

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

AINISIN 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	3	(2)	2	0	(0)
Thai Baht put	<1>	3	(2)	<0>	0	(0)
Thai Baht call	453	4		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
Euro call	94	1	1	1	0	0
Euro put	<0>	1	1	<0>	0	0
Thai Baht call	286	3	1	2	0	0
Thai Baht call	<1>	3	1	<0>	0	0
Thai Baht call	453	4		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