¥17,356 million, respectively.

22. Leases

Future minimum lease payments subsequent to March 31, 2017 and 2016 for noncancellable operating leases are as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Due in 1 year or less	¥ 574	¥ 635	$ 5,120
Due after 1 year	895	1,484	7,982
	¥ 1,469	¥ 2,119	$ 13,102

23. 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 three reportable segments of the "Semiconductor Devices 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 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.

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

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

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

	Reportable segments					
	Semiconductor Devices Business	Power Module Business	Power System Business	Total	Adjustments	Consolidated
			(Millions of yen)			
As of and for the year ended March 31, 2017						
Sales:						
(1) Sales to customers ...	¥ 129,322	¥ 16,153	¥ 13,296	¥ 158,772	¥ —	¥ 158,772
(2) Intersegment sales and transfers	750	502	2	1,256	(1,256)	—
Total sales	130,073	16,656	13,299	160,028	(1,256)	158,772
Segment income (loss) ...	¥ 9,251	¥ (384)	¥ (180)	¥ 8,686	¥ (2,755)	¥ 5,930
Segment assets...........	¥ 139,878	¥ 16,238	¥ 11,363	¥ 167,480	¥ 15,219	¥ 182,700
Others:						
Depreciation and amortization	10,153	75	143	10,373	672	11,045
Impairment losses	—	135	—	135	—	135
Increase in property, plant, equipment and intangible assets ...	8,635	174	170	8,980	131	9,112
			(Thousands of U.S. dollars)			
As of and for the year ended March 31, 2017						
Sales:						
(1) Sales to customers ...	$ 1,152,816	$ 143,995	$ 118,525	$ 1,415,337	$ —	$ 1,415,337
(2) Intersegment sales and transfers	6,691	4,483	25	11,200	(11,200)	—
Total sales	1,159,507	148,478	118,551	1,426,537	(11,200)	1,415,337
Segment income (loss) ...	$ 82,472	$ (3,428)	$ (1,612)	$ 77,431	$ (24,565)	$ 52,865
Segment assets...........	$ 1,246,907	$ 144,756	$101,298	$ 1,492,962	$ 135,670	$ 1,628,633
Others:						
Depreciation and amortization	90,514	675	1,279	92,469	5,996	98,465
Impairment losses	—	1,209	—	1,209	—	1,209
Increase in property, plant, equipment and intangible assets ...	76,975	1,557	1,523	80,056	1,171	81,228

Notes:

1. Adjustments for segment income (loss) of ¥(2,755) million ($(24,565) 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 ¥15,219 million ($135,670 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 ¥672 million ($5,996 thousand) are mainly administrative expenses.
4. Adjustments for increase in property, plant, equipment and intangible assets of ¥131 million ($1,171 thousand) are assets related to administrative departments of the Company.

	Reportable segments					
	Semiconductor Devices Business	Power Module Business	Power System Business	Total	Adjustments	Consolidated
	(Millions of yen)					
As of and for the year ended March 31, 2016						
Sales:						
(1) Sales to customers …	¥ 125,117	¥ 15,922	¥ 14,879	¥ 155,919	¥ —	¥ 155,919
(2) Intersegment sales and transfers ………	725	495	0	1,220	(1,220)	—
Total sales ………………	125,842	16,417	14,880	157,140	(1,220)	155,919
Segment income (loss) …	¥ 9,247	¥ (973)	¥ 973	¥ 9,247	¥ (2,444)	¥ 6,803
Segment assets…………	¥ 140,645	¥ 16,194	¥ 11,902	¥ 168,742	¥ 15,969	¥ 184,711
Others:						
Depreciation and amortization ………	10,676	111	144	10,932	660	11,593
Impairment losses ………	—	107	—	107	—	107
Increase in property, plant, equipment and intangible assets …	10,070	269	176	10,515	306	10,821

Notes:
1. Adjustments for segment income (loss) of ¥(2,444) 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 ¥15,969 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 ¥660 million are mainly administrative expenses.
4. Adjustments for increase in property, plant, equipment and intangible assets of ¥306 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, 2017

(1) Sales

Japan	Asia	North America	Europe	Others	Total
(Millions of yen)					
¥ 60,810	¥ 65,107	¥ 17,615	¥ 15,067	¥ 170	¥ 158,772
(Thousands of U.S. dollars)					
$ 542,082	$ 580,384	$ 157,032	$ 134,315	$ 1,522	$ 1,415,337

(2) Property, plant and equipment

Japan	North America	Asia	Others	Total
(Millions of yen)				
¥ 24,256	¥ 23,457	¥ 11,944	¥ 545	¥ 60,204
(Thousands of U.S. dollars)				
$ 216,226	$ 209,106	$ 106,473	$ 4,866	$ 536,673

As of and for the year ended March 31, 2016

(1) Sales

Japan	Asia	North America	Europe	Others	Total
(Millions of yen)					
¥ 60,153	¥ 59,821	¥ 18,999	¥ 16,817	¥ 127	¥ 155,919

(2) Property, plant and equipment

Japan	North America	Asia	Others	Total
(Millions of yen)				
¥ 24,218	¥ 26,140	¥ 11,214	¥ 440	¥ 62,015

24. Amounts per Share

Amounts per share as of and for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Yen)		(U.S. dollars)
Profit attributable to owners of parent – basic	¥ 14.35	¥ 1.41	$ 0.12
Net assets	448.87	441.96	4.00

Diluted profit attributable to owners of parent per share for the years ended March 31, 2017 and 2016 was not disclosed as there were no dilutive shares.

Profit attributable to owners of parent per share was calculated on the following basis:

	2017	2016	2017
	(Millions of yen, except number of shares)		(Thousands of U.S. dollars, except number of shares)
Profit attributable to owners of parent	¥ 1,739	¥ 171	$ 15,502
Amounts not available to shareholders of common stock	—	—	—
Profit attributable to owners of common stock of parent	1,739	171	15,502
Average number of shares outstanding during the year (Thousands of shares)	121,209	121,225	—

Net assets per share were calculated on the following basis:

	2017	2016	2017
	(Millions of yen, except number of shares)		(Thousands of U.S. dollars, except number of shares)
Net assets	¥ 54,736	¥ 53,959	$ 487,937
Amounts deducted from net assets:	335	387	2,993
Non-controlling interests	(335)	(387)	(2,993)
Net assets attributable to shareholders	54,401	53,572	484,944
Number of shares outstanding at the end of the year (Thousands of shares)	121,196	121,214	—

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 its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income (loss), 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 its consolidated subsidiaries as at March 31, 2017, 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 23, 2017
Tokyo, Japan

Board of Directors

As of June 23, 2017

Directors and Auditors

Representative Director, President	Takashi Wada	
Directors	Masao Hoshino Kazunori Suzuki Hideo Takani	Yoshihiro Suzuki Takeshi Soroji
External Directors	Richard R. Lury	Noriharu Fujita
Standing Statutory Auditor	Akira Ota	
Statutory Auditor	Noboru Suzuki	
External Auditors	Mikihiko Wada	Astushi Minami

Corporate Officers

Executive Vice President	Masao Hoshino	
Senior Vice Presidents	Yoshihiro Suzuki	Kazunori Suzuki
Senior Corporate Officers	Takeshi Soroji	Hideo Takani
Corporate Officers	Yukiyasu Taniyama Shigeru Ito Hideki Nakamichi Makoto Iwata Yasunobu Murano Sumio Anzai	Kiyoshi Murakami Kiyonori Orito Masaki Kanazawa Myungjun Lee Tetsuo Bannai Satoshi Yoshida

Investor Information

As of March 31, 2017

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	9,770
Common stock	Authorized : 257,000,000 shares Issued : 125,490,302 shares
Shareholders	12,196

Distribution by type of shareholders		
	Financial Institutions	32.14%
	Individuals	26.33%
	Foreigners	30.64%
	Other	10.89%
Distribution by number of shares owned		
	1,000,000 or more	44.20%
	100,000 or more	27.28%
	10,000 or more	11.63%
	Less than 10,000	16.89%

Principal Shareholders

Shareholders	Number of shares held (in thousands)	Percentage of ownership
Japan Trustee Services Bank, Ltd. (Trust Account)	8,316	6.62%
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,469	5.95%
Saitama Resona Bank, Limited	6,011	4.79%
State Street London Care of State Street Bank and Trust, Boston SSBTC A/C UK London Branch Clients-United Kingdom	3,105	2.47%
EVERGREEN	2,693	2.14%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,148	1.71%
State Street Bank and Trust Company 505325	1,730	1.37%
Japan Trustee Services Bank, Ltd. (Trust Account 2)	1,558	1.24%
The Hachijuni Bank, Ltd.	1,556	1.24%
Japan Trustee Services Bank, Ltd. (Trust Account 1)	1,528	1.21%

Note : The Company holds 4,293,460 (3.42%) 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 9th unsecured bonds	June 17, 2015	15,000,000,000
The 10th unsecured bonds	March 15, 2016	15,000,000,000
The 11th unsecured bonds	September 27, 2016	10,000,000,000

Sanken Electric Co., Ltd.
3-6-3, Kitano, Niiza-shi, Saitama-ken 352-8666, Japan
Tel : 81-48-472-1111   Fax: 81-48-471-6249
http://www.sanken-ele.co.jp/en/