

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

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

Overview

Aisin Seiki and its subsidiaries (collectively, AISIN) comprises 153 subsidiaries and affiliates, including 100 production companies, 14 sales companies and 39 other companies, with operations entailing manufacturing and sales related to the core Automotive Parts and Systems Business and the Life Related and Other Business.

During the fiscal year, beginning April 1, 2006 and ending March 31, 2007, on a consolidated basis, net sales

rose 12.2% to ¥2,378,612 million (US\$20,149 million), operating income increased 11.0% to ¥131,034 million (US\$1,110 million) and ordinary income grew 7.3% to ¥134,287 million (US\$1,138 million), all of which marked record highs. Additionally, net income rose 9.5% to ¥66,890 million (US\$567 million).

Results of Operations

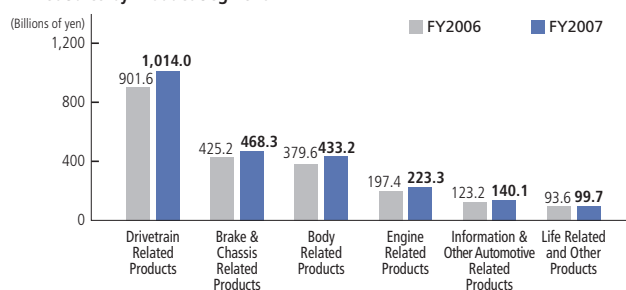
Sales

In the fiscal year under review, net sales were ¥2,378,612 million (US\$20,149 million). By business segment, sales in the Automotive Parts and Systems Business rose 12.4% from ¥2,027,005 million to ¥2,278,817 million (US\$19,304 million) over the previous fiscal year. Within the Life Related and Other Business, sales in the life related products segment declined 2.6% to ¥51,593 million (US\$437 million) as a result of a decrease in unit sales of GHPs and other factors, while sales of the other products segment, which includes civil engineering and petroleum sales, grew 18.7% to ¥48,202 million (US\$408 million) on account of an increase in orders.

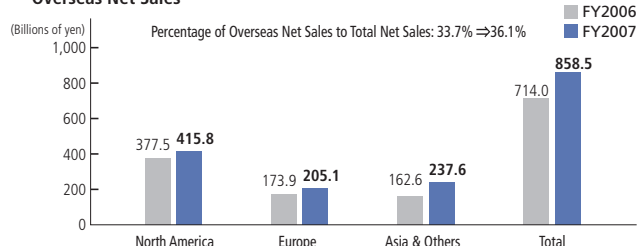
Within the Automotive Parts and Systems Business, sales of engine related products rose 13.1% to ¥223,275 million (US\$1,891 million) due to higher sales of timing chain covers and cylinder head covers. Sales of drivetrain related products, meanwhile, increased 12.5% to ¥1,014,017 million (US\$8,590 million) on the back of the strong performance of 6-speed ATs and MTs. Sales of brake and chassis related products rose 10.1% to ¥468,261 million (US\$3,967 million); sales of body related products improved 14.1% to ¥433,211 million (US\$3,670 million) in line with expanded sales of occupant weight sensors and power sliding door systems; and sales of information & other automotive related products increased 13.7% to ¥140,053 million (US\$1,186 million) following growth in sales of car navigation systems and other products.

AISIN has been consistently globalizing its business activities and increasing the number of overseas bases. Reflecting this, the ratio of overseas sales to total net sales rose from 33.7% to 36.1%.

Net Sales by Product Segment



Overseas Net Sales



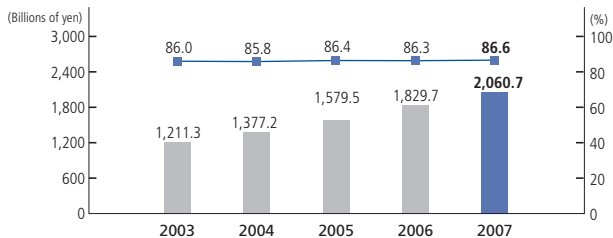
Cost of Sales and Selling, General and Administrative Expenses

Cost of sales increased 12.6% from ¥1,829,682 million to ¥2,060,668 million (US\$17,456 million). Despite our efforts to streamline and raise efficiency in all areas of operations through cost reductions and other measures, surging raw materials prices, rising depreciation and amortization expenses, as well as R&D and other expenses resulted in the ratio of cost of sales to net sales edging up from 86.3% to 86.6%.

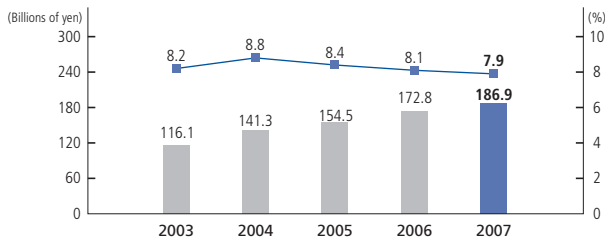
Selling, general and administrative (SG&A) expenses rose 8.2% from ¥172,810 million to ¥186,910 million

(US\$1,583 million) in accordance with increases in such proportional expenses as packaging and shipping as well as R&D expenses. The ratio of SG&A expenses to net sales decreased from 8.1% to 7.9%.

Cost of Sales (COS)/COS to Net Sales



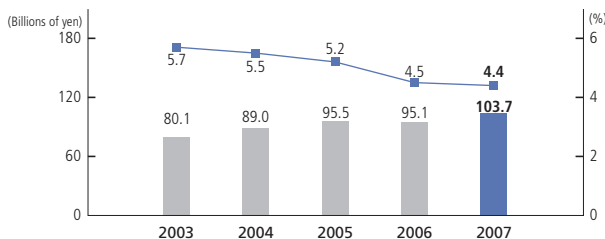
SG&A/SG&A to Net Sales



R&D Expenses

R&D expenses, which are included in SG&A expenses and manufacturing costs, respectively totaled ¥95,149 million and ¥103,750 million (US\$879 million) in fiscal 2006 and 2007. The ratio of R&D expenses to net sales for both fiscal years was 4.5% and 4.4%, respectively.

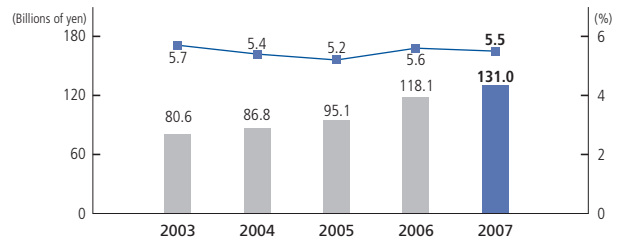
R&D Expenses/R&D Expenses to Net Sales



Operating Income

Operating income rose 11.0% to ¥131,034 million (US\$1,110 million), while the ratio of operating income to net sales stood at 5.5%.

Operating Income/ Operating Income to Net Sales



Non-operating Income and Expenses

The balance of non-operating income and expenses was a profit of ¥3,253 million (US\$28 million) in fiscal 2007, compared with a profit of ¥7,000 million in fiscal 2006. The chief factors behind this decline were a ¥2,045 million loss on sales of property, plant and equipment, a ¥1,990 million reduction in foreign exchange gains and an increase in dividend income of ¥1,277 million.

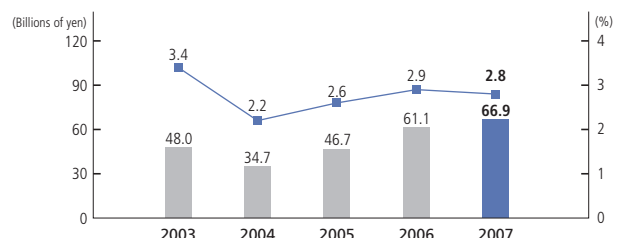
Minority Interests in Net Income of Subsidiaries

Minority interests in net income of subsidiaries fell 5.1% from ¥23,850 million to ¥22,622 million (US\$192 million), with the burden of corporate taxes incurred by acquisition of treasury stock held by subsidiaries outweighing an increase in profits at overseas subsidiaries.

Net Income

Net income rose 9.5% from ¥61,096 million to ¥66,890 million (US\$567 million), while the ratio of net income to net sales declined from 2.9% to 2.8%. Return on equity (ROE) decreased from 9.9% to 9.3%, while net income per share improved from ¥209.15 to ¥233.03 (US\$1.97).

Net Income/Net Income to Net Sales



Overview of Cash Flows

For fiscal 2007, cash flows provided by operating activities amounted to ¥228,402 million (US\$1,935 million), cash flows used in investing activities was ¥236,615 million (US\$2,004 million) and cash flows provided by financing activities totaled ¥13,361 million (US\$113 million). As a result, cash and cash equivalents as of March 31, 2007 stood at ¥136,307 million (US\$1,155 million), an increase of ¥8,094 million, or 6.3%, compared with ¥128,213 million as of March 31, 2006.

Cash Flows from Operating Activities

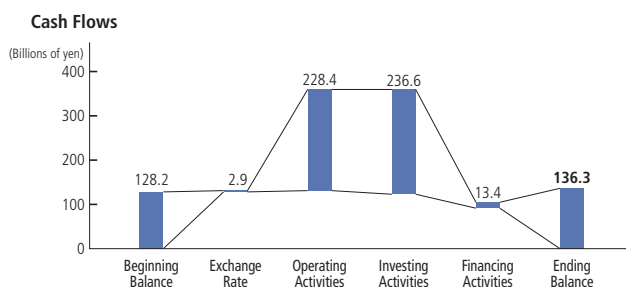
Net cash provided by operating activities increased ¥42,686 million, or 23.0%, from ¥185,716 million in fiscal 2006 to ¥228,402 million. The chief factors behind this rise were an increase of ¥9,190 million in income before income taxes and minority interests and an increase of ¥22,243 million in depreciation and amortization.

Cash Flows from Investing Activities

Net cash used in investing activities rose ¥21,119 million, or 9.8%, from ¥215,496 million in fiscal 2006 to ¥236,615 million. This was primarily due to an increase of ¥16,651 million in time deposit and short-term investments as well as an increase of ¥5,681 million from ¥218,753 million to ¥224,434 million in payments for purchase of property, plant and equipment.

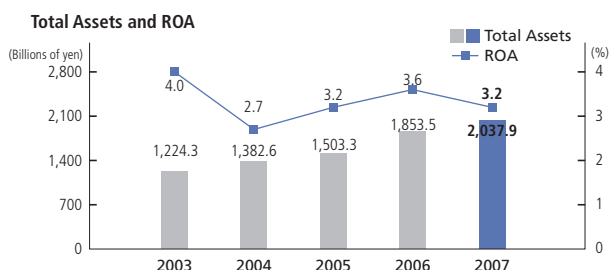
Cash Flows from Financing Activities

Net cash provided by financing activities fell ¥23,473 million, or 63.7%, from ¥36,834 million in fiscal 2006 to ¥13,361 million. The key factors were a decrease of ¥14,978 million in proceeds from long-term debt from ¥65,187 million in fiscal 2006 to ¥50,209 million and the absence of proceeds from issuance of bonds payable in fiscal 2007, which were posted in an amount of ¥10,000 million in fiscal 2006.



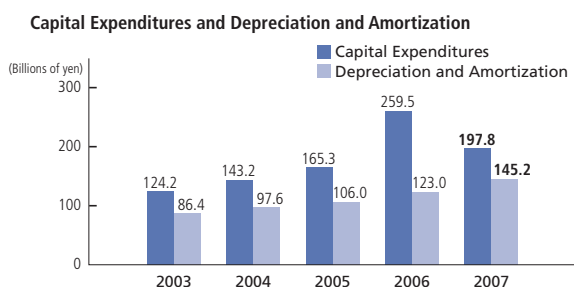
Financial Position

Total assets rose 10.0% to ¥2,037,896 million (US\$17,263 million) as a result of expanded business activities. Total liabilities rose 7.9% to ¥1,082,043 million (US\$9,166 million), minority interests increased 14.4% to ¥196,942 million (US\$1,668 million) and net assets totaled ¥955,853 million (US\$8,097 million).



Capital Expenditures

Capital expenditures decreased 23.8% to ¥197,806 million (US\$1,676 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 investments and others for new product development and evaluation facilities.



Future Outlook

Net sales for the fiscal year ending March 31, 2008 are projected to rise 5.1% to ¥2,500,000 million owing to increased sales of ATs.

While higher depreciation and amortization expenses and R&D expenses are expected, projections call for a 3.0% rise in operating income to ¥135,000 million on the back of increased sales and cost reduction efforts, as well as ordinary income of ¥137,000 million and net income of ¥68,000 million.

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 22, 2007.

(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 more 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 ¥1,567,932 million (US\$13,282 million)

and representing 65.9% of AISIN's net sales in fiscal 2007. 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, 2007, the portion of AISIN's voting shares held by TMC directly was 23.0%, 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 36.1% as of March 31, 2007.

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 is no fluctuation 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 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. While AISIN is working to minimize the negative impact of exchange rate fluctuations among various currencies, including the U.S. dollar, the euro and the yen, such 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 or 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 may halt operations could negatively impact AISIN's performance and financial position.