

Financial Section

Management's Discussion and Analysis of Financial Conditions and Results of Operations	70
Consolidated Five-year Financial Summary	75
Consolidated Balance Sheets	76
Consolidated Statements of Income	78
Consolidated Statements of Shareholders' Equity	79
Consolidated Statements of Cash Flows	80
Notes to the Consolidated Financial Statements	81

Overview

Aisin Seiki and its subsidiaries (collectively, AISIN) comprises 146 subsidiaries and affiliates, including 96 production companies, 13 sales companies and 37 other companies, with its operations entailing manufacturing and sales related to the core Automotive Parts and Systems Business and the Life Related and Other Business.

In the year ended March 31, 2006, on a consolidated basis, net sales rose 15.9% to ¥2,120,589 million

(US\$18,052 million), operating income increased 24.2% to ¥118,097 million (US\$1,005 million) and ordinary income increased 27.1% to ¥125,097 million (US\$1,065 million), all of which marked record highs. Income before income taxes and minority interest rose 34.9% to ¥125,097 million (US\$1,065 million), and net income jumped 30.8% to ¥61,096 million (US\$520 million).

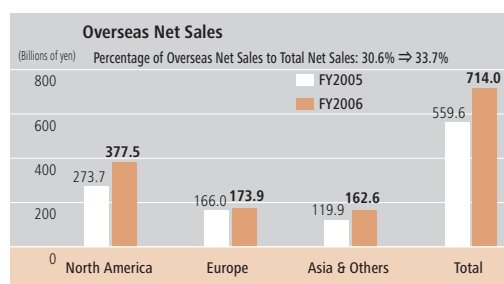
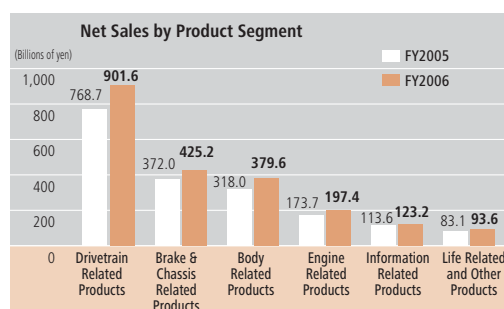
Results of Operations

Sales

In the fiscal year under review, net sales were ¥2,120,589 million (US\$18,052 million). By business segment, sales in the Automotive Parts and Systems Business rose 16.1% from ¥1,746,000 million, a ¥2,027,005 million (US\$17,256 million) increase over the previous fiscal year. Within the Life Related and Other Business, sales in the life related products segment rose 8.8% to ¥52,988 million (US\$451 million) as a result of expanded sales of GHPs and shower-toilet seats, while sales of the other products segment, which includes civil engineering and petroleum sales, grew 18.0% to ¥40,596 million (US\$345 million) on account of an increase in orders.

Within the Automotive Parts and Systems Business, sales of engine related products rose 13.7% to ¥197,399 million (US\$1,680 million) due mainly to higher sales of timing chain covers and variable valve timings. Sales of drivetrain related products increased 13.7% to ¥901,644 million (US\$7,676 million) on the back of strong performance of 6-speed ATs and MTs. Sales of brake and chassis related products rose 14.3% to ¥425,182 million (US\$3,620 million); sales of body related products improved 19.4% to ¥379,549 million (US\$3,231 million) due to expanded sales of occupant weight sensors, power sliding doors, power back door systems and seat components; and sales of information related products increased 8.5% to ¥123,231 million (US\$1,049 million) following expanded sales of car navigation systems and "Intelligent Parking Assist" systems.

AISIN has been consistently globalizing its business activities and increasing the number of overseas bases. The ratio of overseas sales to total net sales rose from 30.6% to 33.7%.

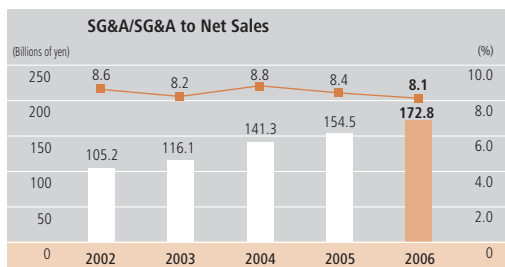
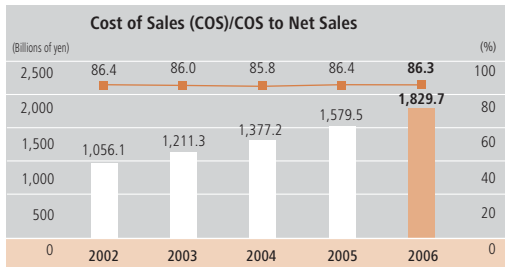


Cost of Sales and Selling, General and Administrative Expenses

Cost of sales increased 15.8% from ¥1,579,485 million to ¥1,829,682 million (US\$15,576 million). Despite increases in net sales, depreciation and amortization expenses and raw materials prices, efforts to streamline and raise efficiency in all areas of operations through cost reductions and other measures resulted in the ratio of cost of sales to net sales edging down from 86.4% to 86.3%.

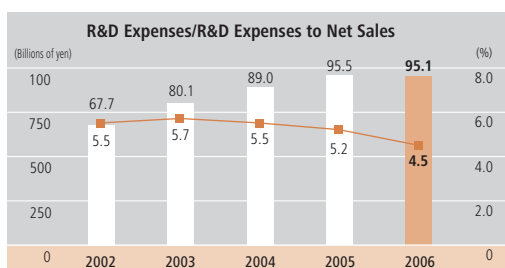
Selling, general and administrative (SG&A) expenses rose 11.9% from ¥154,469 million to ¥172,810 million (US\$1,471 million) in accordance with an increase in such

proportional expenses as packaging and shipping. The ratio of SG&A expenses to net sales decreased from 8.4% to 8.1%.



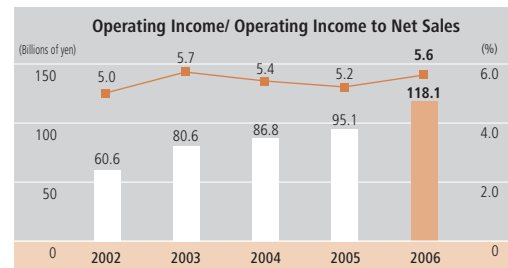
R&D Expenses

R&D expenses, which are included in SG&A expenses and manufacturing costs, totaled ¥95,545 million and ¥95,148 million (US\$810 million) in fiscal 2005 and 2006, respectively. The ratio of R&D expenses to net sales for both fiscal years was 5.2% and 4.5%, respectively.



Operating Income

Operating income rose 24.2% to ¥118,097 million (US\$1,005 million), while the ratio of operating income to net sales was 5.6%.



Non-operating Income and Expenses

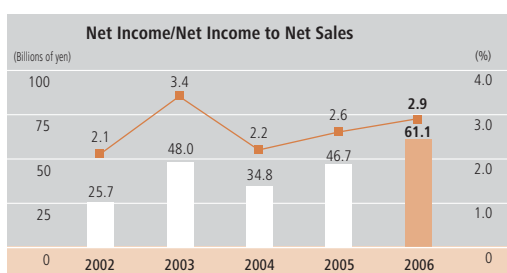
The balance of non-operating income and expenses was a profit of ¥7,000 million (US\$60 million) in fiscal 2006 compared with ¥3,347 million in fiscal 2005. The chief factors for this increase were a ¥2,083 million increase in foreign exchange gains, a ¥956 million increase in dividend income and an ¥846 million decrease arising from a loss on sales of property, plant and equipment.

Minority Interest in Net Income of Subsidiaries

Minority interest in net income of subsidiaries increased 64.1% from ¥14,534 million to ¥23,850 million (US\$203 million) following an increase in profits at subsidiaries in Japan.

Net Income

Net income jumped 30.8% from ¥46,719 million to ¥61,096 million (US\$520 million), while the ratio of net income to net sales increased from 2.6% to 2.9%. Return on equity (ROE) improved from 8.8% to 9.9%, while net income per share improved from ¥159.94 to ¥209.15 (US\$1.78).



Overview of Cash Flows

For fiscal 2006, cash flows provided by operating activities amounted to ¥185,716 million, cash flows used in investing activities was ¥215,496 million and cash flows provided by financing activities totaled ¥36,834 million. As a result, cash and cash equivalents as of March 31, 2006 stood at ¥128,213 million (US\$1,091 million), an increase of ¥11,812 million, or 10.1%, compared with ¥116,401 million as of March 31, 2005.

Cash Flows from Operating Activities

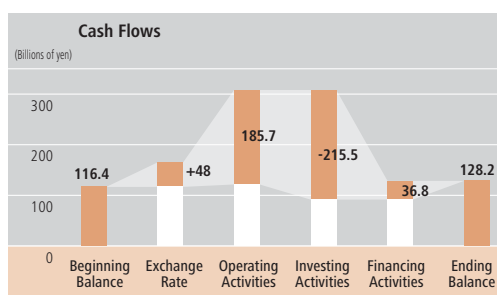
Net cash provided by operating activities increased ¥43,040 million, or 30.2%, from ¥142,676 million in fiscal 2005 to ¥185,716 million (US\$1,581 million). Although an increase in trade notes and accounts receivable resulted in a decrease in cash of ¥17,175 million, the chief factors for this rise in cash were an increase of ¥39,008 million in trade notes and accounts payable and an increase of ¥32,367 million in income before income taxes and minority interest.

Cash Flows from Investing Activities

Net cash used in investing activities rose ¥40,678 million, or 23.3%, from ¥174,818 million in fiscal 2005 to ¥215,496 million (US\$1,834 million). The chief reason was an increase in cash of ¥56,425 million from ¥162,328 million to ¥218,753 million in payments for purchase of property, plant and equipment.

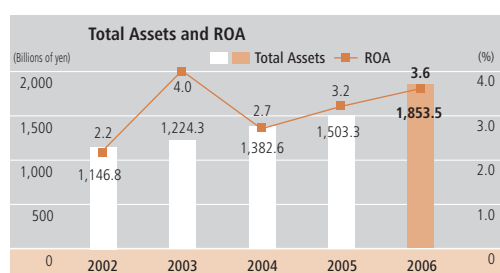
Cash Flows from Financing Activities

Net cash provided by financing activities rose ¥14,530 million, or 65.1%, from ¥22,305 million in fiscal 2005 to ¥36,834 million. Despite a ¥24,916 million decrease in short-term borrowings, the key factors for the increase were an increase of ¥10,000 million in proceeds from issuance of bonds payable and an increase of ¥32,500 million in proceeds from long-term debt.



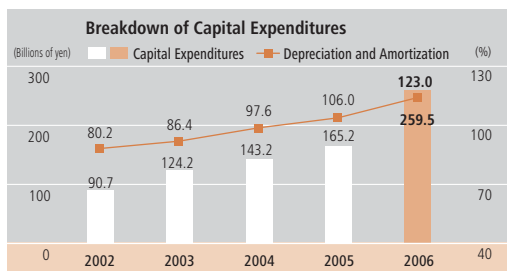
Financial Position

Total assets rose 23.3% to ¥1,853,459 million (US\$15,778 million) as a result of expanded business activities. Total liabilities rose 24.5% to ¥1,002,395 million, minority interest increased 18.2% to ¥172,183 million and total shareholders' equity improved 22.8% to ¥678,881 million.



Capital Expenditures

Capital expenditures increased 57.0% to ¥259,540 million (US\$2,209 million) as a result of investment in new products and product improvements to accommodate new vehicles. Additional investment included augmenting production capacities in Japan and overseas, streamlining production facilities and R&D for new product development and evaluation facilities.



Future Outlook

Net sales for the fiscal year ending March 31, 2007 are projected to rise 6.1% to ¥2,250,000 million (US\$19,154 million) owing to increased sales of ATs.

While higher depreciation and amortization expenses and raw materials costs are expected, projections call for a 3.3% rise in operating income to ¥122,000 million (US\$1,039 million) on the back of increased sales and cost reduction efforts, as well as ordinary income of ¥125,000 million (US\$1,064 million) and net income of ¥61,000 million (US\$519 million), both of which are anticipated to remain stable.

Risk Information

The following risks can potentially impact AISIN's performance and financial position. Any forward-looking statements mentioned herein reflect estimates as of June 23, 2006.

(1) Economic Trends

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

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

manufacturers. This may result in intensified export and price competition, and subsequently, may have a negative impact on AISIN's performance and financial position.

(2) Supply of Raw Materials and Components

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

(3) Principal Customers

AISIN chiefly produces and sells automotive parts and life related products, with its mainstay Automotive Parts and Systems Business mostly targeting automobile manufacturers in and outside Japan. Among these customers, AISIN has the highest level of dependence on Toyota Motor Corporation (TMC) and the Toyota Group, with sales totaling ¥1,398,498 million (US\$11,905 million) and representing 66.0% of AISIN's net sales in fiscal 2006. For that reason, changes in sales volume within TMC and the Toyota Group have the potential to negatively impact AISIN's performance and financial position. As of March 31, 2006, the portion of AISIN's voting shares held by TMC directly was 23.1%, and indirectly was 0.1%.

(4) Exchange Rate Fluctuations

AISIN has worked to bolster its sales in the Japanese market and aggressively pursue the cultivation of overseas markets chiefly in North America, Europe and Asia, to the extent that the ratio of overseas net sales to total net sales was 33.7% as of March 31, 2006.

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

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

(5) Business Inroads in Overseas Markets

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

1. Unanticipated laws and regulations and changes to the tax system unfavorable to business
2. Underdeveloped social overhead capital (infrastructure)
3. Occurrences of unfavorable governmental issues or economic conditions
4. Difficulties in hiring and retaining staff
5. Social upheavals due to terrorism, war and other factors

(6) Product Development

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

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.

(7) Product Defects

AISIN is fully committed to producing high-quality, attractive products that meet customer needs based on the concept of "Quality First." However, AISIN cannot guarantee that there will be no defects or that recalls will not be made in the future.

Moreover, while AISIN is insured for product liability indemnity, there is no guarantee that this policy will fully cover the final indemnities. Product defects that lead to widespread recalls and product liability indemnities could produce large cost burdens and downgrade the valuation of AISIN. This would subsequently hamper sales and could negatively impact AISIN's performance and financial position.

(8) Effects of Disaster and Power Blackouts

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

Consolidated Five-year Financial Summary

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

	Millions of Yen				
	2002	2003	2004	2005	2006
Net Sales	¥ 1,221,916	¥ 1,408,013	¥1,605,252	¥1,829,065	¥ 2,120,589
Domestic Sales	968,878	1,103,980	1,208,312	1,269,497	1,406,585
Overseas Sales	253,038	304,033	396,940	559,568	714,004
Operating Income	60,644	80,601	86,768	95,111	118,097
Net Income	25,652	47,994	34,719	46,719	61,096
Total Assets	1,146,820	1,224,311	1,382,585	1,503,314	1,853,459
Shareholders' Equity	431,872	428,602	506,261	552,753	678,881
Common Stock	41,140	41,140	45,049	45,049	45,049
Capital Expenditures (Cash Flows)	81,259	115,355	147,586	162,328	218,753
Depreciation and Amortization	80,239	86,350	97,563	105,969	123,034
R&D Expenses	67,665	80,075	89,076	95,545	95,148
Return on Equity (ROE)	6.1%	11.2%	7.4%	8.8%	9.9%

Per Share of Common Stock	Yen				
	2002	2003	2004	2005	2006
Net Income — Basic	¥ 91.84	¥ 171.98	¥ 126.11	¥ 159.94	¥ 209.15
Net Income — Diluted	86.76	161.28	118.38	159.77	208.86
Shareholders' Equity	1,530.50	1,612.96	1,771.12	1,928.58	2,361.66
Cash Dividends	13.00	15.00	18.00	24.00	32.00
Average Number of Shares (in thousands)	279,322	273,747	267,404	285,807	286,628
Equity to Assets Ratio	37.7%	35.0%	36.6%	36.8%	36.6%
Number of Employees	40,234	44,132	47,616	53,237	59,587

Notes:

- 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.
- Effective beginning the year ended March 31, 2005, the "Accounting Standards for Net Income per Share (Corporate Accounting Standard No. 2)" and "Guidelines for the Application of Accounting Standards for Net Income Per Share (Guidelines for the Application of Corporate Accounting Standards No. 4)" issued by the Accounting Standards Board of Japan on September 25, 2002 have been applied.
- Scope of consolidation for the fiscal year ended March 31, 2006
Consolidated subsidiaries (total 132 companies):

<ul style="list-style-type: none"> • Aisin Takaoka Co., Ltd. • Aisin Chemical Co., Ltd. • Aisin AW Co., Ltd. • Aisin Living Planner Co., Ltd. • Aisin Keikinzoku Co., Ltd. • Aisin Sinwa Co., Ltd. • Aisin Development Co., Ltd. • Aisin Kiko Co., Ltd. 	<ul style="list-style-type: none"> • Aisin AI Co., Ltd. • Aisin Sin'ei Co., Ltd. • Aisin AW Industries Co., Ltd. • Hosei Brake Industry Co., Ltd. • ADVICS Co., Ltd. • Aisin Holdings of America, Inc. • Aisin World Corp. of America • Aisin Automotive Casting, Inc. 	<ul style="list-style-type: none"> • Aisin U.S.A. Mfg., Inc. • AW North Carolina, Inc. • Aisin Drivetrain, Inc. • ADVICS Manufacturing Ohio, Inc. • Aisin Europe S.A. • AW Europe S.A. • Elite Sewing Machine Mfg., Co., Ltd. • Tangshan Aisin Gear Co., Ltd. 	<ul style="list-style-type: none"> • Aisin Brake & Chassis, Inc. • Aisin Mfg. Illinois, LLC • Aisin Automotive Casting Tennessee, Inc. • ADVICS North America Inc. • Tangshan Aisin Automotive Parts Co., Ltd. • Siam Aisin Co., Ltd. and others
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Affiliates accounted for by the equity method (total 14 companies)

• Exedy Corporation

• Exedy America Corporation

• Cataler Corporation and others

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

	2002	2003	2004	2005	2006
Consolidated subsidiaries	102	106	114	122	132
Affiliates accounted for by the equity method	15	14	14	14	14

Consolidated Balance Sheets

AISIN SEIKI CO., LTD. and Its Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 128,213	¥ 116,401	\$ 1,091
Short-term investments	8,701	14,857	74
Trade notes and accounts receivable	336,865	285,894	2,868
Inventories (Note 7)	148,782	122,461	1,267
Deferred tax assets (Note 17)	42,842	35,921	365
Other current assets	30,403	27,038	258
Less: allowance for doubtful accounts	(1,776)	(690)	(15)
Total current assets	694,030	601,882	5,908
Investments and other assets:			
Investments in securities (Notes 5, 6, 8)	319,717	215,953	2,722
Long-term loans	4,314	4,246	37
Deferred tax assets (Note 17)	21,451	22,031	182
Other	36,638	32,614	312
Less: allowance for doubtful accounts	(455)	(628)	(4)
Total investments and other assets	381,665	274,216	3,249
Property, plant and equipment, at cost:			
Land	85,321	82,258	726
Buildings and structures	460,024	409,857	3,916
Machinery and equipment	1,416,188	1,255,932	12,056
Construction in progress	60,482	36,353	515
Total property, plant and equipment	2,022,015	1,784,400	17,213
Less: accumulated depreciation	(1,244,251)	(1,157,184)	(10,592)
Net property, plant and equipment (Note 8)	777,764	627,216	6,621
Total fixed assets	1,159,429	901,432	9,870
Total assets	¥ 1,853,459	¥ 1,503,314	\$ 15,778

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

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 15)	¥ 46,888	¥ 58,779	\$ 399
Trade notes and accounts payable	327,177	262,655	2,785
Current portion of bonds payable (Note 15)	150	—	1
Other payables	70,517	41,424	600
Accrued expenses	117,499	106,470	1,000
Accrued income taxes	31,783	21,419	271
Deposits received from employees	16,781	16,964	143
Accrued warranty cost	14,462	11,716	123
Other current liabilities	13,843	12,185	118
Total current liabilities	639,100	531,612	5,440
Long-term liabilities:			
Bonds payable (Note 15)	35,500	25,650	302
Long-term debt (Note 15)	176,811	129,768	1,505
Allowance for employee retirement benefits (Note 16)	78,228	75,021	666
Allowance for retirement and severance benefits for directors and corporate auditors	6,523	6,944	56
Long-term accrued expenses	2,542	9,415	22
Deferred tax liabilities (Note 17)	63,609	26,458	541
Consolidation adjustments	82	—	1
Commitments and contingent liabilities (Note 9)			
Total long-term liabilities	363,295	273,256	3,093
Total liabilities	1,002,395	804,868	8,533
Minority interest	172,183	145,693	1,466
Shareholders' equity (Notes 20, 21):			
Common stock, no par value:			
Authorized: 700,000,000 shares			
Issued: 294,674,634 shares in 2006 and 2005	45,049	45,049	383
Capital surplus	63,263	63,061	539
Retained earnings	445,241	392,836	3,790
Net unrealized gain on available-for-sale securities	123,721	66,597	1,053
Foreign currency translation adjustments	3,428	(11,674)	29
Less: treasury stock, at cost	(1,821)	(3,116)	(15)
Total shareholders' equity	678,881	552,753	5,779
Total liabilities, minority interest and shareholders' equity	¥ 1,853,459	¥ 1,503,314	\$ 15,778

Consolidated Statements of Income

AISIN SEIKI CO., LTD. and Its Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Net sales (Notes 18, 19)	¥ 2,120,589	¥ 1,829,065	\$ 18,052
Cost of sales (Note 10)	1,829,682	1,579,485	15,576
Gross profit	290,907	249,580	2,476
Selling, general and administrative expenses (Note 10)	172,810	154,469	1,471
Operating income	118,097	95,111	1,005
Non-operating income			
Interest and dividend income	3,926	2,510	33
Investment profit on equity method	5,542	5,548	47
Other	10,874	9,128	93
Total non-operating income	20,342	17,186	173
Non-operating expenses			
Interest expense	2,581	2,337	22
Loss on disposal of property, plant and equipment	3,831	4,677	33
Other	6,930	6,825	58
Total non-operating expenses	13,342	13,839	113
Ordinary income	125,097	98,458	1,065
Extraordinary losses			
Impairment loss of fixed assets (Notes 11, 12)	—	5,728	—
Income before income taxes and minority interest	125,097	92,730	1,065
Income taxes—current	47,801	32,609	407
Income taxes—deferred	(7,650)	(1,132)	(65)
Less, minority interest in net income of subsidiaries	(23,850)	(14,534)	(203)
Net income	¥ 61,096	¥ 46,719	\$ 520

	Yen		U.S. Dollars
	2006	2005	2006
Per share:			
Net income			
Basic	¥ 209.15	¥ 159.94	\$ 1.78
Diluted	208.86	159.77	1.78
Cash dividends	32.00	24.00	0.27

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

Consolidated Statements of Shareholders' Equity

AISIN SEIKI CO., LTD. and Its Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Common stock:			
Balance at beginning of year	¥ 45,049	¥ 45,049	\$ 383
Balance at end of year	45,049	45,049	383
Capital surplus:			
Balance of capital surplus at beginning of year	63,061	62,927	537
Gain from disposal of treasury stocks	202	134	2
Balance of capital surplus at end of year	63,263	63,061	539
Retained earnings:			
Balance at beginning of year	392,836	352,591	3,344
Net income	61,096	46,719	520
Cash dividends	(7,664)	(5,623)	(65)
Bonus to directors and corporate auditors	(1,027)	(851)	(9)
Balance at end of year	445,241	392,836	3,790
Net unrealized gain on available-for-sale securities	123,721	66,597	1,053
Foreign currency translation adjustments	3,428	(11,674)	29
Treasury stock at end of year	(1,821)	(3,116)	(15)
Total shareholders' equity at end of year	¥ 678,881	¥ 552,753	\$ 5,779

	Thousands of Shares	
	2006	2005
Number of shares issued:		
Balance at beginning of year	294,675	294,675
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 Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 125,097	¥ 92,730	\$ 1,065
Adjustment for:			
Depreciation and amortization	123,034	105,969	1,047
Impairment loss of fixed assets	—	5,728	—
Increase in allowance for retirement benefits	3,192	1,492	27
(Decrease) Increase in allowance for retirement and severance benefits for directors and corporate auditors	(407)	2,088	(3)
Interest and dividend income	(3,926)	(2,510)	(33)
Interest expenses	2,581	2,337	22
Investment profit on equity method	(5,542)	(5,548)	(47)
Loss on disposal of property, plant and equipment	3,717	4,677	32
Increase in trade notes and accounts receivable	(46,720)	(29,545)	(398)
Increase in inventories	(23,493)	(23,116)	(200)
Increase in trade notes and accounts payable	59,048	20,040	503
(Increase) Decrease in prepaid pension expense	(1,429)	108	(12)
Decrease in long-term accrued expenses	(6,545)	(7,838)	(56)
Others	(5,721)	7,107	(50)
Subtotal	222,886	173,719	1,897
Interest and dividend income received	4,748	2,933	40
Interest paid	(2,498)	(2,411)	(21)
Income taxes paid	(39,420)	(31,565)	(335)
Net cash provided by operating activities	185,716	142,676	1,581
Cash flows from investing activities:			
Increase (Decrease) in time deposit and short-term investments	10,075	(3,437)	86
Payments for purchase of property, plant and equipment	(218,753)	(162,328)	(1,862)
Proceeds from sales of property, plant and equipment	4,113	5,364	35
Payments for purchase of investments in securities	(9,433)	(13,147)	(80)
Payments for acquisition of subsidiaries' stock resulting in change in scope of consolidation	—	(35)	—
Proceeds from acquisition of subsidiaries' stock resulting in change in scope of consolidation	—	320	—
Proceeds from sales of investments in securities	2,506	1,253	21
Proceeds from redemption at maturity of investments in securities	1,086	2,329	9
Payments for loans made	(1,068)	(637)	(9)
Proceeds from collections of loans	1,009	750	9
Others	(5,031)	(5,250)	(43)
Net cash used in investing activities	(215,496)	(174,818)	(1,834)
Cash flows from financing activities:			
(Decrease) Increase in short-term borrowings	(22,598)	2,318	(192)
Proceeds from long-term debt	65,187	32,687	554
Repayments of long-term debt	(7,688)	(2,171)	(65)
Proceeds from issuance of bonds payable	10,000	—	85
Repayments of bonds payable	—	(5,000)	—
Contributions from minority shareholders	671	1,036	6
Cash dividends paid	(7,660)	(5,621)	(65)
Cash dividends paid to minority shareholders	(2,569)	(2,319)	(22)
Proceeds from sales of treasury stocks	1,521	1,405	13
Payments for purchase of treasury stocks	(30)	(30)	(0)
Net cash provided by financing activities	36,834	22,305	314
Translation adjustment of cash and cash equivalents	4,758	24	40
Net increase (decrease) in cash and cash equivalents	11,812	(9,813)	101
Cash and cash equivalents at beginning of year	116,401	126,214	990
Cash and cash equivalents at end of year	¥ 128,213	¥ 116,401	\$ 1,091

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

Notes to the Consolidated Financial Statements

AISIN SEIKI CO., LTD. and its 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 the Kanto Local Finance Bureau of Japan.

2. U.S. Dollar Amounts

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, 2006 of ¥117.47=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, specifically 132 subsidiaries (61 domestic subsidiaries and 71 overseas subsidiaries) in 2006 and 122 subsidiaries (58 domestic subsidiaries and 64 overseas subsidiaries) in 2005. For the year ended March 31, 2006, 10 subsidiaries were newly added to the scope of consolidation. All significant intercompany accounts and transactions and unrealized profit among the companies, if any, have been eliminated in consolidation.

Most of Aisin Seiki's overseas subsidiaries close their books at December 31 every year, three months earlier than Aisin Seiki. Since the fiscal year of 2005, four 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-month results. Overseas subsidiaries adopt accounting principles generally accepted in their respective countries, and no adjustments to conform to 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 five years from the occurred period. In cases where the amount is not significant, it is charged to income as incurred. Assets and liabilities of subsidiaries are revalued at their fair value as of the date of acquisition of control based on the full fair value method.

(2) Investments in Affiliates

The investments in all affiliates (14 companies in 2006, 14 companies in 2005) are accounted for by the equity method.

(3) Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, all highly liquid debt instruments with 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, which AISIN intends to hold to maturity. Other securities with readily determinable fair values 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 component of 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 changes 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 risk with regard to interest rate and exchange rate fluctuations. Thus, AISIN's purchase of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

AISIN evaluates the effectiveness of its hedging activities by comparing 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.

(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 amounts of assets may not be recoverable. An impairment loss shall be recognized in the statements of income 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 its 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 for the fiscal year ended March 31, 2005 decreased ¥2,799 million.

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

(8) Accounting for Finance Leases

Where finance leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of Aisin Seiki and its domestic 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 an 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 an early adoption was permitted. Pursuantly, operating income, ordinary income, and income before income taxes and minority interest for the fiscal year ended March 31, 2005 increased ¥290 million, respectively. The impact on Segment Information has been disclosed in the applicable section.

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

AISIN provides for the accrued cost of retirement benefits payable to directors, managing officers and corporate auditors at an amount equivalent to 100 percent of such benefits for which AISIN would be required to pay based on an internal rule regarding the directors' retirement benefits.

(11) Allowance for Doubtful Accounts

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

(12) Accrued Warranty Cost

Accrued warranty cost has been provided for at the aggregate amount of the estimated claim incurred in the 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 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 the fiscal year ended March 31, 2005, revenues and expenses of foreign subsidiaries and affiliates accounted for by the 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 rate fluctuations in the consolidated financial statements more accurately, under the circumstances that the number of foreign subsidiaries and affiliates and volume of their transactions has been increasing, and the requirement to release quarterly financial information.

As a result of this change, net sales and income before income taxes and minority interest for the fiscal year ended March 31, 2005 increased ¥9,188 million and ¥197 million, respectively.

The impact on Segment Information has been disclosed in the 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. Bonuses paid to directors and corporate auditors are recorded as a part of the appropriation of retained earnings, instead of being charged to income, as permitted by Japanese accounting standards.

(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 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 the fiscal year ended March 31, 2005 AISIN classifies limited partnership for investment as "Investments in securities" in "Investments and other assets." This is in compliance with the "Partial Amendment of Securities and Exchange Law," enacted December 1, 2004, where contribution to a limited partnership for investment is defined as securities.

The contribution had been classified as "Others" in "Investment and other assets" until the year ended March 31, 2004. These investments as of March 31, 2005 amounted to ¥253 million.

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, 2006 and 2005, gross unrealized gains and losses for marketable securities included in short-term investments and investments in securities are summarized as follows:

(1) Marketable Securities Classified as Other Securities

	Millions of Yen		
	2006		
	Cost	Fair and Carrying Value	Unrealized Gains
Securities with Carrying Amounts Exceeding Acquisition Cost			
Stocks	¥45,880	¥254,030	¥208,150
Bonds			
Government	3,602	3,612	10
Corporate	1,599	1,602	3
Others	61	61	0
Subtotal	¥51,142	¥259,305	¥208,163
Securities with Acquisition Cost Exceeding Carrying Amounts			
Stocks	¥ 1	¥ 1	¥ —
Bonds			
Government	8,887	8,798	(89)
Corporate	2,204	2,185	(19)
Others	158	158	—
Subtotal	¥11,250	¥ 11,142	¥ (108)
Total	¥62,392	¥270,447	¥208,055

	Millions of U.S. Dollars		
	2006		
	Cost	Fair and Carrying Value	Unrealized Gains
Securities with Carrying Amounts Exceeding Acquisition Cost			
Stocks	\$390	\$2,162	\$1,772
Bonds			
Government	31	31	0
Corporate	13	13	0
Others	1	1	0
Subtotal	\$435	\$2,207	\$1,772
Securities with Acquisition Cost Exceeding Carrying Amounts			
Stocks	\$ 0	\$ 0	\$ —
Bonds			
Government	76	75	(1)
Corporate	19	19	(0)
Others	1	1	—
Subtotal	\$ 96	\$ 95	\$ (1)
Total	\$531	\$2,302	\$1,771

	Millions of Yen		
	2005		
	Cost	Fair and Carrying Value	Unrealized Gains
Securities with Carrying Amounts Exceeding Acquisition Cost			
Stocks	¥45,778	¥157,699	¥111,921
Bonds			
Government	7,676	7,715	39
Corporate	4,324	4,350	26
Others	4,641	4,641	0
Subtotal	¥62,419	¥174,405	¥111,986
Securities with Acquisition Cost Exceeding Carrying Amounts			
Stocks	¥ 165	¥ 165	¥ (0)
Bonds			
Government	3,600	3,600	(0)
Corporate	2,436	2,392	(44)
Others	509	509	(0)
Subtotal	¥ 6,710	¥ 6,666	¥ (44)
Total	¥69,129	¥181,071	¥111,942

(2) Sales of Securities Classified as Other Securities

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Proceeds from sales	¥2,506	¥1,253	\$21
Gains on sales	326	362	3
Losses on sales	18	—	0

(3) Contents and Carrying Amounts of Securities without Readily Determinable for Practicable to Fair Value

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Other Securities			
Unlisted stocks	¥ 9,428	¥ 7,896	\$ 80
Money management funds	22,513	15,026	192
Bonds, others	3,273	6,026	28

(4) Redemption Schedule for Securities with Maturity Dates Classified as Other Securities

	Millions of Yen			
	2006			
	Within 1 Year	Over 1 Year Within 5 Years	Over 5 Years Within 10 Years	Over 10 Years
Bonds				
Government	¥4,799	¥5,670	¥1,941	—
Corporate	1,850	1,937	—	—
Others	3,273	—	—	—
Others	—	41	—	—
Total	¥9,922	¥7,648	¥1,941	—

	Millions of U.S. Dollars			
	2006			
	Within 1 Year	Over 1 Year Within 5 Years	Over 5 Years Within 10 Years	Over 10 Years
Bonds				
Government	\$41	\$48	\$17	—
Corporate	16	17	—	—
Others	27	—	—	—
Others	—	0	—	—
Total	\$84	\$65	\$17	—

	Millions of Yen			
	2005			
	Within 1 Year	Over 1 Year Within 5 Years	Over 5 Years Within 10 Years	Over 10 Years
Bonds				
Government	¥ 6,000	¥4,196	¥1,119	—
Corporate	2,147	3,335	1,000	¥260
Others	4,490	—	—	—
Others	6,446	—	—	—
Total	¥19,083	¥7,531	¥2,119	¥260

6. Investments in Affiliates

The amounts of investments in affiliates included in investments in securities and other assets as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Investments in securities	¥46,491	¥40,042	\$396
Other assets	1,165	378	10

7. Inventories

As of March 31, 2006 and 2005, inventories consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Finished products	¥ 67,097	¥ 56,473	\$ 571
Work in process	36,025	31,665	307
Raw materials and supplies	45,660	34,323	389
	¥148,782	¥122,461	\$1,267

8. Assets Pledged as Collateral

Assets pledged as collateral for short-term debt, long-term debt and guarantees as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Investments in securities	¥20,826	¥17,057	\$177
Property, plant and equipment (at net book value)	5,719	6,022	49
Other investments	775	3,554	7
	¥27,320	¥26,633	\$233

9. Contingent Liabilities

Total contingent liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Guarantee of bank loans of			
Employees	¥ 37	¥ 48	\$ 0
Others	1,957	1,929	17
Total	¥1,994	¥1,977	\$17

10. Research and Development Expenses

Research and development expenses included in general and administrative expenses and manufacturing costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Research and development expenses	¥95,148	¥95,545	\$810

11. Impairment Losses at Aisin Seiki and Domestic Subsidiaries

AIN SIN 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 Subsidiary in the United States

Some of the subsidiaries in the United States have 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 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.

One of the subsidiaries 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 against competitors. Consequently, the 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 subsidiary in the United States recorded these amounts as an extraordinary loss from asset impairments (¥2,929 million).

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, 2006 and 2005 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
	2006	2005	2006
Due within one year	¥2,698	¥2,179	\$23
Due after one year	6,838	3,769	58
Total	¥9,536	¥5,948	\$81
Lease expenses for fiscal year	¥3,755	¥2,550	\$32

(2) Operating leases (as lessee)

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Due within one year	¥1,199	¥ 971	\$10
Due after one year	2,133	2,036	18
Total	¥3,332	¥3,007	\$28

14. Derivatives

All derivatives are utilized for the hedge purpose of reducing exposure to adverse fluctuations in interest rates and foreign exchange rates. As of March 31, 2005, all derivatives were accounted for under hedge accounting.

The notional amounts and the estimated fair value of the derivative transactions outstanding as of March 31, 2006 were as follows:

Foreign Currency Transactions

	Millions of Yen			Millions of U.S. Dollars		
	National Amount	Fair Value	Unrealized Gain (Loss)	National Amount	Fair Value	Unrealized Gain (Loss)
2006						
Forward exchange contracts						
Sell						
U.S. Dollars	¥32,049	¥32,261	¥ (212)	\$273	\$275	\$ (2)
Euro	4,625	4,700	(75)	39	40	(1)
New Taiwan Dollars	1,172	1,204	(32)	10	10	(0)
Thai Baht	275	280	(5)	2	2	(0)
Buy						
U.S. Dollars	266	268	2	2	2	0
Currency options						
Sell						
U.S. Dollars call	1,175			10		
U.S. Dollars put	<6>	13	(7)	<0>	0	(0)
Euro call	94	1	0	1	0	0
Euro put	<0>	1	0	<0>	0	0
Thai Baht call	286			2		
Thai Baht put	<1>	3	(2)	<0>	0	(0)
Thai Baht put	453			4		
Thai Baht put	<0>	13	(13)	<0>	0	(0)
Buy						
U.S. Dollars put	1,175			10		
U.S. Dollars call	<6>	12	6	<0>	0	0
U.S. Dollars call	94			1		
Euro put	<0>	1	1	<0>	0	0
Euro put	286			2		
Thai Baht call	<1>	3	1	<0>	0	0
Thai Baht call	453			4		
Thai Baht call	<0>	3	3	<0>	0	0
Currency swaps						
Receipt Yen						
Payment U.S. Dollars	15,627	(953)	(953)	133	(8)	(8)
Receipt Yen						
Payment Euro	2,574	(130)	(130)	22	(1)	(1)
Receipt Yen						
Payment Australian Dollars	175	4	4	1	0	0
Total	¥60,779	¥37,683	¥(1,412)	\$517	\$321	\$(12)

Interest Rate Transactions

	Millions of Yen			Millions of U.S. Dollars		
	National Amount	Fair Value	Unrealized Gain	National Amount	Fair Value	Unrealized Gain
2006						
Interest rate swaps						
Fixed rate receipt						
Floating rate payment	¥1,410	¥21	¥21	\$12	\$0	\$0

1. The fair values are based on the rate presented by our financial institutions, etc.
2. Derivatives for which hedge accounting is applied are excluded from this disclosure.
3. Option premiums within the consolidated balance sheets are disclosed, in brackets < >, under the contract or notional amounts.

15. Bonds Payable and Borrowings

(1) Bonds Payable

Bonds payable as of March 31, 2006 and 2005 consisted of the following:

Issued by	Item	Millions of Yen		Millions of U.S. Dollars	Annual Interest	Year of Due
		2006	2005	2006		
AISIN SEIKI	Unsecured straight bonds	¥15,000	¥15,000	\$128	2.65	2008
AISIN SEIKI	Unsecured straight bonds	10,000	10,000	85	0.965	2011
AISIN SEIKI	Unsecured straight bonds	10,000	—	85	2.00	2021
AISIN CHEMICAL	Unsecured straight bonds	150	150	1	0.59	2006
AISIN SINWA	Unsecured straight bonds	500	500	4	0.20	2009
Total		¥35,650	¥25,650	\$303		

Annual maturities of bonds payable are as follows:

	Millions of Yen	Millions of U.S. Dollars
Year ending March 31,		
2007	¥ 150	\$ 1
2008	15,000	128
2009	500	4
2010	—	—
2011	10,000	85
2012 and thereafter	10,000	85
Total	¥35,650	\$303

(2) Borrowings

Borrowings as of March 31, 2006 and 2005 consisted of the following:

Item	Millions of Yen		Millions of U.S. Dollars	Annual Interest	Year of Due
	2006	2005	2006		
Short-term borrowings	¥ 28,518	¥ 51,583	\$ 243	2.82%	
Current portion of long-term debt	18,370	7,196	156	1.02	
Long-term debt	176,811	129,768	1,505	0.71	2007-2020
Total	¥223,699	¥188,547	\$1,904		

Annual maturities of long-term debt are as follows:

	Millions of Yen	Millions of U.S. Dollars
Year ending March 31,		
2008	¥ 4,566	\$ 39
2009	14,898	127
2010	21,130	180
2011	6,120	52
2012 and thereafter	130,097	1,107
Total	¥176,811	\$1,505

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.

The following table reconciles the benefit obligations and net periodic retirement benefit expense as at or for the years ended March 31, 2006 and 2005.

Component of projected benefit obligation:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 195,264	¥ 189,082	\$ 1,662
Fair value of pension plan assets at end of year	(126,434)	(112,323)	(1,076)
Projected benefit obligation in excess of pension plan assets	68,830	76,759	586
Unrecognized prior service cost	13,212	14,907	112
Less, unrecognized actuarial loss	(16,814)	(27,926)	(143)
Unrecognized pension plan assets	586	296	5
Prepaid pension cost	12,414	10,985	106
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 78,228	¥ 75,021	\$ 666

Component of net periodic retirement benefit expense:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Service cost	¥10,495	¥10,021	\$ 89
Interest cost	3,705	3,550	31
Expected return on pension plan assets	(2,800)	(2,606)	(24)
Amortization of prior service cost	(2,268)	(2,239)	(19)
Recognized actuarial differences	3,839	3,848	33
Contribution to defined contribution plan	105	179	1
Net periodic retirement benefit expense	¥13,076	¥12,753	\$111
Others	2,434	2,364	21
Total	¥15,510	¥15,117	\$132

	2006	2005
Major assumptions:		
Method attributing the projected benefits to periods of service	Point method	Point method
Discount rate	2.0%	2.0%
Expected return on pension plan assets	2.5%~3.0%	2.5%~3.0%
Amortization period of prior service cost	10 years	10 years
Amortization of unrecognized actuarial gains or losses	10 years	10 years

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 a predetermined amount with AISIN's policy.

17. Deferred Income Taxes

(1) Summary of the Components of Deferred Income Taxes

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Deferred tax assets			
Allowance for employee retirement benefits	¥29,223	¥30,295	\$249
Accrued expenses	28,076	23,124	239
Depreciation	14,970	11,931	127
Accrued warranty cost	5,767	4,672	49
Others	23,971	22,315	204
Deferred tax assets subtotal	102,007	92,337	868
Less valuation allowance	(4,263)	(4,837)	(36)
Deferred tax assets total	97,744	87,500	832
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	82,973	44,643	706
Special depreciation of acquired assets	2,053	2,181	17
Special depreciation reserves	1,377	1,433	12
Depreciation	8,451	6,586	72
Others	2,206	1,163	19
Deferred tax liabilities	97,060	56,006	826
Net deferred taxes	¥ 684	¥31,494	\$ 6

Net deferred tax liabilities consist of the following components on the consolidated balance sheets.

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Current assets—Deferred tax assets	¥42,842	¥35,921	\$365
Investments and other assets—Deferred tax assets	21,451	22,031	182
Long-term liabilities—Deferred tax liabilities	63,609	26,458	541
Net deferred taxes	¥ 684	¥31,494	\$ 6

(2) Reconciliation of the Difference Between the Statutory Tax Rate and the Effective Income Tax Rate

	2006	2005
Statutory tax rate	39.88%	39.88%
(Adjustment)		
Tax exempt income	(2.17)	(2.26)
Non-deductible expenses	0.49	0.63
Tax credit by tax incentives for research and development	(4.31)	(4.58)
Change in valuation allowance	(0.15)	1.67
Others	(1.64)	(1.40)
Effective income tax rate	32.10%	33.94%

18. 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
			2006	2005	2006
Sales	Japan	Customers	¥1,516,392	¥1,358,654	\$12,909
		Intersegment	299,071	226,474	2,546
		Total	1,815,463	1,585,128	15,455
	North America	Customers	348,156	268,737	2,964
		Intersegment	9,336	7,612	79
		Total	357,492	276,349	3,043
	Europe	Customers	142,643	138,617	1,215
		Intersegment	5,431	5,428	46
		Total	148,074	144,045	1,261
	Others	Customers	113,397	63,057	965
		Intersegment	7,954	5,273	68
		Total	121,351	68,330	1,033
	Eliminations		(321,791)	(244,787)	(2,740)
Consolidated		2,120,589	1,829,065	18,052	
Operating Costs and Expenses	Japan	1,716,253	1,500,580	14,610	
	North America	352,812	273,403	3,003	
	Europe	147,463	142,814	1,256	
	Others	106,747	61,071	909	
	Eliminations	(320,783)	(243,914)	(2,731)	
	Consolidated	2,002,492	1,733,954	17,047	
Operating Income	Japan	99,210	84,548	845	
	North America	4,680	2,946	40	
	Europe	611	1,231	5	
	Others	14,604	7,259	124	
	Eliminations	(1,008)	(873)	(9)	
	Consolidated	118,097	95,111	1,005	
Assets	Japan	1,696,262	1,401,318	14,440	
	North America	250,055	201,319	2,129	
	Europe	82,801	74,517	705	
	Others	123,071	77,425	1,048	
	Eliminations	(298,730)	(251,265)	(2,544)	
	Consolidated	¥1,853,459	¥1,503,314	\$15,778	

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, the "Partial Amendment of Accounting Standard for Retirement Benefits" and "Guideline for Partial Amendment of Accounting Standard for Retirement Benefits" were issued. As described in "Allowance for Employee Retirement Benefit" 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 was permitted. Pursuantly, operating income for the geographical segment "Japan" increased ¥290 million.

As described in "Translation of financial statements of foreign subsidiaries and affiliates" within the "Summary of Significant Accounting Policies" portion of the Notes to Consolidated Financial Statements, revenues and expenses of foreign subsidiaries and affiliates accounted for under the equity method have been translated at the average exchange rates since the fiscal year ended March 31, 2005. As a result of this change, by geographical segment, net sales increased by ¥8,591 million in "North America," decreased by ¥4,685 million in "Europe" and increased by ¥5,283 million in the "Others" segment. Also, operating income increased by ¥123 million in "North America," 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 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 geographical segment "Japan" and assets declined by the same amount.

(3) Sales

(a) Sales by Item

			Millions of Yen		Millions of U.S. Dollars
			2006	Increase	2005
					2006
Automotive related					
Engine related		¥ 197,399	¥ 23,750		¥ 173,649
Drivetrain related		901,644	132,960		768,684
Brake & chassis related		425,182	53,137		372,045
Body related		379,549	61,557		317,992
Information & other automotive related		123,231	9,622		113,609
Automotive related total		2,027,005	281,026		1,745,979
Rate to total		95.6%	0.1%		95.5%
Life & energy related		52,988	4,298		48,690
Others		40,596	6,200		34,396
Grand total		¥2,120,589	¥291,524		¥1,829,065
					\$18,052

(b) Sales By Geographical Area

	Millions of Yen			Millions of U.S. Dollars
	2006	Increase	2005	2006
Overseas				
North America	¥ 377,540	¥103,873	¥ 273,667	\$ 3,214
Europe	173,878	7,854	166,024	1,480
Asia & Others	162,586	42,709	119,877	1,384
Overseas total	714,004	154,436	559,568	6,078
Rate to total	33.7%	3.1%	30.6%	33.7%
Japan	1,406,585	137,088	1,269,497	11,974
Grand total	¥2,120,589	¥291,524	¥1,829,065	\$18,052

Main countries or regions are:

2006 : (1) North America: U.S.A., Mexico, Canada (2) Europe: Sweden, Germany (3) Asia & Others: Thailand, South Korea, China, Taiwan

2005 : (1) North America: U.S.A., Canada (2) Europe: Sweden, Germany (3) Asia & Others: South Korea, Taiwan, Thailand, China

Since the fiscal year ended March 31, 2005, revenues and expenses of foreign subsidiaries and affiliates accounted for by the 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 increased ¥8,591 million for "North America," decreased ¥4,685 million for "Europe" and increased ¥5,283 million for "Asia & Others."

19. Related Party Transactions

During the years ended March 31, 2006 and 2005, Aisin Seiki had operational transactions with Toyota Motor Corporation, which holds 23.2% of Aisin Seiki's total shares.

A summary of the significant transactions between Aisin Seiki and such a company for the years ended, or as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
For the year:			
Purchases of parts	¥ 17,880	¥ 15,565	\$ 152
Sales of automotive parts	301,877	281,355	2,570
At the year-end:			
Trade accounts receivable	¥ 43,330	¥ 39,868	\$ 369
Trade accounts payable	2,890	3,088	25

During the years ended March 31, 2006 and 2005, 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
	2006	2005	2006
For the year:			
Payment of employees' health insurance expenses	¥88	¥79	\$1

20. Shareholders' Equity

- (1) The authorized number of shares of common stock was 700 million as of March 31, 2006, unless there was a reduction due to a cancellation of treasury stock acquired.
- (2) The number of treasury stock held by Aisin Seiki, its subsidiaries, and affiliates accounted for by the equity method was 7,701,168 shares and 8,585,613 shares at March 31, 2006 and 2005, respectively.

21. Stock-based Compensation

At the Ordinary General Meeting of Shareholders held in June 2006, shareholders approved Share Acquisition Rights, which earmark a maximum of 800,000 shares of common stock to be further distributed among directors and managing officers of Aisin Seiki, 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, which 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 the grant date.

Each of the Share Acquisition Rights is exercisable for the period from August 1, 2008 to July 31, 2012.

Information about the outstanding stock option plan is as follows.

Years of Approval	Number of Outstanding Shares	Exercise Price per Share	Exercise Period
2002	184,000	¥ 1,763	Aug. 1, 2004 ~ Jul. 1, 2006
2003	133,600	1,848	Aug. 1, 2005 ~ Jul. 1, 2007
2004	969,000	2,425	Aug. 1, 2006 ~ Jul. 1, 2008
2005	711,000	2,655	Aug. 1, 2007 ~ Jul. 1, 2011

22. Subsequent Event

On June 22, 2006, the following appropriations of retained earnings were approved at the Ordinary General Meeting of Shareholders of Aisin Seiki:

	Millions of Yen	Millions of U.S. Dollars
Cash dividends	¥5,590	\$48
Bonuses to directors and corporate auditors	298	3

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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 2006, 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 2006, 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(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".

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.

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 22, 2006