

ANNUAL REPORT 2017

Alps Philosophy

# Alps creates new value that satisfies stakeholders and is friendly to the Earth

The Alps Electric Group's approach to *monozukuri* (encompassing all aspects of product creation) is summed up in the phrase, "perfecting the art of electronics," meaning we create products that are right, unique and green. By perfecting the art of electronics in its products, the Alps Electric Group will pursue new value and enhance its own presence and corporate value, adding comfort to and enriching the lifestyles of people everywhere.

Alps Business Domain

## Perfecting the Art of Electronics

— User-friendly communication and relationships between people and media —

Alps Business Approach

- Pursuit of Value** ..... We will constantly pursue new value creation
- Harmony with Nature** ..... We will seek harmony with the Earth's environment
- Partnership with Customers** ..... We will learn from customers and respond quickly to their needs
- Fair Management** ..... We will act fairly and from a global perspective
- Respect for the Individual** ..... We will draw upon the unique enthusiasm of every employee

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Explanation of Reporting Media



Editorial Policy

Up until fiscal 2012 (year ended March 31, 2013), the Alps Electric Group published the Business Report (Annual Report) and online CSR and environmental information separately. Since fiscal 2013 (year ended March 31, 2014), the aforementioned has been integrated as an Annual Report covering both financial and non-financial perspectives.

The Alps Electric Group recognizes the importance of promoting awareness about the activities of the Group among all of our stakeholders by readily disclosing information about business plans and results, ESG\* initiatives, and other areas. For that reason, we view this report as a vital communication tool.

Company Notation

Alps Electric: The single Japanese business entity, Alps Electric Co., Ltd.  
 Alps Group: Alps Electric Co., Ltd. and all of its consolidated companies in Japan and overseas  
 Alps Electric Group: The electronic components segment of the Alps Group

Coverage Organizations

The report covers the entire Alps Electric Group worldwide, although coverage may vary for different activities.

Period

- The report principally covers the period from April 1, 2016 to March 31, 2017, but does include some activities occurring prior to or later than this period.
- Environmental reporting covers the period from April 2016 to March 2017 for Japan, and the period from January to December 2016 for overseas.

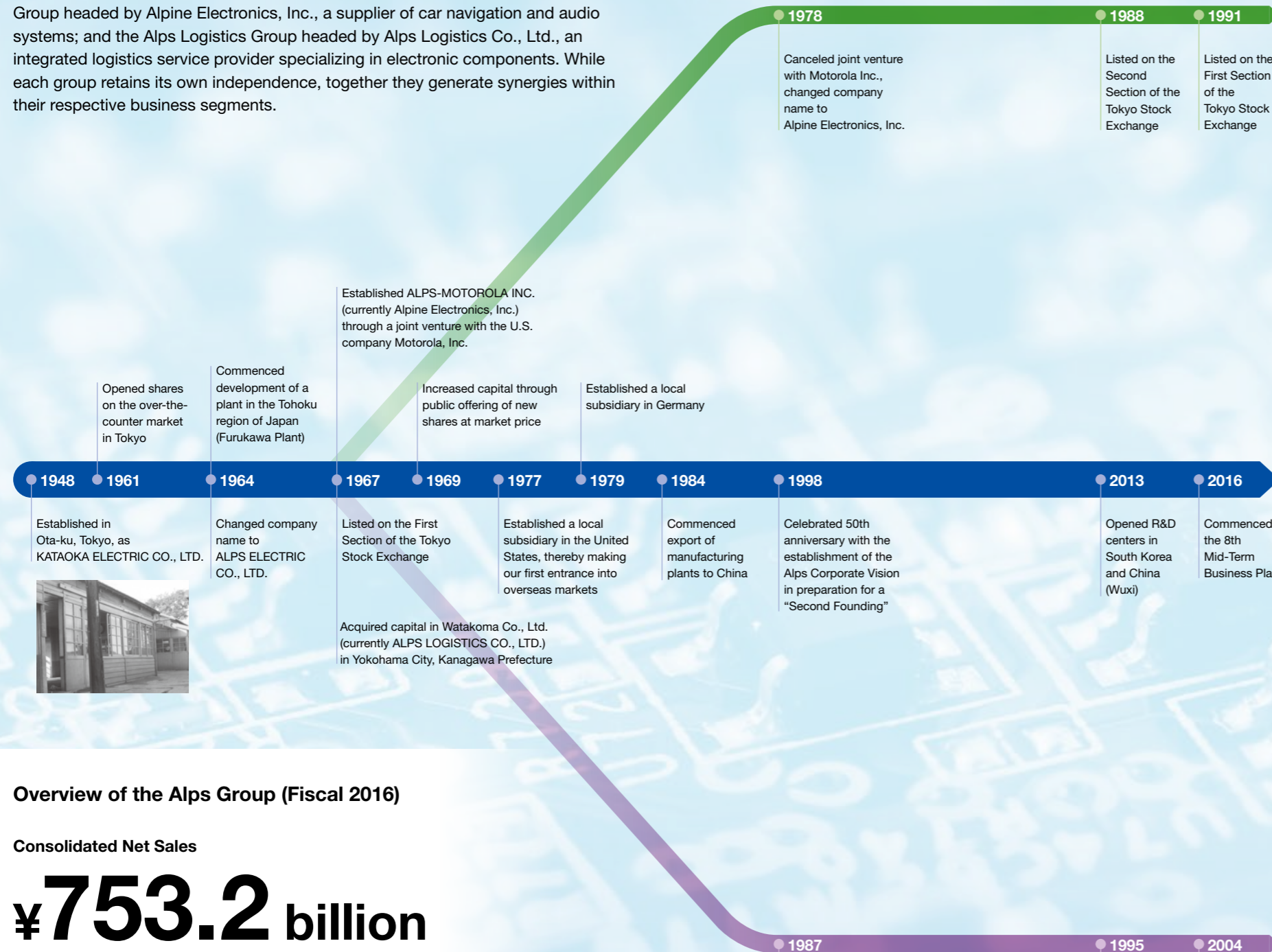
\* ESG refers to environmental, social and governance factors, which, together with financial information, are considered important for evaluating corporate value. In this report, we summarize primarily Alps Electric Group initiatives relating to ESG factors.

Caution Concerning Forward-Looking Statements

Numerical plans, activity plans, and other forward-looking statements in this report are based on judgments reached by Alps Electric using the information currently available. Please understand that actual performance and results may vary considerably from scenarios described in forward-looking statements due to a wide range of factors.

# The Alps Group—A World Leader in the Electronics Industry

The Alps Group is a collective business entity comprising three corporate groups: the Alps Electric Group headed by Alps Electric Co., Ltd., which is primarily involved in the manufacturing and sales of electronic components; the Alpine Group headed by Alpine Electronics, Inc., a supplier of car navigation and audio systems; and the Alps Logistics Group headed by Alps Logistics Co., Ltd., an integrated logistics service provider specializing in electronic components. While each group retains its own independence, together they generate synergies within their respective business segments.



**1948** Established in Ota-ku, Tokyo, as KATAOKA ELECTRIC CO., LTD.

**1961** Opened shares on the over-the-counter market in Tokyo

**1964** Changed company name to ALPS ELECTRIC CO., LTD.

**1964** Commenced development of a plant in the Tohoku region of Japan (Furukawa Plant)

**1967** Listed on the First Section of the Tokyo Stock Exchange

**1967** Established ALPS-MOTOROLA INC. (currently Alpine Electronics, Inc.) through a joint venture with the U.S. company Motorola, Inc.

**1969** Increased capital through public offering of new shares at market price

**1977** Established a local subsidiary in the United States, thereby making our first entrance into overseas markets

**1979** Established a local subsidiary in Germany

**1984** Commenced export of manufacturing plants to China

**1998** Celebrated 50th anniversary with the establishment of the Alps Corporate Vision in preparation for a "Second Founding"

**2013** Opened R&D centers in South Korea and China (Wuxi)

**2016** Commenced the 8th Mid-Term Business Plan

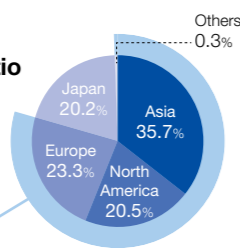
## Overview of the Alps Group (Fiscal 2016)

Consolidated Net Sales

**¥753.2 billion**

Consolidated Overseas Sales Ratio

**79.8%**



**1987** Changed company name to ALPS LOGISTICS CO., LTD.

**1995** Listed on the Second Section of the Tokyo Stock Exchange

**2004** Merged with TDK Logistics Corporation

**Alpine Electronics, Inc.**  
Automotive Infotainment Segment (TSE 1st Section)  
Capital: ¥25.920 billion  
No. of subsidiaries: 38

Driving Mobile Media Innovation

**Net Sales ¥242.3 billion**  
(Fiscal 2016)

Through the development, manufacture, and sale of automotive devices, such as car navigation and audio systems, and information and communications devices, Alpine Electronics continues to promptly provide markets with high-quality products.

### 14th Mid-Term Business Plan (Fiscal 2017–Fiscal 2019)

- Business Goal**  
Carry Out Reform for New Growth  
Aiming for net sales of ¥300 billion and operating profit of ¥12 billion
- Priority Items**
- Securing profitability and carrying out prior investments for the future
  - Responding to four major trends in the automobile industry (automatic driving, connectivity, EVs (electric vehicles), and car-sharing)
  - Establishing our uniqueness using our strengths

**ALPS ELECTRIC CO., LTD.**  
Electronic Components Segment (TSE 1st Section)  
Capital: ¥38.730 billion  
No. of subsidiaries: 24

Perfecting the Art of Electronics

**Net Sales ¥437.6 billion**  
(Fiscal 2016)

### 8th Mid-Term Business Plan (Fiscal 2016–Fiscal 2018)

- Vision**  
Aiming to be a company that can realize sustained growth
- Targets**  
Net Sales: ¥500 billion  
Operating Income Margin: 10%
- Strategies**  
Profit: Break dependence on smartphones  
Business: Establish and expand businesses to take the place of smartphones in the future
- ▶ Please refer to page 22 for further details.

**ALPS LOGISTICS CO., LTD.**  
Logistics Segment (TSE 2nd Section)  
Capital: ¥2.349 billion  
No. of subsidiaries: 17

**Net Sales ¥61.1 billion**  
(Fiscal 2016)

As a comprehensive logistics company specializing in electronic components, Alps Logistics offers "One Channel Services," which entail transport, storage, export and import, and cargo handling services, on a global basis.

### 3rd Mid-Term Business Plan (Fiscal 2016–Fiscal 2018)

- Basic Policy**  
Pursuing the best form of logistics for each customer and accelerate growth on a global scale
- Achieving consolidated net sales of ¥100.0 billion
  - Strengthening business foundation to prepare for the leap to the next stage
- Business Policy**  
GTB (Get the Business): Take on challenges in new domains  
GTP (Get the Product): Innovate on-site operations and strengthen business foundation  
GTC (Get the Confidence): Enhance competitiveness

# Creating Synergies across the Alps Group

Leveraging its strengths as an independent corporate group that does not belong to a conglomeration of businesses linked by cross-shareholdings, the Alps Group offers creative proposals to a diverse range of customers in various countries and regions and conducts transactions with over 2,000 client companies.

Going forward, the Alps Group will continue to adopt a neutral stance as it further reinforces the trust-based relationships it has established with its customers and contributes to the society of tomorrow.



## Initiatives to Create Synergies

### Utilizing the Group's Strengths to Expand Business Development in the Growing Automobile Market in the Americas

Automobile manufacturers in Japan and various European countries are gradually advancing into the Americas, and North American automobile manufacturers are branching out into Central and South America. Accordingly, the importance of the Americas as a base for the global production of automobiles is becoming greater. Alcom Electronicos de Mexico, S.A. de C.V. handles the production of electronic components and automotive infotainment devices in Mexico and provides support to our client companies that are advancing into the Americas. At the same time, the company makes use of NAFTA, FTA, and other trade agreements to shorten lead times and bolster its price competitiveness.

In addition, we have established Alps Logistics (USA), Inc. and Alps Logistics Mexico, S. A. DE C. V., which serve as logistics bases in the Americas. By leveraging Group synergies, these companies support the further growth of the automotive electronics business through the optimization of supply chain management.



Alcom Electronicos de Mexico, S.A. de C.V. McAllen branch of Alps Logistics (USA), Inc.

### Governance Initiatives for Sustainable Corporate Growth and Increased Corporate Value over the Medium to Long Term

To realize sustainable growth and medium- to long-term improvement in corporate value, the Alps Group is promoting initiatives to strengthen governance at each Group company. Governance-related training meetings for directors of the three corporate groups that comprise the Alps Group are held twice a year. In addition to exchanging opinions, directors at these meetings work to deepen the topics of discussion and foster a sense of unity between the corporate groups. As such, these meetings represent the foundation of the Group's management. Based on discussions held at these meetings, each corporate group transitioned to a "companies with an audit and supervisory committee" system in June 2016. Meetings are held between the audit & supervisory committees of the corporate groups, at which opinions regarding monitoring are exchanged that extend beyond the respective industries of the three groups. In these ways, the Alps Group is working to further improve its governance.

# Financial and Non-Financial Highlights

## Consolidated fiscal years started April 1

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>For the Fiscal Year: [Millions of yen]</b>											
Net sales	708,126	692,656	538,995	493,639	550,668	526,500	546,423	684,362	748,614	774,038	<b>753,262</b>
Cost of sales	596,856	587,210	484,079	415,095	441,497	432,589	458,576	558,097	593,788	621,754	<b>601,711</b>
Gross profit	111,270	105,446	54,915	78,543	109,170	93,911	87,847	126,265	154,825	152,284	<b>151,551</b>
Selling, general and administrative expenses	89,193	85,569	81,440	73,800	80,299	78,740	80,996	97,736	101,291	99,956	<b>107,177</b>
Operating income (loss)	22,077	19,876	(26,524)	4,742	28,871	15,171	6,851	28,528	53,534	52,327	<b>44,373</b>
Operating income margin: [%]	3.1	2.9	(4.9)	1.0	5.2	2.9	1.3	4.2	7.2	6.8	<b>5.9</b>
Ordinary income (loss)	24,631	13,123	(23,305)	1,676	23,174	14,335	7,659	28,090	57,594	50,038	<b>42,725</b>
Profit (loss) attributable to owners of parent	4,918	4,418	(70,064)	570	11,136	4,175	(7,074)	14,311	34,739	39,034	<b>34,920</b>
Depreciation and amortization	39,212	37,771	29,942	21,223	18,710	19,759	21,572	24,527	28,010	30,725	<b>33,076</b>
R&D expenses	46,804	42,255	40,304	27,843	28,124	28,098	28,674	32,987	33,035	33,336	<b>32,279</b>
Capital expenditure	45,307	43,153	47,202	18,480	23,544	34,024	31,833	26,570	31,416	41,190	<b>47,657</b>
Operating cash flows	48,939	53,117	15,004	28,970	28,552	23,426	24,805	57,703	65,111	53,958	<b>41,603</b>
Investing cash flows	(43,169)	(15,072)	(49,065)	(19,532)	(20,941)	(29,358)	(32,101)	(22,813)	(29,772)	(30,383)	<b>(37,981)</b>
Financing cash flows	(12,995)	(37,292)	28,025	12,195	5,122	(6,691)	(5,654)	4,994	(27,951)	(36,340)	<b>(309)</b>
Cash and cash equivalents at fiscal year-end	82,751	79,178	68,325	88,722	98,495	85,004	76,137	122,237	134,298	116,843	<b>117,991</b>
Simplified free cash flows*1	5,770	38,045	(34,060)	9,437	7,610	(5,931)	(7,296)	34,889	35,339	23,574	<b>3,621</b>
<b>At Fiscal Year-End: [Millions of yen]</b>											
Total assets	548,043	494,755	375,285	410,945	427,529	442,052	451,416	512,365	570,482	562,856	<b>602,961</b>
Equity	203,448	193,853	111,127	112,705	115,469	115,434	116,817	137,482	179,522	228,496	<b>254,501</b>
Interest-bearing debt	105,350	73,087	104,401	116,399	119,947	118,510	124,468	134,364	116,200	54,335	<b>63,272</b>
<b>Per Share Data: [Yen]</b>											
Earnings per share (EPS)	27.40	24.65	(390.93)	3.18	62.14	23.29	(39.47)	79.85	193.81	206.64	<b>178.25</b>
Diluted EPS	24.84	22.32	—	2.74	—	—	—	79.68	177.12	197.73	<b>178.20</b>
Book-value per share (BPS)	1,135.14	1,081.63	620.04	628.85	644.24	644.03	651.72	767.01	1,001.55	1,166.41	<b>1,299.11</b>
Dividends per share (DPS)	20.00	20.00	10.00	0.00	20.00	20.00	5.00	5.00	15.00	25.00	<b>30.00</b>
<b>Major Indicators: [%]</b>											
Equity ratio	37.1	39.2	29.6	27.4	27.0	26.1	25.9	26.8	31.5	40.6	<b>42.2</b>
Debt to equity ratio*2	51.8	37.7	94.0	103.3	103.9	102.7	106.6	97.7	64.7	23.8	<b>24.9</b>
Interest coverage ratio*3: [Times]	31.0	38.0	15.7	18.5	14.8	14.1	17.7	49.2	68.0	50.4	<b>81.6</b>
Return on assets (ROA)*4	0.9	0.8	(16.1)	0.1	2.7	1.0	(1.6)	3.0	6.4	6.9	<b>6.0</b>
Return on equity (ROE)*5	2.4	2.2	(45.9)	0.5	9.8	3.6	(6.1)	11.3	21.9	19.1	<b>14.5</b>
<b>Average exchange rates</b>											
USD / JPY: [Yen]	117.02	114.28	100.54	92.85	85.72	79.08	83.10	100.24	109.93	120.14	<b>108.38</b>
EUR / JPY: [Yen]	150.09	161.53	143.48	131.15	113.12	108.98	107.14	134.37	138.77	132.58	<b>118.79</b>
<b>Other</b>											
Total number of issued shares*6: [Thousand shares]	181,559	181,559	181,559	181,559	181,559	181,559	181,559	181,559	181,559	198,208	<b>198,208</b>

\*1 Simplified free cash flows = Operating cash flows + Investing cash flows

\*2 Debt to equity ratio = Interest-bearing debt / Equity

\*3 Interest coverage ratio = Operating cash flows / Interest expenses paid

\*4 Return on assets (ROA) = Profit attributable to owners of parent / Average total assets

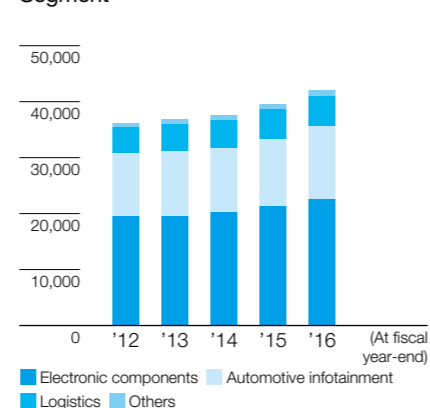
\*5 Return on equity (ROE) = Profit attributable to owners of parent / Average equity

\*6 The total number of issued shares includes treasury shares.

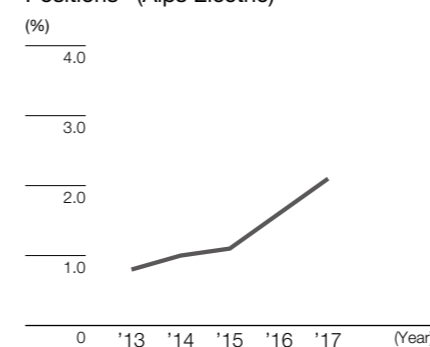
### Net Sales by Business Segment

	(Billions of yen)				
	2012	2013	2014	2015	2016
Electronic components	268.0	338.8	389.1	434.0	437.6
Automotive Market	140.0	168.4	208.4	247.5	256.0
Consumer Market	128.0	170.3	180.6	186.5	181.6
Automotive Infotainment	219.8	282.1	289.7	267.5	242.3
Logistics	48.5	52.2	57.0	60.2	61.1
Others	9.9	11.1	12.6	12.1	12.1

### Number of Employees by Business Segment

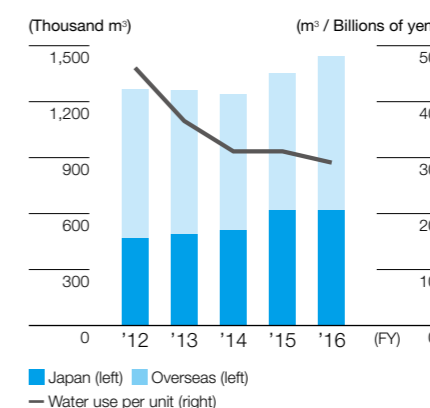


### Ratio of Women in Management Positions\*\* (Alps Electric)

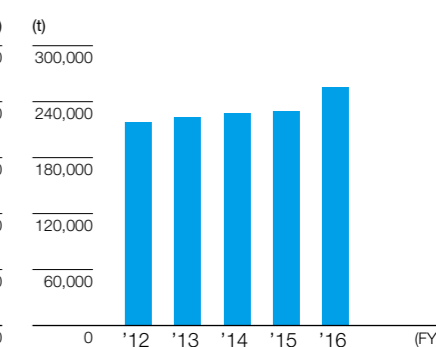


\*\* As of April 1 of each year

### Water Use (Alps Electric Group)



### CO<sub>2</sub> Emissions (Alps Electric Group)



# Who Is Alps Electric?

Alps Electric is a comprehensive electronics manufacturer, supplying nearly 40,000 kinds of electronic components to customer companies around the world in the automobile, home appliances, mobile, and industrial equipment industries. Through a unique kind of *monozukuri* that accurately comprehends the market and promptly meets the various needs of customers, we have created "First 1" (first-of-a-kind) products and "Number 1" (market-leading) products.

Perfecting the Art of Electronics

# ALPS

Net Sales ¥437.6 billion  
(Year ended March 31, 2017)

Automotive Market

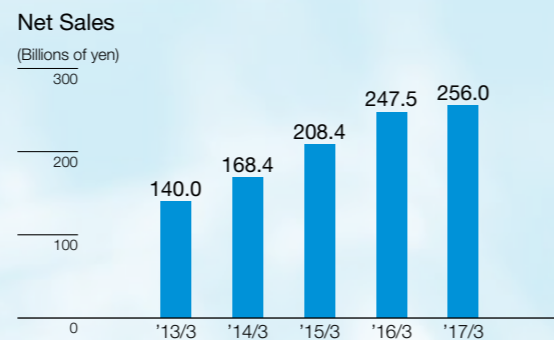
**58.5%**

Consumer Market

**41.5%**

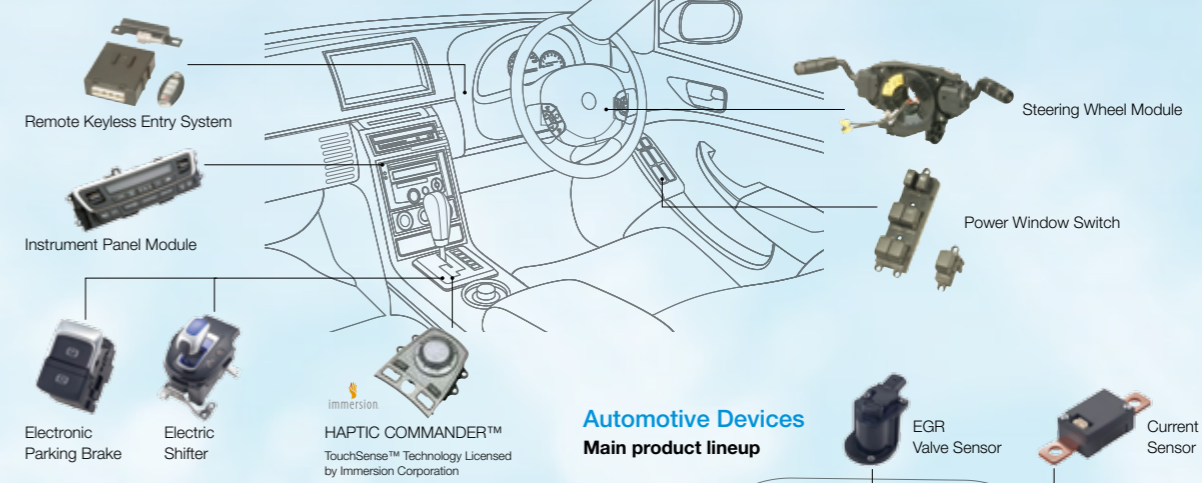
## Automotive Market

In the automotive market, we handle various kinds of modules, such as input modules used in vehicle cockpits and communication modules geared toward connected cars. We are also involved in a broad range of components, examples of which are sensors that improve fuel efficiency and safety.



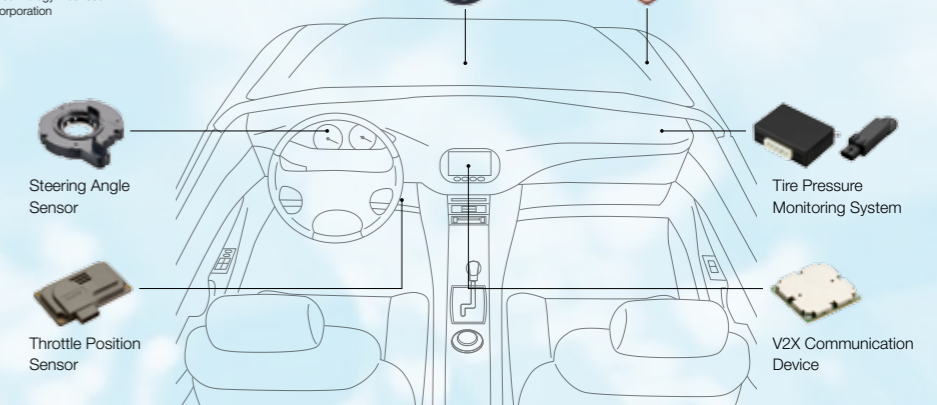
### Automotive Modules

#### Main Product Lineup



### Automotive Devices

#### Main product lineup

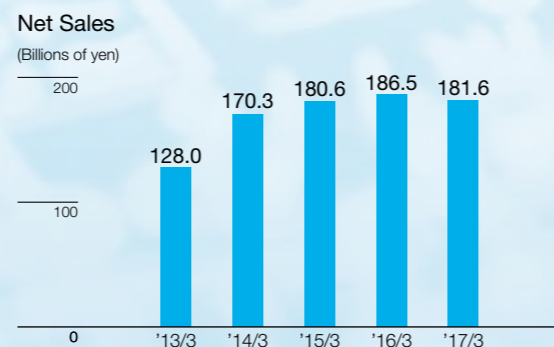


## Consumer Market

In the mobile market, we develop switches and other kinds of input components as well as our mainstay camera actuators. In addition, we continue to utilize force feedback technology to develop HAPTIC™ and are setting our sights on applying this technology in automotive, video game, and various other fields going forward.

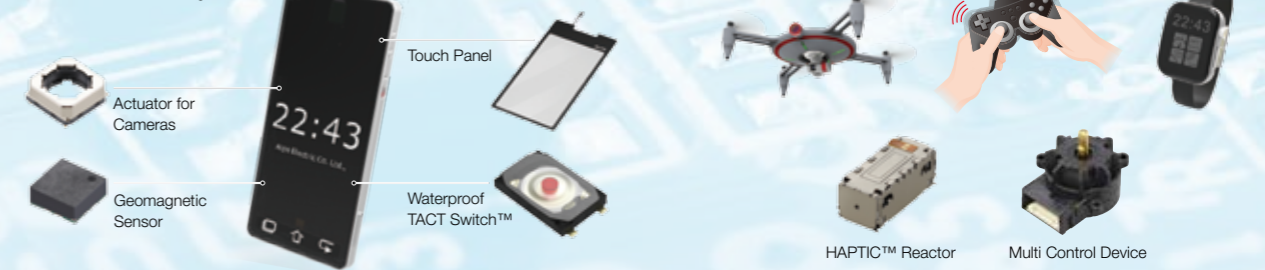
Also, for the EHII\* markets, we are launching such products as IoT Smart Modules fusing sensors with communication modules and power source components that utilize unique materials, in addition to a wide range of sensors.

\* EHII: Energy, Healthcare, Industry, and the Internet of Things (IoT)



### Mobile Market

#### Main Product Lineup



### EHII Markets

One-stop support for the IoT

For managing the health of workers

For managing office environments

For nursing care and taking care of the elderly

For fitness and healthcare

The third pillar to follow the automotive and mobile businesses

HAPTIC and HAPTIC COMMANDER are registered trademarks of ALPS ELECTRIC CO., LTD.

# By perfecting the art of electronics, we create new value that satisfies stakeholders and is friendly to the Earth.

The philosophy of “creating new value that satisfies stakeholders and is friendly to the Earth” forms the cornerstone of Alps Electric’s business. Guided by this philosophy, we aim to contribute to the development of a sustainable society through our business activities. These business activities center on “perfecting the art of electronics,” which involves the creation of products that are *right*, *unique*, and *green*. Throughout our near 70-year history, we have leveraged our unique strengths to their full potential to create new value.



## The Strengths of Alps Electric

### Alps Philosophy

Alps creates new value that satisfies stakeholders and is friendly to the Earth

### Sources of Value Creation

#### Dedication to Technologies

We are extremely passionate about *monozukuri* and the technological capabilities that we have cultivated and continuously passed down throughout our near 70-year history.

#### Alps Culture (Alps-ism)

##### Believe in People

People create our business and cultivate our technologies. Therefore, we nurture and harness the full potential of people.

##### The “Three Hards”

- Work Hard: Sincerity
- Study Hard: Challenge
- Play Hard: Solidarity

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### Uniqueness

#### Our Three Core Technological Domains

**HMI**  
(Human Machine Interface)

**Connectivity**

**SENSORING™**



Using *shimidashi*  
(trickle-out product development)  
to enhance the competitiveness  
of our core technologies

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### Competitiveness

#### Development Capabilities

Enhancing and fusing technologies to develop cutting-edge products that meet the needs of customers and markets

- Incorporation of proprietary technologies into our three core technological domains
- Global development structure

#### Production Capabilities

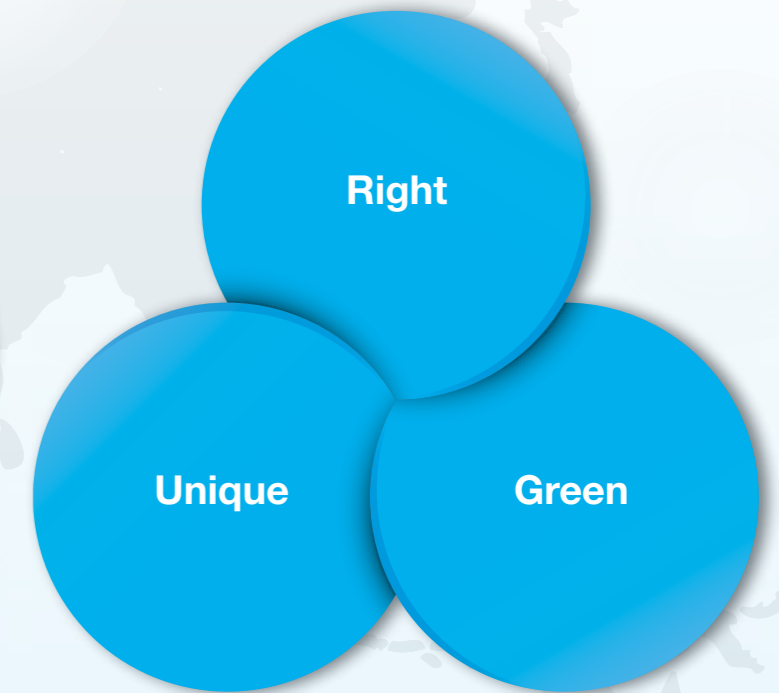
Timely mass production of a wide range of high-quality products

- Development of production technologies that improve productivity
- Mold technologies that support enhanced operation rates through product precision
- Global production structure

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### Value

Alps Electric's products embody the art of electronics

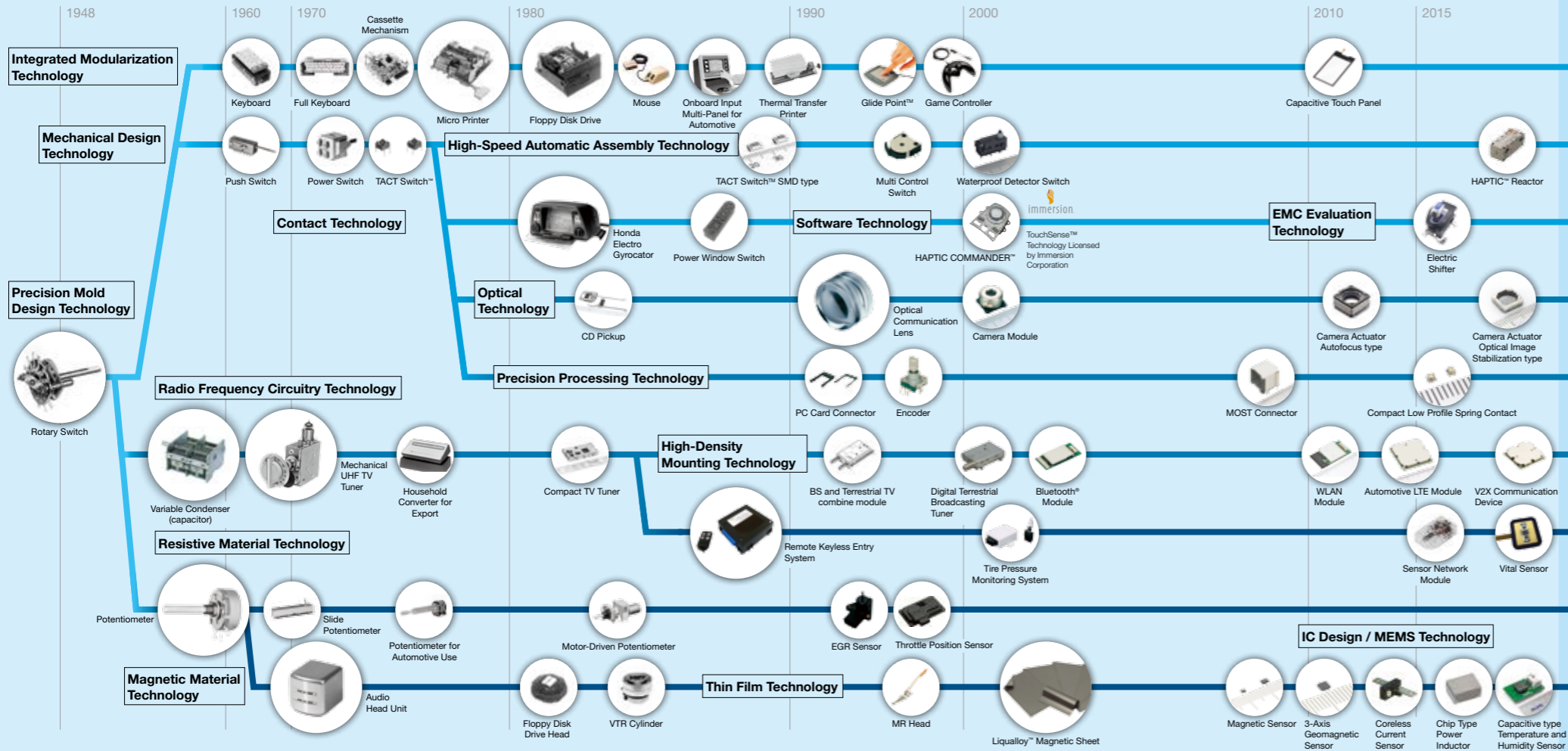


# Sources of Value Creation

We create value by perfecting the art of electronics to timely deliver products that meet market needs. Such value creation is supported by the technologies that we have enhanced and melded over the years and by our corporate culture that has been continuously passed down since our founding.

**Dedication to Technologies**  
 We began to accumulate technologies in 1948, when we started developing rotary switches used to change radio bands. Since then, we have continued to evolve our technologies through the incorporation of new technologies and concepts.

## Technological Evolution and Transformation



**Alps Culture (Alps-ism)**  
 Alps culture, or "Alps-ism," refers to our unique corporate culture. This culture embodies our basic philosophy and code of conduct and has been continuously handed down from one generation of Alps' employees to the next.

**Believe in People**  
 People create our business and cultivate our technologies. Therefore, we nurture and harness the full potential of people. In other words, we have established "believe in people" as our universal corporate philosophy. Alps Electric is a company involved in *monozukuri*, which means that people are indispensable to executing our business operations. In addition, by promoting such ideas as "even if a company fails, it does not mean that people fail, so always have a skill that you can sell" and "do not be afraid of failure," we continuously spread a culture that values people and leverages their strengths to the fullest.

**The "Three Hards"**  
 The "Three Hards" ("Work Hard," "Study Hard," and "Play Hard") are an important element of "Alps-ism." "Work Hard" means that we always carry out our work in an honest and sincere manner. "Study Hard" entails that we continue to try new things based on a passion for learning. And "Play Hard" calls for us to take pride in the work that we do as a team and display our strengths through a sense of solidarity. The "Three Hards" provide the foundation for our business activities, and we continue to leverage them as strengths as we carry out our duties.

# Uniqueness

The enrichment of human-machine interface (HMI) technology, the expansion of sensor varieties, and the growth of connectivity-oriented businesses represent three unique pillars that support our businesses. These pillars support the basis from which we contribute to the comfort and enrichment society desires through the development and manufacture of electronics that are friendly to both people and the planet.

**Three Core Technological Domains**  
 Based on the Alps Philosophy, we supply components from our three core technological domains to a wide range of markets all over the world.

**HMI (Human Machine Interface)**  
 Alps Electric has a solid track record in input devices that dates back to the time of its founding. We have adapted to the times by developing more compact and lightweight products and have been responding to needs for greater integration and multifunctionality. Maintaining elevated standards for operating feel, we constantly pursue the creation of the most appropriate products.

**Connectivity**  
 Alps Electric supplies a variety of data communication modules, making extensive use of RF technology and software to support Bluetooth®, wireless LAN, LTE, and other standards, as well as supporting such advancements as V2X technology in the automotive domain. We continue to support easy, reliable access to diverse information with unique product varieties, including products combining input devices and sensors.

**SENSING™**  
 Alps Electric harnesses original materials, process technologies, and software to create compact, highly sophisticated devices. We supply an extensive variety of compact, high-sensitivity sensors for the constantly evolving mobile domain, and provide compact current sensors compatible with high voltages for automobiles. By combining environment-friendly sensors with wireless communication technologies, we will support the practical application of the IoT going forward.



**Shimidashi**  
**Enhancing the Competitiveness of Our Core Technologies**  
*Shimidashi*, or "trickle-out" product development, involves gradually expanding our business domains through the addition of new functions and technologies while maintaining continuity throughout the development processes for our products and technologies. In addition, *shimidashi* applies not only to continuity within our product and technological development processes but also with regard to the management of the facilities we possess and the long-cultivated manufacturing techniques we implement.  
 Through *shimidashi*, we are working to increase our sales by developing new products and entering into new business domains while also making efforts to improve investment efficiency and enhance cost competitiveness.



# Competitiveness

Our competitiveness lies in our development and production capabilities. Our development capabilities refer to our ability to develop products that are *right*, *unique*, and *green* and contribute to the enrichment of society as a whole. Our production capabilities are with regard to our ability to mass-produce products and supply them on a global scale while maintaining high levels of quality. Together, these capabilities support the business activities of the entire Alps Electric Group.

**Development Capabilities**

By enhancing and fusing its proprietary technologies, Alps Electric is developing cutting-edge products that meet the needs of customers and markets.

**Three Core Technological Domains**

HMI
Connectivity
SENSORING™

×

**Proprietary Technologies**

Evaluation / Simulation	Patterning / Packaging
Design / Assembly	Optical Design / Molding
Microfabrication	Materials / Application
Thin Film Processes	IC Design

For details on our proprietary technologies:  
[http://www.alps.com/e/company/pro\\_tech.html](http://www.alps.com/e/company/pro_tech.html)

**Creating Products with New Value by Enhancing and Fusing Our Proprietary Technologies**

▶ For further details on our development capabilities, please refer to page 28.

**Production Capabilities**

While striving to meet the needs of customers, Alps Electric is working daily to improve its production capabilities, which allow it to mass-produce a diverse range of high-quality products.

**Development of Production Technologies That Improve Productivity**

Alps Electric provides products to a wide range of markets. In regard to products supplied to the mobile market, centered on smartphones, and the automotive market, production processes and the composition of materials and components differ, as do product life cycles. To continue to enhance productivity amid these circumstances, the automatization of production processes is essential. As such, we are moving forward with the development of robots and automated machines that best suit the characteristics of each individual product. We are also promoting the development of production technologies that help realize a production structure that can promptly adapt to changes in product categories.

**Mold Technologies Supporting Enhanced Operation Rates through Product Precision**

Precision molds represent one of Alps Electric's strengths. The in-house manufacturing of molds boasting high levels of sophistication is what allows us to mass-produce high-quality products with a precise composition. In addition, we manufacture molds that optimize processes for shortening cooling times and other processes, thereby realizing enhanced operation rates.

By integrating on-site production, which supports our unique technologies, and our mold manufacturing divisions, we are able to leverage our production capabilities to an even greater extent.

▶ For further details on our production capabilities, please refer to page 30.

## Global Structure for Leveraging Our Competitiveness to the Fullest

- Global development structure that meets market and customer needs in a prompt manner  
9 locations in 4 countries around the world
- Global production structure that realizes the speedy and stable supply of products  
21 locations in 9 countries around the world



# Value

Alps Electric pursues the concept of "perfecting the art of electronics." This means that we create products that are *right*, *unique*, and *green*. Going forward, we will continue to perfect the art of electronics to provide new value to our customers. In doing so, we will contribute to enriched lifestyles that are more convenient and safer.

**Right**  
For driving safety

**Unique**  
For comfortable communication

**Green**  
For an enriched, more convenient society

For maintaining a sound physical condition

Products of Alps Electric that embody the art of electronics

### Conditions for "perfecting the art of electronics"

- Right** The optimal balance of appearance (the ambience of the product), price, function, performance, and quality to meet customer needs and convey the ideal concepts
- Unique** Beauty that incorporates the uniqueness of Alps and original value that appeals to customers
- Green** Friendliness toward the environment that not only gives consideration to sustainable components but also promotes recycling and contributes to a reduced environmental burden



**We will strengthen our *monozukuri* capabilities and establish a firm business foundation to become a company that can achieve sustained growth.**

**Toshihiro Kuriyama**  
Representative Director and President

**Completing the First Year of 8th Mid-Term Business Plan**

**What It Means to Become a Company That Can Achieve Sustained Growth**

Since April 2016, Alps Electric has been promoting the 8th Mid-Term Management Plan, which lays out a vision for becoming a “company that can achieve sustained growth.” This vision calls on us to become a company that uses the new products it creates through its core technologies as a foundation to develop businesses within future growth markets and continue to create new pillars of profit. Such a company can realize sustainable growth even when either peak demand from the market or demand for its core products has passed.

Looking back at the past 20 years in the electronics industry, a period in which digital technologies have made substantial progress, we see that a large number of hit products have been created, such as personal computers, cellular phones, gaming consoles, digital cameras, and flat-screen TVs. However, all of these products have undergone commoditization, and the market has shrunk as a result. Accordingly, the Company’s performance has thus far been significantly influenced by the wave of demand for such hit products.

Under the 8th Mid-Term Management Plan, we will move forward with the establishment of business foundations capable of remaining firm well into the future by nurturing a large number of new businesses without ever being satisfied with short-term positive results.

**Seeing Positive Results in Fiscal 2016**

Fiscal 2016 marked the first year of the 8th Mid-Term Management Plan. During the year, Alps Electric recorded net sales of ¥437.6 billion and operating income of ¥32.8 billion. While sales increased compared with the previous fiscal year, profits decreased for the first time in four years due to the significant impact of yen appreciation on exchange rates. However, if we exclude the impact of exchange rates, our business performance in fiscal 2016 is on a par with that of the previous fiscal year. I therefore feel that our overall condition is stable and that fiscal 2016 was a year in which we made solid progress toward achieving our targets.

In the automotive market, favorable conditions continued against a backdrop of such factors as strong economic conditions in the United States, lower taxes on small-engine cars in China, and a decrease in crude oil prices. The products that we offer in this market also performed well, including module products such as electric shifters; communication equipment such as Bluetooth®, W-LAN, and LTE; and device products such as sensors.

Turning to the consumer market, the smartphone market showed signs of weakness in the first half. However, this market saw an upswing in the second half thanks in part to the shift to products with high functionality by Chinese manufacturers and the release of new products by North American manufacturers. Products such as our actuators for smartphone cameras as well as our sensors and switches realized a solid performance alongside the recovery in the smartphone market. However, due to the impact of exchange rates, overall sales in the consumer market decreased slightly.

**Strategies for Realizing Our Vision for the Company**

<b>Profit</b>	Break dependence on smartphones ▼ Increase profit through dual pillars of smartphone and automotive businesses
<b>Business</b>	Establish and expand businesses to take the place of smartphones in the future ▼ Establish EHII* business and expand automotive device business

\* EHII: Energy, Healthcare, Industry, and the IoT

## Mapping the Direction We Should Take Going Forward

### Developing Unique, High-Value-Added Products in Core Markets

Recently, uncertainty has been rising in the global economy due to such factors as the direction of U.S. political policies, economic trends in Europe, including the issues that have arisen following the Brexit vote, and economic deceleration in China. Amid these circumstances, the business environment has been changing constantly, thereby increasing the importance of careful leadership. With that being said, signs of positivity have started to appear.

Our business in the automotive market gradually expanded following the growth of automotive electronics, as showcased by the installation of advanced driver assistant systems and the partial application of automatic driving. Although the continuous entry of rival manufacturers into the market has led to intensified competition, we will continue to develop new products that accurately address the needs of customers based on our core technologies.

As for the consumer market, demand for components in the smartphone market has been rising as the shift toward smartphones with high functionality advances. While sales of smartphone-oriented products are expected to grow, smartphones represent a business in which changes occur rapidly. As such, we will continue efforts to develop new products and realize a reliable supply so that we can continue to be the primary supplier to our customers and so that we can further increase our overall number of customers. In addition, we will

focus our efforts on the development of new products geared toward mobile devices, such as virtual reality equipment, which has been garnering significant attention recently, and wearable devices.

While smartphone use has become widespread around the globe, the differences in function and performance between the smartphones of various manufacturers are likely to become less significant, and commoditization is expected to gradually advance. To prepare for such conditions, we are setting our sights on the new EHII (energy, healthcare, industry, and the IoT) markets. Specifically, in the energy market, we concluded an agreement for business collaboration with an overseas electric power company in 2016. We are also accelerating efforts to strengthen product development through an absorption-type merger of our subsidiary Alps Green Devices Co., Ltd. In the IoT market, which has been attracting a great deal of attention in recent years, we are moving forward with the proposal of solutions through collaboration with various communications companies, and these efforts have been gradually producing results. While more time is needed before our business in the EHII markets becomes a new pillar of profit, we will continue to pursue the development of unique, high-value-added products.

### Take On Challenges in New Markets by Enhancing and Fusing Our Core Technologies

With the 8th Mid-Term Management Plan, we are concentrating our efforts in three core technological domains: HMI (human machine interface), which connects people with devices; connectivity, which involves the sharing of a broad range of information; and SENSORING™, which detects the condition of people and devices.

To promptly develop and introduce products that meet market needs, it is essential for us to engage in *shimidashi* product development in these three technological domains. *Shimidashi* product development means that we enhance and fuse the core technologies we possess to create new technologies, thereby boosting our uniqueness and strengths to even higher levels. By extending the new technologies created through *shimidashi* into the automotive, mobile, and EHII markets, we will cultivate new businesses going forward. Our ability to leverage our core technologies to take on challenges in various markets represents one of our key strengths.

Since our founding, we have adopted “being devoted to components” as our basic philosophy. Based on this philosophy, we have continued to evolve as an independent electronic components manufacturer. Accordingly, we have gained the ability to make proposals to a wide range of customers as well as the ability to develop businesses in markets where we can fully exercise our strengths.

### Establishing a *Monozukuri* Structure to Further Leverage Our Strengths

We are making concerted efforts to bolster our *monozukuri* structure so that we can leverage our technological capabilities to their full potential. To further accelerate this process by enhancing and fusing our various technologies, we established a technology and development base in the Furukawa area of Osaki City, Miyagi Prefecture, and have gathered our engineers at this location. Using this base as a center for technology, we will promote investment in infrastructure and facilities as the next step in our efforts to further strengthen our technological and development capabilities.

Meanwhile, the plants that we have established in Miyagi, Fukushima, and Niigata prefectures function collectively as our “global mother plant.” In addition, the construction of a new plant in Osaki City is scheduled to be completed in October 2018. Together with our global mother plant, this new plant will help us advance efforts to bolster our *monozukuri* capabilities in Japan (see page 31 for details).

While the construction of this new plant has led to increases in capital expenditures over the past few years, we have limited this increase to less than 10% of net sales. Going forward, we will carry out capital expenditures that lead to future growth while giving thorough consideration to cash flows.

### Enhancing Global Business Chain Management

At the moment, transactions with overseas customers account for nearly 80% of total sales in the Electronic Components Segment. Accordingly, one of our key initiatives is to enhance our global coordination.

For example, in regard to business dealings with European automobile manufacturers, it is not uncommon for us to conduct sales activities in Europe, carry out product design in Japan, manufacture products in South Korea and China, and deliver finished products to the United States or Mexico. If we are unable to realize seamless collaboration between each location around the world and leverage the

appropriate functions, then we cannot meet the demands of our customers.

“Business chain management (BCM)” is the key phrase when it comes to strengthening global collaboration. While many people are familiar with the concept of supply chain management (SCM), which refers to the management of the flow of goods and services from the supplier to a company and finally to customers, BCM builds on the concept of SCM to include decision-making and refers to all the connections across an entire business. For business dealings that span across a global scale, there is a limit to what we can do when making management decisions only in Japan, as we have done thus far. Our overseas locations need to be able to act independently with an appropriate sense of speed. If a delay occurs at even one of these locations, the entire business process is impacted significantly. As such, we are establishing stronger BCM through organic connections between each global location.

In addition, we are currently pursuing a shift in our automotive business from quantity to quality in order to improve profits. As our business rapidly expands and production tightens, the occurrence of a quality-related issue would put immediate downward pressure on profits. Accordingly, we position this shift to a sharper focus on quality as our most important management issue. Under the 8th Mid-Term Management Plan, we are making concerted efforts to realize globally consistent quality by eliminating variations in structures and performance from product to product and between production bases and by achieving a high level of quality stability.

### Applying the Action Policy of “Constructive, Proactive, and Vigilant” to All of Our Employees Worldwide

In accordance with the 8th Mid-Term Management Plan, we have established “Constructive, Proactive, and Vigilant” as the action policy for all of our employees worldwide. In light of the solid growth that we achieved under the 7th Mid-Term Management Plan, being constructive and proactive, including the idea of pushing forward even further, as well as vigilant, which means not being satisfied with the current situation amid the high levels of uncertainty in the business environment, is extremely important for our employees. We share this action policy with all employees of the Alps Electric Group through various means, such as at morning meetings held at the beginning of each month and via our in-house newsletter,



and I feel that the policy is being gradually instilled throughout the Group, including at our global locations.

Together with the everlasting motto of the Alps Group, “Work Hard (Sincerity), Study Hard (Challenge), and Play Hard (Solidarity),” this action policy will guide our employees in realizing the targets of the 8th Mid-Term Management Plan and in achieving further growth for the Group.

### Improving Productivity by Promoting Reforms to Workstyles

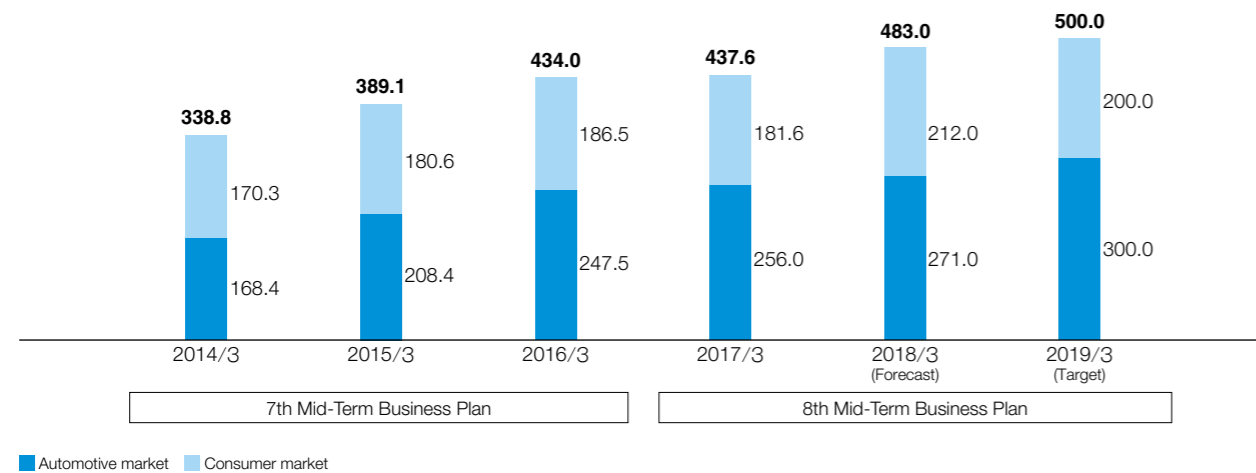
With the 8th Mid-Term Management Plan, we have adopted the target of reaching net sales of ¥500.0 billion in the Electronic Components Segment by the last year of the plan. This target represents a significant challenge for us, as net sales in this segment have remained between the ¥300.0 billion to ¥400.0

billion range. Furthermore, as our business increases in size, we are facing the issue of tightening resources.

To achieve this target, it is essential that we pursue improvements to productivity—an effort that has thus far been carried out in our manufacturing divisions—within every division of the Company, including our technological and back-office divisions, and on a global scale. To this end, we are working to automate and improve processes on the manufacturing floor through the utilization of robots and other means, and are promoting the use of IT, such as AI and new technologies. At the same time, under the leadership of management, we are actively moving forward with reforms to workstyles, including efforts to raise the awareness of each employee.

### Net Sales for the Electronic Components Segment

(Billions of yen)



### To Our Stakeholders

#### One Year after Our Transition to a Company with an Audit and Supervisory Committee

In June 2016, we transitioned from a company with an audit and supervisory board to a company with an audit and supervisory committee. In the past, we appointed only one outside director to serve alongside our 12 inside directors. However, we have now increased the number of outside directors to three. With the additional questions and opinions

that these outside directors provide on each agenda item at Board of Directors’ meetings, discussions have become even livelier and an extremely positive sense of urgency has arisen. As medium-term initiatives going forward, we will increase the ratio of outside directors on the Board of Directors and further promote diversity. In doing so, we will realize even stronger governance through the enhanced quality of management, thereby improving corporate value.

### Dividend Policy

Based on the performance of the Electronic Components Segment, we adhere to a basic policy of striking a balance between three elements—returns to shareholders; funds for R&D and capital investment to support business expansion and enhance competitiveness; and internal reserves. In line with this policy, and based on comprehensive consideration of such factors as trends in financial performance, our current financial position, and shareholders’ expectations toward dividends, we issued a year-end dividend of ¥15.00 per share in the fiscal year under review.

For the fiscal year ending March 31, 2018, we plan on issuing a dividend of ¥34.00 per share, consisting of a ¥17.00 interim dividend and a ¥17.00 year-end dividend.

Year ended March 31, 2017

Year-end dividend (paid June 26, 2017) ¥15.00

Year ending March 31, 2018

Interim dividend (late November 2017) ¥17.00

### Making Alps Electronic a Stronger Company through an Inherited Passion for *Monozukuri*

As an electronic components manufacturer, we have adopted “Alps creates new value that satisfies stakeholders and is friendly to the Earth” as our corporate philosophy and “perfecting the art of electronics” as the core approach of our business activities.

We define “perfecting the art of electronics” as creating products that are *right*, *unique*, and *green*. In other words, this means that we create products that not only have a refined exterior but also achieve the required performance with outstanding levels of quality and take the environment into consideration.

The source for creating such products is the passion each of our employees has toward *monozukuri*. This passion is reflected in our employees’ ceaseless dedication to creating new technologies as well as in their ability to think outside the box, their proactive behavior, their sound imagination, and their desire for mastering their craft. These characteristics were recorded in the Alps Precepts, which was established on the 10-year anniversary of the Company in 1958, and have been continuously passed on over the years. Today, with our sights on the future, our employees continue to embody these characteristics. Furthermore, under our



universal philosophy of “believing in people,” we are promoting continuous efforts on a Groupwide basis to cultivate human resources, create better working environments, and strengthen a governance structure aiming for management that creates value together with customers and emphasizes fairness.

To make Alps Electric even stronger and become a company that can achieve sustained growth, and to continue to create new value that realizes enriched, comfortable lifestyles and is friendly to the Earth, we will diligently continue these kinds of efforts.

I would like to ask our stakeholders for their continued support and cooperation as we pursue these endeavors going forward.

August 2017

T. Kurijama

# Progress of the 8th Mid-Term Business Plan

Alps Electric is moving forward with the 8th Mid-Term Business Plan, which commenced in fiscal 2016, ended March 31, 2017. The plan positions the automotive, mobile, and EHII markets as three core markets in which the Company should focus its efforts. By bolstering profitability and further enhancing corporate value under this plan, Alps Electric aims to become a company that can realize sustained growth.



Vision	<b>Aiming to Become a Company That Can Achieve Sustained Growth</b>
Strategies	Profit Break dependence on smartphones and increase profit through dual pillars of smartphone and automotive businesses
	Business Establish the EHII businesses and expand automotive device business to take the place of smartphones in the future

## GT510

Net Sales of **¥500 billion**, Operating Income Margin of **10%**

Targets	Initiatives
Achieve net sales of <b>¥300 billion</b> in the automotive market	<ul style="list-style-type: none"> <li>■ Increase profits from modules</li> <li>■ Expand the devices product lineup</li> </ul>
Achieve net sales of <b>¥200 billion</b> in the mobile market	<ul style="list-style-type: none"> <li>■ Retain and build on our position as primary supplier</li> <li>■ Develop business targeting new mobile devices (PCs, wearable devices, virtual reality devices, drones, etc.)</li> </ul>
Build foundations to realize net sales of <b>¥60 billion</b> in the EHII markets	<ul style="list-style-type: none"> <li>■ Build foundations looking ahead to the 9th Mid-Term Business Plan</li> <li>■ Expand sales of products with high added value</li> <li>■ Expand open innovation through collaboration with other companies</li> </ul>



### Progress of the Plan as of March 31, 2017

**Net Sales ¥437.6 billion / Operating Income Margin 7.5%**

With the 8th Mid-Term Business Plan, we aim to realize "dual pillars of profit" in the automotive and mobile markets, thereby further increasing profits. To accomplish this, we are pursuing efforts to improve profitability in the automotive business and continuing efforts to create new products and increase the number of customers in the mobile business. In addition, we are working to promptly establish EHII as the next business pillar through new product development that combines our three core technological domains of HMI, connectivity, and SENSORING™.

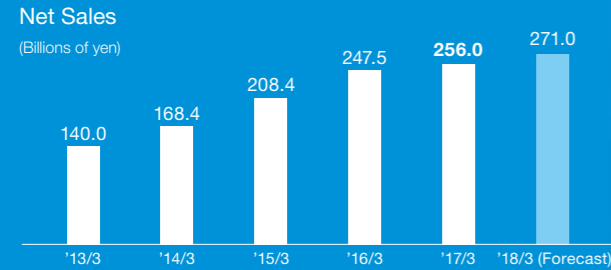
In fiscal 2016, we recorded steady sales in the automotive market in line with our plan, centered particularly on various input modules and communication modules. In the mobile market, while sales of component for smartphones were sluggish in the first half of the year, sales levels recovered during the second half. In the EHII markets, particularly the IoT market, we moved forward with specific proposals in collaboration with other companies. As a result, we steadily expanded our EHII business compared with the previous fiscal year, despite being adversely affected by the impact of yen appreciation.

### Key Initiatives Going Forward

The key initiatives we are undertaking in fiscal 2017, the second year of the 8th Mid-Term Business Plan, are improving profitability in the automotive module business, maintaining and extending our position as a primary supplier in the mobile business, expanding and enhancing automotive devices and EHII-oriented products, and pursuing higher levels of productivity. At the moment, we are promoting increased production while working to launch new products to meet robust demand primarily for smartphone-related products. Amid rising levels of uncertainty in the business environment, we will make concerted efforts to heighten profitability with a heightened sense of urgency and awareness of crisis.

# Automotive Market

By further strengthening the automotive product technologies that we have long cultivated, we will pursue the development of new products that provide safety and peace of mind in an effort to bolster profitability.



## Awareness of the Business Environment

In the automotive market, stable conditions continued against a backdrop of such factors as strong economic conditions in the United States, increased demand in China following a tax reduction on small-engine cars, and lower crude oil prices. Amid these circumstances, automobile manufacturers are accelerating efforts

to offer safety and peace of mind as well as improve comfort and environmental performance. At the same time, there has been significant growth in automotive electronics, reflected by the installation of advanced driver assistant systems (ADAS) and the partial application of automatic driving.

## Review of Initiatives Implemented in Fiscal 2016

We achieved solid sales across our entire product lineup in the automotive market, including input module products such as electric shifters and HAPTIC COMMANDER™; communication equipment such as Bluetooth®, W-LAN, and LTE; and devices such as sensors. In addition, we enhanced our production activities through an absorption-type merger with Kurikoma Electronics Co., Ltd., a subsidiary company that manufactures automotive products, in October 2016.



Electric Shifter

## Key Initiatives in Fiscal 2017

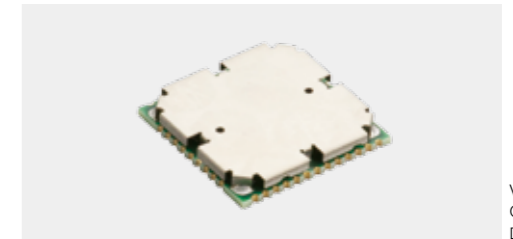
### Automotive Modules

With the aim of improving the usability of air conditioners and audio devices, starting with small electric shifters, we are promoting the development of touch panel modules, HAPTIC™ touchpads, capacitive steering wheel switches, and other products. Furthermore, to ensure that collision prevention and automatic driving systems are able to detect oncoming vehicles, people, and obstacles to the greatest extent possible, we are currently in the process of developing ultrashort-range millimeter wave radars.

Also, we are working to enhance added value through the application of advanced technologies, such as said millimeter wave radars, and the pursuit of integration, sophistication, and more comfortable vehicle operation. At the same time, we have positioned improvements in productivity as an important initiative and are promoting the use of common materials and parts and the standardization of design and development processes. In these ways, we are maintaining and ensuring high levels of quality and working to boost profitability.

### Automotive Devices

For vehicle-to-infrastructure communication systems, which are essential to ADAS and automatic driving, we have developed V2X (vehicle-to-X) communication devices that use our core connectivity technology and radio frequency (RF) technology and have commenced mass production of these devices. In line with the advancements in intelligent transportation systems (ITS), communication devices are becoming more important than ever before. As such, we will enhance our development capabilities to expand our product lineup going forward.



V2X Communication Device

In addition, we will continue to utilize force feedback technology to develop HAPTIC™, setting our sights on applying this technology in automotive, video game, and various other fields.

## Medium- to Long-Term Vision

In the automotive business, we have adopted net sales of ¥300.0 billion as a target within our 8th Mid-Term Business Plan. As for ensuring profits, we will work to realize “dual pillars of profit” in the automotive and mobile markets by promoting increased profits from module products and smartphone-related products. In doing so, we aim to expand our overall automotive business.

To contribute to improvements in vehicle safety, security, comfort, and environmental performance, we are developing

products that can be used in a broad range of fields, from components to system products. Also, we are developing integrated control devices to address the issue of complex vehicle operation for drivers as the digitization of car interiors continues. In these ways, we are promoting research on and development of products that are necessary for hybrid vehicles, plug-in hybrid vehicles, electric vehicles, fuel cell vehicles, and other next-generation vehicles.

## Leveraging Unique Technologies to Create Products with High Added Value

In fiscal 2016, sales in the automotive market accounted for nearly 58% of total sales in the Electronic Components Segment. As the significance of the automotive market for our overall business is becoming greater than ever before, we have set a target for net sales in the automotive business of ¥300.0 billion within the 8th Mid-Term Business Plan and are currently promoting a wide variety of initiatives under the slogan AUTO 300. For product development, we will actively introduce capacitive technologies, which have a solid track record of use in smartphones and PC input devices, and various other kinds of technologies that we have cultivated in the consumer device field, such as HAPTIC™. At the same time, we will leverage our core technologies to create high-value-added products, including communication devices that contribute to automatic driving and other features as well as sensors that help improve vehicle fuel performance.

Meanwhile, to improve profitability within our business structure, which entails the production of multiple brands in small quantities and at multiple locations, we will promote Companywide activities to bolster global collaboration, enhance productivity, and eliminate quality-related issues. Amid a solid market environment, we will diligently promote efforts with a sense of urgency in line with AUTO 300 and realize “dual pillars of profit” in the automotive and mobile markets.

### Hiroyuki Sato

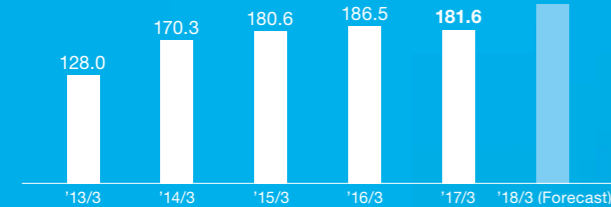
Director  
General Manager, Automotive Modules  
Deputy General Manager, Engineering Headquarters



## Consumer Market

We will steadily pursue opportunities to incorporate new demand by promptly supplying products that meet customer needs.

Net Sales  
(Billion of yen)



## Mobile Market

### Awareness of the Business Environment

In fiscal 2016, the smartphone market recovered in the second half after sluggish conditions in the first due to the release of new smartphone models by North American manufacturers. This second-half recovery was also supported by the introduction of

smartphone models with high functionality by Chinese manufacturers. In addition, VR products were released into the market, thereby stimulating new trends in electronic devices.

### Review of Initiatives Implemented in Fiscal 2016

Despite stagnant sales in the first half of the fiscal year, our smartphone-related products such as switches and camera actuators demonstrated favorable second-half performance in line with the market's recovery. Also, in the HMI field, HAPTIC™,

which utilizes force feedback technology, has been drawing significant attention in the VR market. We therefore promoted activities to propose and develop HAPTIC™-related technology in a variety of markets, including consoles.

### Key Initiatives in Fiscal 2017

Robust demand has continued in the smartphone market and the new VR market is expected to expand going forward. Within this environment, we will actively develop core products such as switches and other input components and camera actuators in order to respond to the needs of these markets. To speed up

development and improve productivity and quality, we will ramp up collaborative initiatives between our technology, sales, and manufacturing divisions. In doing so, we will continue to create one-of-a-kind products and market-leading products.

### Medium- to Long-Term Vision

There are various needs related to smartphones, including the need for high-performance cameras with superior picture quality as well as the need for reduced energy consumption and thinner models. To address these needs, we are accelerating the development of new camera actuators. In the VR market, we anticipate that use of controllers for remote operations, which currently center on the video game industry, will extend to factories and medical institutions. We are therefore promoting the development of HAPTIC™-related products. Furthermore, we have commenced mass production of our vibrational feedback device HAPTIC™

Reactor, which brings together our proprietary precision processing and magnetic and electrical design technologies, and this device has been adopted for use in consoles. In these ways, we expect that our business activities in the smartphone and VR markets will expand going forward.



HAPTIC™ Reactor

## EHII Markets

### Awareness of the Business Environment

Japan and other advanced nations around the world are beginning efforts to bring about innovation through the use of big data analytics, as reflected by the Japanese government's policy for realizing a "super smart society" via information and communication

technology (ICT). In light of this trend, information technologies and electronics are becoming more important to a variety of industries, such as manufacturing, agriculture, and medical care.

### Review of Initiatives Implemented in Fiscal 2016

We worked together with various communication companies that deal with IoT-smart modules to propose solutions in the healthcare, industrial, and various other fields. In the energy market, we pushed forward with the development of energy-conserving products through the merger-type acquisition of

Alps Green Devices Co., Ltd. At the same time, we concluded a collaborative business contract with an overseas electric power company. Through these means, we took steps to establish and expand our business foundation in the EHII markets.

### Key Initiatives in Fiscal 2017

In the energy field, we are currently engaging in the joint development of sensors for smart electrical distribution panels with a major overseas company. In addition, we have commenced shipping of energy storage systems for household use. We are also promoting business development in the field of energy conservation supported by product development that utilizes our unique Licalloy™, a magnetic amorphous material.

In the IoT field, we are developing the world's smallest sensor network module. We are also providing development kits so that users of this product can easily establish IoT systems. At the

moment, these modules are being used for a variety of purposes, including to monitor the environment of office buildings and the operational status of production lines at factories, control various conditions at distribution warehouses, and utilize ICT in the agriculture industry. Going forward, we plan to make even more proposals for products in the IoT field.

Furthermore, we will actively promote efforts such as collaboration with other companies to promptly establish a business foundation within the wide range of business types to which the IoT is being applied.

### Medium-to Long-Term Vision

Growth in the smartphone market is expected to stagnate going forward. Accordingly, we are positioning the EHII markets as the next business pillar to replace smartphones. These markets consist of various businesses, and we will work to establish a

foundation within each of these businesses through the development of unique products and active collaboration with other companies. In doing so, we will aim for net sales of ¥60.0 billion within the 9th Mid-Term Business Plan.

## EHII Markets as the Next Business Pillar

As commoditization in the smartphone market is expected to advance going forward, we are currently promoting a broad range of preparatory activities to establish the EHII markets as a new business pillar for the Company. With regard to energy, we are accelerating collaborative business development with overseas companies and have carried out an absorption-type merger with Alps Green Devices. In healthcare, we are currently promoting joint development with industrial and academic institutions. Also, for the IoT we are collaborating with various communications companies to extend IoT-smart module use to the front line of construction and agriculture. These are just a few examples of the results we have steadily achieved thanks to our efforts in each EHII market. Additionally, we are displaying our products at exhibitions in Japan and overseas to promote the competitive edge of our technologies. We are also making proactive efforts to develop new product and application proposals.

As part of our approach to expanding our business in these markets, we are promoting *shimidashi* development based on our core technologies. Meanwhile, we are actively moving forward with the swift development of new products, collaborative business development with other companies, and the pursuit of open innovation. In doing so, we are advancing the creation of a foundation that will allow us to reach an annual net sales target of ¥60.0 billion in the EHII business under the 9th Mid-Term Business Plan.

### Takeshi Daiomaru

Director  
General Manager, New Business & Consumer Modules  
Deputy General Manager, Engineering Headquarters



# Development Capabilities

Society 5.0 is a newly formulated concept of a society in which cyber space and the real world are combined in a highly sophisticated manner. A diverse range of IoT devices and systems are thought to be necessary in order to realize such a society. Accordingly, the Alps Electric Group is pursuing R&D activities aimed at the creation of high-value-added products that can contribute to the society of the future.

## R&D Policy

In R&D activities, we adhere to the basic policy, "Perfecting the art of electronics," and we will continue creating products with new value under the 8th Mid-Term Business Plan by stepping up our enrichment and fusion of core technologies.

### R&D Strategy under the 8th Mid-Term Business Plan

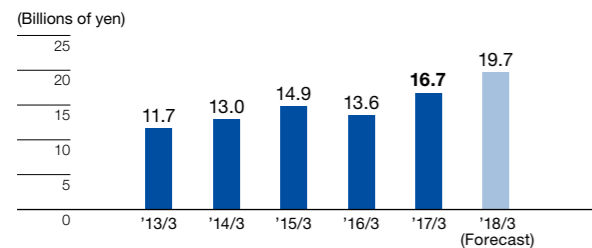
The Alps Electric Group looks to achieve differentiation from other companies, and thereby establish a competitive advantage, by creating new businesses and products that match market and customer needs. This is done through ongoing innovation entailing the enrichment and fusion of mechatronics, process, material, and design technologies built up over the years.

We place particular importance on developing products through *shimidashi* ("trickle-out" product development), which involves continuously adding new functionality to core technologies and branching into new business areas while also taking environmental considerations into account, and on technology "black-boxing" to make products harder to imitate.

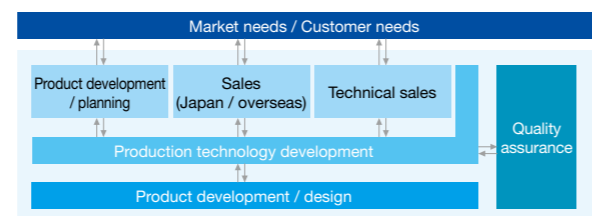
Adhering to these concepts, we carry out product development with the potential to enrich lives in a way that is friendly to both people and the Earth. We do this with a focus on three growth engines—enrichment of human-machine interface (HMI) technology; expansion of sensor variety; and expansion of connectivity-oriented business—and with aims to establish the EHII\* business and expand the automotive device business.

\* EHII: Energy, healthcare, industry, and the IoT

### R&D Expenditures (Electronic Components Segment)



### Responding to Customer and Market Needs



## Response to Core Markets

### Automotive

In the automotive market, there is a rising need for vehicles that offer safety, peace of mind, and comfort and are friendly to the environment, while technological development is being pursued in regard to fully autonomous vehicles and eco-friendly electric and fuel cell cars. To respond to these trends, we are expanding our lineup of sensors used in engines and chassis as well as our devices used in ADAS (Advanced Driver Assistance System). We are also extending the scope of our product development to electric shifters and other modules controlled by people inside vehicle cabins.



Curved Surface Touch Panel

### Mobile

The smartphone market is expected to expand going forward. Also, there has been an emergence of exciting new trends such as the heightened interest toward the development of VR-related technologies. In light of these trends, we are developing and producing a wide array of products such as autofocus actuators for smartphone cameras as well as various kinds of switches, sensors, connectors, and touch panels.



Autofocus Actuator

### Energy

For eco-friendly products, we are developing energy and resource-efficient power inductors, sensors, and communication modules, as well as modules that take advantage of the characteristics of Liqualloy™, a magnetic material jointly developed with Tohoku University, Japan. In fiscal 2016, we made progress with initiatives for establishing a business foundation in the energy market and realizing future expansion. These initiatives included the reorganization of our subsidiary companies and the conclusion of a business collaboration agreement with an overseas electric power company.



Liqualloy™ Toroidal Coil

### Healthcare

Following the advancement of the aging society, the need for monitoring daily health conditions to prevent illness, in addition to environmental information, is becoming greater. To respond to this need, we are developing devices for healthcare equipment that leverage connectivity technologies to monitor biological information such as pulse rate and blood flow.



Microfluidic Device

### IoT

For the IoT market, which is expected to grow significantly in the future, we are actively pursuing proposal-making activities in such ways as introducing examples of the various solutions we offer that utilize the IoT at exhibitions around the world.



Environmental Sensor Module

## Exploring New Technologies and New Markets through the Fusion of Our Proprietary Technologies

To realize sustained growth well into the future, we are constantly working to develop technologies that allow us to take on challenges in new markets. Throughout our near 70-year history, we have cultivated a great deal of proprietary technologies. By combining, or fusing, these technologies, we believe that we can continue to create new technologies and flexibly meet the needs of customers and markets going forward. However, thus far we have made enhancements to our proprietary technologies on an individual basis. To fuse a technology with another that is from a completely different domain is no easy task, and various mechanisms are required. At the moment, we are building a development structure that caters to the characteristics of each of our proprietary technologies. We are also actively promoting Companywide research presentations to boost our creative and conceptual capabilities and implementing management rotation. In these ways, we aim to fuse our proprietary technologies in a highly organic manner.

In addition, setting our sights on the more distant future, it is necessary for us to take on challenges in new technological domains without constraining ourselves to the technologies we currently possess. We will therefore pursue open innovation and alliances with universities, research institutions, and other companies to a greater extent than ever before. By leveraging our production capabilities, we will continue to promote dynamic technological development so that we can launch one-of-a-kind products in brand new markets.

**Yasuo Sasao**  
 Managing Director  
 General Manager, Components  
 General Manager, Engineering Headquarters



### Further Enhancing Our Development Capabilities

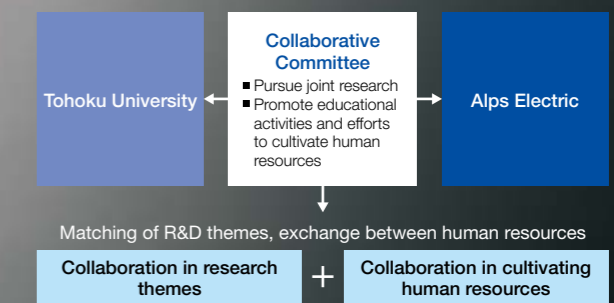
#### Promoting Organizational Collaboration to Encourage Open Innovation

In March 2017, Alps Electric and Tohoku University concluded an organizational collaboration agreement. This agreement represents a part of the "Industry-Academia Partnerships for the Co-Creation of a Future Vision," which is a model for industry-academia collaboration promoted by Tohoku University that aims for recovery in disaster-stricken areas, regional revitalization, and new industry creation. Leveraging the new competitiveness created through this collaboration between Tohoku University and Alps Electric, the agreement aims to create businesses involving state-of-the-art technologies. At the same time, the agreement works to cultivate human resources who will play a crucial role in encouraging innovation to promote the sustained growth of regional industries. In doing so, this agreement will help promote the electronic components industry and contribute to the development of society as a whole.

A Collaborative Committee will be established to promote the activities carried out under this agreement. The committee will handle the following tasks: (1) pursuing collaborative research, (2) encouraging organizational exchange, including exchange between researchers, (3) promoting the mutual utilization of research facilities and equipment,

(4) promoting and supporting educational activities and efforts to cultivate human resources, and (5) examining the establishment of the Social Innovation Laboratory (temporary name).

#### Outline of "Industry-Academia Partnerships for the Co-Creation of a Future Vision"





# Production Capabilities

The Alps Electric Group provides electronic components to various markets around the world, including the smart-phone, automotive, and industrial equipment markets. In addition to its development capabilities and its launching of new products that meet customer and market needs, one of the Group's core strengths is its production capabilities, which allow it to supply high-quality products in a timely manner.

## Strategies and Structure for Realizing Unrivaled Production

The production capabilities of the Alps Electric Group have been cultivated through a strong production structure and various initiatives to improve productivity. The kind of electronic components that are needed by markets and customers change with the times. The Group has thus created a production structure that can respond to these changes and is developing measures that give consideration to the *monozukuri* of the future. In doing so, the Group is working to further enhance its production capabilities.

### Promptly Supplying Products on a Global Scale through Comprehensive Production That Covers Everything from Molding to Assembly

The source of our production capabilities lies in our technological strengths and production structure, which allow us to cover everything from molding to assembly in-house. The precision processing technologies that we have cultivated over the years are able to create various parts from molding. These parts are then mass-produced for a variety of high-quality products through automated machines developed by the Company that give thorough consideration to the assembly process. Supported by various technologies that pertain to production and mass production, our production capabilities allow us to timely respond to the rapidly changing needs of the market. These capabilities also enable us to supply products that embody the "art of electronics" on a global scale.



### Improving Productivity through a Multifaceted Approach

Based on the 4Ms (man, machine, materials, and method), Alps Electric has set "cultivation of human resources" and "automation" as the key phrases for its efforts to further enhance productivity. For "automation," not only are we working to automate operations conducted by people, we are also developing automated machines that can support the production of various products. In addition, on the production floor, we are thoroughly eliminating wasteful procedures by improving total industrial engineering (TIE) and are working to enhance the skills of our production floor employees.

We view *monozukuri* as a series of processes that extends from product development to mass production. We therefore believe that *monozukuri* is achieved through the involvement of all relevant divisions, including the design, production, and purchasing divisions. Giving consideration to all stages of *monozukuri*, from product development to mass production, we are promoting product development that integrates production and technologies.



### Timely mass production of new products

Increase in rate of productivity improvement in fiscal 2016  
**15.6%**  
(YoY)



### Further improvements in productivity

## Promoting Initiatives to Further Enhance Our Production Capabilities

To further enhance our production capabilities and realize the *monozukuri* of the future, the Alps Electric Group is focusing on the following efforts.

### Strengthening On-Site Capabilities

To perform the tasks that need to be done, such as meeting delivery dates and adhering to rules and regulations, we are thoroughly pursuing well-disciplined management centering on the 5S methodology (sort, set in order, shine, standardize, and sustain). We are also focusing our strengths on cultivating specialists who will oversee each on-site function of manufacturing. We will expand and implement these kinds of efforts at all of our production bases around the globe.

### Innovating Production Methods

Recently, in addition to the production of many kinds of products in small amounts, there has been an increased need and potential for producing a wide variety of products in bulk. As production-related needs are expected to become more diverse going forward, we are moving forward with the development and introduction of production methods that can respond to various circumstances.

### Preparing for the *Monozukuri* of the Near Future

As not only market needs but also rules and regulations continue to change, the evolution of *monozukuri* has become essential. With its sights on the future, the Alps Electric Group will carry out experimental work related to materials, production equipment, and production processes as and will promote the development of new technologies.

During the period of the 8th Mid-Term Business Plan

Rate of productivity improvement Target by fiscal year

Over **13.6%**  
(YoY)

## Promoting People—the Driving Force on the Production Floor



As the state of the production floor is undergoing radical changes due to the globalization of the industry and the acceleration of structural reforms, we have no choice but to take on the challenge of realizing a production structure that is unprecedented in our history. While we need to strategically increase quality and quantity to expand our production structure, this cannot be done simply by increasing our number of employees and facilities. Rather, we must carry out investments that maximize free cash flow while accurately assessing returns. Not only will we introduce new facilities, we will also realize a sound operating ratio through the standardization of processes and equipment while steadily promoting further improvements in quality.

However, only people can carry out these kinds of initiatives. Without people, the production floor cannot function. Alps Electric has production bases all over the world, which means we have a diverse pool of global human resources. People represent the driving force of the production floor, and we will therefore focus our efforts on the cultivation of human resources. While unifying our human resources on a global basis, we will promote the development of professionals who can effectively run the production floor and pass on technologies and skills to the next generation of employees. In doing so, we will create even higher added value as we aim to realize a production floor that can achieve sustained growth.

**Yoshitada Amagishi**  
Managing Director  
General Manager, Quality Management  
General Manager, Production Headquarters

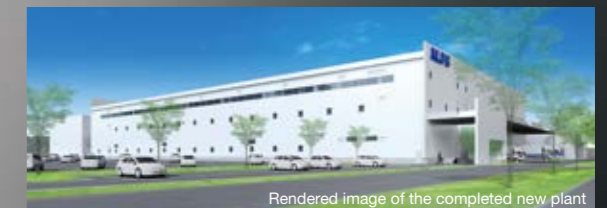
### Aiming for a Next-Generation Production Structure with the Furukawa Plant 2

Looking ahead to the next 50 years, Alps Electric will commence construction of a new plant in Osaki City, Miyagi Prefecture.

At the new plant, we will introduce production management systems that utilize the IoT and promote the visualization of processes, quality, and productivity. In this manner, we will work to improve our production capabilities. In addition, we will be able to utilize energy more efficiently through fuel conversions and natural energy use. Moreover, we will promote energy conservation by leveraging the IoT and conduct greening activities within the plant, thereby aiming for eco-friendly plant management.

We will also install a terminal in the plant for loading and unloading goods in an effort to enhance the security of our materials and finished products, which has become a necessity in recent years.

Construction work will begin in September 2017 and is scheduled to be completed by October 2018. Mass production at the new plant is slated to commence during fiscal 2018.



### Outline of the Furukawa Plant 2 (Planned)

Location	Kitahara, Furukawatsukanome, Osaki City, Miyagi Prefecture
Site area	48,000 m <sup>2</sup>
Building area	14,500 m <sup>2</sup>
Floor area	37,000 m <sup>2</sup> (three stories aboveground)

Quality Management

The Alps Electric Group views quality as a paramount factor influencing the heart of its business activities and pursues quality improvements in line with the Fundamental Quality Control Policy.

To facilitate improvements in global quality performance, quality-related achievements and issues pertaining to products are regularly reported to the Board of Directors to be shared Groupwide

rather than being left to units to address issues individually.

Both in Japan and overseas, quality problems can lead to major business risks. Under the motto, "Quality is our future," the Alps Electric Group is making concerted efforts to maintain and improve quality and to anticipate and prevent problems before they occur.

The Fundamental Quality Control Policy and the 8th Mid-Term Business Plan

Alps Electric continues to guarantee a standard of excellence in all of its products and services to satisfy customer needs. Under the 8th Mid-Term Business Plan, we are working to realize globally consistent quality by eliminating variations in structures and competence from product to product and between production bases, and by achieving a high level of quality stability.

**Fundamental Quality Control Policy**  
Alps Electric guarantees a standard of excellence in all of its products and services, satisfying customer needs.

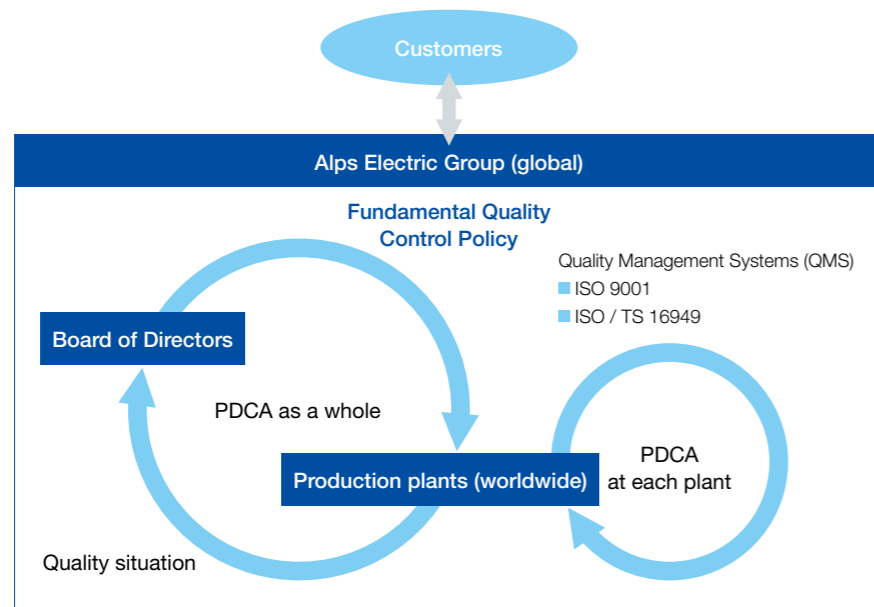
Quality Management Systems (QMS)

International standards for quality management systems (QMS) are essential for business as they demonstrate that all departments, through quality assurance, help realize higher levels of customer satisfaction.

All production plants of the Alps Electric Group (including plants outside Japan) have acquired ISO 9001 certification.

We have also acquired ISO / TS 16949 certification for plants manufacturing products for the automotive industry. In addition, we have been implementing standardized QMS both in Japan and overseas since April 2015 as one measure aimed at realizing globally consistent quality.

Quality Assurance System



▶ For a list of certified facilities that have acquired ISO 9001 or ISO / TS 16949, please see the Alps Electric website. <http://www.alps.com/e/csr/library/iso.html>

Global Quality Information System (GQIS)

The Global Quality Information System (GQIS) allows global sharing of quality-related information to enable the containment (prevention) of problems through swift improvements right across the organization. The system makes it possible to share quality information from customers or the market with bases worldwide and that information is used to promptly carry out cause analysis and take action. Measures and improvements implemented are subsequently turned into permanent measures

and made key check points in recurrence prevention and next-generation model development.

The GQIS was initially launched in Japan in 2001. A revamped system with improved analysis functions and more powerful search and tracking features went online globally in April 2016. We plan to use the system in tandem, and interlinked with, engineering systems to improve quality even further.



Active Use of Quality Engineering (QE)

Quality problems, when they occur, lead to not only loss of trust but also huge adverse effects on earnings and subsequent efforts to capture and maintain business. Defect issues we hear about today, typified by vehicle recalls, have a potentially extensive scope due to the globalization of business and changing business models, including the use of common parts. Problems sometimes have major implications for society. If that happens, it is already too late. Determining how to prevent quality problems before they occur is therefore crucial.

One way the Alps Electric Group does this is through the active use of quality engineering (QE). In the development and design stage, for example, we evaluate the stability of functions and optimize design parameters while envisaging the manner and environmental conditions in which the customer, or the market, will use the product in order to improve product robustness.\* In manufacturing, we apply QE concepts and methods to assess final product quality to enable the shipment of products with little variation in characteristics. These initiatives are undertaken at bases both in Japan and overseas.

We are also working to enhance education about QE by covering the various methods in in-house engineer training programs so that more of our engineering personnel learn about and deepen their knowledge of the concept and then practice it

in their respective jobs. In specific scenarios, QE personnel join in to aid solutions to a wide range of issues. And to improve the effectiveness of QE, QE personnel continuously refine their expertise through interaction with outside parties, such as the Quality Engineering Society.

We will step up efforts to prevent quality problems by utilizing QE right from development and design so that we can supply customers with products of a quality they will be satisfied with.

\* Robustness: The degree to which a supplied product can perform its intended function under the various conditions customers might use it (methods of use, treatment, hot, humid, dusty, or other kinds of environments, etc.)



Discussion between manufacturing division members and QE personnel on process quality improvement

## Intellectual Property

The Alps Electric Group engages in product creation and therefore ventures to create, protect, and utilize intellectual property based on accurate knowledge and understanding so that customers will feel secure using its products and services.

Viewing intellectual property-related activities as business activities contributing to sustained growth, we aim to carry out such activities through implementation of the intellectual property creation, protection, and utilization cycle.

### Improving Corporate Value through the Integrated Utilization of Intellectual Assets

By utilizing its patents, designs, and trademarks in an integrated manner, the Alps Electric Group is pursuing strategic activities that contribute to its global business development. In fiscal 2016, the Group leveraged its tactile technologies to enhance the brand image of its products through the creation of a new logo for its

trademark HAPTIC™ and the application for trademarks in Japan and overseas. By promoting such efforts, the Group is working to secure the competitiveness of its products, technologies, image, and brand and improve its corporate value through the integrated utilization of intellectual properties.

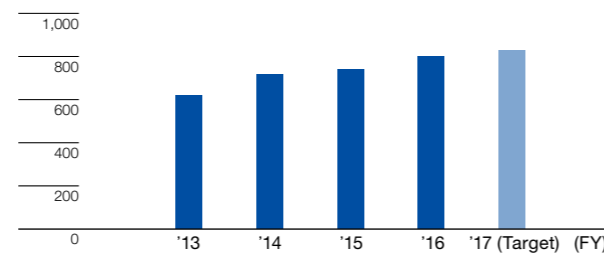
### Efforts to Increase the Number of Owned Intellectual Properties

From the initial stages of planning and developing a new product, the Group identifies the characteristics that the product in development will likely share with existing product groups and applies for basic intellectual property rights accordingly. At the same time, the Group is working to enhance its intellectual properties through overseas applications in accordance with trends in the market and in commercialization.

In addition, centered on the technologies that are used across the Group's multiple business domains, the Group holds strategic meetings between its technology and intellectual property divisions and conducts efforts in accordance with each stage of business creation in order to pursue Groupwide activities in such areas as establishing an intellectual property portfolio.

The Group is also continuing efforts to submit patent and other applications in Japan and overseas, with over 800 submissions scheduled to be made in fiscal 2017.

Number of Patent Applications (Alps Electric)



## Procurement

The Alps Electric Group maintains fairness in its dealings with suppliers and builds relationships of cooperation and mutual trust based on underlying sincerity. Our procurement policy is to

help bring about sustainable development with attention to safety and environmental concerns.

### Response to Procurement Risk

The Alps Electric Group has set up international procurement offices (IPOs) to carry out procurement activities at production bases in 21 locations in nine countries: Japan, China, South Korea, Malaysia, Mexico, Ireland, Germany, the Czech Republic, and India, as well as in Taiwan and Hong Kong. Procurement entails obtaining at the right time the required volume of materials and parts that are superior in quality, cost, delivery, and environmental performance. It is therefore essential that the Group procures from suppliers it can trust. For that reason, the Group makes efforts to build trust-based relationships.

The supply chain is also affected by natural disasters, accidents, labor disputes, bankruptcies, and other occurrences,

with extensive repercussions for procurement activities as well as for such operations as logistics. The Group regularly updates its supply chain database and is currently establishing structures for globally centralizing information and responding in a timely manner when procurement risks do eventuate.

The Alps Electric Group continuously holds policy briefings with its suppliers. At these briefings, it requests supplier cooperation with its approach to addressing procurement risks. The Group believes that responding to such risks is not possible without the support of suppliers and it will continue efforts to strengthen that cooperation going forward.

## Human Resources

Our approach to human resources is "believing in people." In a workforce representing diverse cultures and sets of values, we

implement measures promoting the ongoing development of employees into creative, independent-minded professionals.

### Human Resource Development Initiatives

#### Development-Oriented Rotation and Career Development Support

Alps Electric carries out development-oriented rotation as a method of developing human resources as they work. Allowing employees to gain experience in a number of different jobs and departments expands their scope of duties and encourages them to acquire a broad outlook, a heightened perspective, and a flexible mind-set.

Also, employees file self-assessments reporting on their career so far, as well as future job ambitions and other aspects, such as life plans. Each year, supervisors and employees discuss career plans for the medium term and work together to realize the actualization of employees' capabilities through training, job rotation, and day-to-day work.

#### Overseas Trainee Program—Developing Global Human Resources

Alps Electric has established an overseas trainee program whereby young and mid-level employees are seconded to affiliates or outside organizations overseas for one year to gain experience through practical training. The aim of the program is to develop global

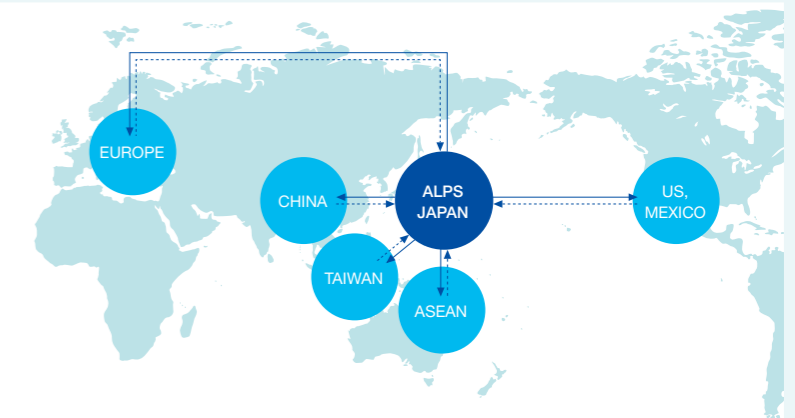
human resources possessing an international perspective and vitality with an awareness of cultures and customs and language proficiency by having employees experience working and living overseas early on in their careers.

##### → Overseas Trainee Program (Destinations and number of trainees)

FY2016—US: 6, Germany: 3, Czech: 1  
 FY2017—US: 6, Germany: 2, Czech: 1, China: 1, Thailand: 1

##### → Alps Japan Trainee Program (Origins and number of trainees)

FY2016—China: 9, Taiwan: 1, Malaysia: 1, Czech: 1, Mexico: 1  
 FY2017—China: 5, Taiwan: 1, Malaysia: 1



#### Alps Japan Trainee Program—Nurturing Future Overseas Affiliate Executives

As one element of our global strategy for human resources development, the Alps Electric Group runs the Alps Japan Trainee Program, which aims to nurture future executives of overseas affiliates. Through a one-year period working and doing practical training in Japan, trainees learn about business operations and Alps Electric's corporate culture. As future overseas affiliate executives, it is hoped that they will serve as a bridge between Japan and overseas locations.



Seminar on accepting Alps Japan trainees

### Establishment of Various Employee Systems

In March 2016, Alps Electric put into action a number of measures aiming to make use of diverse human resources, increase motivation, nurture professionals, and establish systems enabling full application and development of

employees' skills. Such measures included easing restrictions on holding more than one job, expanding application of a program for reducing working hours, and introducing a system for working from home with certain conditions.

**Diversity**

**Promoting Greater Involvement of Women**

Having long viewed expanding involvement of female employees as an important challenge, the Alps Electric Group provides equal opportunities for men and women, for example, in overseas assignments and trainee programs. In new-graduate recruitment, Alps Electric actively hires women, even in engineering positions. We also seek to bring about a change in mentality among managers and even women themselves by, for example, establishing the

right working environments through the enhancement of programs that support the balance between work and childcare or nursing care and by implementing education and training. As a result of these efforts, more female employees are achieving work-life balance and playing an active role even after they marry—the average length of service among women is more than 20 years, and more than 60% of women are married.

**Targets of Activities Related to the Act for Promoting Women's Active Participation in the Workforce**

1. By fiscal 2018, lift the ratio of women as a percentage of new graduate and mid-career hires from 34% (fiscal 2015) to at least 40%.
2. Up to fiscal 2018, maintain the current situation where the length of service among regular employees for women (21 years) is longer than that for men (20 years), and work to extend the length of service of female management employees (10 years).

**Ratio of Women in Management Positions (Alps Electric)\*1**

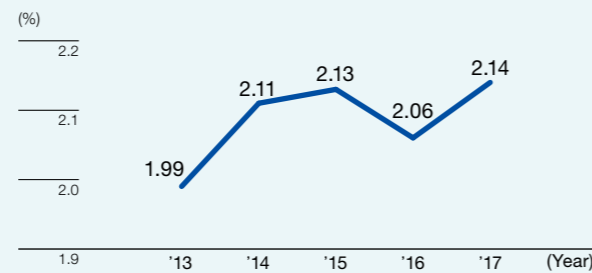
Item	2015	2016	2017
Men in management positions (number)	376	363	370
Women in management positions (number)	4	6	8
Women in management positions (ratio)	1.1%	1.6%	2.1%

\*1 As of April 1 of each year

**Employing Persons with Disabilities**

Alps Electric is working to establish environments where all employees, with or without disabilities, can work with vitality and apply their capabilities to the fullest. We have maintained an employment rate of persons with disabilities above the statutory rate continuously since 2012.

**Employment of Persons with Disabilities (Alps Electric)\*2**



\*2 As of June 1 of each year

**Employing Overseas Personnel—International Associates Program**

The International Associates Program (IAP) recruits new graduates from overseas and employs them on two-year contracts at Alps headquarters in Japan. Employing around five people annually for over 20 years, the program has had nearly 100 participants to date from countries in Europe, North America, and Asia. After completion of the program, many participants stay on to work for the Alps Electric Group, including one employee who is still with us after more than 20 years.



In addition, former foreign exchange students now account for around 10% of the new graduates hired in Japan. These persons engage in wide-ranging jobs, for example, in design and development, manufacturing, sales, and accounting.

**Environment**

The Alps Electric Group recognizes issues related to the global environment as important issues to be addressed by its management. Guided by the Alps Group Environmental Charter, which was established in 1994, the Group gives thorough

consideration to the impact its business activities have on the environment and is pursuing such efforts as conserving energy, managing chemical substances, reducing waste, and protecting biodiversity.

**Eco-Friendly Production Activities**

Since fiscal 2016, the Alps Electric Group has been pursuing global warming countermeasures and other environmental preservation activities in line with the 8th Medium-Term Action Plan for Environmental Preservation.

As a manufacturer, the Group has added elements to the 8th Medium-Term Action Plan that will allow it to contribute more to environmental preservation in the areas of manufacturing and product development, namely, the improvement of material yield\*1 and material straight pass rate,\*2 to enable the effective utilization of resources and aggressive sales of environmentally friendly products. In regard to targets set under the 7th Medium-Term Action Plan, such as improving energy consumption per unit,

activities will be continued with the scope again encompassing the entire Alps Group.

\*1 Material yield: The value (theoretical value) reached by dividing the amount of raw materials constituting a product by the amount of raw materials needed to manufacture the product. The closer the value is to 1 the better. An important consideration is working out how to reduce the amount of items such as metal offcuts and plastic runners through innovation in product design and mold or die specifications.

\*2 Material straight pass rate: The value reached by dividing the amount of raw materials theoretically needed by the amount of raw materials actually used in the process. The closer the value is to 1 the better. Important tasks with regard to reaching this value include reducing the amount of defects within the manufacturing process and reducing losses when switching production batches.

**Efforts to Conserve Energy**

To reduce CO<sub>2</sub> emissions through the conservation of energy, the Alps Electric Group is making efforts to rationalize its energy use. These efforts center on energy conservation from hard

perspectives, which entail the introduction of highly efficient equipment, and from soft perspectives, which entail the pursuit of operational improvements.

**Conserving Energy by Changing the Operation Method for Vacuum Pumps**

At the Nagaoka Plant, the Alps Electric Group changed the method of operation for vacuum pumps connected to its manufacturing equipment, thereby conserving a substantial amount of energy. While it traditionally operated these pumps on a continuous basis, the Group now only operates these pumps when necessary after confirming the status of the manufacturing process. In doing so, it has realized a nearly 92% reduction in the amount of energy the plant uses.



**Conserving Energy by Improving the Air Conditioning in the Server Room**

Alps Electric has reduced the amount of energy consumed (energy used for air conditioning) at its headquarters by 16.3% through such measures as installing insulation and vents underneath the raised floor in the server room, reducing the volume of air in circulation (a 40% decrease), and revising the temperature settings for air conditioning equipment (from 24°C to 28°C). These efforts have also led to improvements regarding inconsistencies in temperature and air flow in cold aisles (hallways in a data center where cold air passes through).



► Further information on the Group's environmental activities is available on the Alps Electric website. <http://www.alps.com/e/csr/environment/index.html>

# Directors (As of June 23, 2017)



## 1 President Toshihiro Kuriyama

Apr. 1980 Joined the Company  
Apr. 2004 General Manager, Magnetic Devices Division  
Jun. 2004 Director  
Apr. 2007 General Manager, Business Development Headquarters  
Apr. 2009 General Manager, Engineering Headquarters  
Oct. 2009 Component Products Business, MMP Division  
Jan. 2010 Engineering Executive  
Jun. 2011 Managing Director  
Apr. 2012 General Manager, Engineering Headquarters  
Jun. 2012 President, Chairman of the Board of Director (present)

## 2 Senior Managing Director Takashi Kimoto

General Manager, Sales & Marketing Headquarters  
Apr. 1981 Joined the Company  
Jul. 2006 Deputy General Manager, Sales & Marketing Headquarters  
Jun. 2008 Director  
Apr. 2009 General Manager, Automotive Division  
Apr. 2010 European and American Business Executive  
Apr. 2012 General Manager, Sales & Marketing Headquarters (present)  
Jun. 2012 Managing Director  
Jun. 2016 Senior Managing Director (present)

## 3 Managing Director Yasuo Sasao

General Manager, Components  
General Manager, Engineering Headquarters  
Apr. 1983 Joined the Company  
Apr. 2009 Deputy Officer in charge of Component Products Business, MMP Division  
Jun. 2010 Director  
Apr. 2012 General Manager, Component, Engineering Headquarters  
Apr. 2013 Officer in charge of Component Business and Deputy General Manager, Engineering Headquarters  
Jun. 2014 Officer in charge of Component Business and General Manager, Engineering Headquarters (present)  
Jun. 2015 Managing Director (present)

## 4 Managing Director Yoshitada Amagishi

General Manager, Quality Management  
General Manager, Production Headquarters  
Apr. 1980 Joined the Company  
Jun. 2007 General Manager, Peripheral Products Division (of Alps Electric)  
Jun. 2008 Director  
Apr. 2009 Deputy General Manager, Automotive Division  
Jun. 2011 Engineering Executive and Quality Management Executive  
Apr. 2012 Officer in charge of Module Engineering Headquarters  
Jun. 2012 General Manager, Module Engineering Headquarters  
Apr. 2013 Officer in charge of New Business & Consumer Modules and General Manager, Engineering Headquarters  
Jun. 2014 Quality Management Executive and Material Control Executive, Production Headquarters  
May 2016 Quality Management Executive and Deputy General Manager, Production Headquarters  
Jun. 2016 Managing Director (present)  
Quality Management Executive and General Manager, Production Headquarters and General Manager, Production Innovation  
Jun. 2017 Quality Management Executive and General Manager, Production Headquarters (present)

## 5 Director, Executive Adviser Masataka Kataoka

Apr. 1972 Resigned from Sharp Corporation  
Joined the Company  
Mar. 1981 General Manager, Kakuda Division  
Jun. 1982 Director  
Jun. 1985 Managing Director  
Oct. 1986 Senior Managing Director  
Jun. 1988 President, Chairman of the Board of Director  
Jun. 2012 Chairman  
Jun. 2017 Executive Adviser (present)  
**(Status on major concurrent holding of positions)**  
Director, Alpine Electronics, Inc.  
Director, Alps Logistics Co., Ltd.

## 6 Director Junichi Umehara

General Manager, Administration Headquarters  
HR, Legal & Intellectual Property  
Export & Import Administration  
Mar. 1987 Joined the Company  
Sep. 2004 Deputy Officer in charge of Legal & Intellectual Property and Deputy Officer in charge of Corporate Export & Import Administration  
Jun. 2006 Director (present)  
Jul. 2006 Officer in charge of Legal & Intellectual Property  
General Manager, Corporate Export & Import Administration (present)  
Apr. 2009 Deputy General Manager, Administration Headquarters  
Deputy General Manager, Engineering Headquarters Officer in charge of Intellectual Property  
Jun. 2011 Officer in charge of Legal & Intellectual Property  
Apr. 2012 Officer in charge of Legal & Intellectual Property, Administration Headquarters  
Jul. 2015 Officer in charge of Human Resource, Legal & Intellectual Property (present)  
Jun. 2016 General Manager, Administration Headquarters (present)  
**(Status on major concurrent holding of positions)**  
Chairman, Alps (China) Co., Ltd.

## 7 Director Hitoshi Edagawa

General Manager, Production Engineering  
Production Headquarters  
Apr. 1983 Joined the Company  
Jun. 2008 Quality Management Executive  
Product Engineering Executive  
Apr. 2009 General Manager, Production Engineering Operations, MMP Process Division  
Jun. 2011 Director (present)  
Deputy Officer in charge of Production, MMP Process Division  
Production Engineering Executive, MMP Process Division  
Apr. 2012 Production Engineering Executive, Production Headquarters  
Jun. 2013 Quality Management Executive and Production Engineering Executive, Production Headquarters  
Jun. 2014 Production Engineering Executive, Production Headquarters (present)

## 8 Director Takeshi Daiomaru

General Manager, New Business & Consumer Modules  
Deputy General Manager, Engineering Headquarters  
Apr. 1981 Joined the Company  
Apr. 2000 Senior Manager, Sales Dept. 1, Sales & Marketing Headquarters  
Apr. 2005 General Manager, Global Sales & Marketing Operation, Sales & Marketing Headquarters  
Jan. 2006 General Manager, Mobile Sales Operations, Sales & Marketing Headquarters  
Apr. 2007 Seconded General Manager, Alps (China) Co., Ltd.  
Apr. 2012 General Manager, Sales & Marketing Headquarters (of Alps Electric)  
Apr. 2013 Deputy General Manager, Sales & Marketing Headquarters and General Manager, Global Sales & Marketing Operation  
Jun. 2014 Director (present)  
Officer in charge of New Business & Consumer Module Division and Deputy General Manager, Engineering Headquarters (present)

## 9 Director Akihiko Okayasu

General Manager, Material Control  
Production Headquarters  
Apr. 1981 Joined the Company  
Apr. 2004 Senior Manager, Sales Dept. 1, Sales & Marketing Headquarters  
Apr. 2007 General Manager, Home & Mobile Sales Operation, Sales & Marketing Headquarters  
Apr. 2009 General Manager, Sales Dept. 1, Home, Mobile & Industry Division  
Jan. 2012 Seconded General Manager, Alps Electronics Taiwan Co., Ltd.  
Jul. 2013 Seconded General Manager, Alps (China) Co., Ltd.  
Jun. 2015 Director (of Alps Electric) (present)  
Officer in charge of China Business  
May 2016 Officer in charge of China Business and Material Control Executive, Production Headquarters and General Manager of Material Control, Production Headquarters  
Jun. 2016 Material Control Executive, Production Headquarters and General Manager of Material Control, Production Headquarters  
Feb. 2017 Material Control Executive, Production Headquarters (present)

## 10 Director Tetsuhiro Saeki

General Manager, Information System  
Deputy General Manager, Sales & Marketing Headquarters  
Apr. 1983 Joined the Company  
Apr. 2003 Managing Director, ALPS ELECTRIC CZECH, s.r.o.  
Jul. 2009 Division Director, Production Planning, MMP Division (of Alps Electric)  
Apr. 2012 Division Director, Production Planning, Production Headquarters  
Mar. 2013 General Manager, Procurement Division, Production Headquarters  
Jun. 2014 General Manager, Global Sales & Marketing Operation, Sales & Marketing Headquarters  
Jun. 2016 Director (present)  
Deputy General Manager, Sales & Marketing Headquarters and General Manager, Global Sales & Marketing Operation and Officer in charge of Information Systems, Administration Headquarters (present)

## 11 Director Yoichiro Kega

General Manager, Corporate Planning, Accounting & Finance, General Affairs & Environmental Planning  
Apr. 1984 Joined the Company  
Apr. 2002 Senior Manager, Sales Dept. 4, Sales & Marketing Headquarters  
Apr. 2004 Project Manager, Global Sales Dept., Sales & Marketing Headquarters  
Jul. 2005 Business Planning Manager, Peripheral Products Division  
Feb. 2007 Project Manager, Peripheral Products Division  
Jan. 2009 Director and President, Alps Electric Europe GmbH  
Oct. 2013 General Manager, Sales Planning Office, Sales & Marketing Headquarters (of Alps Electric)  
Feb. 2015 General Manager, Corporate Planning Office  
Jun. 2016 Director (present)  
Officer in charge of Corporate Planning, Accounting and Finance, General Affairs and Environment and General Manager, Corporate Planning Office  
Feb. 2017 Officer in charge of Corporate Planning, Accounting and Finance, General Affairs and Environment (present)

## 12 Director Hiroyuki Sato

General Manager, Automotive Modules  
Deputy General Manager, Engineering Headquarters  
Apr. 1985 Joined the Company  
Oct. 2003 General Manager, Engineering Dept. 2, Automotive Products Division  
Apr. 2006 General Manager, Engineering Dept. 3, Automotive Products Division  
Apr. 2009 General Manager, Engineering Dept. 1, Automotive Division  
Oct. 2010 General Manager, Development Dept., Automotive Division  
Nov. 2011 President, Alps Electric (North America), Inc.  
Jun. 2016 Director (of Alps Electric) (present)  
Officer in charge of Automotive Modules and Deputy General Manager, Engineering Headquarters (present)

## Directors (Audit and Supervisory Committee Members) (As of June 23, 2017)



### 1 Director Member of Audit and Supervisory Committee

Shuji Takamura

Apr. 1975 Joined the Company  
 Jun. 2007 General Manager, Component Products Business Division (of Alps Electric)  
 Jun. 2008 Director  
 Apr. 2009 Officer in charge of Component Products Business, MMP Division, Production & China Executive, MMP Division  
 Oct. 2009 Managing Director  
 Jun. 2010 Deputy General Manager, Production Innovation  
 Apr. 2012 General Manager, Production Headquarters  
 Jun. 2012 General Manager, China Planning  
 Jun. 2016 Director (Audit and Supervisory Committee Member) (present)

### 4 Director Member of Audit and Supervisory Committee (Outside)

Hiroshi Akiyama

Apr. 1984 Registered Attorney at Law  
 Oct. 1985 Joined Yanagida & Nomura Law Firm (Current: Yanagida & Partners)  
 Jan. 1998 Partner of Yanagida & Nomura Law Firm (present)  
 Apr. 2005 Outside Director, People Co., Ltd.  
 Jun. 2006 Outside Audit & Supervisory Board Member, Alps Electric  
 Jun. 2007 Outside Audit & Supervisory Board Member, YKK Corporation (present)  
 Jun. 2016 Director (Audit and Supervisory Committee Member) (present)

(Status on major concurrent holding of positions)  
 Outside Audit & Supervisory Board Member, YKK Corporation

### 2 Director Member of Audit and Supervisory Committee

Yasuhiro Fujii

Apr. 1976 Joined the Company  
 Jan. 1998 Director and President, Alps Electric Europe GmbH  
 Jun. 2003 Director  
 Apr. 2004 General Manager, Peripheral Products Division  
 Jul. 2007 Chairman of the Board of Directors, Alps Electric (North America), Inc.  
 Apr. 2008 President, Alps Electric (North America), Inc.  
 Apr. 2009 General Manager, European & American Business  
 Apr. 2010 General Manager, E Project  
 May. 2010 Representative President & CEO, Alps Green Devices Co., Ltd.  
 Apr. 2012 Quality Management Executive  
 Jun. 2013 Full-time Audit & Supervisory Board Member  
 Jun. 2016 Director (Audit and Supervisory Committee Member) (present)

### 5 Director Member of Audit and Supervisory Committee (Outside)

Takuji Kuniyoshi

Certified Public Accountant  
 Jul. 1981 Registered as Certified Public Accountant  
 Jan. 1991 Partner, Ernst & Young GmbH  
 May. 1998 Senior Partner, Ota Showa Audit Corporation (Currently Ernst & Young ShinNihon LLC)  
 Jun. 2011 Outside Audit & Supervisory Board Member, Alps Logistics Co., Ltd.  
 Jun. 2013 Outside Audit & Supervisory Board Member  
 Jun. 2016 Director (Audit and Supervisory Committee Member) (present)

### 3 Director Member of Audit and Supervisory Committee (Outside)

Takashi Iida

Attorney at Law  
 Apr. 1974 Registered as a Lawyer  
 Joined Mori Sogo Law Offices (Currently Mori Hamada & Matsumoto)  
 Apr. 1997 Executive Governor, Japan Federation of Bar Associations  
 Apr. 2006 President, Daini Tokyo Bar Association  
 Vice President, Japan Federation of Bar Associations  
 Jan. 2012 Opened Kowa Law Office (present)  
 Jun. 2012 Outside Corporate Auditor, Shimadzu Corporation (present)  
 Jun. 2013 Outside Corporate Auditor, JAFCO Co., Ltd.  
 Jun. 2014 Outside Audit & Supervisory Board Member, NIPPON TELEGRAPH AND TELEPHONE CORPORATION (present)  
 Oct. 2015 Deputy Chairman, Gender Equality Bureau  
 Cabinet Office Promotion and Liaison Committee (present)  
 Jun. 2016 Director (Audit and Supervisory Committee Member) (present)

(Status on major concurrent holding of positions)  
 Outside Corporate Auditor, Shimadzu Corporation  
 Outside Audit & Supervisory Board Member, NIPPON TELEGRAPH AND TELEPHONE CORPORATION

## Corporate Governance

### Approach to Corporate Governance

The Alps Group defines corporate governance as the "establishment and operation of frameworks for realizing efficient and appropriate decision-making and execution of duties by senior management, prompt reporting of outcomes to stakeholders, and sound, efficient, and transparent business administration for the purpose of heightening corporate value." Our basic approach, placing importance on maximizing benefits for shareholders and all other stakeholders, is to maximize corporate value and deliver benefits directly or indirectly to

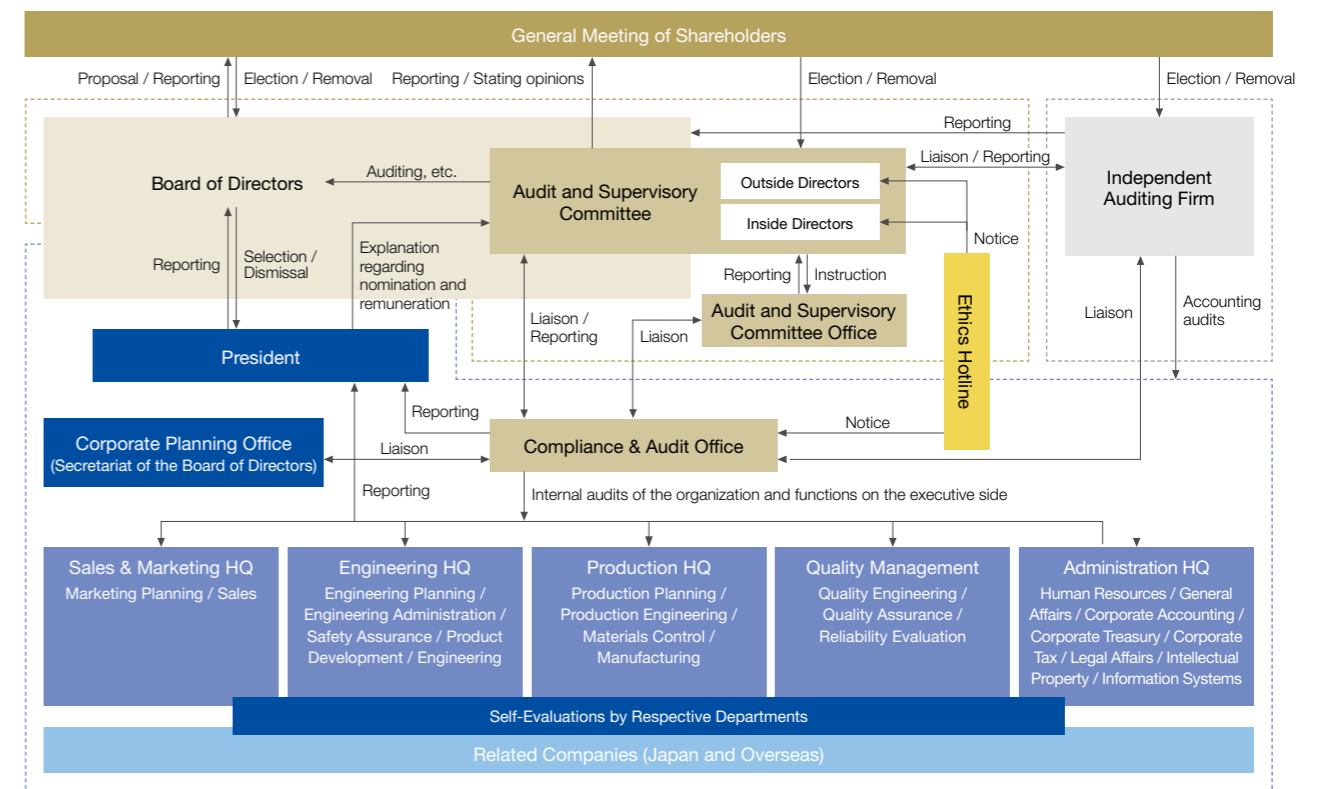
stakeholders in a balanced way, satisfying their respective interests. Furthermore, in order to fulfill its responsibilities to stakeholders, including shareholders, customers, local communities, and employees, and realize effective corporate governance as a business entity, the Company has established "Alps Electric Co., Ltd. Corporate Governance Policies" and disclosed the policies on the Company's website. [http://www.alps.com/j/ir\\_governance.html](http://www.alps.com/j/ir_governance.html) (Japanese only)

### Corporate Governance Structure

Alps Electric made the transition from a company with an audit and supervisory board to a company with an audit and supervisory committee following approval at the 83rd Ordinary General Meeting of Shareholders on June 23, 2016. Independent of executives, the Audit and Supervisory Committee will bolster auditing and supervisory

functions while closely coordinating with an independent auditing firm and the internal audit department, thereby further strengthening corporate governance and enabling fair and highly transparent business administration.

### Corporate Governance at Alps Electric



### Board of Directors

Alps Electric's Board of Directors consists of 12 directors (not including Audit and Supervisory Committee members) and five directors (including three outside directors) who are Audit and Supervisory Committee members. It is positioned as an organ that deliberates and makes decisions on basic management policy and important management matters, such as short- and medium-term business plans, and carries out monitoring and supervision of the execution of duties. The Board convenes once a month for regular meetings and on other occasions as required to thoroughly deliberate

and pass resolutions on all important matters. The Board of Directors is operated in accordance with related rules and bylaws. Resolution items are checked in advance from legal, accounting, tax, economic rationality, and other perspectives to ensure legal compliance and reasonableness. Furthermore, a guide for submitting items to the Board of Directors has been created to clarify standard formats for document submission and main factors for deliberation, helping realize rational and efficient discussion at Board of Directors' meetings.

### Evaluation of the Effectiveness of the Board of Directors

Alps Electric has reinforced its corporate governance systems with the aim of improving the soundness, transparency, efficiency, and dynamism of business operations. As part of these efforts, the Company began to evaluate the effectiveness of the Board of Directors from fiscal 2016 and the results of these evaluations are as follows.

#### 1. Analysis and Evaluation Method

To evaluate the effectiveness of the Board of Directors, in fiscal 2016 a non-anonymous questionnaire was completed by all 17 directors regarding the structure, operation, and deliberations of the Board of Directors, as well as communication among directors, support systems, and other topics. Furthermore, these directors performed self-evaluations and expressed their opinions regarding the topics covered in the questionnaire. The Audit and Supervisory Committee, which comprises outside directors and directors in charge of administrative and corporate planning, analyzed the results, organized issues, and reported to the Board of Directors, which verified and deliberated on the results.

#### 2. Analysis and Evaluation Results

The results confirmed that discussions, deliberations, and operations by the Board of Directors under the current system in place since

June 2016 were appropriately conducted. No major problems were identified, and the results verified that effectiveness of the Board is secured.

The frank opinions of each officer were sought, and constructive opinions were collected regarding the active appointment of women, young employees, and personnel with business management experience as directors; early provision of documents and efficient reporting to support more effective deliberations by the Board of Directors; further enhancement of opportunities for communication among Audit and Supervisory Committee members and executive directors; sharing perceptions and reinforcing management regarding increasing risks; and the method of conducting this evaluation.

#### 3. Response Going Forward

Based on these opinions, the Company will conduct short-term or medium- to long-term investigations. Furthermore, since shared opinions and awareness among directors have become clearer as a result of the implementation of this evaluation, the Company will continue the evaluation in fiscal 2017 and beyond in order to share information and develop a business attitude with an even greater sense of unity, and to enhance the corporate governance and the corporate value of the Company.

### Audit and Supervisory Committee

Alps Electric's Audit and Supervisory Committee comprises three outside committee members and two inside members. With a majority of members coming from outside the Company, the committee endeavors to make suitable judgments from an objective standpoint independent of executives. Moreover, full-time Audit and Supervisory Committee members are appointed so that they will attend important in-house meetings and carry out such tasks as gathering important information and receiving reports on a daily basis. Outside committee members, possessing extensive experience as attorneys (legal specialists) or certified public accountants (accounting specialists),

and inside committee members, including one full-time member familiar with the Company's business, carry out audits with high efficacy. In addition, while liaising with the internal audit department, committee members offer opinions to management at meetings of the Board of Directors and other important meetings. Furthermore, persons are assigned to assist with the duties of the Audit and Supervisory Committee, and the Company ensures that employees who engage in these duties (not including directors who are committee members) are independent of the Board of Directors.

### Outside Directors

To strengthen the supervisory functions of its Board of Directors, Alps Electric has appointed three outside directors who also serve as Audit and Supervisory Committee members. The Company maintains no personal or capital relationships with these three outside directors, nor is there any transaction relationship or other special interests with these outside directors that would create a conflict of interest with general shareholders. The Company's outside directors focus on ensuring legal compliance in business administration and, bearing all stakeholders in mind, strive to strengthen the supervision of business administration by actively offering opinions and advice at meetings of the Board of Directors and through supervision of the election, removal, and compensation of management personnel as well as conflicts of

interest between the Company and management personnel, controlling shareholders and other parties, and other decision-making by the Board of Directors on important matters. Outside directors also work to realize effective supervision by regularly visiting facilities of Alps Electric to gather information and engage in information and opinion exchange with other directors and employees.

The appointment of outside directors is determined based on Company standards for selection of director candidates, including criteria for independence, and outside directors, with their consent, are designated as independent directors with their appointment as independent directors being notified to Tokyo Stock Exchange, Inc.

Name	Reason for appointment	Attendance at meetings during FY2016		
		Board of Directors	Audit & Supervisory Committee	Audit & Supervisory Board
Takashi Iida	To receive sound guidance and advice for management of the Company based on his extensive experience and achievements in the judicial world as a lawyer	12/12	10/10	—
Hiroshi Akiyama	To employ in the management of the Company his expert knowledge and experience and broad insight accumulated as a lawyer	11/12	10/10	1/1
Takuji Kuniyoshi	To employ in the management of the Company his international experience gained in accounting firms and broad knowledge accumulated as a certified public accountant	12/12	10/10	1/1

### Remuneration Systems

Under the remuneration structure focusing on linking short-term performance with medium- to long-term performance, Alps Electric stimulates actions of directors to increase corporate performance

and the share price to the maximum extent in order to lastingly improve the Group's corporate value.

#### Remuneration Composition

##### Remuneration for Inside Directors (Excluding Directors Who Are Members of the Audit and Supervisory Committee)

- The Company's remuneration for inside directors (excluding directors who are members of the Audit and Supervisory Committee) consists of fixed remuneration, performance-based bonuses, and stock compensation-type stock options.
- Performance-based bonuses vary according to single-year performance (operating income, profit, and others).
- Stock compensation-type stock options are granted as compensation linked to medium- to long-term performance in accordance with the number of stocks calculated based on the value at the time of issuance and according to the amount of stock option remuneration that is specified for each position. Since these stock options have an effect equivalent to substantial provision of the Company's own

stock, both increases and decreases in the Company's stock price are passed on to shareholders under this system.

##### Remuneration for Directors Who Are Members of the Audit and Supervisory Committee

- The Company's remuneration for directors who are members of the Audit and Supervisory Committee consists only of fixed remuneration.

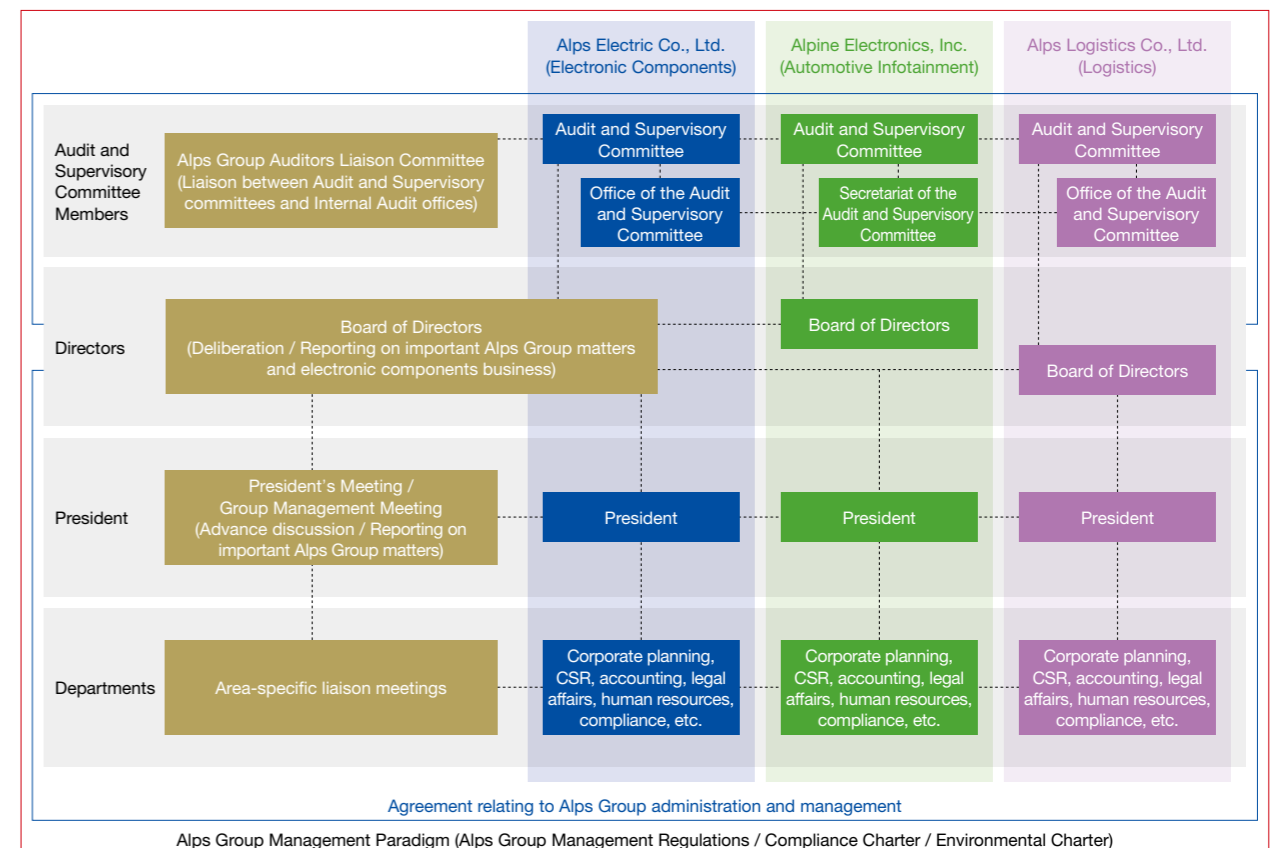
For total compensation amounts for directors and Audit & Supervisory Board members before the Company transitioned to a company with an audit and supervisory committee, please refer to the "Notice of Convocation of the 84th Ordinary General Meeting of Shareholders" available on the Company website.

[http://www.alps.com/j/ir/ir\\_meeting.html](http://www.alps.com/j/ir/ir_meeting.html) (Japanese only)

### Internal Controls

Acknowledging the Founding Spirit (Alps Precepts) as the origin of Group management, Alps Electric has established within the Alps Group Management Paradigm a fundamental philosophy and action guidelines relating to compliance by Alps Electric that apply to the entire Alps Group, including Alps Electric and listed subsidiaries. We also maintain internal controls (systems for ensuring the appropriateness of operations) conforming to the Companies Act of Japan and ordinances for enforcement of the act to make sure that Alps Electric and the Alps Group as a whole are operated efficiently and appropriately. For more detailed information on the structure of internal control systems, please view the "Matters Related to Internal Control System" section of our *Corporate Governance Report*. [http://www.alps.com/e/ir/ir\\_governance.html](http://www.alps.com/e/ir/ir_governance.html)

#### Alps Group Internal Controls



# Compliance

## Measures

As the core company of the Electronic Components Segment, Alps Electric has established a set of compliance regulations based on the Alps Group Compliance Charter and globally deploys specific measures within the segment.

The deployment of measures goes beyond developing and introducing rules and systems. Importance is placed on ensuring that those rules and systems are being managed properly and effectively by encouraging individual employees, who actually engage in the activities, to take proactive action based on a proper understanding of the importance of compliance.

Specifically, internal controls are established and implemented to ensure that management of Company and Group operations is carried out appropriately; that departments carry out self-evaluations (monitoring) of their own activities; and that the internal audit department carries out internal audits of the activities and operations of various departments, overseas affiliates, and other subsidiaries. For example, in regard to the management and use of grants and subsidies received from public agencies, Alps Electric has established a set of regulations related to the management and use of such grants and subsidies

and put in place a Companywide management structure with the president as the chief officer in charge and the general manager of the administration headquarters as supervising officer. Within each headquarters, where there are structures in place for promoting compliance, the compliance promotion representative for the headquarters—the head of the planning department—assigns compliance promotion officers and ensures that grants and subsidies are managed and used within the organization according to the regulations. Each compliance promotion representative also regularly checks up on the use of grants and subsidies within their headquarters and reports to the supervising officer and the internal audit department. In addition, the internal audit department regularly checks up on the use of grants and subsidies Companywide and reports to the supervising officer and the chief officer in charge.

To ensure early discovery and correction of misconduct or other compliance incidents, persons in charge of facilities in Japan and at overseas affiliates are obliged to report any incidents when they occur to relevant Alps Electric directors and managing directors as well as to the corporate planning and compliance departments.

## Whistle-Blowing System

The Alps Electric Group has in place a whistle-blowing system (Ethics Hotlines), which is independent from management in charge of business execution, for responding to problems when reaching a resolution through organizational lines is complicated. Taking into account national and regional variations in law and the need for an agile response to incident reports, Ethics Hotlines have been set up in Japan and at the main overseas affiliates.

Alps Electric has formulated internal regulations that establish

one full-time Audit and Supervisory Committee member, outside Audit and Supervisory Committee members, and the head of the compliance department as contact points for Ethics Hotlines. These regulations also stipulate the confidentiality of reports and ensure the anonymity and protection of those making reports. The contact information and operational policies regarding these hotlines are disseminated as needed via the Company newsletter and at training sessions.

## Global Implementation of Compliance and CSR Training

In fiscal 2015, the Alps Electric Group commenced the Compliance and CSR Training, which is implemented globally.

The training not only provides a general outline of compliance and CSR, but also covers topics such as proper accounting procedures, information security, the prohibition of harassment and discrimination, compliance with antitrust laws, and the prohibition of corruption and

bribery, with the objective of ensuring full awareness of these issues.

In fiscal 2015, the inaugural training program was implemented at Alps Electric and affiliates in China, Hong Kong, and Taiwan. In fiscal 2016, the same program was held at overseas affiliates other than those previously mentioned. In fiscal 2017, Alps Electric plans to implement a second training program.

# Risk Management

## Approach to Risk Management

Risks are diversifying due to business globalization and technological advancements. To address these risks, it is vital that the Alps Electric Group averts risks affecting its future and that it anticipates dangers and losses that could potentially occur and take steps to avoid them or, if they cannot be avoided, minimize the damage caused. And given recent debate about the value that corporations bring to society, the Group needs to strengthen management and operational foundations that support legal compliance and appropriateness of management and the execution of business affairs. It is also essential that, even in times of economic stagnation and low growth, the Group carries out growth-oriented management with risks thoroughly managed. The Group views risk management as the basis for a style of management and business operations that enables sustained business growth and enhanced corporate value over the medium to long term; in other words, a foundation for growth-oriented management.



## Risk Maps

At the Alps Electric Group, under the jurisdiction of the director in charge of administration, corporate departments—including corporate planning, legal affairs, human resources, general affairs, accounting, export and import administration, and compliance—and operating departments—such as engineering, production, quality control, and sales—deliberate on functions and roles related to risk management and establish risk management structures based on crisis management regulations and in accordance with the 8th Mid-Term Business Plan. As part of these efforts, the corporate departments prepare "risk maps" in order to visualize the business environment facing the Group. This entails categorizing risks and then evaluating those risks from the perspectives of potential impact, potential for eventuation, and status of risk management measure implementation. Risk maps are subsequently prepared based on the results of these evaluations. Going forward, these risk maps will help guide the Group's risk management activities.

## Formulation of Risk Maps (Overview)

	Management-related risks	Business-related risks	Work-related risks
External and environmental causes			
Internal causes			

## Crisis Management

In addition to fires, natural disasters such as earthquakes and heavy rains have a significant impact on a corporation's business and management as well as on its supply chain. To prepare for such

crises, the Alps Electric Group is promoting various initiatives to realize a prompt recovery in operations and minimize damage.

### Crisis Management Policy (Excerpts from the Crisis Management Manual)

- We will place top priority on ensuring the safety of employees, all people on Company premises (including visitors, related Company employees, on-site subcontractors, and temporary staff), and the families of employees.
- We will continue business activities and do everything we can to maintain the supply of products and provision of services to customers.
- We will endeavor to preserve both tangible and intangible Company assets and make efforts to minimize damage using the most suitable methods.
- We will demonstrate responsible conduct, take quick and appropriate action, and strive to restore operations when risks do eventuate in order to earn the trust of customers, shareholders, and all other stakeholders.

## Crisis Management Regulations and Manuals

The Alps Electric Group identifies risks that need to be managed in a set of crisis management regulations and maintains crisis management manuals depending on the significance of the risk, updating them as

required. Each facility in Japan also promotes its own individual crisis management manuals based on Groupwide manuals.

## Information Security

Within the Alps Electric Group, the information systems department heads activities for establishing regulations related to information security, devising security enhancement measures and training plans, and deploying them both in Japan and globally through coordination with information officers in individual departments.

To thoroughly disseminate the information management policy, information management audits of individual departments are

conducted every year to confirm the status and progress of educational activity plans and improvement measures. Operation, maintenance, and trouble response activities of information systems departments are also audited, and the Group is advancing efforts to prevent the falsification of information and maintain environments allowing for the timely utilization of information for business, along with measures to counter new threats such as targeted attacks.



Message from an Outside Director

# Working to Further Enhance Governance

We asked Takuji Kuniyoshi, an Audit and Supervisory Committee member and outside director of the Company, about corporate governance at Alps Electric.

**Takuji Kuniyoshi**  
 Outside Director  
 Audit and Supervisory Committee Member



## One Year since My Appointment as an Outside Director and Audit and Supervisory Committee Member

It has been a year since Alps Electric transitioned from being a company with an audit & supervisory board to a company with an audit and supervisory committee. When my role changed from an Audit & Supervisory Board member to an outside director and member of the Audit and Supervisory Committee, the people I came into contact with in the Company changed, as well. In my role as outside director, my internal contacts have expanded to include people ranging from section managers and general managers to members of top management. As a result, my understanding of the overall Company has increased.

I have also had the opportunity to search for answers, on almost a daily basis, about the meaning of governance. If governance relies too heavily on manuals, it is in danger of becoming formulaic. To avoid this situation, I focus on assessments of the Board of Directors' effectiveness and attempts to systemize internal audits using the internal audit department's risk-based approach. Going forward, I aim to continue contributing proactively to management as an outside director. I will monitor the Alps Group's efforts to set frameworks in place and the steady progress of initiatives to improve them.

## Alps Electric's Corporate Culture of Supporting Governance

I believe three factors support governance. The first is the vigorous and energetic hustle and bustle of the town factory. It was this sort of town, in Yukigaya, where the late Katsutaro Kataoka founded the Company. Alps started out as just one of these small town factories, and I believe the Company retains that original vigor and energy today. The second factor is a sense of respect. At general meetings of shareholders, the management team does its best to answer shareholders' questions thoroughly and in their own words. My sense is that the Company respects cooperating factories and suppliers in the communities, regions, and overseas countries where it is developing its business. The third factor is the corporate value of being humble and tenacious. Alps has several factories in the Tohoku region, which experienced a great

deal of damage in the Great East Japan Earthquake of 2011. The Company addressed the situation by pulling together. People worked noon and night to get the factories back up and running so that customers would not be inconvenienced and brought them back on line quickly. By virtue of operating in the region for many years, I think Alps has naturally cultivated the strong sense of humility and tenacity for which the region is known.

Put another way, if the Company were to lose this shared sense of culture and spirit, I think its governance would be in crisis. Governance is conducted by people and, as such, can break down easily. Complementing this reality, I consider an ongoing corporate culture of humility and soundness to be vital.

## My Role as an Outside Director and Audit and Supervisory Committee Member

Alps is a combination of two personalities. The first is characterized by its pursuit of profits as a private enterprise. This personality's role is to bolster sales, ensure a return on invested capital, invest any surplus toward the future, and award suitable dividends. In this guise, the Company strives for sustainable growth. To respond to customer requirements amid a globalizing economy, the Company's overseas developments must include a "made-in-market" aspect. Also, the Company needs to respect the laws of the countries in which it does business and respond appropriately with respect to accounting and transfer price taxation. I will keep alert to these needs, drawing on my experience as a certified public accountant working overseas.

The second personality involves the Company's social structure, comprising shareholders, customers, suppliers, employees, governments, and various other stakeholders. To build trust among stakeholders, a company must provide extensive disclosure. In the sense of corporate disclosure, the question of how to alleviate the information asymmetry that exists between the management team and shareholders and other stakeholders is currently being put up for review. Annual reports and integrated reports play a role in addressing this asymmetry of information. Hence, they serve as an aspect of governance. As an outside director, I am committed to promoting appropriate and timely disclosure from the perspective of shareholders and other stakeholders.

# Financial Data

## Management's Discussion & Analysis of Operating Results

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The accompanying consolidated financial statements of Alps Electric Co., Ltd. and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan.

These statements are stated in Japanese yen. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan at the prevailing exchange rate on March 31, 2017, which was ¥112.19 to U.S.\$1.00.

The translation should not be construed as a representation that the Japanese yen could be converted into U.S. dollars at the above or any other rate of exchange.

## 1. Analysis of Operating Results for the Fiscal Year Ended March 31, 2017

### 1 Overview

In the global economy during fiscal 2016 (the year ended March 31, 2017), the United States experienced a gradual economic recovery on the back of improvement in the employment situation and increased consumer spending. In Europe, despite a sense of uncertainty following the U.K.'s decision to leave the European Union, overall business activity was firm in the Eurozone.

Additionally, while China experienced a gradual economic slowdown, conditions in other emerging nations were mixed, with a trend of deceleration and signs of bottoming out in the economies of certain countries. In Japan, despite an economic reversal from 2015 at the start of spring due to such factors as the impact of yen appreciation on corporate performance and sluggish consumer spending, a gradual economic recovery occurred against the backdrop of strong employment and a trend of yen depreciation from the end of 2015 and onward.

On a consolidated basis, the Alps Group recorded net sales of ¥753.2 billion (a 2.7% year-on-year decrease), operating income of ¥44.3 billion (15.2% decrease), ordinary income of ¥42.7 billion (14.6% decrease), and net income attributable to parent company shareholders of ¥34.9 billion (10.5% decrease).

Average exchange rates during the fiscal year were ¥108.38

to the U.S. dollar and ¥118.79 to the euro, representing yen appreciation from the previous fiscal year of ¥11.76 against the dollar and ¥13.79 against the euro.

### 2 Net Sales

Net sales came to ¥753.2 billion, a decline of ¥20.7 billion, or 2.7%, from the previous fiscal year.

Sales in the Electronic Components Segment came to ¥437.6 billion, up ¥3.6 billion, or 0.8%, compared with the previous fiscal year. Sales in the Automotive Infotainment Segment stood at ¥242.3 billion, down ¥25.2 billion, or 9.4%. Sales in the Logistics Segment came to ¥61.1 billion, an increase of ¥0.8 billion, or 1.5%.

The yen appreciated against both the U.S. dollar and the euro compared with the previous fiscal year, putting downward pressure on sales to the extent of ¥59.7 billion.

### 3 Operating Income

Operating income amounted to ¥44.3 billion, a decline of ¥7.9 billion, or 15.2%, from the previous fiscal year. Foreign exchange movements had a negative impact on operating income totaling ¥13.7 billion.

## 2. Forecasts for the Fiscal Year Ending March 31, 2018

Due to such factors as the impact of various political measures of the U.S. government, trends including BREXIT in the U.K. and general elections in major EU countries, the stagnating growth curve in the Chinese economy, unstable conditions in Asia, and concerns of an economic downturn in Japan caused by foreign exchange movements, uncertainty in the global economy is expected to rise, thus making for an extremely unpredictable business environment.

Within such an environment, the Group will maintain a sense of crisis in the Electronic Components, Automotive Infotainment, and Logistics segments as it steadily promotes its business activities.

### 1 Electronic Components

In the Electronic Components Segment, guided by the aim of becoming "a company that can achieve sustained growth," we are embarking on the second year of the 8th Mid-Term Business Plan, which sets forth targets of ¥300.0 billion in sales in the automotive market and ¥200.0 billion in sales in the mobile market. In the automotive market, we will promote further improvement in the profitability of modules while working to expand sales of various devices, including sensors. In the mobile market, we will respond to the increased demand for components stemming from the enhanced functions of smartphones by making efforts to steadily supply high-quality products. At the same time, we will focus our efforts on developing new products, including products for new markets such as VR, with the aim of realizing "dual pillars of profit" in the automotive and mobile markets. For our business geared toward the energy, healthcare, industry, and the IoT (EHII) markets, we will leverage unique *monozukuri* that combines our proprietary technologies and accelerate the pace of business expansion through collaboration with other companies. Furthermore, in the intelligent car and VR markets, we will move forward with enhancements to our production foundations in Japan and overseas to prepare for increased demand and the shift toward more sophisticated electronic components, including the expansion of the IoT.

### 2 Automotive Infotainment

In the Automotive Infotainment Segment, to realize VISION 2020, our corporate vision that targets fiscal 2020, we will carry out structural reforms by reorganizing the Group through an absorption-type merger of a subsidiary that develops technology and the integration of a manufacturing subsidiary. We will also promote the establishment of an even stronger business foundation. In the audio products business, we will make efforts to increase sales of sound systems that were well received as OEM products for automakers. At the same time, we will work to increase speaker orders by drawing attention to the added value of slim, lightweight speakers designed with fuel economy and environmental performance in mind and by highlighting the benefits of lightweight, compact layout-free speakers that are able to be installed in a wider range of locations. In the information and communication equipment business, we will strive to expand sales of large-screen navigation systems tailored to specific vehicle models rolled out in U.S. and European aftermarkets with the aim of cultivating fresh demand, while continuing to concentrate on pick-up trucks and SUVs in the United States, where vehicle sales remain brisk. In the Japanese aftermarket, we aim to expand sales through customized cars that have specially designed exterior parts and interiors equipped with rear monitoring and navigation systems with the industry's largest screen.

### 3 Logistics

In the Logistics Segment, business growth in the electronic components industry, the main target market, is expected to continue due to the increasing application of electronics in automobiles and expanding demand in emerging nations for products such as mobile devices. However, customers require logistics reforms that are increasingly complex and diverse as they adapt to product and market changes by pursuing production in the most suitable locations and shifting operations overseas, in addition to increasing their ability to cope with price competition for electronic components. In this segment, we will continue to promote the expansion of bases and networks in growth areas, centered on our mainstay electronic components logistics business. Through such efforts, we will reinforce our business foundation to prepare for the leap to the next stage and work to increase our logistics capacity on a global scale.

## 3. Liquidity and Sources of Funds

### 1 Cash Flows

#### Cash Flows from Operating Activities

Net cash provided by operating activities during fiscal 2016 came to ¥41.6 billion, compared with ¥53.9 billion provided during the previous fiscal year. This amount was mainly attributable to income before income taxes and minority interests of ¥49.5 billion, depreciation and amortization of ¥33.0 billion, and a ¥9.5 billion increase in notes and accounts payable-trade, which were offset by a ¥27.9 billion increase in notes and accounts receivable-trade, ¥14.2 billion of income taxes paid, and a ¥7.6 billion gain on sales of shares of subsidiaries and associates.

#### Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥37.9 billion, compared with ¥30.3 billion used in the previous fiscal year. This amount was mainly attributable to ¥47.4 billion used for purchase of property, plant and equipment, which offset ¥9.3 billion provided by proceeds from sales of shares of subsidiaries and associates.

#### Cash Flows from Financing Activities

Net cash used in financing activities came to ¥0.3 billion, compared with ¥36.3 billion used in the previous fiscal year. This amount was attributable primarily to ¥12.7 billion used for repayment of long-term loans payable and ¥5.8 billion used for cash dividends paid, which offset ¥14.4 billion net increase in short-term loans payable and ¥8.3 billion provided by proceeds from long-term loans payable.

These activities, the effects of exchange rate fluctuations on the yen value of cash and cash equivalents held by overseas subsidiaries, and other factors resulted in a ¥1.1 billion net increase in cash and cash equivalents from the end of the previous fiscal year. Cash and cash equivalents at the end of fiscal 2016 were ¥117.9 billion.

### Consolidated Forecasts for the Fiscal Year Ending March 31, 2018

(Billions of yen)

	Six months ending Sept. 30, 2017	Twelve months ending Mar. 31, 2018	YoY
Net sales	395.0	802.0	6.5%
Operating income	25.0	61.0	37.5%
Ordinary income	23.0	57.0	33.4%
Profit attributable to owners of parent	17.0	41.0	17.4%

The above forecasts assume the following exchange rates:  
Six months ending September 30, 2017: U.S.\$1 = ¥109.55, €1 = ¥119.00  
Twelve months ending March 31, 2018: U.S.\$1 = ¥108.00, €1 = ¥116.00

### 2 Assets, Liabilities, and Net Assets

Total assets at the end of fiscal 2016 were ¥602.9 billion, a ¥40.1 billion increase from the end of the previous fiscal year. Equity capital rose ¥26.0 billion, to ¥254.5 billion, due to an increase in retained earnings and other factors. The equity ratio was 42.2%.

Current assets stood at ¥379.7 billion, a ¥25.3 billion increase, due to such factors as increases in notes and accounts receivable, inventories, and cash and time deposits.

Non-current assets came to ¥223.2 billion, a ¥14.7 billion increase, due to factors including increases in machinery, equipment and vehicles, tools, furniture, fixtures and dies, intangible-trade assets, net, and deferred tax assets.

Current liabilities were ¥188.0 billion, a ¥9.2 billion increase, due to factors including increase in notes and accounts payable-trade, short-term loans payable, income taxes payable, accrued expenses, and provision for bonuses, and a decrease in provision for product warranties.

Non-current liabilities totaled ¥53.7 billion, a ¥1.4 billion increase, due to factors such as an increase in long-term debt and decrease in liability for retirement benefits and deferred tax liabilities.

## 4. Business and Other Risks

Risks pertaining to the status of operations and accounting of the Alps Group that could have a major impact on investors' decisions are outlined below.

Forward-looking statements are based on judgments made at the end of the fiscal year ended March 31, 2017.

### 1 Economic Conditions

The Alps Group (Alps Electric and its consolidated subsidiaries) operates a global business centered on the Electronic Components Segment, with overseas markets accounting for 79.8% of sales in fiscal 2016 (year ended March 31, 2017). As most of the Alps Group's products are sold to manufacturers, customers' production levels, which may be influenced by economic trends, have a major impact on the business of the Alps Group. The Alps Group will therefore be influenced directly or indirectly by economic conditions in markets across Japan, Europe, the United States, and Asia, and economic fluctuations in those markets have the potential to impact the results of operations and financial condition of the Alps Group.

### 2 Competition

The Alps Group is exposed to intense competition from other companies in the Electronic Components Segment and all other areas of business. Although the Alps Group makes efforts to satisfy customers by introducing new products, supplying products of a high quality, and enhancing and expanding its global network, market competition is expected to intensify further. This creates potential for unforeseen situations, such as the failure to win orders, which could have an adverse effect on the Alps Group's results of operations and financial condition.

### 3 Customer Needs and Introduction of New Technology

The pace of innovation is fast in businesses engaged in by the Alps Group. Customers' requirements change often and new products and services are frequently introduced. There are times when the development of new technologies, products, and services quickly leads to the obsolescence of existing products and services, affecting their competitiveness or causing prices to fall dramatically. The Alps Group therefore actively advances development of new technologies and products, but there is no guarantee that the results will lead to advantages in the market. The inability to adapt quickly to rapid innovation or anticipated innovation, or the inability to introduce new products to meet customer needs, could have an adverse effect on the Alps Group's results of operations and financial condition.

### 4 Customers' Production Plans

The majority of the Alps Group's customers are manufacturers and, as such, its business is directly affected by customers' production plans. Customers' production plans are in turn influenced by factors such as cyclical and seasonal trends in consumer spending, introduction of new products, forecasts of demand for new specifications and standards, and the speed of technological innovation. These uncertainties have the potential to adversely affect medium- to long-term R&D activities and capital investment plan formulations of the Alps Group.

### 5 Underlying Risks Related to Overseas Business and Operations

Many of the Alps Group's production and sales activities are undertaken in the United States, Europe, and Asia, including China. Engaging in business for overseas markets and operating in overseas locations come with inherent risks, including unexpected changes to legal and tax systems, disadvantageous political or economic factors, and terrorism, war, or other social disturbances. Such circumstances therefore have the potential to interfere with the Alps Group's execution of business affairs.

### 6 Supply Structures for Certain Parts

The Alps Group makes an effort to manufacture critical parts within the Group, but some critical parts are sourced from companies outside the Group. A situation in which a supplier is unable to fill orders for parts in quantities required by the Alps Group due to, for example, a natural disaster may lead to a production delay or the loss of sales opportunities and could adversely affect the results of operations and financial condition of the Alps Group.

### 7 Fluctuations in Results of Operations

Results of operations of the Alps Group may vary due to factors outside of the Group's control. Such factors may include changes in general economic and business conditions, the success or failure of commercialization of new end products, changes to product strategies of major customers, cancellation of large orders, bankruptcy of major customers, and the disappearance of major customers through a merger or acquisition. Unfavorable changes concerning any of these factors could adversely affect the results of operations and financial condition of the Alps Group.

### 8 Intellectual Property

Patents and other types of intellectual property are key factors in the competitiveness of Alps Group products because of the emphasis placed on technological innovation in many of the markets we serve. The Alps Group generally employs technologies developed by the Group and seeks to protect those technologies by acquiring, and in cases asserting, patents, trademarks, and other intellectual property rights. However, there is no guarantee that there will be no impediments to the Alps Group's assertion of intellectual property rights, and it is possible that allegations of infringement of other companies' intellectual property rights could be made against the Alps Group.

The Alps Group counters claims filed against it for allegedly infringing intellectual property rights. However, if the Alps Group ends up paying damages as part of a legal settlement reached as a result of the proceedings, this would potentially have an adverse effect on the results of operations and financial condition of the Alps Group. Furthermore, licenses to use the intellectual property of other companies are obtained for some Alps Group products, but there is no guarantee that the owners of those rights will continue to grant licenses to the Alps Group into the future. Circumstances unfavorable to the Alps Group could adversely affect its results of operations and financial condition.

### 9 Foreign Exchange and Interest Rate Risks

The Alps Group engages in a global business and as such is exposed to the effects of exchange rate fluctuations. For instance, appreciation of the Japanese yen against a foreign currency, particularly the U.S. dollar or the euro, could have a negative impact on the Alps Group's results of operations. The Alps Group tries to minimize the effect of foreign exchange rate fluctuations by hedging risk using forward contracts or options and by offsetting foreign currency-denominated assets and liabilities. However, in situations where exchange rate fluctuations well exceed expectations, there is no guarantee that the impact on the Alps Group's results of operations can be mitigated.

The Alps Group also has assets and liabilities that come with interest rate fluctuation risks. While these risks are partly hedged through interest rate swaps, interest rate fluctuations could potentially lead to a higher interest burden.

### 10 Public Regulations

The Alps Group is subject to wide-ranging government controls, laws, and regulations in countries where it operates, including business and investment permit requirements, customs duties, and other import and export regulations. These regulations may restrict the business activities of the Alps Group, leading to higher costs. Accordingly, these regulations have the potential to adversely affect the results of operations and financial condition of the Alps Group.

### 11 Environmental Contamination Risks

The Alps Group implements measures to mitigate environmental risks in line with the Alps Group Environmental Charter as part of its CSR activities. Specific measures include the prevention of chemical substance leaks, thorough wastewater and emissions management, and purification of soil and groundwater at domestic business locations. However, there is no guarantee that environmental contamination will not occur in the future during the course of business activities. The occurrence or discovery of such an unforeseen event would generate costs associated with countermeasures and potentially lead to deterioration of the Alps Group's results of operations and financial condition.

### 12 Funding Risks

The Alps Group has entered into syndicated loan and syndicated committed credit line agreements with its banks. However, any violation of financial covenants in these agreements might result in requests for repayment of borrowed funds to be brought forward, potentially affecting the Alps Group's financial condition.

### 13 Disaster Risks

The Alps Group ensures thorough implementation of measures for preventing or mitigating damage caused by earthquakes or other disasters at production bases in Japan and overseas and in the past has effectively minimized the impact of disasters on operations. However, major disasters exceeding expectations could have a substantial impact on operations.

### 14 Risks Related to Impairment Accounting

The Alps Group owns a wide range of assets for use in its operations. There is a risk that these assets will have to undergo impairment accounting due to a decline in market value or the state of future cash inflows, potentially having an effect on the Alps Group's results of operations.

### 15 Risks of Fluctuations in Prices of Marketable Securities

Although the Alps Group does not hold marketable securities for trading purposes, all securities it does hold that have a market value are marked to market value. Price fluctuations on stock markets could therefore affect the results of operations and financial condition of the Alps Group.

### 16 Risks Related to Legal Proceedings and Lawsuits

The Alps Group has established and implements compliance systems for its business activities. However, the Alps Group's results of operations and financial condition could be adversely affected if legal proceedings were initiated by a regulatory authority due to a violation of law, or if legal action were to be taken, in relation to the activities of the Alps Group.

## CONSOLIDATED BALANCE SHEET

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
As of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>ASSETS</b>			
Current assets:			
Cash and time deposits	¥ 118,968	¥ 117,543	\$ 1,060,415
Notes and accounts receivable-trade:			
Unconsolidated subsidiaries and affiliated companies	955	1,715	8,512
Other	145,172	121,669	1,293,983
Allowance for doubtful accounts	(426)	(395)	(3,797)
Inventories	89,629	87,529	798,904
Deferred tax assets	6,618	6,551	58,989
Other current assets	18,796	19,764	167,537
<b>Total current assets</b>	<b>379,713</b>	<b>354,378</b>	<b>3,384,553</b>
Property, plant and equipment:			
Land	29,580	28,990	263,660
Buildings and structures	130,433	130,958	1,162,608
Machinery and equipment	332,629	320,328	2,964,872
Construction in progress	15,513	14,714	138,274
	508,156	494,991	4,529,423
Less accumulated depreciation and impairment losses	(358,371)	(350,824)	(3,194,322)
<b>Property, plant and equipment, net</b>	<b>149,785</b>	<b>144,167</b>	<b>1,335,101</b>
Investments and other assets:			
Intangible assets, net	16,773	14,217	149,505
Investments in unconsolidated subsidiaries and affiliated companies	20,382	21,254	181,674
Investment securities	17,328	16,155	154,452
Deferred tax assets	11,039	4,874	98,396
Net defined benefit asset	60	14	535
Other assets	7,877	7,793	70,211
<b>Total investments and other assets</b>	<b>73,461</b>	<b>64,310</b>	<b>654,791</b>
<b>Total assets</b>	<b>¥ 602,961</b>	<b>¥ 562,856</b>	<b>\$ 5,374,463</b>

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Short-term loans payable	¥ 35,550	¥ 22,208	\$ 316,873
Long-term debt due within one year	1,878	12,708	16,739
Notes and accounts payable-trade:			
Unconsolidated subsidiaries and affiliated companies	436	712	3,886
Other	73,760	66,707	657,456
Income taxes payable	7,780	7,063	69,347
Accrued expenses	34,049	33,856	303,494
Deferred tax liabilities	70	67	624
Other current liabilities	34,557	35,485	308,022
<b>Total current liabilities</b>	<b>188,084</b>	<b>178,811</b>	<b>1,676,477</b>
Non-current liabilities:			
Long-term debt	25,843	19,418	230,350
Liability for retirement benefits	17,295	20,784	154,158
Deferred tax liabilities	4,696	5,988	41,858
Other non-current liabilities	5,926	6,089	52,821
<b>Total non-current liabilities</b>	<b>53,762</b>	<b>52,280</b>	<b>479,205</b>
<b>Total liabilities</b>	<b>241,846</b>	<b>231,092</b>	<b>2,155,682</b>
Contingent liabilities			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized - 500,000,000 shares			
Issued - 198,208,086 shares in 2017 and 2016	38,730	38,730	345,218
Capital surplus	56,071	57,248	499,786
Retained earnings	172,677	143,650	1,539,148
Treasury stock - 2,302,846 shares in 2017 and 2,310,443 shares in 2016	(3,493)	(3,505)	(31,135)
<b>Total shareholders' equity</b>	<b>263,985</b>	<b>236,124</b>	<b>2,353,017</b>
Accumulated other comprehensive income			
Net unrealized gains on securities	4,479	3,946	39,923
Net deferred losses on hedges	(0)	(2)	(0)
Revaluation reserve for land	(506)	(526)	(4,510)
Foreign currency translation adjustments	(8,481)	(3,518)	(75,595)
Retirement benefits liability adjustments	(4,976)	(7,528)	(44,353)
<b>Total accumulated other comprehensive income(loss)</b>	<b>(9,483)</b>	<b>(7,628)</b>	<b>(84,526)</b>
Subscription rights to shares	248	179	2,211
<b>Non-controlling interests</b>	<b>106,365</b>	<b>103,088</b>	<b>948,079</b>
<b>Total net assets</b>	<b>361,114</b>	<b>331,764</b>	<b>3,218,772</b>
<b>Total liabilities and net assets</b>	<b>¥602,961</b>	<b>¥562,856</b>	<b>\$5,374,463</b>

	Yen		U.S. dollars
	2017	2016	2017
Amounts per share of common stock:			
Net assets	¥1,299.11	¥1,166.41	\$11.58

## CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net sales	¥753,262	¥774,038	\$6,714,163
Costs and expenses:			
Cost of sales	601,711	621,754	5,363,321
Selling, general and administrative expenses	107,177	99,956	955,317
	708,889	721,710	6,318,647
Operating income	44,373	52,327	395,517
Other income (expenses):			
Interest and dividend income	847	873	7,550
Equity in earnings of affiliates	629	514	5,607
Insurance return	395	109	3,521
Interest expense	(499)	(1,066)	(4,448)
Foreign exchange gains (losses), net	(580)	(1,297)	(5,170)
Loss on pension liabilities	(742)	-	(6,614)
Loss on interruption of engineering work	(599)	-	(5,339)
Gain on sales of shares of subsidiaries and affiliated companies	7,696	18,450	68,598
Loss on valuation of investment securities	-	(827)	-
Loss on reduction of non-current assets	(240)	(1)	(2,139)
Other, net	(1,778)	(1,248)	(15,848)
	5,127	15,504	45,699
Profit before income taxes	49,501	67,832	441,225
Income taxes:			
Current	14,864	18,611	132,490
Deferred	(6,468)	2,522	(57,652)
	8,395	21,133	74,828
Profit	41,105	46,698	366,387
Profit attributable to owners of parent	34,920	39,034	311,258
Non-controlling interests in earnings of consolidated subsidiaries	6,184	7,664	55,121
Profit	41,105	46,698	366,387
Other comprehensive income			
Net unrealized gains (losses) on securities	1,489	(3,277)	13,272
Net deferred gains (losses) on hedges	4	(1)	36
Foreign currency translation adjustments	(6,059)	(12,324)	(54,007)
Retirement benefits liability adjustments	2,606	(5,308)	23,228
Share of other comprehensive income (loss) of affiliated companies accounted for by the equity method	(1,713)	(2,010)	(15,269)
	(3,672)	(22,924)	(32,730)
Comprehensive income	¥ 37,432	¥ 23,774	\$333,648
Comprehensive income attributable to:			
Owners of parent	¥ 32,104	¥ 21,817	\$286,157
Non-controlling interests	5,327	1,956	47,482

	Yen		U.S. dollars
	2017	2016	2017
Amounts per share of common stock:			
Basic profit attributable to owners of parent per share	¥178.25	¥206.64	\$1.59
Diluted profit attributable to owners of parent per share	178.20	197.73	1.59
Cash dividends applicable to the year	30.00	25.00	0.27

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2017 and 2016

	Shareholders' equity					Total net assets							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on securities	Net deferred losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefits liability adjustments	Subscription rights to shares	Non-controlling interests	Total net assets
<b>Balance at April 1, 2015</b>	181,559,956	¥23,623	¥42,228	¥108,330	¥ (3,506)	¥ 5,455	¥(1)	¥(526)	¥ 6,847	¥(2,929)	¥ 97	¥104,079	¥283,700
Cumulative effects of changes in accounting policy													-
Restated balance		23,623	42,228	108,330	(3,506)	5,455	(1)	(526)	6,847	(2,929)	97	104,079	283,700
Conversion of convertible bonds	16,648,130	15,106	15,106										30,213
Dividends				(3,713)									(3,713)
Profit attributable to owners of parent				39,034									39,034
Purchase of treasury stock					(9)								(9)
Disposal of treasury stock					10								13
Change in treasury shares of parent arising from transactions with non-controlling shareholders													(88)
Changes in items other than shareholders' equity, net						(1,509)	(0)	-	(10,366)	(4,598)	82	(991)	(17,384)
<b>Balance at March 31, 2016</b>	198,208,086	38,730	57,248	143,650	(3,505)	3,946	(2)	(526)	(3,518)	(7,528)	179	103,088	331,764
Cumulative effects of changes in accounting policy				4									8
<b>Restated balance</b>		<b>38,730</b>	<b>57,248</b>	<b>143,655</b>	<b>(3,505)</b>	<b>3,946</b>	<b>(2)</b>	<b>(526)</b>	<b>(3,518)</b>	<b>(7,528)</b>	<b>179</b>	<b>103,097</b>	<b>331,777</b>
Conversion of convertible bonds													-
Dividends				(5,877)									(5,877)
Profit attributable to owners of parent				34,920									34,920
Purchase of treasury stock					(3)								(3)
Disposal of treasury stock					15								21
Change of scope of equity method													(1)
Reversal of revaluation reserve for land													(19)
Change in treasury shares of parent arising from transactions with non-controlling shareholders													(1,184)
Changes in items other than shareholders' equity, net													1,480
<b>Balance at March 31, 2017</b>	<b>198,208,086</b>	<b>¥38,730</b>	<b>¥56,071</b>	<b>¥172,677</b>	<b>¥ (3,493)</b>	<b>¥ 4,479</b>	<b>¥(0)</b>	<b>¥(506)</b>	<b>¥ (8,481)</b>	<b>¥(4,976)</b>	<b>¥248</b>	<b>¥106,365</b>	<b>¥361,114</b>

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2017 and 2016

Thousands of U.S. dollars

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Treasury stock
<b>Balance at March 31, 2016</b>	\$345,218	\$510,277	\$1,280,417	\$(31,242)
Cumulative effects of changes in accounting policy			36	
<b>Restated balance</b>	<b>345,218</b>	<b>510,277</b>	<b>1,280,462</b>	<b>(31,242)</b>
Conversion of convertible bonds				
Dividends			(52,384)	
Profit attributable to owners of parent			311,258	
Purchase of treasury stock				(27)
Disposal of treasury stock		53		134
Change of scope of equity method			(9)	
Reversal of revaluation reserve for land			(169)	
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(10,554)		
Changes in items other than shareholders' equity, net				
<b>Balance at March 31, 2017</b>	<b>\$345,218</b>	<b>\$499,786</b>	<b>\$1,539,148</b>	<b>\$(31,135)</b>

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized gains on securities	Net deferred losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefits liability adjustments			
<b>Balance at March 31, 2016</b>	\$35,172	\$(18)	\$(4,688)	\$(31,358)	\$(67,100)	\$1,596	\$918,870	\$2,957,162
Cumulative effects of changes in accounting policy							71	116
<b>Restated balance</b>	<b>35,172</b>	<b>(18)</b>	<b>(4,688)</b>	<b>(31,358)</b>	<b>(67,100)</b>	<b>1,596</b>	<b>918,950</b>	<b>2,957,278</b>
Conversion of convertible bonds								
Dividends								(52,384)
Profit attributable to owners of parent								311,258
Purchase of treasury stock								(27)
Disposal of treasury stock								187
Change of scope of equity method								(9)
Reversal of revaluation reserve for land								(169)
Change in treasury shares of parent arising from transactions with non-controlling shareholders								(10,554)
Changes in items other than shareholders' equity, net	4,751	9	178	(44,229)	22,738	606	29,120	13,192
<b>Balance at March 31, 2017</b>	<b>\$39,923</b>	<b>\$(0)</b>	<b>\$(4,510)</b>	<b>\$(75,595)</b>	<b>\$(44,353)</b>	<b>\$2,211</b>	<b>\$948,079</b>	<b>\$3,218,772</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

ALPS ELECTRIC CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2017 and 2016

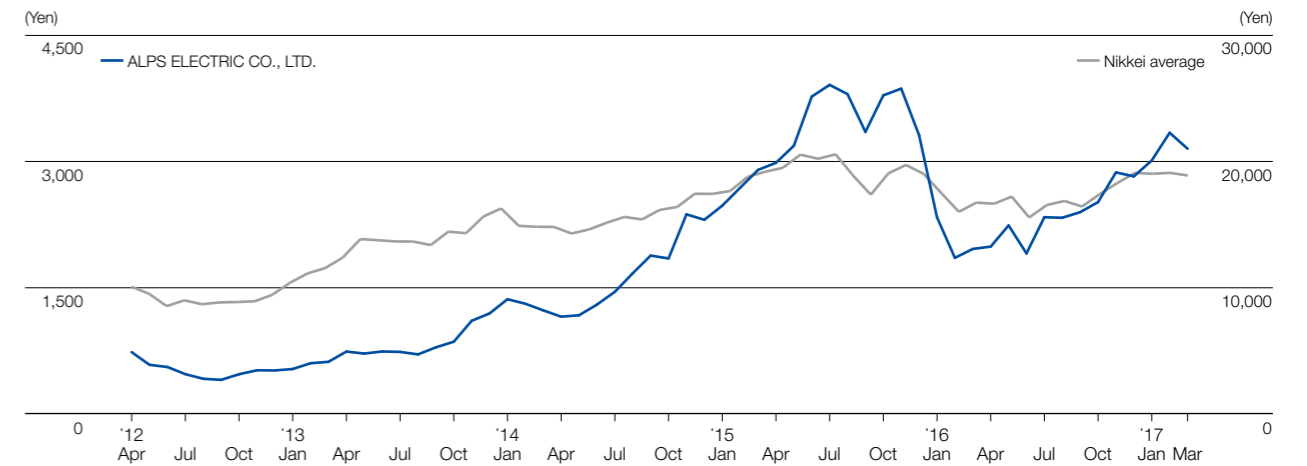
	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 49,501	¥ 67,832	\$ 441,225
Depreciation and amortization	33,076	30,725	294,821
Decrease in liability for retirement benefits	(3,070)	(329)	(27,364)
Gain on sales of shares of subsidiaries and affiliated companies	(7,696)	(18,450)	(68,598)
Increase in notes and accounts receivable-trade	(27,944)	(4,202)	(249,077)
Increase in inventories	(4,468)	(7,047)	(39,825)
Increase in notes and accounts payable-trade	9,571	8,817	85,311
Other, net	6,506	(3,028)	57,991
Subtotal	55,476	74,318	494,483
Interest and dividends received	926	1,114	8,254
Interest paid	(509)	(1,069)	(4,537)
Income taxes paid	(14,289)	(20,405)	(127,364)
Net cash provided by operating activities	41,603	53,958	370,826
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(41,087)	(31,440)	(366,227)
Purchase of intangible assets	(6,394)	(4,296)	(56,993)
Proceeds from sales of investment securities	2,669	2	23,790
Proceeds from sales of shares of subsidiaries and affiliated companies	9,398	20,940	83,769
Payments for investments in capital	(1,683)	(14,056)	(15,001)
Other, net	(883)	(1,532)	(7,871)
Net cash used in investing activities	(37,981)	(30,383)	(338,542)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	14,406	(3,409)	128,407
Proceeds from long-term loans payable	8,350	17,500	74,427
Repayment of long-term loans payable	(12,704)	(42,654)	(113,236)
Cash dividends paid	(5,877)	(3,713)	(52,384)
Dividends paid to non-controlling interests	(1,948)	(2,132)	(17,363)
Repayments of lease obligations	(1,134)	(1,509)	(10,108)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,250)	(190)	(11,142)
Other, net	(150)	(230)	(1,337)
Net cash used in financing activities	(309)	(36,340)	(2,754)
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>(2,163)</b>	<b>(4,814)</b>	<b>(19,280)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,148</b>	<b>(17,580)</b>	<b>10,233</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>116,843</b>	<b>134,298</b>	<b>1,041,474</b>
<b>Increase in cash and cash equivalents resulting from change in the scope of consolidation</b>	<b>-</b>	<b>125</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥117,991</b>	<b>¥116,843</b>	<b>\$1,051,707</b>

## Corporate Data

Company name ALPS ELECTRIC CO., LTD.  
 Headquarters 1-7, Yukigaya-otsukamachi, Ota-ku, Tokyo  
 145-8501, Japan  
 TEL: +81-3-3726-1211  
 Website <http://www.alps.com/e/>  
 President Toshihiro Kuriyama  
 Established November 1, 1948  
 Capital stock ¥38.730 billion  
 Employees 42,053 (consolidated)  
 5,588 (non-consolidated)  
 Facilities R&D / Design Japan: 3  
 Overseas: 6 (3 countries)  
 Production Japan: 7  
 Overseas: 14 (8 countries)  
 Sales 52 (16 countries)



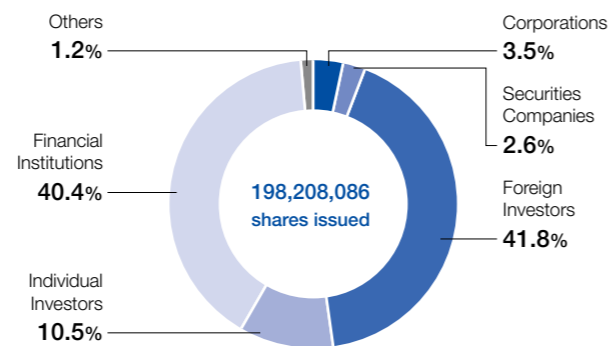
## Share Price



## Stock Information

No. of authorized shares 500,000,000  
 No. of issued shares 198,208,086  
 No. of shareholders 30,967  
 Stock listing Tokyo Stock Exchange First Section  
 (Code: 6770)  
 Share registrar Mitsubishi UFJ Trust and Banking  
 Corporation

### Breakdown of Shareholders

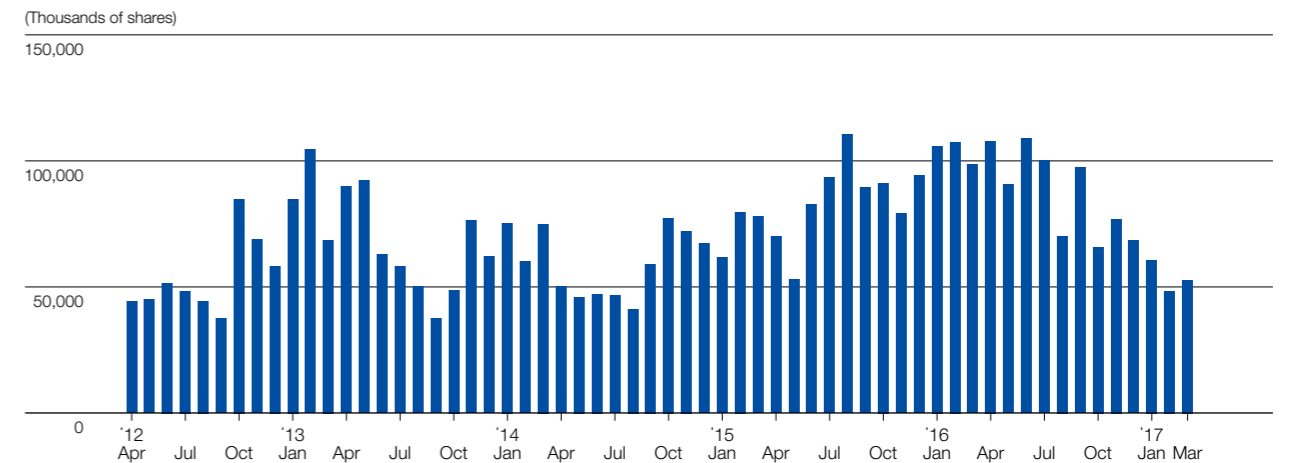


Notes: 1. "Others" refers to shares held by Alps Electric Co., Ltd. and unclaimed shares stored by the Japan Securities Depository Center, Inc.  
 2. "Individual investors" refers to shares held by individuals and Alps Electric's employee shareholding association.

### Top 10 Shareholders

Name	No. of shares (thousand)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	24,956	12.59
Japan Trustee Services Bank, Ltd. (Trust account)	18,941	9.56
Trust & Custody Services Bank, Ltd. (Security investment trust account)	4,911	2.48
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	4,438	2.24
Mitsui Life Insurance Company Limited	3,591	1.81
Japan Trustee Services Bank, Ltd. (Trust account 5)	3,391	1.71
STATE STREET BANK WEST CLIENT-TREATY 505234	2,761	1.39
Nippon Life Insurance Company	2,750	1.39
Japan Trustee Services Bank, Ltd. (Trust account 7)	2,640	1.33
Mitsui Sumitomo Insurance Company, Limited	2,517	1.27

## Trading Volume





**ALPS ELECTRIC CO., LTD.**

Inquiries about this report:

Corporate Planning Office

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