

## Financial Section

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# 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).

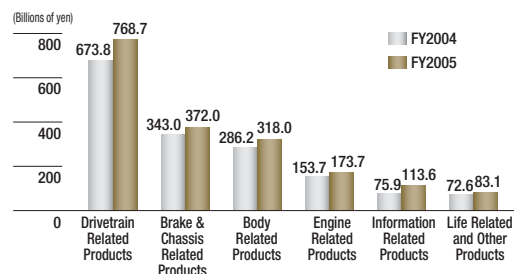
## Results of Operations

### Sales

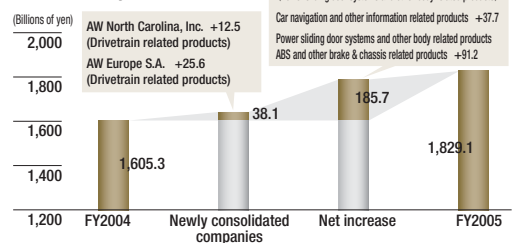
In the fiscal year under review, net sales were ¥1,829,065 million (US\$17,032 million). By business segment, sales in the Automotive Parts and Systems Business increased 13.9% from ¥1,532,634 in the previous fiscal year to ¥1,745,979 million (US\$16,258 million). Sales in the life related products segment 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.

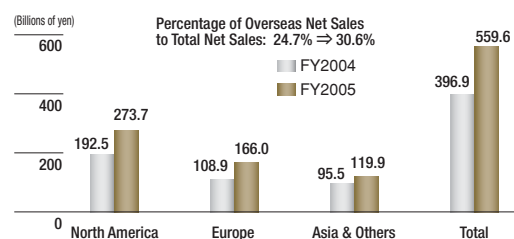
Net Sales by Product Segment



Analysis of Net Sales



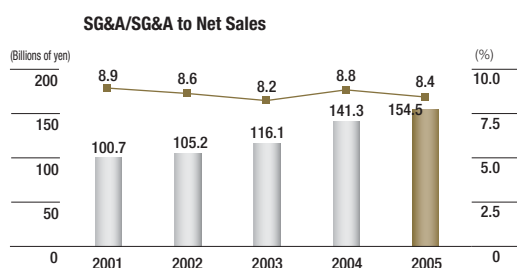
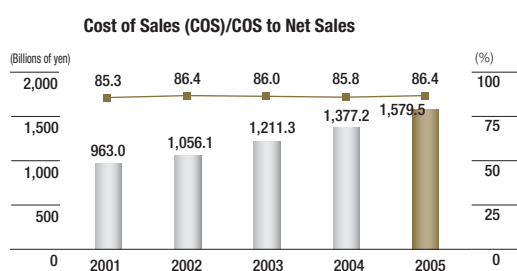
Overseas Net Sales



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

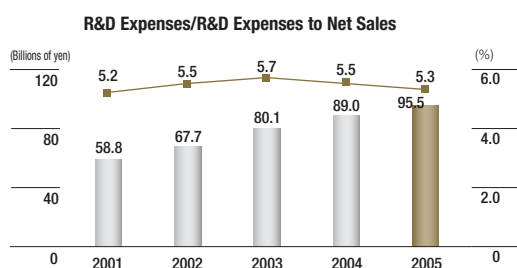
Despite efforts to streamline and raise efficiency in all areas of operations through cost reductions and other measures, the ratio of cost of sales to net sales rose from 85.8% to 86.4% as a result of rising prices of raw materials as well as higher depreciation and amortization and additional increases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



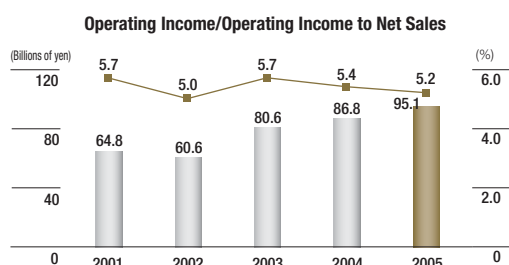
### R&D Expenses

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

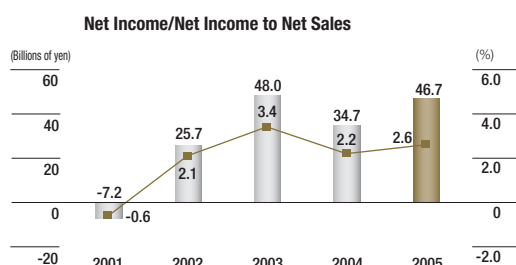
An extraordinary loss of ¥5,728 million (US\$54 million) was recorded from the application of fixed asset impairment accounting standards.

### 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.

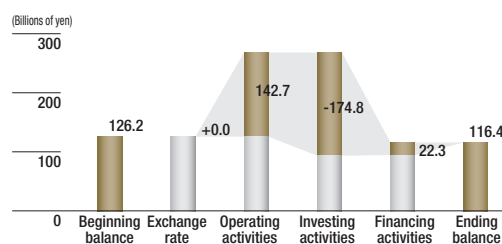
#### Cash Flows from Investing Activities

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.

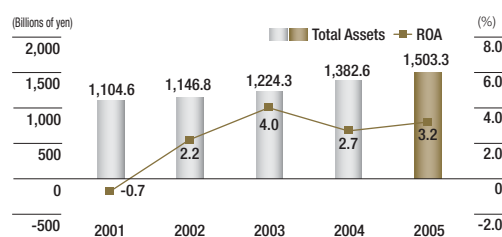
### Cash Flows



### 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.

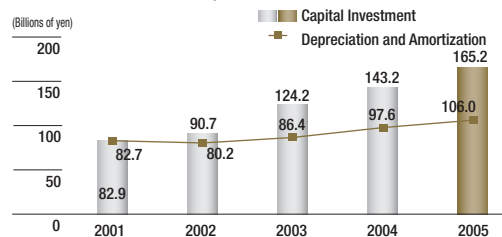
### Total Assets and ROA



### 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.

### Breakdown of Capital Investment



## 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.

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## Risk

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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.

## Consolidated Six-year Financial Summary

AISIN SEIKI CO., LTD. and Its Consolidated Subsidiaries  
Years ended March 31

	Millions of Yen					
	2000	2001	2002	2003	2004	2005
Net Sales	¥ 1,000,643	¥ 1,128,484	¥ 1,221,916	¥ 1,408,013	¥ 1,605,252	<b>¥ 1,829,065</b>
Domestic Sales	847,409	904,041	968,878	1,103,980	1,208,312	<b>1,269,497</b>
Overseas Sales	153,234	224,443	253,038	304,033	396,940	<b>559,568</b>
Operating Income	50,795	64,816	60,644	80,601	86,768	<b>95,111</b>
Net Income (Loss)	17,979	(7,231)	25,652	47,994	34,719	<b>46,719</b>
Total Assets	928,919	1,104,642	1,146,820	1,224,311	1,382,585	<b>1,503,314</b>
Shareholders' Equity	362,395	414,672	431,872	428,602	506,261	<b>552,753</b>
Common Stock	41,140	41,140	41,140	41,140	45,049	<b>45,049</b>
Capital Expenditures	84,750	80,853	81,259	115,355	147,586	<b>162,328</b>
Depreciation and Amortization	82,342	82,651	80,239	86,350	97,564	<b>105,969</b>
R&D Expenses	53,086	58,831	67,665	80,075	89,076	<b>95,545</b>
Return on Equity (ROE)	5.4%	(1.9%)	6.1%	11.2%	7.4%	<b>8.8%</b>

Per Share of Common Stock	Yen					
	2000	2001	2002	2003	2004	2005
Net Income (Loss) - Basic	¥ 64.36	¥ (25.89)	¥ 90.23	¥ 171.98	¥ 126.11	<b>¥ 159.94</b>
Net Income - Diluted	61.00	—	85.31	161.28	118.38	<b>159.77</b>
Shareholders' Equity	1,297.11	1,484.53	1,530.50	1,612.96	1,771.12	<b>1,928.58</b>
Cash Dividends	12.00	12.00	13.00	15.00	18.00	<b>24.00</b>
Average Number of Shares (in thousands)	279,365	279,329	279,322	273,747	267,404	<b>285,807</b>
Equity to Assets Ratio	39.0%	37.5%	37.7%	35.0%	36.6%	<b>36.8%</b>
Number of Employees	32,860	36,343	40,234	44,132	47,616	<b>53,237</b>

Notes: 1. Income per share of common stock is calculated by dividing net income by the weighted-average number of shares outstanding during the reported period, and shareholders' equity per share of common stock is calculated based on the number of shares outstanding at year end.

2. The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥107.39=US\$1.00.

3. Scope of consolidation for the fiscal year ended March 31, 2005

Consolidated Subsidiaries: (Total 122 Companies)

- Aisin Takaoka Co., Ltd.
- Aisin Chemical Co., Ltd.
- Aisin AW Co., Ltd.
- Aisin Sales Co., Ltd.
- Aisin Keikinzo Co., Ltd.
- Aisin Shinwa Co., Ltd.
- Aisin Development Co., Ltd.
- Aisin Kiko Co., Ltd.
- Aisin AI Co., Ltd.
- Aisin Sin'ei Co., Ltd.
- Aisin AW Industries Co., Ltd.
- Advics Co., Ltd.
- Hosei Brake Industries Co., Ltd.
- Aisin World Corp. of America
- Aisin U.S.A. Mfg., Inc.
- Aisin Electronics, Inc.
- Aisin Drivetrain, Inc.
- Aisin Automotive Casting, Inc.
- Aisin Europe S.A.
- Aisin Europe Manufacturing (UK) Ltd.
- Elite Sewing Machine Mfg. Co., Ltd.
- and others

Affiliates Accounted Under the Equity Method (Total 14 Companies)

- Exedy Corporation
- Cataler Corporation and others

4. The number of consolidated subsidiaries and affiliates accounted for under the equity method is as follows.

	2000	2001	2002	2003	2004	2005
Consolidated Subsidiaries	49	89	102	106	114	<b>122</b>
Affiliates under the equity method	7	13	15	14	14	<b>14</b>

## Consolidated Balance Sheets

AISIN SEIKI CO., LTD. and Its Consolidated Subsidiaries  
March 31, 2005 and 2004

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥ 116,401	¥ 126,214	\$ 1,084
Short-term investments	14,857	12,706	138
Trade notes and accounts receivable	285,894	257,028	2,662
Inventories (Note 7)	122,461	99,518	1,140
Deferred tax assets (Note 18)	35,921	36,555	335
Other current assets	27,038	24,151	252
Less: allowance for doubtful accounts (Note 4)	(690)	(1,109)	(6)
<b>Total current assets</b>	<b>601,882</b>	<b>555,063</b>	<b>5,605</b>
<b>Investments and other assets:</b>			
Investments in securities (Notes 5, 6, 8)	215,953	188,971	2,011
Long-term loans	4,246	4,440	39
Deferred tax assets (Note 18)	22,031	21,806	205
Other	32,614	31,354	304
Less: allowance for doubtful accounts (Note 4)	(628)	(602)	(6)
<b>Total investments and other assets</b>	<b>274,216</b>	<b>245,969</b>	<b>2,553</b>
<b>Property, plant and equipment, at cost:</b>			
Land	82,258	76,709	766
Buildings and structures	409,857	393,913	3,817
Machinery and equipment	1,255,932	1,171,566	11,695
Construction in progress	36,353	40,848	338
Total property, plant and equipment	1,784,400	1,683,036	16,616
Less : accumulated depreciation (Note 4)	(1,157,184)	(1,101,483)	(10,775)
Net property, plant and equipment (Note 8)	627,216	581,553	5,841
<b>Total fixed assets</b>	<b>901,432</b>	<b>827,522</b>	<b>8,394</b>
<b>Total assets</b>	<b>¥1,503,314</b>	<b>¥ 1,382,585</b>	<b>\$ 13,999</b>

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
<b>LIABILITIES, MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 15)	¥ 58,779	¥ 53,028	\$ 547
Trade notes and accounts payable	262,655	241,526	2,446
Current portion of bonds payable (Note 15)	—	5,000	—
Accounts payable	41,424	37,759	386
Accrued expenses	106,470	104,147	991
Accrued income taxes	21,419	19,167	199
Deposits received from employees	16,964	16,691	158
Accrued warranty cost	11,716	11,422	109
Other current liabilities	12,185	4,555	114
<b>Total current liabilities</b>	<b>531,612</b>	493,295	<b>4,950</b>
<b>Long-term liabilities:</b>			
Bonds payable (Note 15)	25,650	25,650	239
Long-term debt (Note 15)	129,768	104,320	1,208
Allowance for employee retirement benefits (Notes 4, 16)	75,021	73,529	699
Allowance for retirement and severance benefits for directors and corporate auditors	6,944	4,856	65
Long-term accrued expenses	9,415	17,253	88
Deferred tax liabilities (Note 18)	26,458	23,787	246
Commitments and contingent liabilities (Note 9)			
<b>Total long-term liabilities</b>	<b>273,256</b>	249,395	<b>2,545</b>
<b>Total liabilities</b>	<b>804,868</b>	742,690	<b>7,495</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>145,693</b>	133,634	<b>1,357</b>
<b>Shareholders' equity (Note 21):</b>			
Common stock, no par value:			
Authorized: 700,000,000 shares			
Issued: 294,674,634 shares in 2005 and 2004	45,049	45,049	419
Capital surplus	63,061	62,927	587
Retained earnings	392,836	352,591	3,658
Net unrealized gain on available-for-sale securities	66,597	60,140	620
Foreign currency translation adjustments	(11,674)	(10,091)	(109)
Less: treasury stock, at cost	(3,116)	(4,355)	(28)
<b>Total shareholders' equity</b>	<b>552,753</b>	506,261	<b>5,147</b>
<b>Total liabilities, minority interest in consolidated subsidiaries and shareholders' equity</b>	<b>¥ 1,503,314</b>	¥ 1,382,585	<b>\$ 13,999</b>

## Consolidated Statements of Income

AISIN SEIKI CO., LTD. and Its Consolidated Subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Net sales (Notes 19, 20)	<b>¥1,829,065</b>	¥ 1,605,252	<b>\$ 17,032</b>
Cost of sales	<b>1,579,485</b>	1,377,161	<b>14,708</b>
<b>Gross profit</b>	<b>249,580</b>	228,091	<b>2,324</b>
Selling, general and administrative expenses	<b>154,469</b>	141,323	<b>1,438</b>
<b>Operating income</b>	<b>95,111</b>	86,768	<b>886</b>
Non-operating income			
Interest and dividend income	<b>2,510</b>	2,388	<b>23</b>
Other	<b>14,676</b>	10,916	<b>137</b>
Total non-operating income	<b>17,186</b>	13,304	<b>160</b>
Non-operating expenses			
Interest expense	<b>2,337</b>	2,394	<b>22</b>
Other	<b>11,502</b>	13,024	<b>107</b>
Total non-operating expenses	<b>13,839</b>	15,418	<b>129</b>
<b>Ordinary income</b>	<b>98,458</b>	84,654	<b>917</b>
Extraordinary losses			
Recognized actuarial loss on employee pension fund	—	7,319	—
Impairment loss of fixed assets (Notes 11, 12)	<b>5,728</b>	—	<b>54</b>
<b>Income before income taxes and minority interest</b>	<b>92,730</b>	77,335	<b>863</b>
Income taxes—current	<b>32,609</b>	30,442	<b>304</b>
Income taxes—deferred	<b>(1,132)</b>	(1,105)	<b>(11)</b>
<b>Less, minority interest in net income of consolidated subsidiaries</b>	<b>(14,534)</b>	(13,279)	<b>(135)</b>
<b>Net income</b>	<b>¥ 46,719</b>	¥ 34,719	<b>\$ 435</b>

	Yen		U.S. Dollars
	2005	2004	2005
<b>Per share:</b>			
Net income			
Basic	<b>¥ 159.94</b>	¥ 126.11	<b>\$ 1.49</b>
Diluted	<b>159.77</b>	118.38	<b>1.49</b>
Cash dividends	<b>24.00</b>	18.00	<b>0.22</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

AISIN SEIKI CO., LTD. and Its Consolidated Subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
<b>Common stock:</b>			
Balance at beginning of year	¥ 45,049	¥ 41,140	\$ 419
Increases in capital	—	3,909	—
Balance at end of year	45,049	45,049	419
<b>Capital surplus:</b>			
Balance at beginning of year	62,927	59,023	586
Increases in additional paid-in capital	—	3,904	—
Gain from disposal of treasury stocks	134	—	1
Balance at end of year	63,061	62,927	587
<b>Retained earnings:</b>			
Balance at beginning of year	352,591	325,521	3,283
Net income	46,719	34,719	435
Cash dividends	(5,623)	(4,339)	(52)
Bonus to directors and corporate auditors	(851)	(967)	(8)
Loss on reissuance of treasury stocks	—	(2,343)	—
Balance at end of year	392,836	352,591	3,658
<b>Net unrealized gain on available-for-sale securities</b>	<b>66,597</b>	60,140	<b>620</b>
<b>Foreign currency translation adjustments</b>	<b>(11,674)</b>	(10,091)	<b>(109)</b>
<b>Treasury stock at end of year</b>	<b>(3,116)</b>	(4,355)	<b>(28)</b>
<b>Total shareholders' equity at end of year</b>	<b>¥ 552,753</b>	¥ 506,261	<b>\$ 5,147</b>

	Thousands of Shares	
	2005	2004
<b>Number of shares issued:</b>		
Balance at beginning of year	294,675	289,230
Increase by converting convertible bonds	—	5,445
Balance at end of year	294,675	294,675

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Cash Flows

AISIN SEIKI CO., LTD. and Its Consolidated Subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interest	¥ 92,730	¥ 77,335	\$ 863
Adjustment for:			
Depreciation and amortization	105,969	97,564	987
Impairment loss of fixed assets	5,728	—	53
Increase in allowance for retirement benefits	1,492	2,323	14
Increase in allowance for retirement and severance benefits for directors and corporate auditors	2,088	126	19
Interest and dividend income	(2,510)	(2,388)	(23)
Interest expenses	2,337	2,394	22
Investment profit on equity method	(5,548)	(2,691)	(52)
Loss on disposal of property, plant and equipment	4,677	3,373	44
Increase in trade notes and accounts receivable	(29,545)	(18,416)	(275)
Increase in inventories	(23,116)	(5,406)	(215)
Increase in trade notes and accounts payable	20,040	26,599	187
Decrease (Increase) in prepaid pension expense	108	(9,394)	1
Decrease in long-term accrued expenses	(7,838)	(7,761)	(73)
Others	7,107	962	66
Subtotal	173,719	164,620	1,618
Interest and dividend income received	2,933	2,802	27
Interest paid	(2,411)	(2,319)	(22)
Income taxes paid	(31,565)	(32,204)	(294)
<b>Net cash provided by operating activities</b>	<b>142,676</b>	<b>132,899</b>	<b>1,329</b>
<b>Cash flows from investing activities:</b>			
Decrease in time deposit and short-term investments	(3,437)	(3,254)	(32)
Payments for purchase of property, plant and equipment	(162,328)	(147,586)	(1,512)
Proceeds from sales of property, plant and equipment	5,364	4,415	50
Payments for purchase of investments in securities	(13,147)	(9,057)	(123)
Payments for acquisition of subsidiaries' stock resulting in change in scope of consolidation	(35)	(6,949)	0
Proceeds of acquisition of subsidiaries' stock resulting in change in scope of consolidation	320	—	3
Proceeds of sales of investments in securities	1,253	2,446	12
Proceeds of redemption at maturity of investments in securities	2,329	3,763	22
Increase in loans	(637)	(686)	(6)
Decrease in loans	750	1,544	7
Others	(5,250)	(5,434)	(49)
<b>Net cash used in investing activities</b>	<b>(174,818)</b>	<b>(160,798)</b>	<b>(1,628)</b>
<b>Cash flows from financing activities:</b>			
Increase (Decrease) in short-term borrowings	2,318	(11,073)	22
Proceeds from long-term debt	32,687	62,078	304
Repayments of long-term debt	(2,171)	(7,399)	(20)
Proceeds from issuance of bonds payable	—	10,650	—
Repayments of bonds payable	(5,000)	(5,037)	(47)
Contributions from minority shareholders	1,036	1,014	10
Cash dividends paid	(5,621)	(4,339)	(52)
Cash dividends paid to minority shareholders	(2,319)	(1,652)	(22)
Proceeds from sales of treasury stocks	1,405	—	13
Payments for purchase of treasury stocks	(30)	(18)	0
Others	—	0	—
<b>Net cash provided by used in financing activities</b>	<b>22,305</b>	<b>44,224</b>	<b>208</b>
<b>Translation adjustment of cash and cash equivalents</b>	<b>24</b>	<b>(1,843)</b>	<b>0</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(9,813)</b>	<b>14,482</b>	<b>(91)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>126,214</b>	<b>111,732</b>	<b>1,175</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 116,401</b>	<b>¥ 126,214</b>	<b>\$ 1,084</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

AISIN SEIKI CO., LTD. and Its Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by AISIN SEIKI CO., LTD. ("Aisin Seiki") and its subsidiaries (together, "AISIN") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from consolidated financial statements prepared by Aisin Seiki as required by the Securities and Exchange Law of Japan and submitted to the Director of Kanto Finance Bureau of Japan.

## 2. Yen and U.S. Dollar Amounts

All yen figures have been rounded to millions of yen. Amounts in United States dollars included herein are solely for convenience. The translation should not be construed as representations that Japanese yen have been, could have been, or may in the future be, converted into United States dollars. The exchange rate at March 31, 2005 of ¥107.39=US\$1 has been used in the translation.

## 3. Reclassification

Certain comparative figures have been reclassified to conform with the current year's presentations.

## 4. Summary of Significant Accounting Policies

### (1) Principles of Consolidation

The consolidated financial statements include the accounts of Aisin Seiki and all of its subsidiaries, 122 subsidiaries (58 domestic subsidiaries and 64 overseas subsidiaries) in 2005 and 114 subsidiaries (58 domestic subsidiaries and 56 overseas subsidiaries) in 2004. For the year ended March 31, 2005, 9 subsidiaries were newly added to and 1 was excluded from the scope of consolidation. All significant intercompany accounts and transactions and unrealized profit among the companies, if any, have been eliminated in consolidation.

Most Aisin Seiki's overseas subsidiaries close their books at December 31 every year, three months earlier than Aisin Seiki. For the year ended March 31, 2004, Aisin Seiki consolidated 15 months results of eight consolidated companies including Aisin Sales Co., Ltd. and Aisin Kiko Co., Ltd. because they changed their closing date from December 31 to March 31. Aisin Seiki consolidated 14 months results of six consolidated companies including Aisin Sin'ei Co., Ltd. and Konan Kogyo Co., Ltd. because they changed their closing date from January 31 to March 31. And Aisin Seiki consolidated 13 months results of 16 consolidated companies including Aisin Takaoka Co., Ltd. and Aisin AW Industries Co., Ltd. because they changed their closing date from February 28 to March 31.

Since the fiscal year of 2005, four consolidated subsidiaries including AW North Carolina, Inc. and AW Europe S.A. changed their fiscal year end from December 31 to March 31, and Aisin Seiki

consolidated their 15 months results. Overseas subsidiaries adopt accounting principles generally accepted in their respective countries, and no adjustments to conform with accounting principles generally accepted in Japan have been made to their financial statements on consolidation, as allowed under accounting principles and practices generally accepted in Japan.

Goodwill is amortized over 5 years from occurred period. In case where the amount is not significant, it is charged to income as incurred. Assets and liabilities of consolidated subsidiaries are revalued at their fair value as of the date of acquisition of the control based on the full fair value method.

## (2) Investments in Affiliates

The investments in all affiliates (14 companies in 2005, 14 companies in 2004) are accounted for under the equity method.

## (3) Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, all highly liquid debt instruments with an original maturities of three months or less are considered as cash equivalents.

## (4) Financial Instruments

### (a) Securities

AISIN does not have trading securities, which are held for the purpose of generating profits on short-term differences in prices or held-to-maturity debt securities, that AISIN has intent to hold to maturity. Other securities with readily determinable fair values are available are stated at fair value.

Net unrealized gains or losses on these securities are included in "Net unrealized gain on available-for-sale securities" as a separate item in the shareholders' equity at a net-of-tax amount. Gains and losses on disposition of such securities are computed by the moving average method.

Other securities without readily determinable fair values are stated at cost, as computed by moving average method.

### (b) Derivatives

All derivatives, except for hedging instruments, are stated at fair value, with change in fair value included in net profit or loss for the period in which they arise.

The derivatives designated as hedging instruments by AISIN are principally interest swaps and forward exchange contracts.

The related hedged items are trade accounts receivable, loans, securities and long-term debt. AISIN has a policy to utilize the above hedging instruments in order to reduce the exposure to the risk of interest rate and exchange rate fluctuation. Thus, AISIN's purchase of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

AISIN evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

#### **(5) Inventories**

Finished products, work in process and supplies (excluding steel supplies and fuel) are mainly stated at cost, as determined by the periodic average method. Raw materials, steel supplies and fuel are mainly stated at the lower of cost, as determined by the last-in, first-out method, or market.

#### **(6) Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation is computed mainly by the declining balance method at rates based on the useful lives and residual values of the assets stipulated by the tax law in Japan. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

#### **(7) Accounting Standard for Impairment of Fixed Assets**

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets", and on October 31, 2003, the Accounting Standards Board of Japan issued "ASB Guidance for the Impairment Accounting". These standard and guidance require that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use. Aisin Seiki and consolidated subsidiaries adopted these standards effective for the fiscal year ended March 31, 2005. As a result of the adoption, income before income taxes and minority interest decreased ¥2,799 million.

The accumulated impairment losses have been directly deducted from applicable assets.

#### **(8) Accounting for Finance Lease**

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Company and its domestic consolidated subsidiaries is not capitalized and the relating rental and lease expenses are charged to income as incurred.

#### **(9) Allowance for Employee Retirement Benefits**

AISIN accrues amount which is considered to be incurred in the period based on the estimated projected benefit obligations and estimated pension assets at the end of year. On March 16, 2005, "Partial Amendment of Accounting Standard for Retirement Benefits" and "Guideline for Partial Amendment of Accounting Standard for Retirement Benefits" were issued. AISIN adopted these standards for the fiscal year ended March 31, 2005, as they are permitted an early adoption. Pursuantly, operating income, ordinary income, and income before income taxes and minority interest increased ¥290 million, respectively. The impact on Segment Information has been disclosed in applicable section.

#### **(10) Allowance for Retirement and Severance Benefits for Directors and Corporate Auditors**

AISIN provide for the accrued cost of retirement benefits payable to directors and corporate auditors at an amount equivalent to 100 per cent of such benefits for which AISIN would be required to pay on the directors' retirement benefit rule.

#### **(11) Allowance for Doubtful Accounts**

Allowance for doubtful accounts has been provided for at the aggregate amount of estimated credit loss for doubtful or troubled receivables and a general reserve for other receivables calculated based on the historical loss experience for a certain past period.

#### **(12) Accrued Warranty Cost**

Accrued warranty cost has been provided for at the aggregate amount of estimated claim incurred in warranty period based on historical experience.

#### **(13) Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

#### **(14) Translation of Financial Statements of Consolidated Foreign Subsidiaries and Affiliates**

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese Yen at the exchange rates at the fiscal year-end.

Transactions in foreign currencies are recorded based on the prevailing exchange rates on the transaction dates. Resulting translation gains or losses are included in the current earnings.

In respect of the financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese Yen by applying the exchange rates in effect at the fiscal year-end.

Translation differences, after allocating to minority interest for portions attributable to minority interest, are reported as foreign currency translation adjustments in a separate component of shareholders' equity in the accompanying consolidated balance sheets. Since this fiscal year, revenues and expenses of consolidated foreign subsidiaries and affiliates accounted for under equity method have been translated at the average exchange rates, although they used to be translated at year-end current exchange rates. This change enables AISIN to reflect quarterly exchange rates' fluctuation to the consolidated financial statements more accurately, under the circumstances that the number of consolidated foreign subsidiaries and affiliates and volume of their transactions have

been increasing, and the quarterly financial information have been required to release.

As a result of this change, net sales and income before income taxes and minority interest increased ¥9,188 million and ¥197 million, respectively.

The impact on Segment Information has been disclosed in applicable section.

### (15) Appropriation of Retained Earnings

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

### (16) Per Share Data

Basic net income per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the respective years. Diluted net income per share is computed assuming convertible bonds were converted at the time of issue unless having anti-dilutive effects and as if warrants or stock options were exercised at the beginning of the relevant year or (if later) on their first exercise date and as if the funds obtained thereby were used to purchase common stock at the average market price during the respective years under the treasury stock method.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared by Aisin Seiki as applicable to the respective years.

### (17) Contribution to Limited Partnership for Investment

Since this fiscal year AISIN classifies limited partnership for investment as "Investments in securities" in "Investments and other assets". This is in compliance with "Partial Amendment of Securities and Exchange Law", enacted December 1, 2004, where contribution to limited partnership for investment is defined as securities.

The contribution had been classified as "Others" in "Investments and other assets" until the year ended March 31, 2004. The amounts of these investments as of March 31, 2004 and 2005 were ¥274 million and ¥253 million, respectively.

## 5. Marketable Securities

Marketable investment securities are classified as other than trading or held-to-maturity, that is to say, available-for-sale securities, and are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the shareholders' equity account until realized.

As of March 31, 2005 and 2004, gross unrealized gains and losses for marketable securities included in short term investments and investments in securities are summarized as follows:

### Securities with Carrying Amounts Exceeding Acquisition Cost

	Millions of Yen		
	2005		
	Cost	Fair and Carrying Value	Unrealized Gains
(1) Stocks	¥45,778	¥157,699	¥111,921
(2) Bonds			
Government	7,676	7,715	39
Corporate	4,324	4,350	26
(3) Others	4,641	4,641	0
Total	¥62,419	¥174,405	¥111,986

### Securities with Acquisition Cost Exceeding Carrying Amounts

	Millions of Yen		
	2005		
	Cost	Fair and Carrying Value	Unrealized Losses
(1) Stocks	¥ 165	¥ 165	¥ (0)
(2) Bonds			
Government	3,600	3,600	(0)
Corporate	2,436	2,392	(44)
(3) Others	509	509	(0)
Total	¥ 6,710	¥ 6,666	¥ (44)
Grand Total	¥69,129	¥181,071	¥111,942

### Securities with Carrying Amounts Exceeding Acquisition Cost

	Millions of U.S. Dollars		
	2005		
	Cost	Fair and Carrying Value	Unrealized Gains
(1) Stocks	\$426	\$1,468	\$1,042
(2) Bonds			
Government	72	72	0
Corporate	40	41	1
(3) Others	43	43	0
Total	\$581	\$1,624	\$1,043

### Securities with Acquisition Cost Exceeding Carrying Amounts

	Millions of U.S. Dollars		
	2005		
	Cost	Fair and Carrying Value	Unrealized Losses
(1) Stocks	\$ 2	\$ 2	\$ (0)
(2) Bonds			
Government	33	33	(0)
Corporate	23	22	(1)
(3) Others	5	5	(0)
Total	\$ 63	\$ 62	\$ (1)
Grand Total	\$644	\$1,686	\$1,042

### Securities with Carrying Amounts Exceeding Acquisition Cost

	Millions of Yen		
	2004		
	Cost	Fair and Carrying Value	Unrealized Gains
(1) Stocks	¥45,287	¥146,205	¥100,918
(2) Bonds			
Government	6,975	7,046	71
Corporate	3,089	3,103	14
(3) Others	1,101	1,101	0
Total	¥56,452	¥157,455	¥101,003

### Securities with Acquisition Cost Exceeding Carrying Amounts

	Millions of Yen		
	2004		
	Cost	Fair and Carrying Value	Unrealized Losses
(1) Stocks	¥ 30	¥ 29	¥ (1)
(2) Bonds			
Government	600	599	(1)
Corporate	3,228	3,207	(21)
Others	211	211	(0)
(3) Others	842	842	(0)
Total	¥ 4,911	¥ 4,888	¥ (23)
Grand Total	¥61,363	¥162,343	¥100,980

### 6. Investments in Affiliates

The amounts of investments in affiliates included in investments in securities and other assets were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Investments in securities	¥40,042	¥28,322	\$373
Other Assets	378	—	4

### 7. Inventories

As of March 31, 2005 and 2004, inventories consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Finished products	¥ 56,473	¥47,633	\$ 526
Work in process	31,665	22,632	295
Raw materials and supplies	34,323	29,253	319
Total	¥122,461	¥99,518	\$1,140

### 8. Assets Pledged as Collateral

Assets pledged as collateral for short-term debt, long-term debt and guarantees as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Investments in securities	¥17,057	¥16,640	\$159
Property, plant and equipment (at net book value)	6,022	10,525	56
Other investments	3,554	1,022	33
Total	¥26,633	¥28,187	\$248

### 9. Contingent Liabilities

Total contingent liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Guarantee of Bank Loans of			
Employees	¥ 48	¥ 65	\$ 0
Others	1,929	1,750	18
Total	¥1,977	¥1,815	\$18

### 10. Research and Development Expenses

Our Research and Development Organizations are made of Corporate R&D Center and Engineering Department of each Division, and are proceeding development activities. Engineering Department is proceeding to progress current automobile parts and life & energy related products. Corporate R&D Center is developing forefront automotive technologies, products of new field for the future, and also proceeding new materials and manufacturing methods to assist these developments. Main subjects, which we are paying the most attention on are electronics, utilizing light materials, creating the suitable designing (small size, light weight), and so on. Research and development expenses included in general and administrative expenses and manufacturing costs for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Research and Development Expenses	¥95,545	¥89,076	\$890

### 11. Impairment Losses at Aisin Seiki and Domestic Consolidated Subsidiaries

AISIN has grouped assets similar to its business segments for the sake of applying asset impairment accounting.

However, leased, unused or other assets that are deemed to produce sustainable cash flows appear in a separate grouping based on Japanese impairment accounting.

Impairment losses were recorded for the year ended March 31, 2005 as follows:

Application	Type	Location
Factory Site	Land	Aichi Prefecture Hokkaido Iwate Prefecture

An extraordinary loss was recorded following an impairment loss of ¥2,799 million for the above factory sites, regarding which business plans, start dates and scale have yet to be determined, from the effects of reducing book value to a level deemed recoverable.

### 12. Impairment of Assets at Consolidated Subsidiary in the United States

A consolidated subsidiary in the United States has adopted and completed impairment tests under SFAS No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" for the impairment of the fixed assets. As a result, the consolidated subsidiary in the United States recorded impairment losses in the following asset groups.

Impairment losses were recorded for the year ended March 31, 2005 as follows:

Business to which applied	Asset category	Location
ABS (Antilock Brake Systems) business	Buildings and structures; machinery and equipment; tools, furniture and fixtures; land; intangible assets (other assets)	Ohio, U.S.A.

The consolidated subsidiary in the United States recognized indications of impairments in its ABS business in the United States resulting from an expected decline in future market share amid intensifying price competition with competitors. Consequently, the consolidated subsidiary in the United States reduced the real value of goodwill and other intangible assets to zero while writing down the carrying amounts of machinery and other fixed assets to recoverable amounts. The

consolidated subsidiary in the United States recorded these amounts as an extraordinary loss from asset impairments (¥2,929 million) at a consolidated subsidiary in the United States.

By asset category, the impairment amounts were ¥1,868 million for intangible assets (other assets), ¥809 million for machinery and equipment, ¥183 million for buildings and structures, ¥49 million for tools, furniture and fixtures, and ¥20 million for land.

### 13. Leases

The aggregate future minimum payments for finance leases and non-cancelable operating leases as of March 31, 2005 and 2004 were as follows:

#### (1) Finance leases (as lessee) other than those where ownership is considered to be transferred to the lessee

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Due within one year	¥2,179	¥2,235	\$20
Due after one year	3,769	3,943	35
Total	¥5,948	¥6,178	\$55
Lease Expenses for Fiscal Year	¥2,550	¥2,315	\$24

#### (2) Operating leases (as lessee)

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 971	¥ 973	\$ 9
Due after one year	2,036	2,813	19
Total	¥3,007	¥3,786	\$28

### 14. Derivatives

All derivatives are utilized for the hedge purpose of reducing its exposure to adverse fluctuations in interest rates and foreign exchange rates and accounted for under hedge accounting.

The trades of derivatives are limited by internal regulations.

### 15. Bonds Payable and Borrowings

Bonds payable as of March 31, 2005 and 2004 consisted of the following:

Issued by	Item	Millions of Yen		Millions of U.S. Dollars	Annual interest	Year of Due
		2005	2004	2005		
AISIN SEIKI	Unsecured Straight Bonds	¥15,000	¥15,000	\$140	2.65	2008
AISIN SEIKI	Unsecured Straight Bonds	10,000	10,000	93	0.965	2011
AISIN AW	Unsecured Straight Bonds	—	5,000	—	1.59	2004
AISIN CHEMICAL	Unsecured Straight Bonds	150	150	1	0.59	2006
AISIN SINWA	Unsecured Straight Bonds	500	500	5	0.19	2009
Total		¥25,650	¥30,650	\$239		

Borrowings as of March 31, 2005 and 2004 consisted of the following:

Item	Millions of Yen		Millions of U.S. Dollars	Annual interest	Year of Due
	2005	2004	2005		
Short-term borrowings	¥ 51,583	¥ 50,900	\$ 480	1.03%	
Current portion of long-term debt	7,196	2,128	67	1.11	
Long-term debt	129,768	104,320	1,208	0.84	2006-2020
Total	¥188,547	¥157,348	\$1,755		

Annual maturities of long-term debt are as follows:

	Millions of Yen	Millions of U.S. Dollars
Year ending March 31,		
2007	¥ 16,070	\$ 150
2008	4,063	38
2009	14,055	131
2010	21,646	202
2011 and thereafter	73,934	687
Total	¥129,768	\$1,208

## 16. Allowance for Employee Retirement Benefits

AISIN has defined benefit pension plans, defined contribution pension plans and lump-sum retirement benefit plans which substantially cover all employees. In October 2002, a defined contribution pension plans has been established in order to substitute a portion of defined benefit

pension plans that has been transferred to the government.

The following table reconciles the benefit obligations and net periodic retirement benefit expense as at or for the years ended March 31, 2005 and 2004.

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥ 189,082	¥ 182,224	\$ 1,761
Fair value of pension plan assets at end of year	(112,323)	(105,355)	(1,046)
Projected benefit obligation in excess of pension plan assets	76,759	76,869	715
Unrecognized prior service cost	14,907	17,002	139
Less, unrecognized actuarial loss	(27,926)	(34,340)	(260)
Unrecognized pension plan assets	296	2,905	3
Prepaid pension cost	10,985	11,093	102
Net amounts of employee retirement benefit Liability recognized on the consolidated balance sheets	¥ 75,021	¥ 73,529	\$ 699

Note: The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

Aisin Seiki and major 18 domestic consolidated subsidiaries applied the transitional treatment specified on paragraph 47-2 of Accounting Committee Report No.13 " Practical Guidelines of Accounting for Retirement Benefits (Interim Report)", issued by the Japanese Institute of Certified Public Accountants, and recognized an extinguishment of

retirement benefit obligation with respect to such entrusted government's portion as of the date of the approval.

The amount of pension plan assets equivalent to the amount returned to the government is ¥1,025 million as of March 31, 2004.

## 17. Contribution to New Pension Benefit Plan for Employees and Recognized Actuarial Loss on Employee Pension Fund

A part of Aisin Employee Pension Fund under joint trust in which 19 consolidated companies take part has been transferred to defined contribution plan based on approved by the government.

Aisin Seiki adopted Financial Accounting Standards Implementation Guidance No. 1 "Accounting for Transfers between retirement Benefit

Plans" issued by the Accounting Standard Board of Japan ("ASB") on January 31, 2002 and Report of Practical Issues No. 2 "Practical Treatment of Accounting for Transfers between Retirement Benefit Plans" issued by ASB on March 29, 2002.

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Component of net periodic retirement benefit expense:			
Service cost	¥10,021	¥ 9,668	\$ 93
Interest cost	3,550	3,467	33
Expected return on pension plan assets	(2,606)	(2,547)	(24)
Amortization of prior service cost	(2,239)	(2,286)	(21)
Recognized actuarial differences	3,848	5,598	36
Contribution to defined contribution plan	179	153	2
Net periodic retirements benefit expense	¥12,753	¥14,053	\$119
Return of the Substituted Portion of the Employee Pension Fund to the Government	—	7,319	—
Others	2,364	2,329	22
Total	¥15,117	¥23,701	\$141

On September 1, 2003, AISIN employees pension fund under joint trust, in which 22 consolidated companies take part, was approved to be transferred into AISIN corporate pension fund, based on the first paragraph of article 112 of the Contributed Benefit Pension Plan Law. On obtaining that approval, the remaining benefit obligation of substitutional portion, that amount earned by past services, and

accumulated assets associated with those benefits was transferred to the government on February 17, 2004.

As a result, AISIN recognized an actuarial loss of ¥7,319 million associated with the transfer of Substitutional Portion, which was reasonably estimated for the period from the approval date to the transfer date for the year ended March 31, 2004.

Major assumptions:

	2005	2004
Method attributing the projected benefits to periods of services	Point method	Point method
Discount rate	2.0%	2.0%
Expected return on pension plan assets	2.5~3.0%	2.4~3.0%
Amortization period of prior service cost	10 years	10 years
Amortization of unrecognized actuarial gains or losses	10 years	10 years

Note: Point method—AISIN charges to the current year periodic pension cost for the sum amount of, a) interest cost, b) service cost additionally earned as "point" that is predetermined amount with AISIN's policy.

## 18. Deferred Income Taxes

### (1) A Summary of the Components of Deferred Income Taxes

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
Deferred Tax Assets			
Allowance for employee retirement benefits	<b>¥30,295</b>	¥29,307	<b>\$282</b>
Accrued Expenses	<b>23,124</b>	21,562	<b>215</b>
Depreciation	<b>11,931</b>	10,754	<b>111</b>
Accrued Warranty Cost	<b>4,672</b>	4,521	<b>44</b>
Others	<b>22,315</b>	23,335	<b>208</b>
Deferred Tax Assets Sub-Total	<b>92,337</b>	89,479	<b>860</b>
Less valuation Allowance	<b>(4,837)</b>	(3,057)	<b>(45)</b>
Deferred Tax Assets Total	<b>87,500</b>	86,422	<b>815</b>
Deferred Tax Liabilities			
Unrealized gain on available-for-sale securities	<b>44,643</b>	40,271	<b>416</b>
Special Depreciation of Acquired Assets	<b>2,181</b>	2,491	<b>20</b>
Special Depreciation Reserves	<b>1,433</b>	614	<b>14</b>
Depreciation	<b>6,585</b>	6,930	<b>61</b>
Others	<b>1,163</b>	1,542	<b>11</b>
Deferred Tax Liabilities	<b>56,005</b>	51,848	<b>522</b>
Net Deferred Taxes	<b>¥31,495</b>	¥34,574	<b>\$293</b>

### (2) Reconciliation of the difference between Statutory Tax Rate and the Effective Income Tax Rate

	2005	2004
Statutory tax rate	<b>39.88%</b>	41.24%
(Adjustment)		
Tax exempt income	<b>(2.26)</b>	(2.25)
Non-deductible expenses	<b>0.63</b>	0.57
Decrease in deferred tax assets due to change of tax rate	<b>—</b>	1.21
Tax credit by tax incentives for research and development	<b>(4.58)</b>	—
Change in valuation allowance	<b>1.67</b>	—
Others	<b>(1.40)</b>	(1.44)
Effective Income Tax Rate	<b>33.94%</b>	39.33%

On March 31, 2003, the Japanese National Diet approved changes to the calculation of the statutory local enterprise tax, effective April 1, 2003. Due to those changes, the effective tax rate that are used for calculation of deferred tax assets and liabilities that will be taxable or deductible after March 31, 2003 has been changed from 41.24% to

39.88%. As a result, net deferred tax assets as of March 31, 2004 decreased by ¥974 million, deferred income tax and net unrealized gain for the year then ended increased by ¥1,159 million and ¥185 million, respectively.

## 19. Segment Information

### (1) Industry Segments

AISIN's main business is manufacturing and sales of automotive parts. Sales, operating income and assets occupy over 90% in all segments. Therefore information of industry segment is omitted.

### (2) Geographical Information

			Millions of Yen		Millions of U.S. Dollars
			2005	2004	2005
Sales	Japan	Customers	<b>¥1,358,654</b>	¥1,295,626	<b>\$12,652</b>
		Intersegment	<b>226,474</b>	154,115	<b>2,108</b>
		Total	<b>1,585,128</b>	1,449,741	<b>14,760</b>
	North America	Customers	<b>268,737</b>	188,744	<b>2,502</b>
		Intersegment	<b>7,612</b>	6,451	<b>71</b>
		Total	<b>276,349</b>	195,195	<b>2,573</b>
	Europe	Customers	<b>138,617</b>	77,007	<b>1,291</b>
		Intersegment	<b>5,428</b>	4,402	<b>51</b>
		Total	<b>144,045</b>	81,409	<b>1,342</b>
	Others	Customers	<b>63,057</b>	43,875	<b>587</b>
		Intersegment	<b>5,273</b>	4,987	<b>49</b>
		Total	<b>68,330</b>	48,862	<b>636</b>
	Eliminations		<b>(244,787)</b>	(169,955)	<b>(2,279)</b>
Consolidated		<b>1,829,065</b>	1,605,252	<b>17,032</b>	
Operating Costs and Expenses	Japan	<b>1,500,580</b>	1,368,877	<b>13,973</b>	
	North America	<b>273,403</b>	194,954	<b>2,546</b>	
	Europe	<b>142,814</b>	81,487	<b>1,330</b>	
	Others	<b>61,071</b>	42,305	<b>568</b>	
	Eliminations	<b>(243,914)</b>	(169,139)	<b>(2,271)</b>	
	Consolidated	<b>1,733,954</b>	1,518,484	<b>16,146</b>	
Operating Income	Japan	<b>84,548</b>	80,864	<b>787</b>	
	North America	<b>2,946</b>	241	<b>27</b>	
	Europe	<b>1,231</b>	(78)	<b>12</b>	
	Others	<b>7,259</b>	6,557	<b>68</b>	
	Eliminations	<b>(873)</b>	(816)	<b>(8)</b>	
	Consolidated	<b>95,111</b>	86,768	<b>886</b>	
Assets	Japan	<b>1,401,318</b>	1,301,517	<b>13,049</b>	
	North America	<b>201,319</b>	178,671	<b>1,875</b>	
	Europe	<b>74,517</b>	56,688	<b>694</b>	
	Others	<b>77,425</b>	46,377	<b>721</b>	
	Eliminations	<b>(251,265)</b>	(200,668)	<b>(2,340)</b>	
	Consolidated	<b>¥1,503,314</b>	¥1,382,585	<b>\$13,999</b>	

Geographical information is realized by geographical proximity.

Main countries are:

(1) North America: U.S.A., Mexico (2) Europe: Belgium, UK (3) Others: Taiwan, Thailand, China

Assets eliminations mainly included unallocated corporate items such as Cash and Cash Equivalents of Aisin Seiki.

On March 16, 2005, "Partial Amendment of Accounting Standard for Retirement Benefits" and "Guideline for Partial Amendment of Accounting Standard for Retirement Benefits" were issued. As described in "Accounting Standard for Impairment of Fixed Assets" within the "Summary of Significant Accounting Policies" portion of the Notes to Consolidated Financial Statements, AISIN adopted these standards for the fiscal year ended March 31, 2005, as early adoption is permitted. Pursuantly, operating income for the geographical segment "Japan" increased 290 million yen.

As described in "Translation of financial statements of consolidated foreign subsidiaries and affiliates" within the "Summary of Significant Accounting Policies" portion of the Notes to Consolidated Financial Statements, revenues and expenses of consolidated foreign subsidiaries and affiliates accounted for under the equity method have been translated at the average exchange rates since this fiscal year. As a result of this change, by geographical segment, net sales in "North America" increased by ¥8,591 million, decreased by ¥4,685 million in "Europe" and increased by ¥5,283 million in the "Others" segment. Also, operating income in "North America" increased by ¥123 million, decreased by ¥78 million in "Europe" and increased by ¥465 million in the "Others."

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets," and on October 31, 2003, the Accounting Standards Board of Japan issued "ASB Guidance for the Impairment Accounting." As described in "Accounting Standard for Impairment of Fixed Assets" within the "Summary of Significant Accounting Policies" portion of the Notes to Consolidated Financial Statements, Aisin Seiki and its consolidated subsidiaries in Japan adopted these standards since the fiscal year ended March 31, 2005. As a result of the adoption, an impairment of assets of ¥2,799 million was recorded in the geographic segment "Japan" and assets declined by the same amount.

### (3) Sales

#### (a) Sales by Item

	Millions of Yen			Millions of U.S. Dollars
	2005	increase	2004	2005
Automotive Related				
Engine Related	¥ 173,649	¥ 19,954	¥ 153,695	\$ 1,617
Drivetrain Related	768,684	94,924	673,760	7,158
Brake & Chassis Related	372,045	28,997	343,048	3,464
Body Related	317,992	31,762	286,230	2,961
Information & Other Automotive Related	113,609	37,708	75,901	1,058
Automotive Related Total	1,745,979	213,345	1,532,634	16,258
Rate to Total	95.5%	0.0%	95.5%	95.5%
Life & Energy Related	48,690	351	48,339	454
Others	34,396	10,117	24,279	320
Grand Total	1,829,065	223,813	1,605,252	17,032

#### (b) Sales By Geographic Area

	Millions of Yen			Millions of U.S. Dollars
	2005	increase	2004	2005
Overseas				
North America	¥ 273,667	¥ 81,147	¥ 192,520	\$ 2,549
Europe	166,024	57,082	108,942	1,546
Asia & Others	119,877	24,399	95,478	1,116
Overseas Total	559,568	162,628	396,940	5,211
Rate to Total	30.6%	5.9%	24.7%	30.6%
Japan	1,269,497	61,185	1,208,312	11,821
Grand Total	1,829,065	223,813	1,605,252	17,032

Main countries or regions are:

(1) North America: U.S.A., Canada (2) Europe: Sweden, Germany (3) Asia & Others: South Korea, Taiwan, Thailand, China

Since this fiscal year revenues and expenses of consolidated foreign subsidiaries and affiliates accounted for under equity method have been translated at the average exchange rates, although they used to be translated at year-end current exchange rates. As a result of this change, net sales "North America" ¥8,591 million "Europe" ¥4,685 million "Asia & Others" ¥5,283 million is fluctuating, respectively.

### 20. Related Party Transactions

During the years ended March 31, 2005 and 2004, Aisin Seiki had operational transactions with Toyota Motor Corporation, 23.3% shareholders of the Company.

A summary of the significant transactions between the Company and such a company for the years ended, or as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
For the year:			
Purchases of parts	¥ 15,565	¥ 14,592	\$ 145
Sales of automotive parts	281,355	271,079	2,620
At the year-end:			
Accounts receivable	¥ 39,868	¥ 38,908	\$ 371
Accounts payable	3,088	3,067	29

During the years ended March 31, 2005 and 2004, Aisin Seiki had transactions with Motoyasu Tanaka, Vice Chairman of Aisin Seiki and Director of Aisin Seiki Health Insurance Association. The summary of the transactions is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2005	2004	2005
For the year:			
Payment of employees' health insurance expenses	¥79	¥71	\$1
Sales of building	—	11	—

### 21. Shareholders' Equity

(1) The authorized number of shares of common stock is 700 million as of March 31, 2005, unless there may be a reduction due to a cancellation of treasury stock acquired.

Pursuant to the Commercial Code of Japan and the amended articles of incorporation approved by shareholders at the annual general meeting on June 22, 2004, Aisin Seiki can purchase the treasury stock subject to the resolution of the Board of Directors from that date.

(2) Number of treasury stock held by Aisin Seiki, its consolidated subsidiaries, and affiliates accounted for under equity method is 8,585,613 shares and 9,350,986 shares at March 31, 2005 and 2004, respectively.

## 22. Stock Based Compensation

In June 2003, the Ordinary General Meeting of Shareholders approved "Share Acquisition Rights", which earmark a maximum of 1,100,000 shares of common stock to be further distributed among directors of the Company, its subsidiaries and affiliates. The purpose of this is to enhance enthusiasm and raise morale for improving business performance.

The Share Acquisition Rights were granted at a predetermined exercise price to all directors. The grant price is the higher of the closing price on the Tokyo Stock Exchange on the date of grant or 1.05 times the average closing price in the full calendar month prior to the month of grant date.

Each of the Share Acquisition Rights is exercisable at the price of ¥1,848 for the period from August 1, 2005 to July 31, 2007, and 947,000 shares are issuable as of March 31, 2005.

Another Share Acquisition Right, which totaled 989,000 shares, was approved in June 2002 such Right was granted at the exercise price of ¥1,763 and was exercisable for the period from August 1, 2004 to July 31, 2006.

## 23. Subsequent Event

On June 23, 2005, the following appropriations of retained earnings were approved at an annual general meeting of shareholders of Aisin Seiki:

	<u>Millions of Yen</u>	<u>Millions of U.S. Dollars</u>
Cash dividends	¥4,107	\$38
Bonuses to directors and corporate auditors	255	2

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### Report of Independent Auditors

To the Board of Directors and Shareholders of AISIN SEIKI CO., LTD.

We have audited the accompanying consolidated balance sheets of AISIN SEIKI CO., LTD. and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aisin Seiki Co., Ltd. and its subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 4(9), effective for the year ended March 31, 2005, Aisin Seiki Co., Ltd. and its subsidiaries have applied "Partial Amendment of Accounting Standard for Retirement Benefits".

As described in Note 4(14), effective for the year ended March 31, 2005, Aisin Seiki Co., Ltd. and its subsidiaries have changed the method to translate revenues and expenses of foreign subsidiaries and affiliates accounted for under equity method.

As described in Note 4(7), effective for the year ended March 31, 2005, Aisin Seiki Co., Ltd. and its subsidiaries have applied "Accounting Standard for Impairment of Fixed Assets".

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying consolidated financial statements.

*ChuoAoyama PricewaterhouseCoopers*

ChuoAoyama PricewaterhouseCoopers

Nagoya, Japan

June 23, 2005