

# Management's Discussion and Analysis of Financial Conditions and Results of Operations

AISIN SEIKI CO., LTD. and Subsidiaries  
March 31, 2004 and 2003

## Overview

Aisin Seiki Co., Ltd. and its consolidated subsidiaries (collectively, AISIN) respectively conduct manufacturing, sales and research and development. The companies of the AISIN Group cooperate amongst each other in order to establish new businesses that keep pace with changes within customer bases and the market.

The number of consolidated subsidiaries as of March 31, 2004 rose by nine to total 114. While one subsidiary was initially removed from the scope of consolidation, this was counter-balanced by the addition of another, ADVICS Manufacturing Ohio, Inc. The number of affiliates accounted for by the equity method remained at 14.

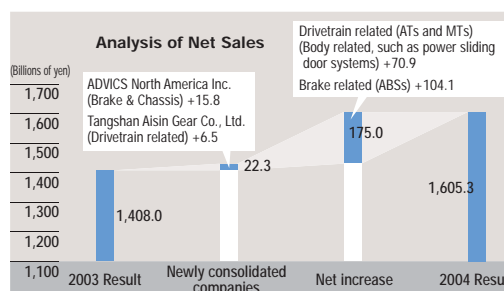
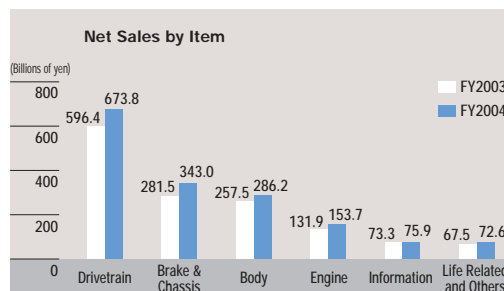
In the fiscal year under review ended March 31, 2004, net sales rose 14.0% to a record high of ¥1,605,252 million (US\$15,188 million), and ordinary income rose by 10.5% to ¥84,654 million (US\$801 million), also a record high. Conversely, income before income taxes and minority interests decreased by 26.5% to ¥77,335 million (US\$732 million) and net income fell 27.7% to ¥34,719 million (US\$328 million). This was the result of the absence during the term of extraordinary gains on substitutional portion of employee pension fund, which were recorded in the previous fiscal year, as well as extraordinary loss recorded as recognized actuarial loss on employee pension fund in the fiscal year under review.

## Results of Operations

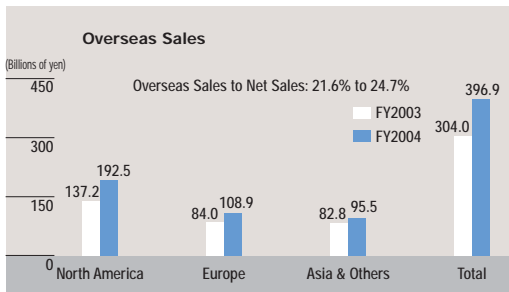
### Sales

In the fiscal year under review net sales totaled ¥1,605,252 million (US\$15,188 million). By business segment, automotive related sales in the Automotive Parts and Systems Business rose 14.3% to ¥1,532,634 million (US\$14,501 million). In this business, sales of engine related products rose 16.5% to ¥153,695 million (US\$1,454 million) owing to increased sales of VVTs and timing chain covers, and sales of drivetrain related products rose 13.0% to ¥673,760 million (US\$6,375 million) due to increased sales of 6-speed ATs and other

new products. Moreover, sales of brake and chassis related products climbed 21.9% to ¥343,048 million (US\$3,246 million) as a result of increased sales at the newly consolidated subsidiary ADVICS Manufacturing Ohio, Inc.; sales of body related products rose 11.2% to ¥286,230 million (US\$2,708 million) owing to increased sales of power sliding door systems, power back door systems and occupant weight sensors; and sales of information related and other automotive related products edged up 3.6% to ¥75,901 million (US\$718 million) through expanded sales of car navigation systems and increased sales of such new products as IPA. Sales in the life related products segment of the Life Related and Other Business increased 5.8% to ¥48,339 million (US\$457 million) following expanded sales of GHPs, while sales of products in the other products segment, which includes civil engineering and petroleum sales, climbed 11.4% to ¥24,279 million (US\$230 million) on account of efforts to increase orders.

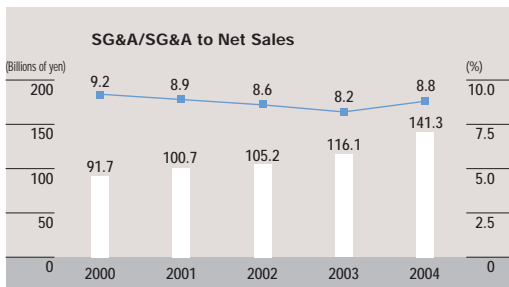
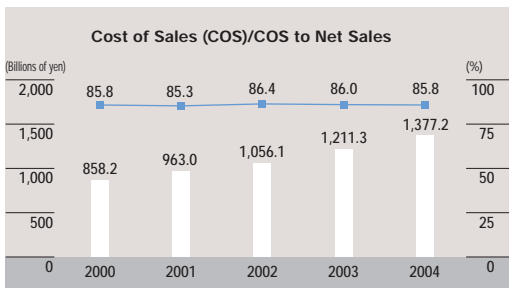


In addition, AISIN is expanding its global activities in order to increase its overseas bases. The portion of overseas sales to consolidated net sales rose from 21.6% to 24.7%.



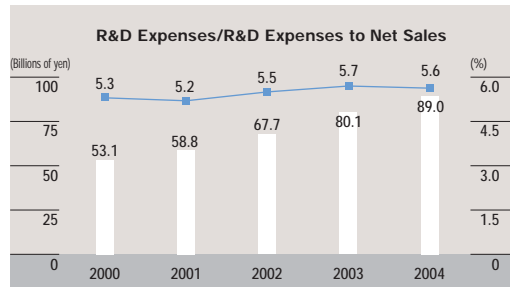
### Cost of Sales and Selling, General and Administrative Expenses

In the fiscal year under review, despite an increase in new product development and launch expenses (including R&D expenses) in addition to personnel expenses following a change in the calculation of employee health and welfare benefits, the ratio of cost of sales to net sales edged down from 86.0% to 85.8%, as a result of expanded sales and the effects of cost reduction measures. Contrarily, selling, general and administrative (SG&A) expenses were up 21.8% to ¥141,323 million (US\$1,337 million), and the ratio of SG&A expenses to net sales increased from 8.2% to 8.8%. This reflected the increased expenses mentioned above, as well as an increase in such expenses as packaging and shipping, and product repair expenses.



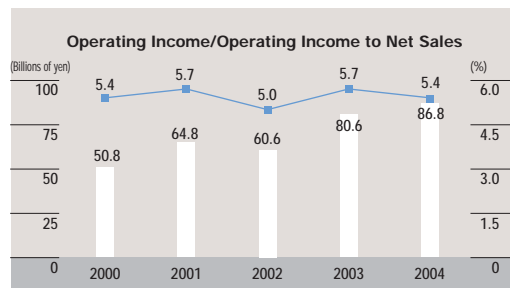
### R&D Expenses

R&D expenses, which include SG&A expenses and manufacturing costs, totaled ¥89,076 million (US\$843 million) in fiscal 2004 and ¥80,075 million in fiscal 2003.



### Operating Income

As a result of the above performance, operating income increased by 7.7% to ¥86,768 million (US\$821 million).



### Non-operating Income and Expenses

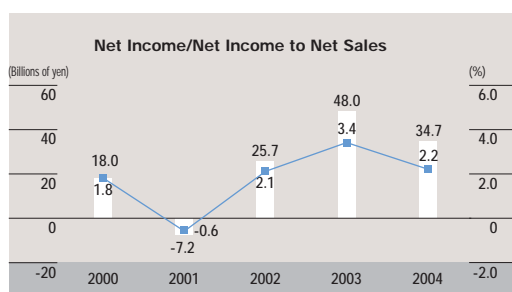
The difference between non-operating income and expenses improved from -¥4,010 million in the previous year to -¥2,114 million. This was due to an improvement in net financial (income) expense resulting from a decrease in loss on devaluation of marketable securities as well as a significant increase in gain on sale of marketable securities. Increases in miscellaneous payments were associated with expenses related to measures against the Tokai Earthquake—a recent major issue—and will likely decline.

## Minority Interest in Net Income of Consolidated Subsidiaries

Minority interest in net income of consolidated subsidiaries decreased 16.1% to -¥13,279 million (-US\$126 million).

## Net Income

Net income decreased 27.7% to ¥34,719 million (US\$328 million). The major component of the decrease was an extraordinary loss of ¥7,319 million cited as recognized actuarial loss on employee pension fund.



## Cash Flows

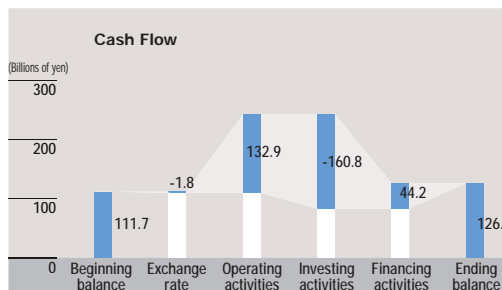
### 1. Overview of Cash Flows

Cash and cash equivalents at end of year increased ¥14,482 million to ¥126,214 million (US\$1,194 million).

This increase was associated with capital procurement using loans and bond issuance to meet continued growth in demand for capital, despite expenses entailed in extensive capital investment following business expansion.

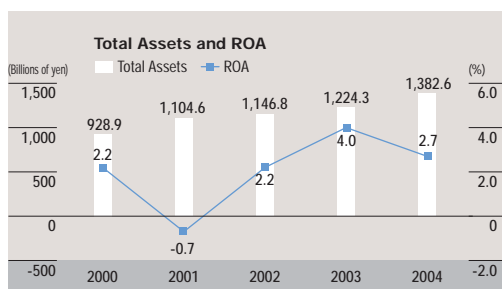
### 2. Capital Needs

Payments for purchase of property, plant and equipment were ¥147,586 million (US\$1,397 million) in association with vigorous business expansion both in Japan and abroad. Prospects for further globalization, expansion in production among customers and higher sales for new products will enable the Group to procure long-term loans in the future.



## Financial Position

Total assets rose 12.9% to ¥1,382,585 million (US\$13,082 million), reflecting expanded business activities. Total liabilities increased 10.6% to ¥742,690 million (US\$7,027 million), while total shareholders' equity increased 18.1% to ¥506,261 million (US\$4,790 million).



## Capital Investment

Capital investment, net rose 15.3% to ¥143,154 million (US\$1,354 million) as a result of investment in new products and product improvements to accommodate new car models, as well as investment in research and development. Consequently, depreciation and amortization expenses rose 13.0% to ¥97,564 million (US\$923 million).

## Financial Strategy

AISIN is currently engaged in a variety of activities aimed at raising corporate value in such areas as profitability, asset efficiency and improved financial position. Firstly, the Group is improving the ratio of net income to sales by promoting the development of new high value-added products and pursuing "C21 Activities," which are activities designed to improve the cost structure. In accordance with the CCC21 model of Toyota, C21 Activities in particular, were aimed at achieving dramatically lower costs through the structural reorganization of product lines by the end of 2003.

As a means of raising asset efficiency, the Group is aggressively undertaking activities under the banner of "Improvement, Integration and Stop"\* for improved utilization of Group facilities, and is shifting production processes and proactively promoting the joint use of facilities among various Group companies.

To optimally leverage Group finances, AISIN is purchasing treasury stocks and undertaking debt financing in order to achieve a capital structure that minimizes capital costs while maintaining its existing credit rating.

To tie together shareholder and management profits, AISIN is introducing stock options for key directors of the Group.

Finally, management considers public disclosure to be critical for the sake of ensuring a stable stock price, and aims to actively enforce fair disclosure to shareholders and analysts.

\* "Improvement, Integration and stop" are activities targeting the effective use of production resources by increasing productivity through concentration and integration of production lines and development facilities, termination of certain product lines and undertaking capital investment in the coming fiscal years.

## Future Outlook

Net sales are expected to rise 2.8% to ¥1,650,000 million (US\$15,612 million) in fiscal 2005. This will be the result of increased orders for drivetrain and body related products and car navigation systems.

Similarly, projections call for operating income to edge up 0.3% to ¥87,000 million (US\$823 million) and net income to be ¥40,000 million (US\$378 million).

## Management of Market Risk

### Foreign Exchange Risk

To hedge the foreign exchange risks arising from the export and import of materials, parts and products, AISIN utilizes foreign currency forward contracts.

