

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).

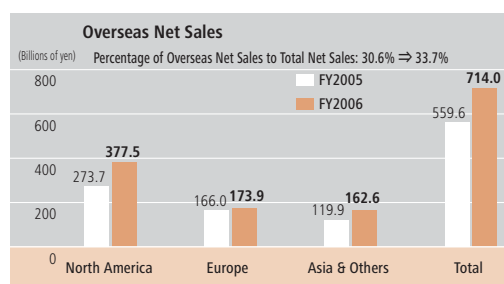
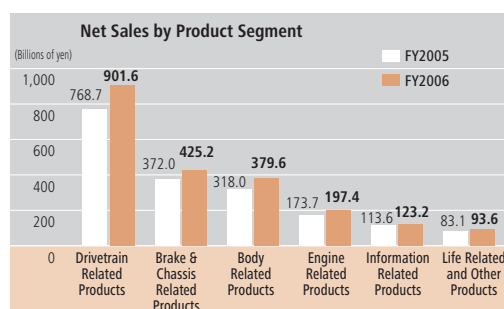
Results of Operations

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%.

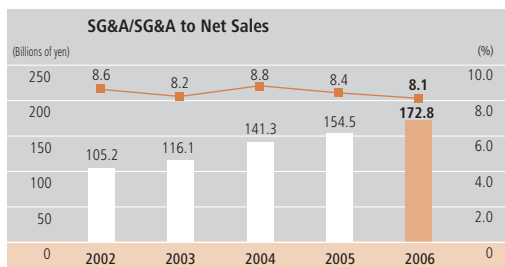
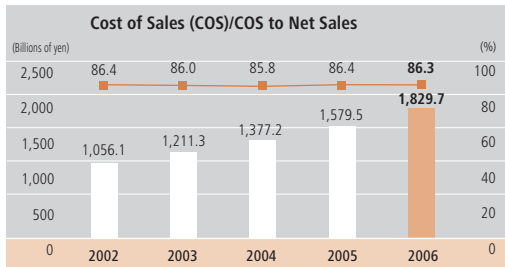


Cost of Sales and Selling, General and Administrative Expenses

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%.

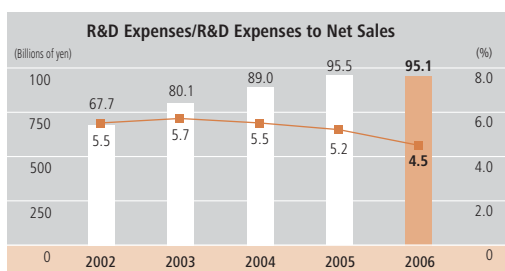
Selling, general and administrative (SG&A) expenses rose 11.9% from ¥154,469 million to ¥172,810 million (US\$1,471 million) in accordance with an increase in such

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



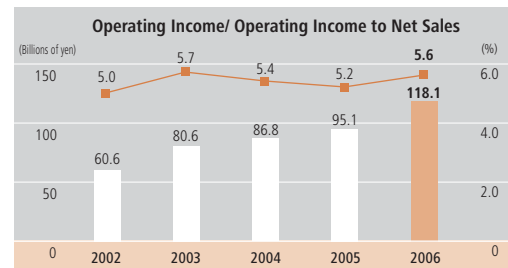
R&D Expenses

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

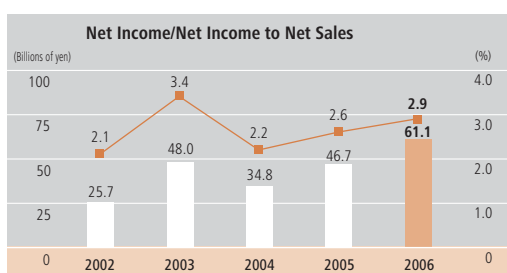
The balance of non-operating income and expenses was a profit of ¥7,000 million (US\$60 million) in fiscal 2006 compared with ¥3,347 million in fiscal 2005. The chief factors for this increase were a ¥2,083 million increase in foreign exchange gains, a ¥956 million increase in dividend income and an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

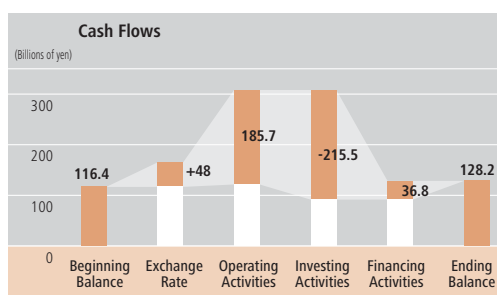
Net cash provided by operating activities increased ¥43,040 million, or 30.2%, from ¥142,676 million in fiscal 2005 to ¥185,716 million (US\$1,581 million). Although an increase in trade notes and accounts receivable resulted in a decrease in cash of ¥17,175 million, the chief factors for this rise in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

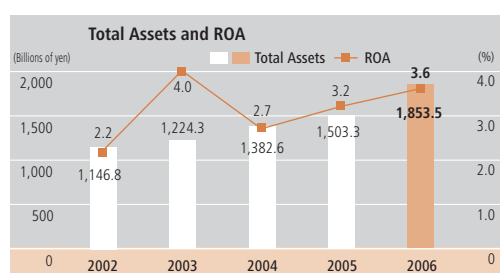
Cash Flows from Financing Activities

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.



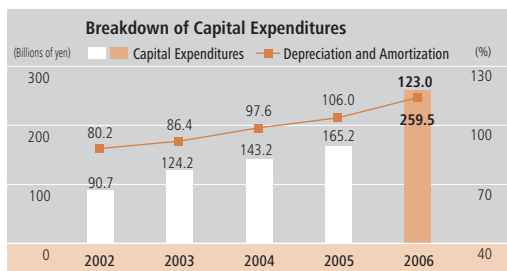
Financial Position

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.