EXEDY Corporation

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EXEDY Corporation
Mission Statement

The Shape of Our Future-"Creation of Fulfillment"

Each employee, with a good conscience and hope for the future, will create fulfillment for our society.

Through advanced technology and scrupulous attention to detail, we will create fulfillment for our customers.

With pride and a desire to grow, we will create fulfillment for the EXEDY family.

Our Guiding Principles

Every one of us

participates with strong self-motivation.
-A company that meets challenges with vitality.

cooperates and strives for performance.
-A company whose efforts are rewarded.

practices what we preach.
-A company that accomplishes its stated goals.

builds mutual respect and trust.
-A company with pride.

encourages workers to grow as individuals.
-A company that makes the most of individual talent.

Business Domain

With advanced technology and a dedication to service, a firm base in manufacturing drivetrain components, we aim to be a world-leader in our field.

2004.8.1000.BC. Printed in Japan

EXEDY Corporation

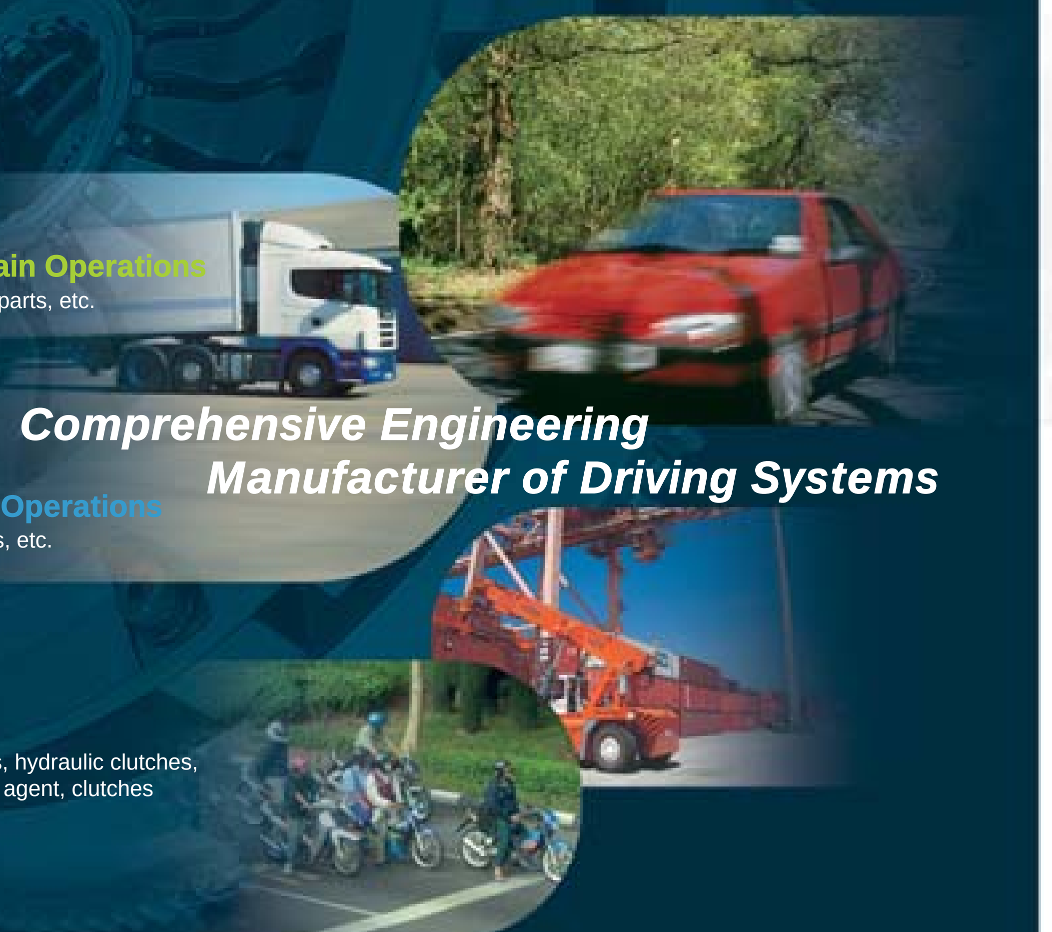
Annual Report 2004

Year Ended March 31, 2004

Profile

In the nearly 80 years since we began operations and more than 50 years since our foundation, Daikin Clutch has grown steadily, together with the evolution of power trains. Many of our outstanding products, developed from our original technology and constant research, have ensured safe, comfortable travel and operability of vehicles and industrial machinery, thus contributing to all areas of industry. Through our efforts to manufacture the best products in response to current needs, we aim to deliver satisfaction to our direct customers, and ultimately to the general public. With this in mind we are constantly striving to advance still further our special technology, which has been developed over many years. Efforts to expand our overseas production facilities are backed by a simple principle: products should be produced where they are needed by members of the local community.

At EXEDY, we work to undertake business activities that contribute to the local communities, regions and countries that we serve. As a comprehensive engineering manufacturer of driving systems, we are determined to continue our quest to become the world's best company.



Automatic Automotive Drivetrain Operations
Torque converters, automatic transmissions/parts, etc.

Comprehensive Engineering Manufacturer of Driving Systems

Manual Automotive Drivetrain Operations
Clutch discs, clutch covers, 2 mass flywheels, etc.

Other Operations
Power shift transmissions, torque converters, hydraulic clutches, machine devices, molding devices, shipping agent, clutches for motorcycles, etc.

C o n t e n t s

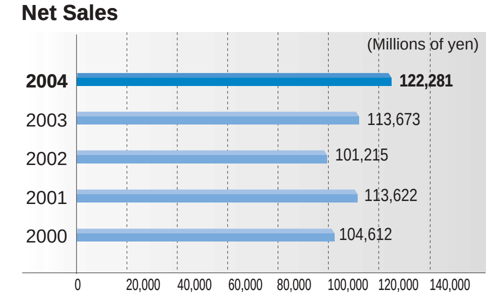
Consolidated Financial Highlights

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended as of March 31, 2003 and 2004

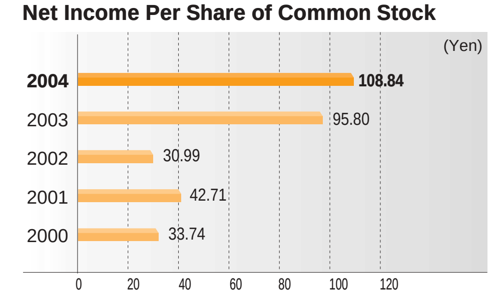
	Japanese yen (Millions)		U.S. dollars (thousands)	% Change
	2003	2004	2004	2003/2004
For the year :				
Net sales	¥ 113,673	**¥ 122,281**	**$ 1,156,973**	+ 7.6
Net income	4,448	**5,179**	**49,001**	+ 16.4
At Year-End:				
Total assets	¥ 108,907	**¥ 110,799**	**$ 1,048,337**	+ 1.7
Shareholders' equity	63,192	**69,614**	**658,661**	+ 10.2
Per Share Data:	Japanese yen		U.S. dollars	
Net income	¥ 95.80	**¥ 108.84**	**$ 1.03**	+ 13.6
Shareholders' equity	1,386.57	**1,432.90**	**13.56**	+ 3.3
Cash dividends	17.00	**15.00**	**0.14**	- 11.8

Notes.1: Dollar figures are translated, for convenience only, at the rate of ¥105.69 to U.S. $1.00.
2: Effective as of April 1, 2002, per share data are stated under "Accounting Standards for the computing net income per share of common stock (Standards of Enterprise accounting No.2)" and "Implementation Guideline of Standards for the computing net income per share of common stock (Implementation Guideline of Standards of Enterprise accounting No.4)".

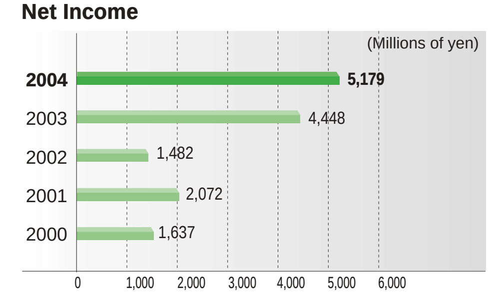
Net Sales



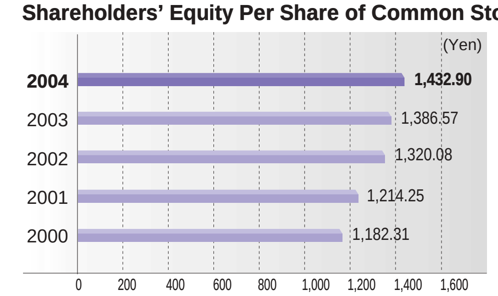
Net Income Per Share of Common Stock



Net Income



Shareholders' Equity Per Share of Common Stock



To Our Shareholders

Takeshi Nakano
President and Chief Executive Officer

Business Operations

1. Review of Fiscal 2003

The auto parts industry saw favorable bullish trends due to the upward movement in the American and Asian markets. The Japanese market also experienced demand for re-purchasing large-size vehicles due to the tighter regulation of exhaust gases. The EXEDY Group focused mainly on the automatic automotive drivetrain business in the United States and the manual automotive drivetrain business in Asia in addition to lowering costs in all possible segments. As the result, the EXEDY Group had sales of 122.2 billion yen (an increase of 7.6% over fiscal 2003), operating profits of 11.5 billion yen (an increase of 17.7%), ordinary income of 10.9 billion yen (an increase of 22.8%), and net income of 5.1 billion yen (an increase of 16.4%).

Note: Due to the accounting for the impairment of fixed assets, which has been allowed in Japan since the current period, EXEDY already applied this accounting method, allocating impairment loss of 1 billion yen as extraordinary loss in order to build a sound financial structure.

2. Outlook for Fiscal 2004

We expect that the domestic market will be flat in the coming period, the U.S. market will be favorable, and the Asian market will continue to expand. The EXEDY Group continues to develop eco-friendly products that improve fuel economy and suppress noise and vibration in vehicles with fuel-efficient engines for complete quality management. Regarding earnings, we are determined to secure solid profitability by streamlining operations given the severe financial condition and the expected higher costs from price increases for steel material.
Consequently, we expect sales of 125 billion yen (an increase of 2.2%), ordinary income of 11.2 billion yen (an increase of 1.9%), and net income of 6.0 billion yen (an increase of 15.9%) for the next fiscal year.

Financial Position

1. Review of Fiscal 2003

Our cash flow from sales activities was 13.6 billion yen, a decrease of 2.6 billion yen over fiscal 2002. The main breakdown is as follows: net income before income taxes was 9.3 billion yen (compared to 8.5 billion yen for fiscal year 2002) and depreciation expenses were 7.6 billion yen, which was the same level as the previous year. The loss of 1 billion yen due to the accounting for the impairment of fixed assets did not reduce cash, which resulted in positive cash flow. In terms of working capital from operations, trade receivables, and inventory increased 1.9 billion yen and liabilities on purchases increased 800 million yen due to business expansion in North America. The corporate tax paid was 5.2 billion yen.
Cash flow from investments was 10.7 billion yen, an increase of 2.7 billion yen. Expenses for capital investment were 9.4 billion yen (compared to 8.2 billion yen for the previous year). Cash flow from financial activities was 2.2 billion yen, a decrease of 2.3 billion yen. The payment of dividends was 800 million yen and the long/short term loan payments were 1.9 billion yen. In addition, gain from treasury stock sold was 700 million yen. As the results indicate, cash and cash equivalents at the end of the year totaled 16.7 billion yen, an increase of 200 million yen.

2. Outlook for Fiscal 2004

Cash flow obtained from sales activities will increase by 3 billion yen compare to this year due to increases in net income before income taxes and depreciation expenses, decrease in corporate tax expenses, and variations in working capital. Cash flow for investment activities will increase by 5 billion yen over this year due to an increase in capital investment in response to the expanded AT business. Cash flow from financing activities will be 1 billion yen due to the payment of dividends and other items. As the results indicate, cash and cash equivalents at the end of next year will remain the same at 16.7 billion.

July 2004
Takeshi Nakano

T. Nakano

Management goals

EXEDY Group will put our corporate climate reform activities named NC21 (New Century 21) into practice based on our corporate principle with "Creation of Fulfillment" as the key basis.

The backbone is "being competitive as we fulfill our corporate responsibilities in society including compliance, corporate principle, and eco-friendly operation to improve our social standing."

Top management policies

Accomplish the world's best quality, cost performance, and manufacturing promptly to transform our corporate structure as the world's leader.

1) Keep focusing on customer needs and supply products providing pleasure in a timely manner
2) Improve quality, the key factor, as if no comparison exists
3) Accomplish the world's best cost performance by establishing a system of global production and supply
4) Establish a corporate structure to accomplish each target with complete commitment to activities
5) Establish better communication to create an active and well-communicated corporate climate

Mid-term strategies

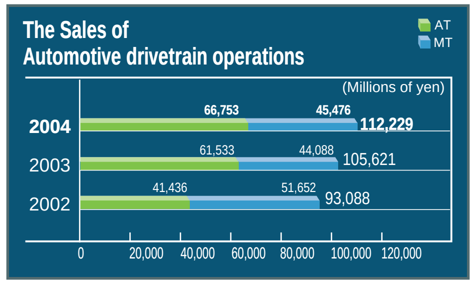
Due to the upward demand of multistage auto transmissions and CVT, more and more of the main parts, torque converters, which used to be manufactured by auto manufacturers internally, are outsourced and developed/produced by specialized manufacturers, such as EXEDY. In order to take advantage of this new business opportunity, we expand the size of our production across the three bases in Japan, the United States, and Asia since 2004 with our superb established technologies. We continue our corporate management considering environmental issues demanded by society to improve fuel efficiency and develop lighter, thinner, and more efficient products in the driving parts field with our technology, which leads to profits from our new products for our shareholders.

Business Results by Division

Segment Information(AT, MT)

Due to the initiation of the new torque converter business, the increase in sales for South Korea, and CVT, sales were 66.7 billion yen (61.5 billion yen in the previous year, an increase of 8.5%) and operating profits were 6.2 billion yen (6.2 billion yen in the previous year, an increase of 0.7%)

Due to the favorable business results of the auto industry in Asia and the demand for the repurchase of large-size vehicles to meet the new exhaust gas regulations in Japan, net sales were 45.4 billion yen (44 billion yen in the previous year, an increase of 3.1%) and operating profits were 5.5 billion yen (4.9 billion yen in the previous year, an increase of 11.3%)



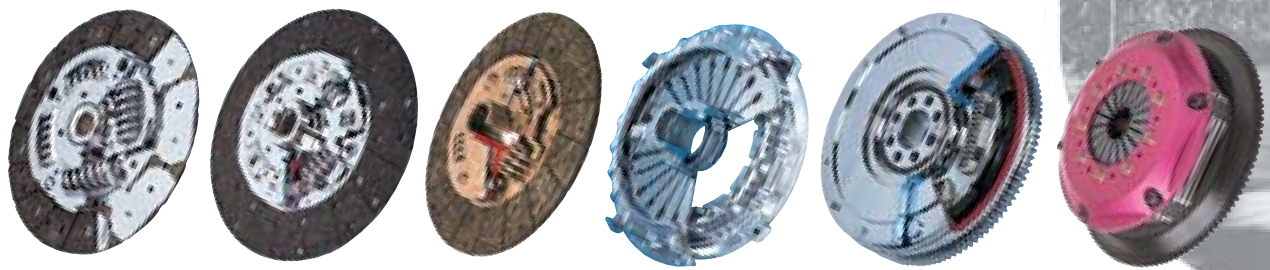
Integrated production of torque converters required for driving convenience, in AT segment, future automobiles are in perspective through continuous development of new products and technology, such as development of highly efficient, small size, long, flat torque converter based on fluid mechanics and the world's smallest, lightest FRU (forward/rear switch unit) essential for the CVT. In addition, its business field is expanding into the whole automatic transmission including development and production of AT parts.

AT Automatic automotive drivetrain operations

Super-elliptical type torque converter | Unity torque converter | Lock-up damper | Forward reverse unit for CVT | Clutch Pack | Friction Plates

In MT business, EXEDY develops, manufactures, and assembles components for manual transmissions, such as clutch discs and clutch covers. Our advanced engineering has led to a number of innovations, including sports clutches and WAD (wide-angle dampers), hydrodamp systems that provide the superior anti-noise, anti-vibration performance needed in today's compact, lightweight cars.

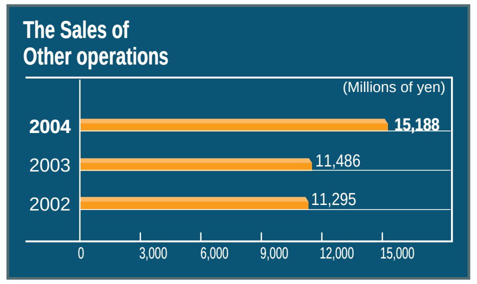
MT Manual automotive drivetrain operations



WAD (wide angle damper) | Large sized unity disc | Silent disc | Large sized pull-type clutch | Hydrodamp system | Multi-plate clutch

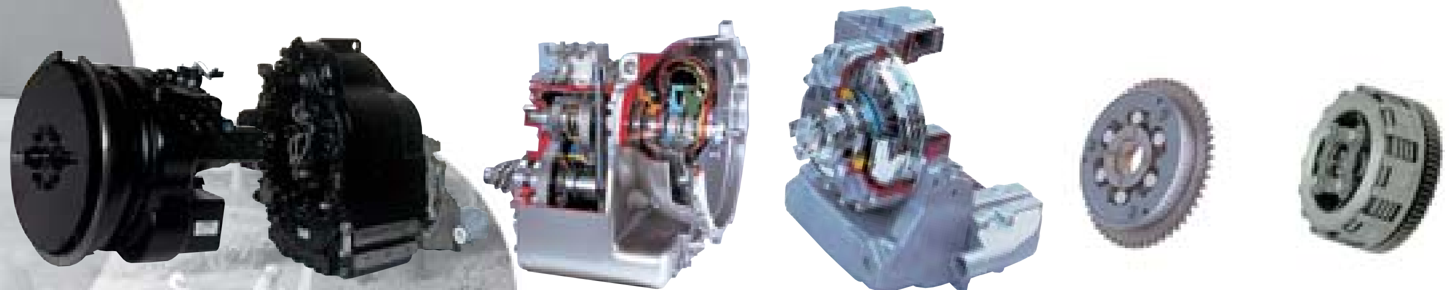
Segment Information(Other)

Due to the increase on sales of forklifts and motorcycles, sales were 15.1 billion yen (11.4 billion yen in the previous year, an increase of 32.2%) and operating profits were 500 million yen (-700 million yen in the previous year).

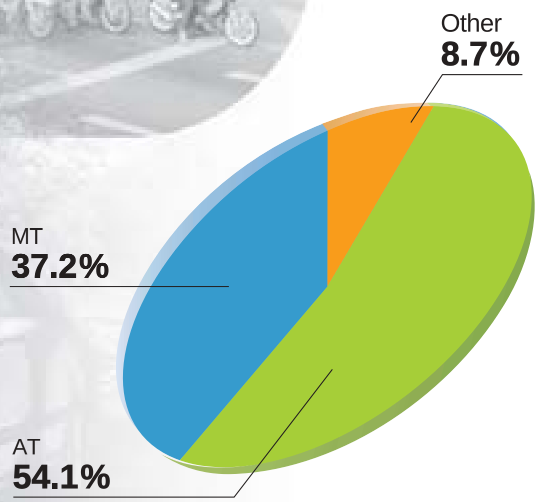


We supply products for construction machinery and industrial vehicles that keep Japanese industry on the move. Because this field involves custom manufacturing of a wide variety of products in small lots, great flexibility is required. EXEDY develops, manufactures, and assembles power shift transmissions that stand out for their quality. In addition, EXEDY is expanding the business of clutches for motorcycles in the Southeast Asian market based on our clutch technology developed for automobiles.

Other Industrial drivetrain operations, Motorcycle drivetrain operations and other operations



Transmission for a rough-terrain crane | Forklift transmission | Retarder | One-way clutch | Multiplate wet clutch

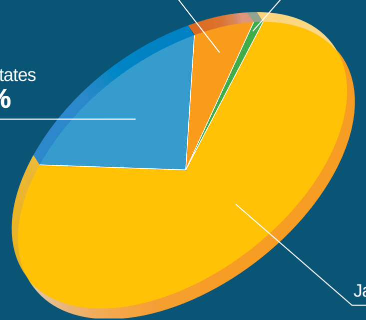


The graph above shows the percentage of sales to customers outside the Group.

Segment Information

The EXEDY Group segments by business type used to be automotive drivetrain operations, industrial drivetrain operations, and other operations; however, the ratio of industrial drivetrain business of the EXEDY Group has been lowered and therefore included in the segment of other operations. On the other hand, the automotive drivetrain segment has been classified into MT (manual automotive drivetrain operations) and AT (automatic automotive drivetrain operations), in order to provide useful information to our shareholders and investors.

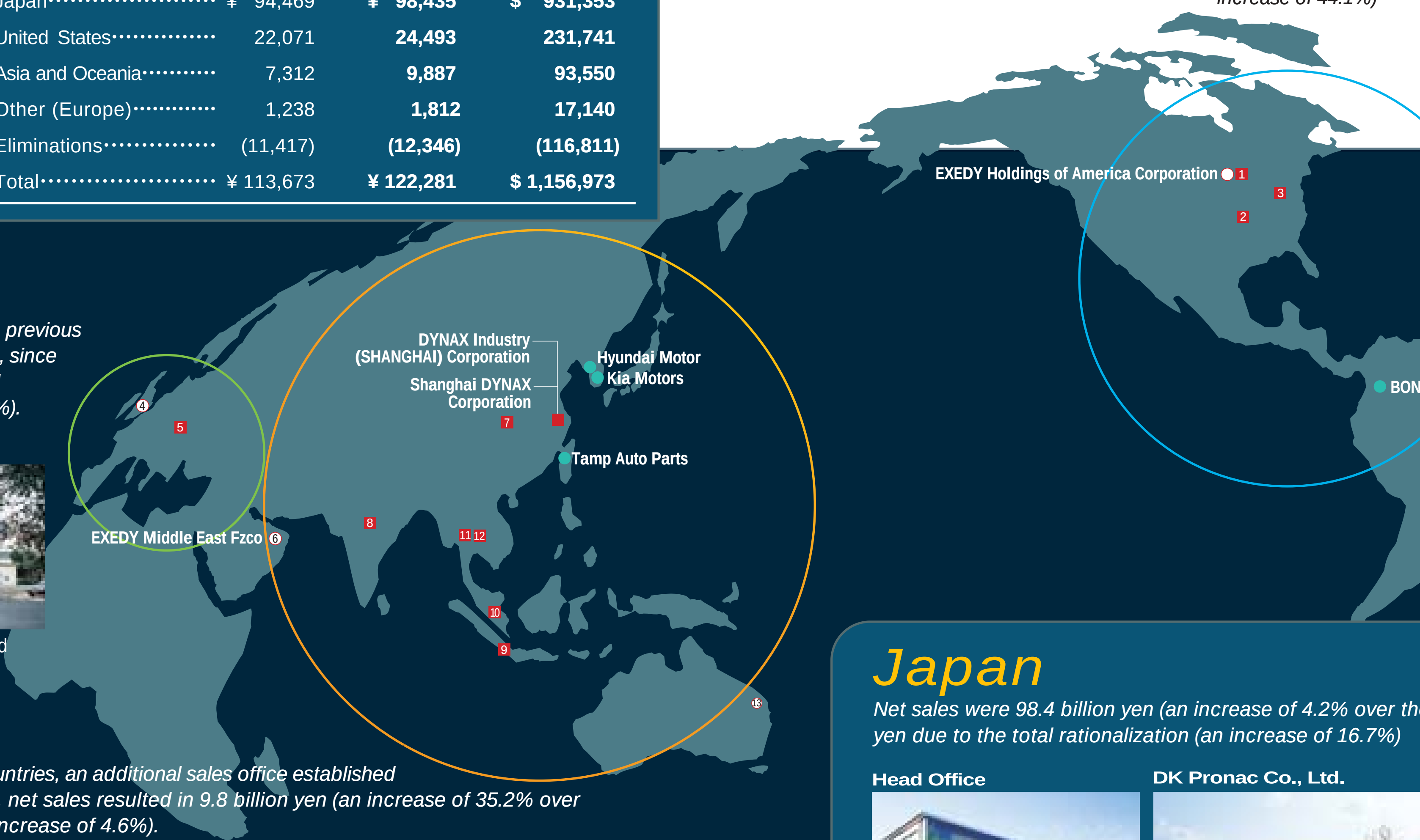
Business Results by Market



The graph above shows the percentage of sales to customers outside the Group.

Net Sales of Location

	Japanese yen (millions) 2003	Japanese yen (millions) 2004	U.S. dollars (thousands) 2004
Japan	¥ 94,469	**¥ 98,435**	**$ 931,353**
United States	22,071	**24,493**	**231,741**
Asia and Oceania	7,312	**9,887**	**93,550**
Other (Europe)	1,238	**1,812**	**17,140**
Eliminations	(11,417)	**(12,346)**	**(116,811)**
Total	¥ 113,673	**¥ 122,281**	**$ 1,156,973**



United States

Due to the initiation of the new torque converters business, net sales were 24.4 billion yen (an increase of 11.0% over the previous year) and operating profits were 1.4 billion yen (an increase of 44.1%)

1 Daikin Clutch Corporation

2 EXEDY America Corporation

U.S.A.

3 DYNAX America Corporation

Other (Europe)

Net sales were 1.8 billion yen (an increase of 46.3% over the previous year due to the fiscal year period change of the U.K. affiliate, since the previous year results were for a nine-month period), and operating profits were 200 million yen (an increase of 215.3%).

England

4 EXEDY Clutch Europe Limited

Hungary

5 Euro EXEDY Clutch Limited

Asia and Oceania

Due to stable growth of automobile production in Asian countries, an additional sales office established in the U. A. E and expanded motorcycle related business, net sales resulted in 9.8 billion yen (an increase of 35.2% over the previous year) and operating profits 1 billion yen (an increase of 4.6%).

U.A.E.

6 EXEDY Middle East Fzco

China

7 EXEDY Chongqing Co., Ltd.

India

8 Ceekay Daikin Limited

Indonesia

9 P.T. Daikin Clutch Indonesia

Malaysia

10 EXEDY (MALAYSIA) SDN. BHD.

Thailand

11 Siam DK Technology Co., Ltd

Thailand

12 EXEDY Friction Material Co., Ltd.

Australia

13 EXEDY Australia PTY. Limited

Japan

Net sales were 98.4 billion yen (an increase of 4.2% over the previous year) and operating profits were 8.8 billion yen due to the total rationalization (an increase of 16.7%)

Head Office

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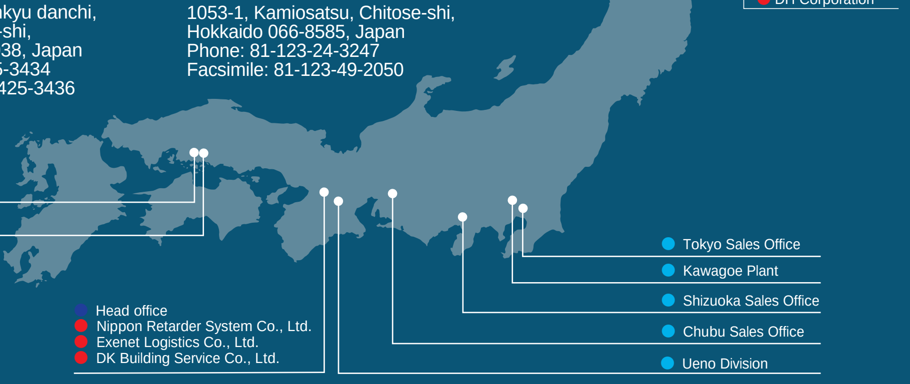
6-11, Taguchi kenkyu danchi, Higashihiroshima-shi, Hiroshima 739-0038, Japan
Phone: 81-82-425-3434
Facsimile: 81-82-425-3436

DYNAX Corporation

1053-1, Kamiosatsu, Chitose-shi, Hokkaido 066-8585, Japan
Phone: 81-123-24-3247
Facsimile: 81-123-49-2050



EXEDY World-Tour 2004

EXEDY America Corporation

EXEDY America Corporation

Facility expansion of EXEDY America Corporation (EAC), an EXEDY Group torque converter manufacturer located in Tennessee, U.S.A. was completed in July 2003, and its newly set two-line production started. The expansion was due to a large order received from Ford Motors, and the torque converter production capability was increased to 1.5 million from 0.9 million per year before the expansion construction.

Torque converter

EAC was established as the first EXEDY Group overseas torque converter production base in October 1994. The initial company name was Daikin Drivetrain Components Corporation (DDC); however, it was changed to EAC in April 2004 due to the strategy for the EXEDY brand creation. The facility area expanded to 31,000 m^2, approximately 1.5 times larger than the initial facility area of 22,000 m^2, and the number of employees increased by 80 to 340.

EAC received a production order of 260 mm large-size torque converters equipped on three models, including the Freestar, Taurus, and Sable from Ford Motors. At present, approximately 150 employees are engaged in this production in three shifts manufacturing 45,000 per month. In the United States, auto manufacturers have outsourced more and more auto parts, and the torque converters had originally been manufactured by Ford Motors internally.

Half of the expanded facility is for a wider range of business in the future. EAC intends to take advantage of the outsourcing trend based on the latest experience of capital investment and production line setup, stepping forward to receive new orders for the remaining space to be used for production. Its final goal for the expanded production area is over 2 million converters annually.

Ford Sable

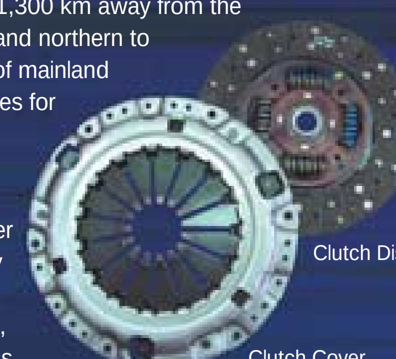
Ford Taurus

Ford Freestar

EXEDY Chongqing Co., Ltd.

EXEDY Chongqing Co., Ltd.

EXEDY Chongqing Co., Ltd.(EXC), our Group company located in Chongqing, China manufactures clutch discs and clutch covers for passenger cars and driving components, such as F/W dampers, for CVT vehicles. Its sales activities cover 14 auto and engine manufacturers, including a location deep in the mountains 1,300 km away from the coastal Shanghai area and northern to southern components of mainland China, in addition to sales for aftermarket in different parts of the country.



Clutch Disc

Clutch Cover

EXC was established in December 1995 with the company name of Chongqing Sanling Daikin Mfg. Co., Ltd. (CSD), started mass production in 1997, and experienced stable business expansion with the slogan, “First class quality, first class corporation and first class life.” For the last two years since FY 2002, CSD experienced rapid growth, and net sales, profits, and production/sales volume all doubled. Since January 2004, its name has been changed from CSD to EXC as a part of the EXEDY Brand image creation strategy.

As the auto industry in China has become the fourth largest in the world above France following the United States, Japan, and Germany in FY 2003, the market share of EXC is the fourth largest as a clutch manufacturer for OEM in China, taking advantage of being an EXD Group company, and will start capital investment to double production capability from FY 2004, aiming to be a leading company within 10 years. By the second half of FY 2005, monthly production is planned to be 100,000 sets in a double-shift operation.

EXC product lineup is specialized in the range of small passenger/commercial vehicle to compact passenger/commercial vehicle components, having an advantage over competitors for models of Japanese made automobiles. Therefore its OEM business is mainly for Japanese vehicles; however, EXC aims to obtain a larger market share by developing new products focusing on U.S. and European models of automobiles as well.

AUTO CHINA 2004, the first exhibition as EXC

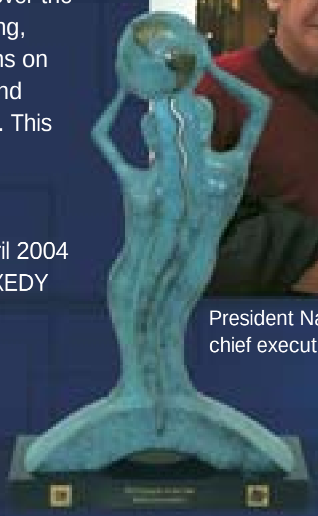
Topics for the Year

Consecutive Awards in 2002 and 2003 for GM Supplier of the Year

EXEDY was honored as the General Motors Supplier of the Year, an award presented to superior suppliers selected by General Motors (GM), for the two consecutive years 2002 and 2003.
EXEDY is a three-time winner of this award since 2000.

Award winners are selected from suppliers all over the world by GM executives from purchasing, engineering, manufacturing, and logistics who base their decisions on supplier performance in technology, quality, price, and delivery. The award has been presented since 1992. This year, General Motors honored 77 suppliers out of approximately 3,500 companies for their excellence throughout 2003.

The award was given during ceremonies in April 2004 at the Hilton Prague Hotel in the Czech Republic. EXEDY president Takeshi Nakano and others attended, and a trophy was awarded by Jim Bovenzi, executive director of GM. EXEDY continues to supply better products, aiming to be a four-time award winner.



President Nakano of EXEDY (left) and Rick Wagoner, president and chief executive officer of GM

Company Name Changes of Overseas Affiliated Companies

As a part of the EXEDY brand image creation since 2002, five of EXEDY's overseas affiliated group company names have been changed.

Five company names have been changed as follows:
1. Chongqing Sanling Daikin Clutch Mfg. Co., Ltd. (China)
   [New Company Name] EXEDY Chongqing Co., Ltd.
2. Daikin Clutch Australia Pty. Ltd. (Australia)
   [New Company Name] EXEDY Australia Pty Ltd.
3. Daikin Clutch Europe Limited (UK)
   [New Company Name] EXEDY Clutch Europe Ltd.
   The above three names were changed on January 1, 2004
4. EXEDY America Corporation (U.S.A)
   [New Company Name] EXEDY Holdings of America Corporation
5. Daikin Drivetrain Components Corporation (U.S.A)
   [New Company Name] EXEDY America Corporation
   The above two names were changed on April 1, 2004
   Our company name was changed from Daikin Mfg. Co., Ltd to EXEDY Corporation in 1995; however, the name, Daikin, remained with some affiliates due to the worldwide strength of the Daikin Clutch brand image. For the coming future, we will form EXEDY as our sole brand and focus on creating a global standard brand.

Ceremony for the new company name, EXEDY Chongqing Co.,Ltd.

Strategy of EXEDY Brand Creation

In order to establish the brand name of EXEDY in the global market, EXEDY participated in domestic and overseas auto parts trade fairs. For FY 2003, EXEDY displayed products at six locations in five countries (U.S.A. (2), France, China, Malaysia, and the U.A.E.) and four domestic locations (Yokohama, Chiba, Osaka, and Fukuoka) to promote the EXEDY brand name and products. These activities were part of our strategy of brand creation since 2002, pressing our immediate aim to spread EXEDY as a global standard brand.

In addition, the package design of clutches for the aftermarket was changed for the current period after eight years. The purpose was to make the brand name well known and prevent the imitation of EXEDY products in the market by using a registered package design as an EXEDY trademark.

SEMA SHOW 2003(USA Las Vegas)
November 2003

New package for manual clutches

2003 Major Global Vehicles Using EXEDY Products

VOLKSWAGEN TOUAREG
DYNAX AT Parts

PEUGEOT 406
EXEDY Torque Converter

SUBARU LEGACY
EXEDY Manual Clutch, Torque Converter and DYNAX AT Parts
(2003-2004 Car of the Year Japan)

MAZDA RX-8
EXEDY Manual Clutch
(2004 RJC Car of the Year)

Status of the Corporate Group

The EXEDY Group consists of EXEDY Corporation, 23 affiliates, and 2 related companies for the production and sales of manual automotive drivetrain (MT) and automatic automotive drivetrain (AT) as our main business, as well as a wide range of service activities related to the core business.

The EXEDY Group domestic business structure consists of production and sales of products and parts by EXEDY Corporation and DYNAX Corporation and subcontract production, service activity, and other businesses by other Group companies.

Overseas, each Group company manufactures and markets MT, AT, and other products for local users; EXEDY Corporation and DYNAX Corporation exports to international customers and provides technical support and supplies products and parts to Group companies.

The business outline of EXEDY Corporation, the affiliates, and related companies are classified as follows:

Outline of the EXEDY Group

Automatic Automotive Drivetrain Operations

- *EXEDY Corporation*
- *DYNAX Corporation*
- *EXEDY America Corporation*
- *DYNAX America Corporation*
- *Shanghai DYNAX Corporation*
- *DYNAX Industry (Shanghai) Corporation*
- *EXEDY Australia PTY.Limited*
- *Siam DK Technology Co.,Ltd*
- *DYNAX North America Sales Corporation*
- *EXEDY Holdings of America Corporation*

1 other company
(11 companies total)

Manual Automotive Drivetrain Operations

- *EXEDY Corporation*
- *DYNAX Corporation*
- *DK Pronac Co.,Ltd.*
- *EXEDY America Corporation*
- *Daikin Clutch Corporation*
- *EXEDY Clutch Europe Limited*
- *EXEDY Australia PTY.Limited*
- *Siam DK Technology Co.,Ltd*
- *EXEDY (Malaysia) SDN.BHD.*
- *Euro EXEDY Clutch Limited*
- *EXEDY Friction Material Co.,Ltd*
- *EXEDY Chongqing Co.,Ltd*
- *EXEDY Middle East Fzco*
- *EXEDY Holdings of America Corporation*
- *P.T. Daikin Clutch Indonesia*
- *Ceekey Daikin Limited*

2 other company
(18 companies total)

Other Operations

- *EXEDY Corporation*
- *EXEDY America Corporation*
- *DYNAX Corporation*
- *DYNAXAmerica Corporation*
- *Exenet Logistics Co.,Ltd*
- *Daikin Clutch Corporation*
- *Siam DK Technology Co.,Ltd*
- *EXEDY Friction Material Co.,Ltd*
- *Shanghai DYNAX Corporation*
- *EXEDY Holdings of America Corporation*

5 other companies
(15 companies total)

= Consolidated Subsidiaries
None= Equity-method applied companies

Consolidated Five-Year Summary

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended as of March 31

	Japanese yen (millions)					U.S. dollars (thousands)
	2000	2001	2002	2003	**2004**	**2004**
For the year:						
Net sales	¥ 104,612	¥ 113,622	¥ 101,215	¥ 113,673	**¥ 122,281**	**$ 1,156,973**
Net income	1,637	2,072	1,482	4,448	**5,179**	**49,001**
At year-end:						
Total assets	¥ 102,009	¥ 105,952	¥ 106,576	¥ 108,907	**¥ 110,799**	**$ 1,048,337**
Current assets	49,165	51,419	50,817	54,213	**55,399**	**524,160**
Property, plant and equipment	44,278	47,005	48,514	48,108	**47,041**	**445,084**
Current liabilities	24,597	33,106	28,325	24,733	**25,074**	**237,243**
Long-term debt	14,099	6,382	5,914	8,354	**2,594**	**24,542**
Shareholders' equity	57,358	58,908	60,081	63,192	**69,614**	**658,661**
Shareholders' equity / Total assets (%)	56.23	55.60	56.37	58.02	**62.83**	**62.83**
Retained earnings	43,654	45,111	47,219	51,136	**55,406**	**524,232**
Per share of Common stock:	Japanese yen					U.S. dollars
Net income	¥ 33.74	¥ 42.71	¥ 30.99	¥ 95.80	**¥ 108.84**	**$ 1.03**
Net income-diluted	33.51	42.23	30.84	93.32	**106.12**	**1.00**
Shareholders' equity	1,182.31	1,214.25	1,320.08	1,386.57	**1,432.90**	**13.56**

Notes: 1. Dollar figures are translated, for convenience only, at the rate of ¥105.69 to U.S.$1.00.
2. Effective as of April 1, 2002, per share data are stated under "Accounting Standards for the computing net income per share of common stock (Standards of Enterprise accounting No.2)" and "Implementation Guideline of Standards for the computing net income per share of common stock (Implementation Guideline of Standards of Enterprise accounting No.4)".

Financial Section

Consolidated Balance Sheets

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2003 and 2004

ASSETS	Japanese yen (millions) 2003	Japanese yen (millions) 2004	U.S. dollars (thousands) 2004
Current Assets:			
Cash and cash equivalents [Note 1(p)]	¥ 16,530	¥ 16,752	$ 158,499
Time deposits	66	59	561
Notes and accounts receivable-			
Trade	24,788	25,317	239,545
Non-consolidated subsidiaries and affiliates	368	364	3,445
Allowance for doubtful accounts	(66)	(218)	(2,064)
Marketable securities (Note 3)	100	—	—
Inventories (Note 2)	9,748	10,339	97,822
Deferred tax assets (Note 4)	1,344	1,593	15,072
Other current assets	1,335	1,193	11,280
Total current assets	54,213	55,399	524,160
Property, Plant and Equipment (Note 5&11):			
Land	8,182	7,036	66,573
Buildings and structures	28,312	28,077	265,653
Machinery and vehicles	74,962	76,068	719,725
Tools and furniture	21,527	23,781	225,010
Construction in progress	3,089	2,647	25,049
	136,071	137,609	1,302,010
Less-accumulated depreciation	(87,963)	(90,568)	(856,926)
Total property, plant and equipment	48,108	47,041	445,084
Investments and Other Assets:			
Investment in securities (Note 3)	1,482	2,884	27,289
Investments in and loans to			
non-consolidated subsidiaries and affiliates	403	471	4,454
Long-term loans	246	214	2,027
Deferred tax assets (Note 4)	2,495	2,366	22,385
Other assets	1,960	2,424	22,938
Total investments and other assets	6,586	8,359	79,093
	¥ 108,907	¥ 110,799	$1,048,337

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Japanese yen (millions) 2003	Japanese yen (millions) 2004	U.S. dollars (thousands) 2004
Current Liabilities:			
Short-term borrowings including			
current portion of long-term debt (Note 5)	¥ 3,675	¥ 5,026	$ 47,550
Notes and accounts payable -			
Trade	12,420	13,014	123,134
Construction	985	702	6,645
Non-consolidated subsidiaries and affiliates	26	91	863
Accrued expenses	4,229	4,227	39,991
Accrued income taxes (Note 4)	3,024	1,647	15,582
Deferred tax liabilities (Note 4)	10	—	—
Other current liabilities	364	367	3,478
Total current liabilities	24,733	25,074	237,243
Long-term Liabilities:			
Long-term debt (Note 5)	8,354	2,594	24,542
Deferred tax liabilities (Note 4)	235	368	3,479
Employees' severance and retirement benefits (Note 6)	7,485	7,928	75,010
Retirement benefits for directors and corporate auditors	384	450	4,255
Other long-term liabilities	448	683	6,468
Total Long-term liabilities	16,906	12,023	113,754
Minority Interests	4,076	4,088	38,679
Contingent Liabilities (Note 9)			
Shareholders' Equity (Note 7):			
Common stock			
Authorised-168,000 thousand shares in 2003 and 2004			
Outstanding-48,514 thousand shares in 2003 and			
48,520 thousand shares in 2004	7,223	7,227	68,375
Capital surplus	6,481	7,712	72,971
Retained earnings	51,136	55,406	524,232
Net unrealized holding gains on securities	277	1,113	10,530
Foreign currency translation adjustments [Note 1(c)]	(372)	(1,843)	(17,437)
Treasury stock			
3,003 thousand shares in 2003 and 2 thousand			
shares in 2004	(1,553)	(1)	(10)
Total shareholders' equity	63,192	69,614	658,661
	¥ 108,907	¥110,799	$1,048,337

Consolidated Statements of Income

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended as of March 31, 2003 and 2004

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Net Sales	¥ 113,673	**¥ 122,281**	**$1,156,973**
Cost of Sales	85,530	**92,234**	**872,681**
Gross profit	28,143	**30,047**	**284,292**
Selling, General and Administrative Expenses	18,351	**18,527**	**175,294**
Operating income	9,792	**11,520**	**108,998**
Other (Income) Expenses:			
Interest and dividend income	(86)	**(55)**	**(523)**
Interest expense	238	**194**	**1,840**
Losses on sales or dispositions of property, plant and equipment	252	**310**	**2,935**
Losses (Gains) on sales of investment in securities	186	**(2)**	**(16)**
Gain on the extinguishment of retirement benefit obligation relating to entrusted government's portion	(1,411)	**—**	**—**
Amortization of the net transition obligation for employees' severance and retirement benefits	1,362	**607**	**5,742**
Losses on devaluation of investment in securities	569	**—**	**—**
Equity in losses (gains) of non-consolidated subsidiaries and affiliates	67	**(48)**	**(457)**
Foreign exchange loss, net	293	**404**	**3,825**
Impairment losses on property, plant and equipment (Note 11)	—	**1,079**	**10,214**
Other, net	(226)	**(279)**	**(2,647)**
	1,244	**2,210**	**20,913**
Income before income taxes and minority interests	8,548	**9,310**	**88,085**
Income Taxes (Note 4)			
Current	4,342	**3,878**	**36,692**
Deferred	(785)	**(554)**	**(5,238)**
Minority Interests in Net Income of Consolidated Subsidiaries	543	**807**	**7,630**
Net Income	¥ 4,448	**¥ 5,179**	**$ 49,001**
	Japanese Yen		U.S.dollars
Per Share of Common Stock (Note 10):			
Net income	¥ 95.80	**¥ 108.84**	**$ 1.03**
Net income-diluted	93.32	**106.12**	**1.00**
Cash dividends	17.00	**15.00**	**0.14**

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

Consolidated Statements of Shareholders' Equity

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended as of March 31, 2003 and 2004

	Number of outstanding shares (thousands)	Japanese yen (millions)					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance as of 31 March, 2002	48,514	¥ 7,223	¥ 6,481	¥ 47,219	¥ 89	¥ 620	¥ (1,551)
Net income	—	—	—	4,448	—	—	—
Net unrealized holding gains on securities	—	—	—	—	188	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(992)	—
Treasury stock	—	—	—	—	—	—	(2)
Cash dividends paid	—	—	—	(455)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(76)	—	—	—
Balance as of 31 March, 2003	48,514	7,223	6,481	51,136	277	(372)	(1,553)
Net income	**—**	**—**	**—**	**5,179**	**—**	**—**	**—**
Net unrealized holding gains on securities	**—**	**—**	**—**	**—**	**836**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**(1,471)**	**—**
Exercise of warrants	**6**	**4**	**4**	**—**	**—**	**—**	**—**
Sale of treasury stock	**—**	**—**	**1,227**	**—**	**—**	**—**	**1,555**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**
Cash dividends paid	**—**	**—**	**—**	**(820)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(89)**	**—**	**—**	**—**
Balance as of 31 March, 2004	**48,520**	**¥ 7,227**	**¥ 7,712**	**¥ 55,406**	**¥ 1,113**	**¥ (1,843)**	**¥ (1)**

	Number of outstanding shares (thousands)	U.S. dollars (thousands)					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance as of 31 March, 2003	48,514	$ 68,337	$ 61,327	$483,830	$ 2,625	$ (3,519)	$ (14,702)
Net income	**—**	**—**	**—**	**49,001**	**—**	**—**	**—**
Net unrealized holding gains on securities	**—**	**—**	**—**	**—**	**7,905**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**(13,918)**	**—**
Exercise of warrants	**6**	**38**	**38**	**—**	**—**	**—**	**—**
Sale of treasury stock	**—**	**—**	**11,606**	**—**	**—**	**—**	**14,715**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(23)**
Cash dividends paid	**—**	**—**	**—**	**(7,762)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(837)**	**—**	**—**	**—**
Balance as of 31 March, 2004	**48,520**	**$ 68,375**	**$ 72,971**	**$524,232**	**$10,530**	**$(17,437)**	**$ (10)**

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

Consolidated Statements of Cash Flows

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended as of March 31, 2003 and 2004

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2004	2004
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 8,548	¥ 9,310	$ 88,085
Adjustments for :			
Depreciation and amortization	7,531	7,630	72,189
Losses on sales or dispositions of property, plant and equipment	252	310	2,935
Losses (gains) on sales of investment in securities	186	(2)	(16)
Losses on devaluation of investment in securities	569	—	—
Losses on devaluation of golf membership	19	5	48
Impairment losses on property, plant and equipment	—	1,079	10,214
Increase (decrease) in allowance for doubtful accounts	(178)	204	1,934
Increase in employees' severance and retirement benefits	445	442	4,185
Interest and dividend income	(86)	(55)	(523)
Interest expense	238	194	1,840
Decrease (increase) in notes and accounts receivables	716	(956)	(9,044)
Increase in inventories	(1,021)	(988)	(9,347)
Increase in notes and accounts payables	1,323	808	7,643
Other, net	725	1,026	9,692
Sub-total	19,267	19,007	179,834
Interest and dividend income received	90	57	543
Interest paid	(248)	(192)	(1,815)
Income taxes paid	(2,828)	(5,259)	(49,763)
Net cash provided by operating activities	16,281	13,613	128,799
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(8,215)	(9,492)	(89,807)
Proceeds from sales of property, plant and equipment	139	72	682
Payments for purchase of investment in securities	(107)	(9)	(82)
Proceeds from sales of investment in securities	440	103	974
Payments for additional portion of consolidated subsidiaries	(331)	(697)	(6,595)
Additions to loans receivable	(10)	(42)	(394)
Collection of loans receivable	288	62	589
Other, net	(278)	(776)	(7,350)
Net cash used in investing activities	(8,074)	(10,779)	(101,983)
Cash Flows from Financing Activities:			
Decrease in short-term borrowings, net	(4,766)	(214)	(2,021)
Proceeds from long-term loans payable	3,837	—	—
Repayments of long-term loans payable	(4,075)	(1,763)	(16,682)
Issuance of bonds	2,069	—	—
Redemption of bonds	(1,000)	—	—
Cash dividends paid	(455)	(820)	(7,762)
Cash dividends paid to minority shareholders	(241)	(151)	(1,430)
Proceeds from sale of treasury stock	—	713	6,745
Other, net	10	5	53
Net cash used in financing activities	(4,621)	(2,230)	(21,097)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(396)	(382)	(3,615)
Net Increase in Cash and Cash Equivalents	3,190	222	2,103
Cash and Cash Equivalents at Beginning of Year	13,048	16,530	156,396
Adjustments of New Consolidated Subsidiaries on Cash and Cash Equivalents	292	—	—
Cash and Cash Equivalents at End of Year	¥ 16,530	¥ 16,752	$ 158,499

Additional Cash Flow information:

Non-cash investing and financing activities:

In the year ending March 31, 2004, convertible bonds were converted and the Company resold treasury stock instead of issuing new stock.

	Japanese yen (millions)	U.S. dollars (thousands)
Decrease of treasury stock	¥ 1,265	$ 11,966
Increase of capital surplus	804	7,609
Decrease of convertible bonds	¥ 2,069	$ 19,575

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

Notes to Consolidated Financial Statements

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Summary of Significant Accounting and Reporting Policies

(a) Basis of presenting consolidated financial statements

EXEDY Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different in certain respects from the application and disclosure requirements of International Accounting Standards or standards in other countries.
The accompanying financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the Director of Kanto Finance Bureau in Japan as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate as at March 31, 2004 which was ¥105.69 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company.

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for on the equity method.

In the elimination of investments in consolidated subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries. Material intercompany balances, transactions and profits have been eliminated in consolidation.

(c) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currency are translated into Japanese yen at current rates at each balance sheet date and the resulting translation gains or losses are charged to income currently.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company. The Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity and minority interests.

(d) Securities

Securities consist principally of marketable and nonmarketable equity securities and interest-bearing securities.

Other securities with available fair market value are stated at fair market value. Net unrealized holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity.

Realized gains and losses on sales of such securities are computed using moving average cost.

Other securities with no available fair market value are stated at moving average cost, net of the amount considered not collectible.

If the fair market value of other securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of decline. If the net asset value of other securities, except for interest-bearing securities, with no available fair market value declines significantly, such securities should be written down to the net asset value by charging to income.

(e) Derivatives

All derivatives are stated at fair value.

(f) Inventories

Inventories except for supplies are mainly stated at the lower of cost (first-in, first-out) or market. Supplies are stated at cost determined by the last purchase cost method.

(g) Property, plant and equipment

Depreciation of property, plant and equipment is mainly computed using the declining-balance method over their estimated useful lives as follows:

Buildings and structures	3-60 years
Machinery and vehicles	2-15 years
Tools and furniture	2-20 years

Buildings acquired by the Company and its domestic consolidated subsidiaries on and after April 1, 1998 are depreciated on the straight-line method.

Maintenance and repairs including minor renewals and betterment are charged to income as incurred.

Software is amortized using the straight-line method over the useful lives (3-5 years).

The Company adopted accounting standards for Impairment of Fixed Assets ("Opinion concerning establishment of Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and "Implementation Guideline of Standards for Impairment of fixed assets (Implementation Guideline of Standards of Enterprise accounting No.6 issued on October 31, 2003)". As a result of adoption of new accounting standards, in the year ending March 31, 2004, income before income taxes and minority interests decreased by ¥1,079 million ($10,214 thousand) compared with what would have been recorded under the previous accounting standards. On the balance sheet, impairment losses are subtracted from the book cost of each asset type.

(h) Leases
Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(i) Income taxes
The Company and its consolidated subsidiaries recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(j) Allowance for doubtful accounts
The company and its consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period plus the estimated uncollectible amount based on the analysis of individual accounts.

(k) Employees' severance and retirement benefits
The Company and its domestic subsidiaries have unfunded retirement plans and contributory and non-contributory funded pension plans for employees, which are defined benefit plans.

The Company and most of its consolidated subsidiaries provided for employees' severance and retirement benefits at the end of the fiscal year based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The net transition obligation is recognized in expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001.

The actuarial gains and losses are recognized over the years less than the estimated average remaining service lives of the employees, which is 15 years for the current year, from the next fiscal year.

(l) Retirement benefits for directors and corporate auditors
The Company and domestic subsidiaries have unfunded retirement allowances plans for directors and corporate auditors. The amounts required under the plans have been fully accrued.

(m) Accounting for consumption taxes
Consumption taxes are imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).
The consumption taxes withheld upon sale and consumption taxes paid by the Companies on their purchases of goods and services are not included in the amounts of respective revenue and cost or expense items in the accompanying consolidated statements of income.

(n) Research and development expenses
Research and development expenses are charged to income as incurred. Research and development expenses charged to income amounted to ¥3,993 million and ¥4,206 million ($39,795 thousand) for the years ended March 31, 2003 and 2004, respectively.

(o) Per share data
The computation of net income per share is based on the weighted average number of shares outstanding during each year, excluding the Company's treasury stock and based on net income attributing to ordinary shareholders, excluding bonuses to directors and corporate auditors etc.,.
The computation of net income-diluted per share assumes full conversion of convertible bonds at the beginning of the year (or at the time of issuance, if it is after beginning of the year) with an applicable adjustment for related net-of tax interest expense. The computation of Shareholders' equity per share is based on the number of common stock shares outstanding at year end, excluding the Company's treasury stock.
Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(p) Cash and cash equivalents
Cash and cash equivalents include cash on hand and deposits which have maturities of three months or less when purchased.

(q) Reclassification
Certain comparative figures have been reclassified to confirm with the current year's presentation.

2. Inventories

Inventories as of March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Finished goods	¥ 4,494	**¥ 5,140**	**$ 48,632**
Work-in process	1,954	**1,912**	**18,091**
Raw materials	3,046	**2,762**	**26,130**
Supplies	254	**525**	**4,969**
	¥ 9,748	**¥ 10,339**	**$ 97,822**

3. Securities

Other securities with book values (fair values) exceeding acquisition costs as of March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		
March 31,2003	Acquisition cost	Book value	Difference
Equity securities	¥ 325	¥ 854	¥ 529
Interest-bearing securities	99	100	1
Others	—	—	—
	¥ 424	¥ 954	¥ 530

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31,2004	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 927**	**¥ 2,791**	**¥ 1,864**	**$ 8,771**	**$ 26,410**	**$ 17,639**
Interest-bearing securities	**—**	**—**	**—**	**—**	**—**	**—**
Others	**4**	**5**	**1**	**41**	**45**	**4**
	¥ 931	**¥ 2,796**	**¥ 1,865**	**$ 8,812**	**$ 26,455**	**$ 17,643**

Other securities with book values (fair values) not exceeding acquisition costs as of March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		
March 31,2003	Acquisition cost	Book value	Difference
Equity securities	¥ 629	¥ 561	¥ (68)
Interest-bearing securities	—	—	—
Others	7	6	(1)
	¥ 636	¥ 567	¥ (69)

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31,2004	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 36**	**¥ 28**	**¥ (8)**	**$ 337**	**$ 261**	**$ (76)**
Interest-bearing securities	**—**	**—**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 36	**¥ 28**	**¥ (8)**	**$ 337**	**$ 261**	**$ (76)**

Book value of securities with no available fair values as of March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Other securities with no fair value			
Non-listed equity securities			
Carrying amount	¥ 61	**¥ 61**	**$ 573**

Maturities of other securities with maturities as of March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Corporate bond			
Within one year	¥ 100	**¥ —**	**$ —**
After one year through five years	—	**—**	**—**
After five years through ten years	—	**—**	**—**
Over ten years	—	**—**	**—**
Other			
Within one year	—	**—**	**—**
After one year through five years	2	**5**	**45**
After five years through ten years	4	**—**	**—**
Over ten years	—	**—**	**—**

Other securities sold in the year ended March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Sales value	¥ 440	**¥ 103**	**$ 974**
Gains	7	**2**	**16**
Losses	193	**—**	**—**

4. Income Taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Deferred tax assets:			
Net operating loss carryforwards	¥ 3,852	**¥ 3,333**	**$ 31,538**
Employees' severance and retirement benefits	2,723	**3,030**	**28,668**
Accrued bonuses to employees	626	**741**	**7,011**
Losses on devaluation of investment in securities	224	**230**	**2,172**
Accrued enterprise tax	349	**227**	**2,147**
Losses on devaluation of inventories	93	**195**	**1,847**
Unrealized income(fixed assets)	133	**188**	**1,777**
Retirement benefits for directors and corporate auditors	155	**182**	**1,722**
Unrealized income(inventories)	175	**171**	**1,614**
Other	699	**837**	**7,928**
Total deferred tax assets	9,029	**9,134**	**86,424**
Valuation allowance	(3,508)	**(3,684)**	**(34,861)**
Deferred tax assets	¥ 5,521	**¥ 5,450**	**$ 51,563**
Deferred tax liabilities:			
Property, plant and equipment	¥ (738)	**¥ (968)**	**$ 9,155**
Net unrealized holding gains on securities	(186)	**(750)**	**7,097**
Reserve for advanced depreciation	(492)	**(349)**	**3,306**
Reserve for special depreciation	(266)	**(255)**	**2,411**
Other	(245)	**(563)**	**5,323**
Total deferred tax liabilities	(1,927)	**(2,884)**	**27,292**
Valuation allowance	—	**1,026**	**(9,707)**
Deferred tax liabilities	¥ (1,927)	**¥ (1,859)**	**$ 17,585**
Net deferred tax assets	¥ 3,594	**¥ 3,591**	**$ 33,978**

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 41.7% for the years ended March 31, 2003 and 2004.

The following table summarized the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2003 and 2004:

	2003	**2004**
Statutory tax rate	— %	**41.7 %**
Adjustments for:		
Non-deductible expenses	—	**0.9**
Non-taxable incomes	—	**(1.9)**
Per capita inhabitant tax	—	**0.2**
Effect of operating loss carryforwards of overseas subsidiaries	—	**(6.7)**
Loss before income taxes of overseas subsidiaries	—	**0.5**
Other	—	**1.0**
Effective tax rate	— %	**35.7 %**

Reconciliation was not required to be presented for 2003 due to the difference being less than 5%.

5. Short-term Borrowings and Long-term Debt

Short-term borrowings are notes payable to banks due to in 30-180 days. The interest rates on these loans as of March 31, 2004 ranged from 0.53 percent to 5.84 percent.

Long-term debt as of March 31, 2003 and 2004 were summarized below:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
0.57% to 6.48% loans from banks and others, due in installments through 2009 - Unsecured	¥ 6,991	**¥ 5,063**	**$ 47,902**
1.60% loans from government sponsored agencies, due in installments through 2009 - Secured	862	**712**	**6,741**
0.125% unsecured convertible bonds due 2006	2,069	**—**	**—**
	9,922	**5,775**	**54,643**
Less:Current portion	(1,568)	**(3,181)**	**(30,101)**
	¥ 8,354	**¥ 2,594**	**$ 24,542**

As of March 31, 2004, the following assets were pledged as collateral for the secured short-term loan from banks of ¥52 million ($490 thousand) and government sponsored agencies:

	Japanese yen (millions)	U.S. dollars (thousands)
Land	**¥ 152**	**$ 1,441**
Buildings and structures, net	**327**	**3,096**
Machinery and vehicles, net	**18**	**166**
	¥ 497	**$ 4,703**

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank under certain circumstances, and that any collateral so furnished will be applicable to all indebtedness to that bank.To date, the Company and its consolidated subsidiaries have not received such requests from their banks.

Annual maturities of long-term debt as of March 31,2004 were as follows:

Year ending March 31	Japanese yen (millions)	U.S. dollars (thousands)
2006	**¥ 334**	**$ 3,163**
2007	**167**	**1,576**
2008	**1,966**	**18,605**
2009	**127**	**1,198**
	¥ 2,594	**$ 24,542**

6. Employees' Severance and Retirement Benefits

The Company and its domestic subsidiaries have defined benefit retirement plans covering substantially all employees.

The liabilities for employees' severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2003 and 2004 consisted of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Projected benefit obligations	¥14,651	**¥17,620**	**$166,711**
Fair value of pension assets	(2,302)	**(3,424)**	**(32,390)**
	12,349	**14,196**	**134,321**
Unrecognized net transition obligation	(1,214)	**(607)**	**(5,742)**
Unrecognized actuarial differences	(3,650)	**(5,661)**	**(53,569)**
Liability for employees' severance and retirement benefits	¥ 7,485	**¥ 7,928**	**$ 75,010**

The company and its domestic consolidated subsidiaries applied the transitional treatment specified in paragraph 47-2 of Accounting Committee Report No. 13, "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)," issued by the Japanese Institute of Certified Public Accountants, and recognized an extinguishment of retirement benefit obligation with relating to such entrusted government's portion as of the date of the approval. The equivalent amount of pension fund to be refunded to government is amounting to ¥8,242 million at March 31, 2003.

Included in the consolidated statements of income for the years ended March 31, 2003 and 2004 were employees' severance and retirement benefit expenses comprised of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Service cost	¥ 1,003	**¥ 816**	**$ 7,718**
Interest cost	831	**337**	**3,194**
Expected return on plan assets	(466)	**(69)**	**(653)**
Amortization of net transition obligation	1,362	**607**	**5,742**
Amortization of prior service cost	(68)	**—**	**—**
Amortization of actuarial differences	390	**414**	**3,915**
Employees' severance and retirement benefit expenses	3,052	**2,105**	**19,916**
Gain on the extinguishment of retirement benefit obligation relating to entrusted government's portion	(1,411)	**—**	**—**
	¥ 1,641	**¥ 2,105**	**19,916**

Assumptions used in calculation of the above information were as follows:

	2003	**2004**
Method of attributing the projected benefits to period services	straight-line basis	**straight-line basis**
Discount rate	2.9%	**2.0%**
Expected rate of return on plan assets	4.0%	**3.0%**
Amortization of net transition obligation	5years	**5years**
Amortization of prior service cost	15years	**—**
Amortization of actuarial differences	15years	**15years**

7. Shareholders' Equity

The Company is subject to the Japanese Commercial Code (the "Code"), to which certain amendments became effective on October 1, 2001.

The Code provides that all appropriations of retained earnings, except interim cash dividends, must be approved at an ordinary general meeting of shareholders. In accordance with customary practice in Japan, appropriations of retained earnings are not accrued in the financial statements for the year to which they relate but are recorded in the subsequent accounting year after shareholders' approval has been obtained.

The Code provides that an amount equal to at least 10% of cash dividends and directors' bonuses, etc., to be paid should be appropriated as a legal reserve. Before September 30, 2001, no further appropriation is required when the legal reserve equals 25% or more of common stock. Pursuant to the amendments to the Code, no further appropriation is required when the sum of capital surplus and legal reserve equals 25% or more of common stock. If the amount of accumulated capital surplus and legal reserve exceeds the required amount, the excess amount is allowed to be appropriated by a resolution at an ordinary general meeting of shareholders. Legal reserve might be used to reduce a deficit or it might be transferred to common stock by appropriate legal procedures.

The following appropriations of retained earnings of the Company were proposed and approved at the general meeting of shareholders held on June 24, 2004:

	Japanese yen (millions)	U.S. dollars (thousands)
Balance at March 31,2004	¥ 55,406	$ 524,232
Appropriations-Cash dividends paid (¥9 per share outstanding at March 31, 2004)	437	4,132
Bonuses to directors and corporate auditors	65	615
Balance after appropriations	¥ 54,904	$ 519,485

8. Leases

Information relating to finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee as of March 31, 2003 and 2004 and for the fiscal years then ended were as follows:

Pro forma information regarding the leased property such as acquisition cost, accumulated depreciation, accumulated losses on impairment and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee for the year ended March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		
March 31,2003	Acquisition cost	Accumulated Depreciation	Balance
Machinery and vehicles	¥ 860	¥ 355	505
Tools and furniture	396	179	217
Other	261	116	145
	¥1,517	¥ 650	¥ 867

	Japanese yen (millions)				U.S. dollars (thousands)			
March 31,2004	Acquisition cost	Accumulated Depreciation	Losses on Impairment	Balance	Acquisition cost	Accumulated Depreciation	Losses on Impairment	Balance
Machinery and vehicles	¥ 900	¥ 401	¥ —	¥ 499	$ 8,512	$ 3,797	$ —	$ 4,715
Tools and furniture	355	215	—	140	3,361	2,032	—	1,329
Other	246	148	—	98	2,333	1,397	—	936
	¥1,501	¥ 764	¥ —	¥ 737	$14,206	$ 7,226	$ —	$ 6,980

The scheduled maturities of future lease payments, on such lease contracts as of March 31, 2003 and 2004, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2004	2004
Due within one year	¥ 236	¥ 250	$ 2,368
Due over one year	631	487	4,612
	¥ 867	¥ 737	$ 6,980
Lease payments for the year	¥ 220	¥ 257	$ 2,431

The amounts of acquisition costs and future minimum lease payments under finance leases included the imputed interest expense portion.

Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method, would be ¥220 million and ¥257 million($2,431 thousand) for the years ended March 31, 2003 and 2004, respectively.

The Company had no leased assets on which impairment shall be recognized for the year ended March 31, 2004.

Information regarding operating leases was as follows:

The scheduled maturities of future lease payments under non-cancelable operating leases as of March 31, 2003 and 2004, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2004	2004
Due within one year	¥ —	¥ 6	$ 59
Due over one year	—	8	76
	¥ —	¥ 14	$ 135

9. Contingent Liabilities

Contingent liabilities for guarantees by the Company as of March 31, 2003 and 2004 were as follows :

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2004	2004
Guarantees of loan from bank of an affiliate under equity method	¥ 500	¥ 500	$ 4,731

10. Per Share Data

Per share data as of March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2004	2004
Net income	¥ 95.80	¥ 108.84	$ 1.03
Net income-diluted	93.32	106.12	1.00
Shareholders' equity	1,386.57	1,432.90	13.56

The basic of computing per share data as of March 31, 2003 and 2004 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2004	2004
Net income per share of common stock			
Net income	¥ 4,448	¥ 5,179	$ 49,001
Amounts not attributing to ordinary shareholders	88	92	868
(Bonuses to directors and corporate auditors)	(88)	(92)	(868)
Net income attributing to ordinary shareholders	¥ 4,360	¥ 5,087	$ 48,133
The weighted average number of shares (thousands)	45,512	46,739	46,739
Net income-diluted per share of common stock			
Effect of dilutive securities			
On net income (net-of-tax interest expense)	¥ 1	¥ 1	$ 7
On the weighted average number of shares (thousands)	1,232	1,208	1,208

11. Impairment of Fixed Assets

Accounting for impairment of fixed assets shall be applied only when the investment may not be recoverable in the business. The company evaluated the profitability in each business category, which is Manual automotive drivetrain operations, Automatic automotive drivetrain operations,Industrial drivetrain operations and Other (Plants and other facilities), and the result indicates each business can recover the investment through the future. However, the company has some assets which do not belong to any business category and the carrying amount of these assets may not be recoverable. Therefore the Company recognized impairment losses on those assets where the recoverable value was less than the net book value. The recoverable value of land was based on valuation of property and equipment taxes and the recoverable value of other assets were based on fair value to sell. Impairment losses were recognized for the excess of the net book value over the recoverable value.

Impairment losses on fixed assets for the year ended March 31, 2004 were as follows:

Asset Group	Asset Type	Location	Usage	Japanese yen (millions)	U.S. dollars (thousands)
Asset which does not belong to any business category	Land	Hyogo Pref.	Idle	¥ 473	¥ 4,478
	Buildings and Structures	Osaka Pref.	Idle	17	158
	Tools and Furniture	Osaka Pref.	Idle	0	0
	Land	Osaka Pref.	Idle	589	5,578
				¥ 1,079	¥ 10,214

12. Derivatives

The only derivative transactions the Company carries are forward currency exchange contracts and the purpose is to hedge against the exchange rate risk. The Company does not carry derivative transactions for trading or speculative purposes. Hedging accounting through derivative transactions was not applied as necessary conditions were not met.
Transaction of forward currency exchange contract has risk due to changes in exchange rate. Since the company trades only with banking facilities, there can be no credit risk.
The Company has established a control system which includes policies and procedures regarding derivative transactions. All derivative transactions were processed under control and with necessary approval.

The following table provides amount information about derivative instruments as of March 31, 2003 and 2004.

	Japanese yen (millions)		
March 31,2003	Contract Amount	Fair Value	Gain (loss)
Forward exchange contracts:			
To sell U.S. dollars	¥ —	¥ —	¥ —
To sell Euro	—	—	—
	¥ —	¥ —	¥ —

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31,2004	Contract Amount	Fair Value	Gain (loss)	Contract Amount	Fair Value	Gain (loss)
Forward exchange contracts:						
To sell U.S. dollars	¥ 482	¥ 474	¥ 7	$4,558	$4,489	$ 69
To sell Euro	93	90	4	884	851	33
	¥ 575	¥ 564	¥ 11	$5,442	$5,340	$ 102

13. Segment Information

The Company and its consolidated subsidiaries operate three business segments, Manual automotive drivetrain operations, Automatic automotive drivetrain operations and Other. The Manual automotive drivetrain segment manufactures and sells clutch discs, clutch covers, flywheels and other manual transmissions. The Automatic automotive drivetrain segment is engaged in the manufacture and sales of torque converters and wet friction clutch plates. The Other segment consists of industrial machine drivetrain operations which manufacture and sell powershift transmissions, and other operations including sales and manufacture of clutches for motorcycle, plants and other facilities.

Effective for the fiscal year ending March 31, 2004, the Company and its subsidiaries changed the segment category as shown below because the Automatic automotive drivetrain segment is expanding its business significantly and new categorization shall provide investors with more beneficial information. The segment information for 2003 has been restated to conform to the 2004 presentation.

Former segment	New segment
Automotive drivetrain operations	Manual automotive drivetrain operations Automatic automotive drivetrain operations
Industrial drivetrain operations Other operations	Other operations

Business segment information for the years ended as of March 31, 2003 and 2004 were as follows :

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Sales:			
Manual automotive drivetrain operations	¥ 44,088	**¥ 45,476**	**$ 430,279**
Automatic automotive drivetrain operations	61,533	**66,753**	**631,595**
Other operations	11,486	**15,188**	**143,700**
Eliminations(inter-segment net sales)	(3,434)	**(5,136)**	**(48,601)**
	¥ 113,673	**¥ 122,281**	**$1,156,973**
Operating Costs and Expenses:			
Manual automotive drivetrain operations	¥ 39,096	**¥ 39,920**	**$ 377,713**
Automatic automotive drivetrain operations	55,277	**60,455**	**572,001**
Other operations	12,261	**14,600**	**138,142**
Non-allocated operating expenses and eliminations	(2,753)	**(4,214)**	**(39,880)**
	¥ 103,881	**¥ 110,761**	**$1,047,976**
Operating Income (Loss):			
Manual automotive drivetrain operations	¥ 4,992	**¥ 5,556**	**$ 52,566**
Automatic automotive drivetrain operations	6,255	**6,299**	**59,595**
Other operations	(775)	**587**	**5,558**
Non-allocated operating expenses and eliminations	(680)	**(922)**	**(8,721)**
	¥ 9,792	**¥ 11,520**	**$ 108,998**
Assets:			
Manual automotive drivetrain operations	¥ 34,855	**¥ 34,950**	**$ 330,688**
Automatic automotive drivetrain operations	53,440	**51,530**	**487,557**
Other operations	9,098	**12,920**	**122,245**
Corporate and eliminations	11,514	**11,399**	**107,847**
	¥ 108,907	**¥ 110,799**	**$1,048,337**
Depreciation and Amortization:			
Manual automotive drivetrain operations	¥ 2,393	**¥ 2,430**	**$ 22,994**
Automatic automotive drivetrain operations	4,107	**4,325**	**40,921**
Other operations	1,031	**958**	**9,068**
Corporate and eliminations	—	**(83)**	**(794)**
	¥ 7,531	**¥ 7,630**	**$ 72,189**
Impairment Losses on Fixed Assets:			
Manual automotive drivetrain operations	¥ —	**¥ —**	**$ —**
Automatic automotive drivetrain operations	—	**—**	**—**
Other operations	—	**—**	**—**
Corporate and eliminations	—	**1,079**	**$ 10,214**
	¥ —	**¥ 1,079**	**$ 10,214**
Capital Expenditures:			
Manual automotive drivetrain operations	¥ 2,486	**¥ 2,907**	**$ 27,507**
Automatic automotive drivetrain operations	5,875	**5,802**	**54,895**
Other operations	661	**996**	**9,428**
Corporate and eliminations	—	**(212)**	**(2,011)**
	¥ 9,022	**¥ 9,493**	**$ 89,819**

Geographic area information for the years ended as of March 31, 2003 and 2004 were as follows :

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
Sales:			
Japan	¥ 94,469	**¥ 98,435**	**$ 931,353**
America	22,071	**24,493**	**231,741**
Asia-Oceania	7,312	**9,887**	**93,550**
Other	1,238	**1,812**	**17,140**
Eliminations(inter-segment net sales)	(11,417)	**(12,346)**	**(116,811)**
	¥ 113,673	**¥ 122,281**	**$1,156,973**
Operating Costs and Expenses:			
Japan	¥ 86,858	**¥ 89,556**	**$ 847,349**
America	21,077	**23,060**	**218,190**
Asia-Oceania	6,276	**8,803**	**83,291**
Other	1,162	**1,574**	**14,889**
Non-allocated operating expenses and eliminations	(11,492)	**(12,232)**	**(115,743)**
	¥ 103,881	**¥ 110,761**	**$1,047,976**
Operating Income (Loss):			
Japan	¥ 7,611	**¥ 8,878**	**$ 84,005**
America	994	**1,432**	**13,552**
Asia-Oceania	1,036	**1,084**	**10,259**
Other	76	**238**	**2,251**
Non-allocated operating expenses and eliminations	75	**(112)**	**(1,069)**
	¥ 9,792	**¥ 11,520**	**$ 108,998**
Assets:			
Japan	¥ 72,752	**¥ 71,923**	**$ 680,514**
America	18,302	**17,565**	**166,196**
Asia-Oceania	8,525	**11,202**	**105,989**
Other	1,098	**968**	**9,159**
Corporate and eliminations	8,230	**9,141**	**86,479**
	¥ 108,907	**¥ 110,799**	**$1,048,337**

Notes : The Company's operations are classified into geographical areas as follows: Japan, America, Asia-Oceania (Thailand, Malaysia, China, Australia and United Arab Emirates) and Other (Europe).

Net sales outside Japan for the years ended as of March 31, 2003 and 2004 were as follows :

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	**2004**	**2004**
America	¥ 21,328	**¥ 24,035**	**$ 227,410**
Asia-Oceania	12,913	**14,738**	**139,449**
Other	4,006	**5,290**	**50,050**
	¥ 38,247	**¥ 44,063**	**$ 416,909**

Report of Independent Public Accountants

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES

To the Board of Directors and Shareholders of EXEDY Corporation

We have audited the accompanying consolidated balance sheet of EXEDY Corporation and its subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the year 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 audit.

We conducted our audits in accordance with auditing standards, generally accepted in Japan. These 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 audit provides 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 EXEDY Corporation and its subsidiaries as of March 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 13, effective for the year ended March 31, 2004, EXEDY Corporation and its subsidiaries changed the segment category.

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 1(a) to the accompanying consolidated financial statements.

Osaka, Japan
June 24, 2004

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Corporate Data

BOARD OF DIRECTORS

As of June 30, 2004

President and Chief Executive Officer:
Takeshi Nakano

Executive Managing Directors:
Haruo Shimizu
Tsunao Shimizu

Managing Directors:
Tsuyoshi Hirata
Etsuji Terada
Hisayasu Masaoka

Directors:
Mikio Natsume
Hajime Koshimaru
Kenji Takehara
Kouji Kajitani
Yoshitsugu Sakamoto
Masayuki Matsuda
Katsumi Shintou
Hideki Miura
Osamu Fujiwara

Auditors:
Katsuumi Ohse
Kanshirou Toyoda
Yusho Dejima
Koji Okada

OUTLINE OF COMPANY

As of March 31, 2004

Name:
EXEDY Corporation

Established:
July 1, 1950

Paid-in Capital:
¥7,227 million

Number of Employees:
1,657

Number of Authorized Shares:
168,000 thousand shares

Number of Issued Shares:
48,520 thousand shares

Number of Shareholders:
3,327

Average number of shares held by one Shareholder:
14,584

Listed on First Sections, Tokyo/Osaka Stock Exchange

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