

Operating Results and Financial Position

1. Operating Results

(1) Achievements for the Half year Ended Sep. 30, 2006

AISIN has worked on enhancing its business in the global market; AISIN has developed and sold new products corresponding to social change and meeting customer's demands.

Sales within the Auto Parts segment increased 13.3% (¥1,074,673 million) compared with the same half year of the previous fiscal year (¥948,535 million) due to clients' production expansions, in addition to aggressive sales activities for automatic transmissions, manual transmissions, car navigation systems, and power sliding doors. Sales of the Life & Energy related products and other business decreased 0.2% (¥45,634 million) compared with the same half year of the previous fiscal year (¥45,705 million).

As a result, total sales increased 12.7% (¥1,120,307 million) compared to the same half year of the last fiscal year (¥994,240 million).

Despite the favorable activities to streamline and raise efficiency in all areas of operations through cost reductions and other measures, great impacts from increasing depreciation and amortization expenses and surging material costs such as aluminum resulted in a 0.4% increase in operating income from ¥51,950 million to ¥52,171 million. Ordinary income decreased 1.2% to ¥54,695 million. (Previous: ¥55,383 million) Net income decreased 4.9% to ¥24,682 million. (Previous: ¥25,944 million)

Interim dividends per share are 16 yen provided for FY2007 Half year. For FY2007 in total, AISIN is planning to provide the dividend of 32 yen, same as FY2006.

(2) Outlook for FY2007

Concerning future business environments, there are still uncertainties such as soaring material prices of crude oil, steel, and aluminum, as well as intensifying price competitions.

Amid this environment, together with adequately addressing immediate challenges, the AISIN Group will combine its collective strengths and proactively undertake initiatives to strengthen global competitiveness and its corporate constitution along with aiming to become a preeminent global brand. To that end, we will accelerate the development of system products that create new markets in fields related to the "environment," "safety," "comfort" and "convenience." Concurrently, we will strive to improve *mono-zukuri* (manufacturing expertise in value-added products) by cultivating human resources and developing new production methods and will actively propose products that ensure the satisfaction of our customers. Additionally, we will build a global supply network by further upgrading our production, development and sales structures in Japan as well as in North America, Australia, Asia and Europe, as we establish a structure capable of responding quickly to customer needs in regions worldwide.

As a company trusted by society, we aim to be a top environmental player by steadily promoting our five-year environmental preservation plan that is based on our newly formed "Fourth Environmental Action Plan." In tandem, we are undertaking corporate citizenship activities with emphasis on development of local communities, preservation of the natural environment and the nurturing of young people, while continually making earnest efforts to undertake highly fair and transparent business activities and develop into a company that attains growth and development in harmony with society.

With regard to the forecast in FY2007, net sales, operating income, ordinary income, and net income would be revised to ¥2,320,000 million, ¥118,000 million, ¥121,000 million, and ¥58,000 million respectively. (Estimated exchange rate for dollar in latter half year: 1US\$=¥115)

2. Financial Position

For FY2007 Half year, cash flows provided by operating activities amounted to ¥71,281 million, cash flow from investing activities was ¥134,725 million, cash flow provided by financing activities amounted to ¥32,524 million and cash flow provided by translation adjustment of cash and cash equivalents totaled ¥17 million. As a result, cash and cash equivalents as of Sep. 30, 2006 stood at ¥97,311 million, a decrease of ¥30,901 million, or 24.1%, compared with ¥128,212 million as of Mar. 31, 2006.

(Cash Flows from Operating Activities)

Net cash provided by operating activities increased ¥10,503 million, or 17.3%, from ¥60,778 million to ¥71,281 million. The chief factor for this rise in cash was an increase of ¥12,730 million in depreciation and amortization, although income before income taxes and minority interest resulted in a decrease in cash of ¥688 million.

(Cash Flows from Investing Activities)

Net cash used in investing activities rose ¥45,409 million, or 50.8%, from ¥89,316 million to ¥134,725 million. The chief reason was an increase in cash of ¥24,891 million from ¥97,622 million to ¥122,513 million in payments for purchase of property, plant and equipment.

(Cash Flows from Financing Activities)

Net cash provided by financing activities rose ¥20,004 million from ¥12,520 million to ¥32,524 million. The key factor was an increase of ¥33,462 million in commercial paper and short-term borrowings.

3. Risk Information

The following risks can potentially impact AISIN's performance and financial position.

Any forward-looking statements mentioned herein reflect estimates as of Oct. 31, 2006.

(1) Economic Trends

Within revenues from AISIN's worldwide operations, demand for mainstay automobile related products is vulnerable to economic conditions in the countries and regions where AISIN products are sold. Consequently, economic recessions in such crucial markets as Japan, North America, Europe and Asia as well as subsequent contraction in demand have the potential to negatively impact AISIN's performance and financial position.

AISIN's operations could also be indirectly vulnerable due to economic conditions in regions where competitors manufacture products. For example, in cases where competitors employ cheaper labor in the region, this may have an adverse effect on AISIN's sales of the same types of products since competitors can provide competitively priced products. Moreover, if the local currency in which AISIN produces components and raw materials depreciates, manufacturing costs may decline for both AISIN and other manufacturers. This may result in intensified export and price competition, and subsequently, may have a negative impact on AISIN's performance and financial position.

(2) Supply of Raw Materials and Components

AISIN's products are heavily dependent on raw materials and components provided by multiple suppliers outside the AISIN Group. While these external suppliers are obligated to provide stable services through basic contracts, they cannot guarantee supply in the event of shortages due to rapidly rising prices from market changes, supply crunches or unforeseen mishaps in their operations. Such an event has the potential to drive up prices for AISIN's products and halt production, and subsequently, may have a negative impact on AISIN's performance and financial position.

(3) Principal Customers

AISIN chiefly produces and sells Automotive Parts and Life & Energy related products, with its mainstay Automotive Parts and Systems Business mostly targeting automobile manufacturers in and outside Japan. Among these customers, AISIN has the highest level of dependence on Toyota Motor Corporation (TMC) and the Toyota Group, with sales totaling ¥741,765 million and representing 66.2% of AISIN's net sales in FY2007 Half year. For that reason, changes in sales volume within TMC and the Toyota Group have the potential to negatively impact AISIN's performance and financial position. As of Sep. 30, 2006, the portion of AISIN's voting shares held by TMC directly was 23.0%, and indirectly was 0.1%.

(4) Exchange Rate Fluctuations

AISIN has worked to bolster its sales in the Japanese market and aggressively pursue the cultivation of overseas markets chiefly in North America, Europe and Asia, to the extent that the ratio of overseas net sales to total net sales was 36.5% in FY2007 Half year.

Accounting items listed in local currency rates, including sales, expenses and assets in respective overseas countries, are converted into yen when making the consolidated financial statements. Accordingly, there is a possibility that the value of accounting items may be negatively impacted after translation even when there are no fluctuations in local currencies. The strengthening of the yen against other currencies (especially against the U.S. dollar and the euro, which account for a significant portion of AISIN's sales) may negatively impact AISIN's performance and financial position.

Such a strengthening of the yen against other currencies in business operations that manufacture and export from Japan could relatively reduce AISIN's price competitiveness on a global basis and potentially have a negative impact on AISIN's performance and financial position. AISIN is working to minimize the negative impact of fluctuations among various currencies, including the U.S. dollar, the euro and the yen, through currency hedge transactions. However, exchange rate fluctuations may have the potential to negatively impact AISIN's performance and financial position.

(5) Business Inroads in Overseas Markets

AISIN has subsidiaries and affiliates in such varying areas as North America, Europe and Asia. Expanding businesses in overseas markets entails the risks listed below, and may have the potential to negatively impact AISIN's performance and financial position when they occur.

Unanticipated laws and regulations and changes to the tax system unfavorable to business

Underdeveloped social overhead capital (infrastructure)

Occurrences of unfavorable governmental issues or economic conditions

Difficulties in hiring and retaining staff

Social upheavals due to terrorism, war and other factors

(6) Product Development

AISIN works to develop new products to provide added value and contribute to the enrichment of society. While AISIN aims to continue developing original and attractive products, the following are some of the risks entailed in the often complex and uncertain process involving the development and sales of cutting-edge products. The inability to sufficiently anticipate changes in respective industries and markets as well as develop and release attractive new products in a timely manner due to the following risks could hamper future growth and profitability and have a negative impact on AISIN's performance and financial position.

There is no guarantee that the necessary funds and resources for investment in new products and technologies will be sufficiently available.

There is no guarantee that long-term and substantial investment will produce successful new products and technologies.

There is no guarantee that AISIN will accurately predict which new products and technologies will gain the support of the market or succeed in marketing these products.

There is no guarantee that new products and technologies will be protected as intellectual property.

Rapid advances in technology and changes in market needs may make AISIN's products obsolete.

Delays in commercialization of technologies under development may not keep pace with trends in market demand.

(7) Product Defects

AISIN is fully committed to producing high-quality, attractive products that meet customer needs based on the concept of “Quality First.” However, AISIN cannot guarantee that there will be no defects or that recalls will not be made in the future. Moreover, while AISIN is insured for product liability indemnity, there is no guarantee that this policy will fully cover the final indemnities. Product defects that lead to widespread recalls and product liability indemnities could produce large cost burdens and downgrade the valuation of AISIN. This would subsequently hamper sales and could negatively impact AISIN’s performance and financial position.

(8) Effects of Disaster and Power Blackouts

AISIN conducts regular disaster prevention and equipment checks to minimize the adverse effects of a halt in production line operations. However, there is no guarantee that AISIN can fully prevent or lessen the effects of a disaster, power blackout or other such events that may cause discontinuation of operations at a production facility. For example, the majority of AISIN’s domestic factories are located in the Chubu area of Japan. Consequently, a large-scale earthquake in the Chubu area or other events that halt operations could negatively impact AISIN’s performance and financial position.