

February 8, 2006

To Shareholders:

## Regarding Capital Increase to be Implemented

First, we would like to express our thanks for your past and continued patronage.

On December 21, 2005 and January 25, 2006, SANYO Electric Co., Ltd. announced its plan to increase capital by approximately 300 billion yen through third party allotment of new preferred shares. This increase of capital is imperative as our company further strives to restore its financial health and drive forward with structural reforms so as to continuously develop its businesses as a corporate entity. To make this plan a reality, it is necessary for our company to receive approval of the shareholders at this Extraordinary Meeting of Shareholders. Therefore, please allow us to hereby explain the background behind our conclusion that this increase of capital is imperative for our company.

In recent years, our company has suffered a fall in company-wide profitability primarily in the audio/visual business and white goods business due to multiple causes including intensifying global competition. In addition, in the wake of the heavy loss incurred by our semiconductor business as a result of the damage caused by the Niigata Prefecture Chuetsu Earthquake the year before last, we unfortunately had an overall consolidated deficit of 171.5 billion yen for the last fiscal year.

In order to overcome this crisis, our company embarked on the 3-year reform plan called "SANYO EVOLUTION PROJECT" in July 2005, based on which the "Mid-Term Business Plan (FY2005 – FY2007)" was launched in November 2005. Thus, we have set in motion the process of making full-fledged business selection and focus and undertaking fundamental structural reforms.

In this connection, out of a need to account for huge business structural reform costs primarily for the semiconductor business, our company is now in a situation where we predict a significant consolidated net loss of possibly as high as 233 billion yen for this fiscal year.

Accordingly, without this capital increase the consolidated stockholders' equity and the ratio of consolidated stockholders' equity to total assets will fall to approximately 75 billion yen and 3.9% respectively at the end of this fiscal year, which in comparison with other companies in the same sector will make SANYO look inferior..

Reflecting this situation, various rating agencies have been taking an increasingly harsh view of our company in their credit evaluation. Also, the statement – "Occurrences or circumstances that may raise serious questions about going concern" was made as an explanatory note in the Financial Statement for First Half of Fiscal 2005, and in the Audit Reports for First Half of Fiscal 2005 the statement – "The basis of going concern is being seriously questioned" was made as additional information.

We deeply regret that we have caused such a serious condition coupled with two consecutive years of huge overall deficit and we would ask that all shareholders accept our sincere apology.

Under these severe management conditions, in order to achieve the targets set in the "Mid-Term Business Plan," strengthening the financial condition through this capital increase and regaining the foundation for continuous business operation is imperative. Moreover, financially it is estimated that to enable the capital investment and research and development investments that are necessary for a growth strategy centered on our core

businesses, our company needs to make investments to the amount of approximately 220 billion yen in fiscal 2006, another 230 billion yen in fiscal 2007, and in addition for the further acceleration and implementation of structural reforms another 100 billion yen.

Taking all these factors into consideration, our company has decided that it is imperative to increase its share capital by approximately 300 billion yen through the issuance of new preferred shares within this fiscal year.

Focusing on the fund raising ability and certainty to underwrite the necessary capital in a very short period of time, our company completed a stock subscription agreement with the following as capital investors, on the basis of their high credit worthiness combined with proven underwriting ability:

1) Daiwa Securities SMBC Group, our company's lead securities firm, 2) Goldman Sachs Group Inc., the world's top investment bank, and having a deep understanding of our company, and 3) Sumitomo Mitsui Banking Corporation, our company's main bank. Provided that our company receives approval of the shareholders, it will ask for capital injection from these organizations and the funds operated by them.

Specific details regarding the preferred shares to be issued are included in the "Notice of Extraordinary Meeting of Shareholders" enclosed herewith for your confirmation.

With this capital increase, our company will stabilize its financial foundation for future growth. From now onward, we will make optimum use of our comprehensive strengths to further concentrate management resources on our core businesses with competitive advantage, including HVAC products & commercial equipment (photo voltaic systems, CO<sub>2</sub> compressors etc.), rechargeable batteries, digital cameras, and mobile phones and further advance as a provider of cutting-edge Environment and Energy products and services, with the aim to raise corporate value so as to meet the expectations of all our shareholders.

We, as the management team, will lead the company with unwavering resolve to achieve the targets of the "Mid-Term Business Plan."

	FY2005	FY2006	FY2007
Sales	24,400	24,900	26,400
Operating Profit	- 170	750	970
Net Income	- 2,330	295	620

We sincerely request our shareholders' understanding about the necessity for this capital increase to enable the further growth and progress of SANYO Electric Co., Ltd. and ask for their continuous support accordingly.

Tomoyo Nonaka  
Executive Director and Chairman

Toshimasa Iue  
Executive Director and President

<b>This extraordinary meeting of shareholders is an important meeting as SANYO aims to achieve further growth and progress. Therefore, it is requested that all our shareholders exercise their voting right thereat.</b>
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SANYO Electric Co., Ltd.