

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

AISIN SEIKI CO., LTD. and Its Consolidated Subsidiaries

Overview

Aisin Seiki and its consolidated subsidiaries (collectively, AISIN) comprises 136 subsidiaries and affiliates, including 89 production companies, 12 sales companies and 35 other companies, with its operations entailing manufacturing and sales related to its core Automotive Parts and Systems Business and Life Related and Other Business.

In the fiscal year under review, on a consolidated basis net

sales rose 13.9% to a record high of ¥1,829,065 million (US\$17,032 million), while operating income increased 9.6% to ¥95,111 million (US\$886 million) and ordinary income increased 16.3% to ¥98,458 million (US\$917 million), also record highs. Income before income taxes and minority interest rose 19.9% to ¥92,730 million (US\$863 million), and net income jumped 34.6% to ¥46,719 million (US\$435 million).

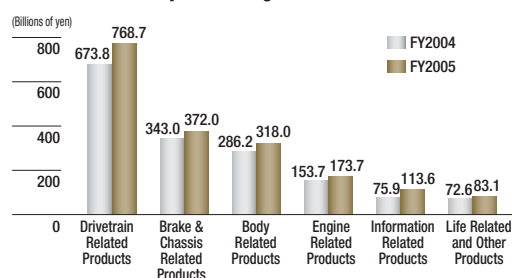
Results of Operations

Sales

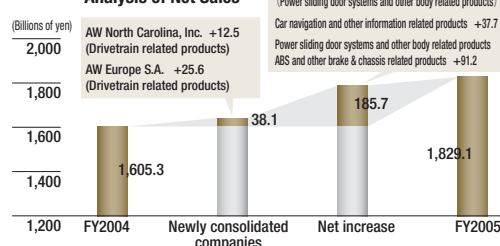
In the fiscal year under review, net sales were ¥1,829,065 million (US\$17,032 million). By business segment, sales in the Automotive Parts and Systems Business increased 13.9% from ¥1,532,634 in the previous fiscal year to ¥1,745,979 million (US\$16,258 million). Sales in the life related products segment of the Life Related and Other Business edged up 0.7% to ¥48,690 million (US\$454 million) as a result of expanded sales of GHPs and shower-toilet seats, while sales in the other products segment, which includes civil engineering and petroleum sales, jumped 41.7% to ¥34,396 million (US\$320 million) on account of an increase in orders.

Within the Automotive Parts and Systems Business, sales of engine related products rose 13.0% to ¥173,649 million (US\$1,617 million) due to higher sales of timing chain covers and cylinder head covers, and sales of drivetrain related products increased 14.1% to ¥768,684 million (US\$7,158 million) on the back of strong performance of 6-speed ATs and MTs. Sales of brake and chassis related products rose 8.5% to ¥372,045 million (US\$3,464 million), while sales of body related products improved 11.1% to ¥317,992 million (US\$2,961 million) due to expanded sales of occupant weight sensors, power sliding door systems and power back door systems. Sales of information related products jumped 49.7% to ¥113,609 million (US\$1,058 million) following expanded sales of car navigation systems and "Intelligent Parking Assist" systems.

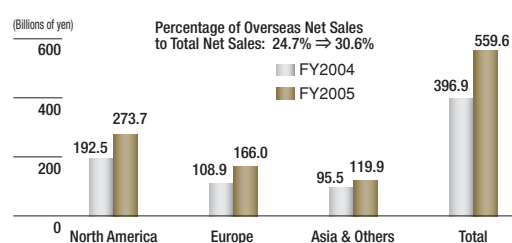
Net Sales by Product Segment



Analysis of Net Sales



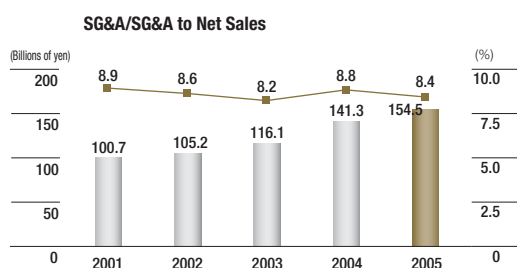
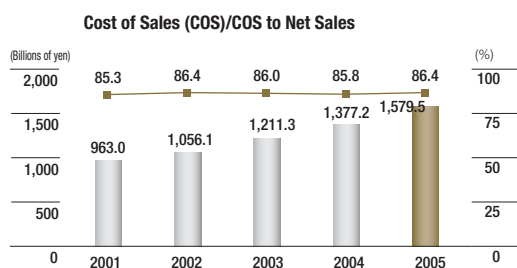
Overseas Net Sales



Cost of Sales and Selling, General and Administrative Expenses

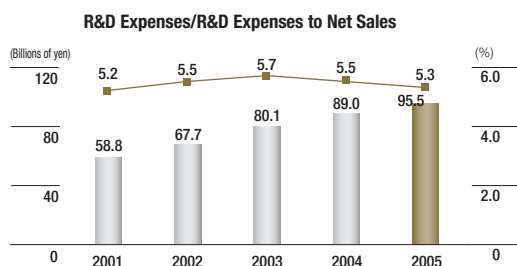
Despite efforts to streamline and raise efficiency in all areas of operations through cost reductions and other measures, the ratio of cost of sales to net sales rose from 85.8% to 86.4% as a result of rising prices of raw materials as well as higher depreciation and amortization and additional increases in such expenses as expenses associated with the introduction of new products.

Selling, general and administrative (SG&A) expenses rose 9.3% from ¥141,323 million to ¥154,469 million (US\$1,438 million) in accordance with an increase in expenses as outlined above as well as such proportional expenses as packaging and shipping and product repair expenses. The ratio of SG&A expenses to net sales edged down from 8.8% to 8.4%.



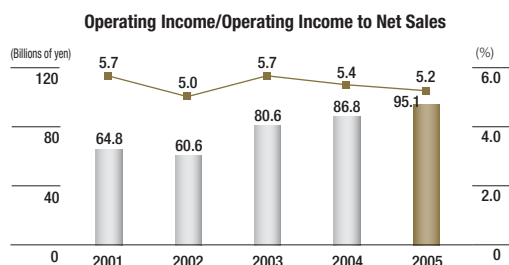
R&D Expenses

R&D expenses, which include SG&A expenses and manufacturing costs, totaled ¥89,076 million and ¥95,545 million (US\$890 million) in fiscal 2004 and 2005, respectively. Moreover, the ratio of R&D expenses to net sales for both terms were 5.5% and 5.3%, respectively.



Operating Income

As a result of the above factors, operating income rose 9.6% to ¥95,111 million (US\$886 million), while the ratio of operating income to net sales was 5.2%.



Non-operating Income (Expenses)

Compared with non-operating expenses in the previous term of ¥2,114 million, consolidated non-operating income for the fiscal year under review was ¥3,347 million (US\$31 million). For the term, AISIN recorded a loss on disposal of property, plant and equipment of ¥4,677 million (US\$44 million) compared with ¥3,483 million in the previous term, as well as the introduction of provision for allowance for retirement and severance benefits for directors and corporate auditors in the previous year of ¥1,132 million on account of internal reforms. Despite these losses, an increase in non-operating income was the result of lower foreign exchange rate losses of ¥699 million (US\$7 million) compared with ¥1,281 million in the previous term, as well as a dramatic increase in investment profit on equity method from ¥2,691 million to ¥5,548 million (US\$52 million).

Extraordinary Losses

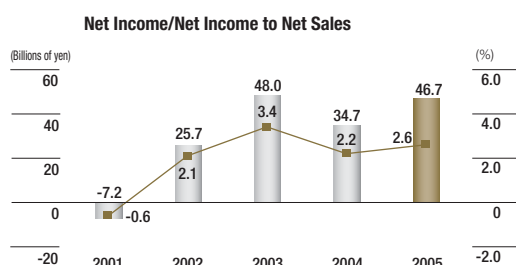
An extraordinary loss of ¥5,728 million (US\$54 million) was recorded from the application of fixed asset impairment accounting standards.

Minority Interest in Net Income of Consolidated Subsidiaries

Minority interest in net income of consolidated subsidiaries increased 9.4% to ¥14,534 million (US\$135 million) following an increase in profits at overseas consolidated subsidiaries.

Net Income

As a result of the above performance, net income jumped 34.6% to ¥46,719 million (US\$435 million), while the ratio of net income to net sales was 2.6%.



Overview of Cash Flows

For the fiscal year under review, cash flows provided by operating activities rose to ¥142,676 million, cash flows used in investing activities increased to ¥174,818 million and cash flows provided by financing activities decreased to ¥22,305 million. Consequently, cash and cash equivalents at end of year decreased 7.8%, or ¥9,813 million, to ¥116,401 million (US\$1,084 million) compared with ¥126,214 million in the previous term.

Cash Flows from Operating Activities

Net cash provided by operating activities increased 7.4%, or ¥9,777 million, to ¥142,676 million (US\$1,329 million). This was attributable to an increase of ¥15,395 million in income before income taxes and minority interest as well as an increase of ¥8,405 million in depreciation and amortization offsetting a decrease in cash of ¥17,710 million on account of a rise in inventories.

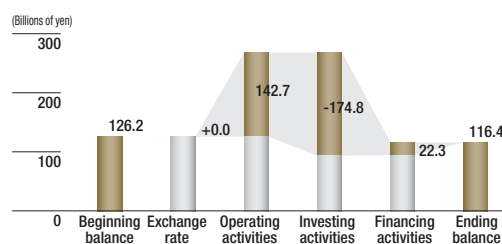
Cash Flows from Investing Activities

Net cash used in investing activities rose 8.7% to ¥174,818 million (US\$1,628 million). The chief reason was an increase in cash of ¥14,742 million from payments for purchase of property, plant and equipment.

Cash Flows from Financing Activities

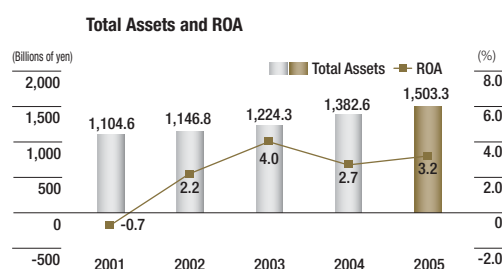
Net cash provided by financing activities decreased by 49.6% to ¥22,305 million (US\$208 million). This decrease was largely proceeds from sales of treasury stocks of ¥1,405 million (US\$13 million), attributable to a decrease in proceeds from long-term debt of ¥29,391 million.

Cash Flows



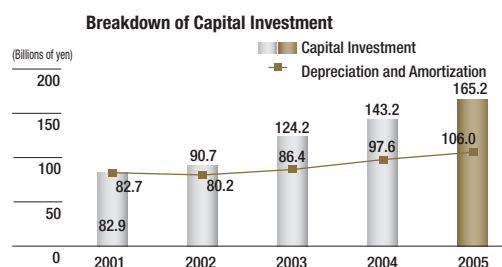
Financial Position

Total assets rose 8.7% to ¥1,503,314 million (US\$13,999 million) as a result of expanded business activities. Total liabilities rose 8.4% to ¥804,868 million, minority interest in consolidated subsidiaries increased 9.0% to ¥145,693 million and total shareholders' equity improved 9.2% to ¥552,753 million.



Capital Investment

Capital investment, net increased 15.4% to ¥165,289 million as a result of investment in new products and product investments to accommodate new car models, bolster productive capacity domestically and abroad, streamline production facilities and reinforce research and development of new technologies and products.



Future Outlook

Net sales for the fiscal year ending March 31, 2006 are projected to rise 9.3% to ¥2,000,000 million owing to increased sales of ATs.

While a rise in depreciation and amortization is expected,

operating income is projected to increase 5.1% to ¥100,000 million, along with an 1.6% increase in ordinary income to ¥100,000 million and a 2.2% increase in net income to ¥47,000 million.

Risk

Detailed below are the risks that can potentially impact performance and the financial position of AISIN.

Any forward-looking statements mentioned herein reflect estimates as of April 27, 2005.

(1) Economic Trends

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

Group operations are also vulnerable indirectly 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 Group sales of the same types of products since competitors can provide competitively priced products.

(2) Supply of Raw Materials and Components

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

(3) Degree of Dependency on Specific Customers

AISIN chiefly produces and sells automotive parts and life related products, with its mainstay Automotive Parts and Systems Business focusing on the sale of OEM products to domestic and overseas automobile and automotive parts manufacturers. Among these customers, AISIN has the highest level of dependence on Toyota Motor Corporation and the Toyota Group, with sales totaling ¥1,219,281 million (US\$11,354 million) and representing 66.7% of AISIN's net sales. For that reason, sales trends within Toyota

and the Toyota Group have the potential to negatively impact the Group's performance and financial position. As of March 31, 2005, the portion of AISIN voting shares held by Toyota directly were 23.2%, and indirectly were 0.1%.

(4) Impact of Exchange Rate Fluctuations

AISIN has worked to bolster its marketability in domestic markets and aggressively pursue the cultivation of overseas markets in North America, Europe and Asia and other regions, to the extent that the percentage of overseas net sales to total net sales was 30.6% as of March 31, 2005.

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 Group sales) may adversely impact AISIN 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 and potentially have a negative impact on the Group's performance and financial position. AISIN is working to minimize the negative impact of short-term fluctuations among various currencies, including the U.S. dollar, the euro and yen, through currency hedge transactions. However, exchange rate fluctuations may have the potential to negatively impact the Group's performance and financial position when planned procurement, manufacturing, logistics and marketing activities are delayed due to medium- and long-term fluctuations.

(5) Business Inroads in Overseas Markets

AISIN has subsidiaries and affiliates in such varying areas as North America, Europe and Asia, and aims to expand the scale of existing companies as well as establish new companies through aggressive promotion of business globalization.

Expanding businesses in overseas markets entails the risks

listed below, and may have the potential to negatively impact the Group's performance and financial position when they occur.

1. Unanticipated laws and regulations and changes to the tax system unfavorable to business
2. Negative effects on Group activities due to underdeveloped social overhead capital (infrastructure)
3. Occurrence of unfavorable governmental issues or economic conditions
4. Difficulties in hiring and retaining staff
5. Social upheaval due to terrorism, war and other factors

(6) Product Development Capabilities

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 marketing and sales of cutting-edge products.

1. There is no guarantee that the necessary funds and resources for investment in new products and technologies will be sufficiently available.
2. There is no guarantee that long-term and substantial investment will produce successful new products and technologies.
3. 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.
4. There is no guarantee that new products and technologies will be protected as intellectual property.
5. Rapid advances in technology and changes in market needs may make AISIN's products obsolete.
6. Delays in commercialization of technologies under development may not keep pace with trends in market demand.

The inability to sufficiently anticipate changes in the industry as well as develop and release attractive new products in a timely manner due to the above risks could hamper future growth and profitability and have a negative impact on the Group's performance and financial position.

(7) Product Defects

AISIN is fully committed to building high-quality, attractive products that meet customer needs based on "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 adversely impact the Group'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 in the Chubu region of Japan. Consequently, a large-scale earthquake in the Chubu region or other event that halts operations could negatively impact the Group's performance and financial position.