

Expansion through Technology Development and Globalization

Review of Fiscal 2002

For fiscal year ended March 31, 2002, the AISIN Group posted consolidated net sales of ¥1,221.9 billion (US\$9,170 million), an 8.3 percent increase over the year-earlier period. Consolidated net income rose to ¥25.7 billion (US\$193 million) from a net loss of ¥7.2 billion (US\$54 million) the previous year. As last year's net loss was chiefly due to a one-time charge attributable to a change in the accounting standard for retirement benefits for employees, this year's net income effectively climbed 2.4 percent from the previous year's results if the charge is not applied. Cash and cash equivalents at the end of fiscal year 2002 stood at ¥109.4 billion (US\$821 million), up 3.3 percent.

Sales from automotive parts and systems business, the mainstay of our business jumped 8.8 percent from a year earlier, mainly because a new subsidiary, ADVICS Co., Ltd. started its operation and the sales of body related products and car navigation systems increased. Sales in life & energy related business grew by 0.5 percent, while others posted a 2.9 percent sales decline.

The AISIN Group's return on equity (ROE) rose to 6.1 percent, the highest level in the past decade, reflecting the group's steady management progress despite the recent harsh business environment inside and outside Japan. The AISIN Group has set a goal of 10 percent for ROE on a medium-term basis, and continues to improve competitiveness and enhance capital efficiency.

Consolidated net sales for fiscal year 2003 are expected to reach ¥1,310 billion (US\$9,831 million), a 7.2 percent increase from the previous year. Estimated net income is expected to amount to ¥40 billion (US\$300 million), including a special profit of ¥29 billion (US\$218 million), attributable to the changes of pension rule and the accounting standards for retirement benefits.

In this annual report, we will highlight business strategies for achieving medium-term management goals, groupwide synergies in terms of evaluation facilities, capabilities and global coverage, and recent strategic alliances, as well as give an overview of fiscal year 2002. We sincerely hope this report will help all annual report readers to understand where we are going.

Note: The exchange rate at March 31, 2002 of ¥133.25 = US\$1 has been used in the translation.



Akihiro Wada
Chairman

Kanshiro Toyoda
President

Management Policies and Background

The AISIN Group has established two key management policies for fiscal year ending March 31, 2003: “strengthening our capability of development” and “promoting further globalization of our operations”. These policies are designed to address issues rose by recent economic and market conditions while confirming our commitment to future growth.

We continue to face an uncertain operating environment due to the slowdown in the global economy and political

instability in certain regions. While the automobile markets in North America, Europe and Japan have matured, certain markets in Asia, Latin America and Eastern Europe are poised for a dramatic expansion that could usher in a new, global automotive age. In the current harsh business environment, automakers are aggressively cutting costs, accelerating the development of technologies in areas such as the environment, safety and intelligent transport systems, and strengthening their operations in the emerging growth markets of Asian and other countries.

The AISIN Group believes it is of absolute importance to our success in the future to develop and supply technologically advanced, competitive products to automakers worldwide. That is why we have adopted these two key management policies. At the same time, we plan to establish ourselves as a global automotive parts and systems supplier by enhancing our ability to respond to market changes in a timely fashion.

Management Policy 1:

Strengthening our Capability of Development

At the AISIN Group we have always placed the utmost emphasis on developing superior technology, as the key to future growth and competitiveness. In 1970, Aisin Seiki Co., Ltd. (Aisin Seiki) built our own world-class proving ground and testing facilities in order to establish our proprietary technology development capabilities. It was also in pursuit of this objective that Aisin Seiki initiated joint research laboratories with several universities both domestic and overseas since 1978 and furthermore established our R&D companies since 1986.

We strive to continue strengthening our technology development efforts even under difficult economic conditions. In recent years, many companies have undergone drastic restructuring plans in order to weather a very harsh competitive climate. While these measures may succeed in restoring a company's financial health, there is always the danger that R&D projects which are important to future growth and profits may be canceled or postponed in the course of these reorganization efforts. As a manufacturer, we are gravely concerned about such a scenario.

However investments in developing new technology do not necessarily yield immediate results. For example, the fuel cells for automobiles that we are currently developing in cooperation with the TOYOTA Group are beneficiaries of the technological know how Aisin Seiki gained a decade ago in developing the Stirling engine in cooperation with university researchers. In addition, the technologies used in our parking assist system and in vehicle stability control system, an automotive safety system for which there is a growing demand, were derived from our decade-long R&D into automated operation for intelligent vehicle at our overseas R&D companies.

The AISIN Group is now working on new technologies to help reduce harmful environmental effects and improve vehicle safety and driving comfort, along with strengthening our information and communications technology. We are expanding and accelerating the development of new technology not only in our current product categories but also in new business areas for the future, including hybrid cars, fuel cell cars and intelligent transport systems.

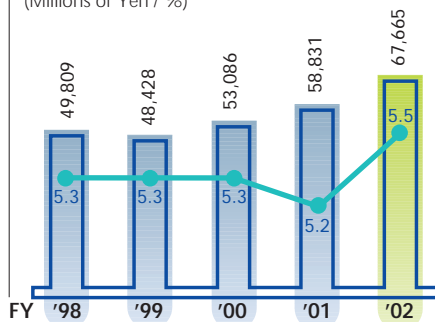
That is why the AISIN Group continues to make substantial investments in research and development. R&D expenditures has hovered around 5 percent of sales revenues for the past the several years, and during fiscal year 2002 we spent ¥67.7 billion (US\$508 million) on R&D, equivalent to 5.5 percent of net sales. However, in addition to strengthening technology development in current product categories, we believe that R&D expenditures must be increased, because future growth will depend on today's investment in developing the most advanced technology for both existing and new business areas.

At the AISIN Group we strive to meet these ever-changing technological challenges, because we believe that superior technology is our advantage in global competition. Thus we must increase our efforts in pioneering unprecedented R&D, and fostering innovation within the AISIN Group.

While creating new technologies is important, the AISIN Group believes that the manufacturing technology needed to convert these new technologies into marketable products is equally important, and that is where the tradition of *Monozukuri*, or manufacturing expertise and craftsmanship, comes in. We are determined to increase the value of our products by capitalizing on the *Monozukuri* spirit in manufacturing, while implementing a comprehensive system from product planning to sales from the standpoint of customers. Increasing the value of our products bring profitability, which enables us to create a system of inputting more development and getting better technology in return.

The Aisin Group will accelerate our R&D efforts to remain globally competitive. We strive to create attractive products to contribute to society.

R&D Expenses / R&D Expenses to Net Sales
(Millions of Yen / %)



R&D expenses by the AISIN Group is around 5 percent of net sales.

Note: The exchange rate at March 31, 2002 of ¥133.25 = US\$1 has been used in the translation.

Management Policy 2:

Promoting further Globalization of our Operations

In recent years, the trend toward collaboration and consolidation among automakers worldwide has advanced significantly against a backdrop of keen cost competition. In pursuit of economies of scale, automakers have been pushing for the standardization of car platforms and engines and other components among different models.

The globalization movement among Japanese automakers has boosted the percentage of vehicles produced overseas to roughly 40 percent of the total number of vehicles manufactured each year, while overseas sales represent about 60 percent of their total business. The aggressive expansion of overseas production is likely to continue in an effort to avoid the profit instability resulting from import/export imbalances and fluctuating exchange rates. Global auto manufacturing groups are expected to further increase the number of production bases in Asia, Latin America and Eastern Europe, an emerging market for automobiles.

We have rapidly expanded our global operations in the past several years to respond this business environment.

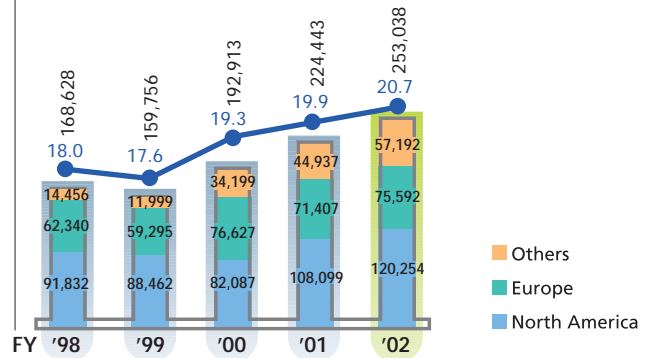
During fiscal year 2002 we added seven new overseas manufacturing companies and expanded our alliances by affectively using our management resources. We now have 32 manufacturing companies in eight countries in total.

To accelerate our globalization and capitalize upon the opportunity to leap into the ranks of worldwide suppliers, we have committed ourselves to building a global network of production bases encompassing all the regions where automakers operate. As part of this globalization effort, we are now preparing to establish a production base in Brazil, the first in South America. We are also studying possible sites for another base in Europe. At the same time, we are enhancing our global network of R&D system, in order to develop and offer products that are tailored to local needs.

We will make vigorous efforts to raise each production base to the level where it can be independently operated with

Overseas Sales / Overseas Sales to Net Sales

(Millions of Yen / %)



During fiscal year 2002 overseas sales totaled ¥253 billion (US\$1,899 million), 20.7 percent of net sales. The AISIN Group continues to grow sales to overseas clients.

improved profitability, in order to build a stronger "AISIN" brand in the countries where we operate as a worldwide supplier.

We are dedicated to using the AISIN Group synergies to mobilize our collective resources, coordinate cooperation among production bases, and establish an optimal worldwide production network. We thank our shareholders, clients and other stakeholders for their continued support and interest in the AISIN Group.

Note: The exchange rate at March 31, 2002 of ¥133.25 = US\$1 has been used in the translation.

July 2002

Akihiro Wada
Chairman

Kanshiro Toyoda
President