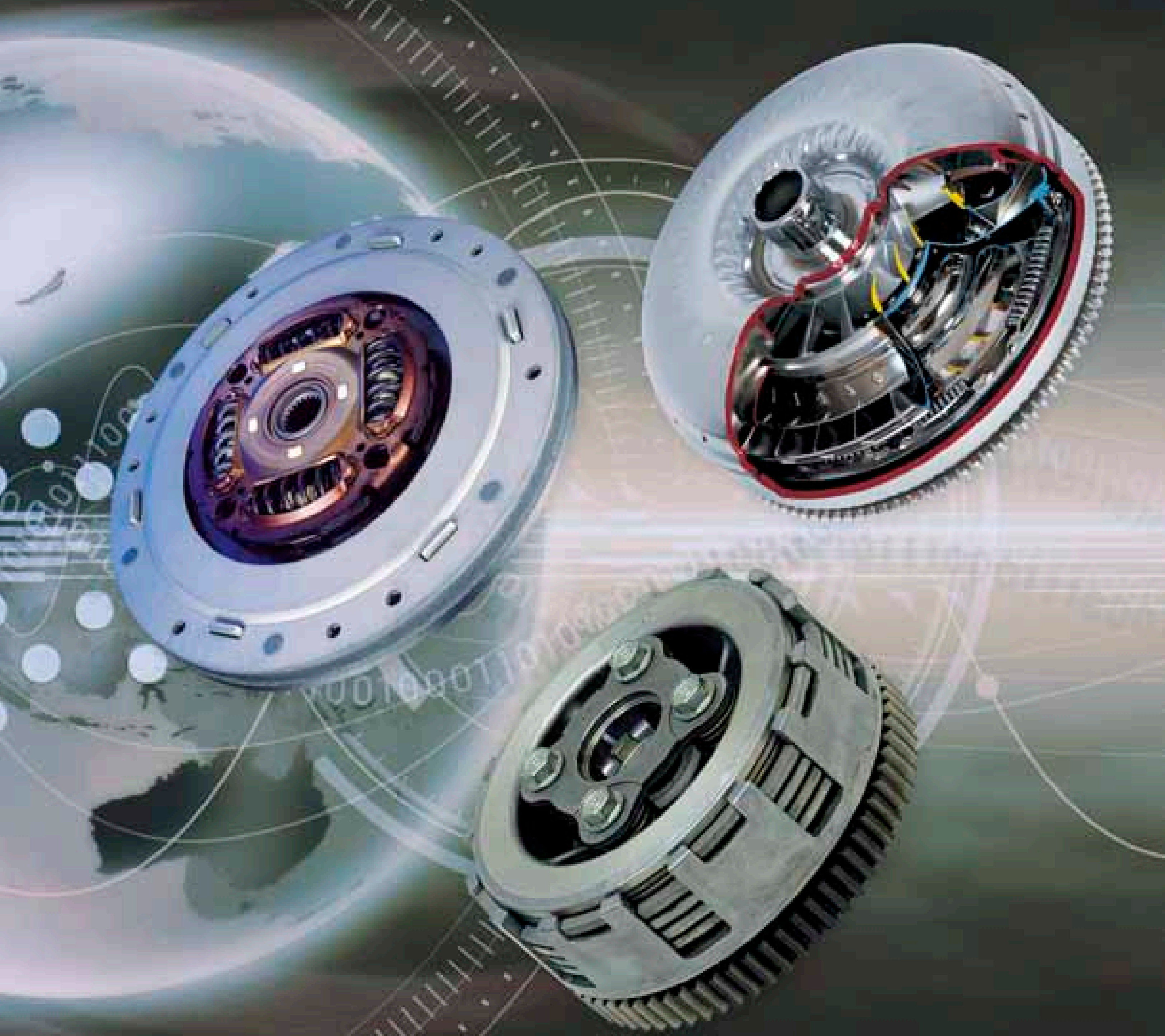
EXEDY Corporation



Annual Report 2006

Year Ended March 31, 2006

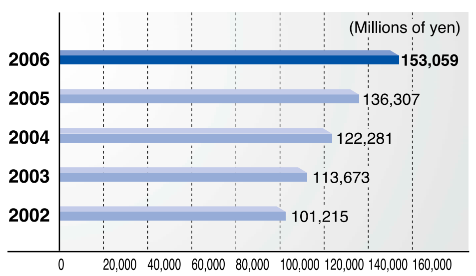
Consolidated Financial Highlights

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2005 and 2006

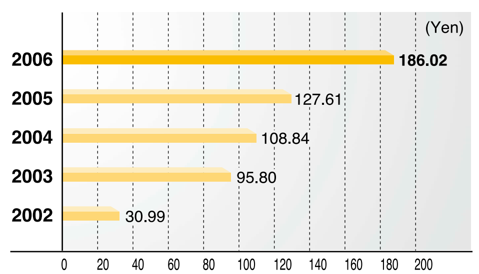
	Japanese yen (millions) 2005	Japanese yen (millions) 2006	U.S. dollars (thousands) 2006	% Change 2005/2006
For the year:				
Net sales	¥136,307	¥153,059	$1,302,962	+12.3%
Net income	6,300	9,354	79,625	+48.5%
At year-end:				
Total assets	¥123,289	¥133,440	$1,135,954	+8.2%
Shareholders' equity	76,032	83,925	714,438	+10.4%
Per share data:	Japanese yen		U.S. dollars	
Net income	¥ 127.61	¥ 186.02	$ 1.58	+45.8%
Shareholders' equity	1,525.24	1,712.80	14.58	+12.3%
Cash dividends	18.00	27.00	0.23	+50.0%

Note: Dollar figures are translated, for convenience only, at the rate of ¥117.47 to U.S. $1.00.

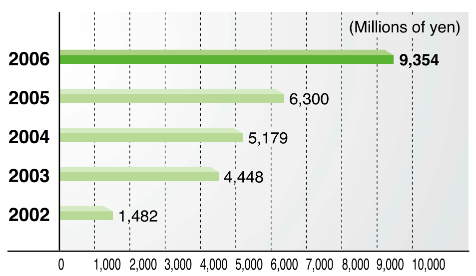
Net Sales



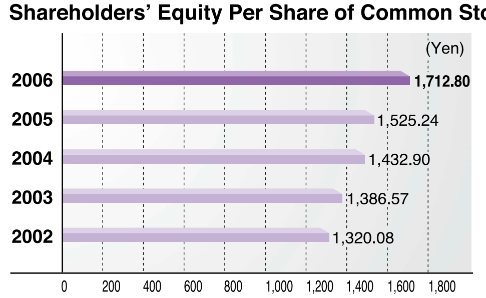
Net Income Per Share of Common Stock



Net Income



Shareholders' Equity Per Share of Common Stock



To Our Shareholders

Business Operations

Review of Fiscal Year 2005

In the period under review, Japan's automotive industry faced increasing costs due to the rising prices of commodities such as steel and oil. Nonetheless, a steady economic recovery enabled the industry to increase production and sales. Japanese automakers increased their market share in the North American market, by their fuel-efficient models. With overseas production volumes increasing as well, the industry's business is expanding on a global scale.

In this favorable environment, the EXEDY Group pressed ahead with efforts to reinforce its operating foundations in the automatic automotive drivetrain business (AT business) in the Japanese and U.S. markets, where automakers are increasingly outsourcing such parts, and in the manual automotive drivetrain business (MT business) in Asia outside Japan.

Thanks to these efforts, orders for AT business from automakers in Japan and South Korea increased, and demand from elsewhere in Asia as well as North America remained strong. Moreover, the group was also able to offset a rise in purchasing costs due to higher steel prices by slashing costs through a group-wide effort. Net sales reached ¥153 billion (an increase of 12.3% over the previous year). Operating profits was up by the rising net sales and cost reductions described above, leaped to ¥14.9 billion (an increase of 16.6% over the previous year). Boosted in part by exchange rate gains, ordinary income rose to ¥15.7 billion (an increase of 34.5% over the previous year), and net income soared to ¥9.3 billion (an increase of 48.5% over the previous year).

Outlook for Fiscal Year 2006

Expanded sales in AT business are expected in the Japanese market, paced by torque converters. Prospects are less clear, however, in the North American market. We expect that the Asian market will remain strong. The group plans to invest proactively in its fast-growing AT business, while strengthening development of environment-friendly products and fortifying its quality control systems.

As AT business grows, both investment and product launch costs are expected to rise, putting pressure on earnings. However, the group is confident that it can secure strong earnings through further streamlining and rigorous quality control.

Consequently, we forecast net sales of ¥166 billion (an increase of 8.5% over the previous year), an ordinary income of ¥16 billion (an increase of 7.4% over the previous year), and a net income of ¥9.6 billion (an increase of 2.6% over the previous year).

Haruo Shimizu
President and Chief Executive Officer

Financial Position

Review of cash flows in Fiscal Year 2005

In cash flow from operating activities, strong expansion in operations and business results caused net income before taxes to rise ¥6.8 billion against the previous year to ¥15.7 billion, while depreciation expenses increased ¥1 billion from the previous fiscal year to ¥9 billion. Trade account receivables and inventory combined increased ¥4.1 billion, while employees' severance and retirement benefits and other long-term liabilities both declined by ¥900 million. The corporate tax paid was ¥5.1 billion. In balance, funds received from operating activities rose ¥100 million to ¥13.5 billion.

Cash flow from investments was ¥155 billion, an increase of ¥4.7 billion over the previous year. Expenditures for capital investment, chiefly for expansion of AT business, rose ¥3.1 billion from the previous year to ¥13.9 billion, and loans receivable of ¥1.7 billion were issued in the period.

Cash flow from financial activities was ¥2.8 billion, an increase of ¥2.5 billion over the previous year. Long/short term loan payments increased ¥1.2 billion; dividend payout was ¥1 billion and expenditures from acquisition of treasury stock in the previous year stood at ¥2.9 billion.

July 2006

Haruo Shimizu
President and Chief Executive Officer

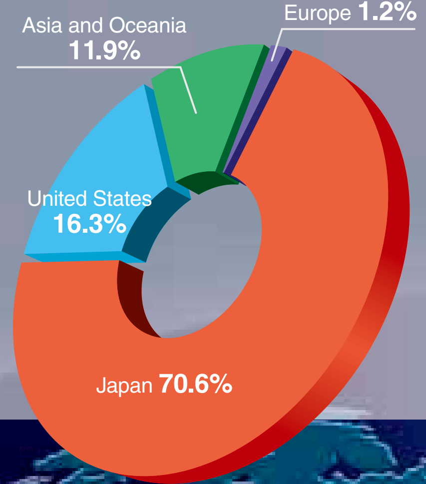
Business Results by Market

Net Sales by Location

	Japanese yen (millions) 2005	Japanese yen (millions) 2006	U.S. dollars (thousands) 2006
Japan	¥110,171	¥121,418	$1,033,610
United States	25,361	28,037	238,671
Asia and Oceania	14,157	20,516	174,652
Europe	1,691	1,956	16,647
Eliminations	(15,073)	(18,868)	(160,618)
Total	¥136,307	¥153,059	$1,302,962

$1=¥117.47

The chart at right shows the percentage of sales to customers outside the Group.



HEAD OFFICE

The head office is engaged in the production of manual clutches and of power shift transmissions for use in construction machinery and industrial vehicles.

New Torque Converter Plant Completed at Ueno Division

Ueno Division

In September 2005, to raise the Group's torque converter production volume in Japan and the U.S. to 7 million units by 2007, EXEDY completed a new torque converter plant at Ueno Division. As the world's automakers continue to outsource the production of torque converters, EXEDY is leveraging its 100% in-house manufacturing capability that ranges from development to production, driving further expansion in its automatic transmission business.

Europe

Net sales rose to ¥1.9 billion (an increase of 15.7% over the previous year), while operating profits increased to ¥200 million (an increase of 19.5% over the previous year).

Japan

Thanks to the effects of new cars released by Japanese automakers and increase of export to Korean market and aftermarket business, net sales grew to ¥121.4 billion (an increase of 10.2% over the previous year) and operating profits lifted to ¥10.9 billion (an increase of 12.8% over the previous year).

United States

Improved sales of AT business lifted net sales to ¥28 billion (an increase of 10.6% over the previous year) and operating profits to ¥1.9 billion (an increase of 54.1% over the previous year).

New Motorcycle Clutch Production Company Established in Vietnam

EXEDY Vietnam Co., Ltd.

In February 2006, EXEDY established EXEDY Vietnam Co., Ltd. as its third motorcycle clutch production facility in the ASEAN region. Production will begin in January 2007, further expanding the Group's business in the region, an enormous market for motorcycles.

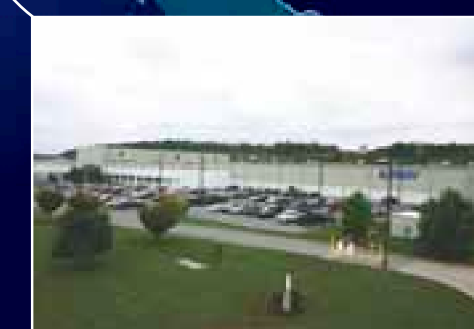
Asia and Oceania

With sales increase of motorcycle-related products and the brisk growth of the automobile industry in this region, net sales grew to ¥20.5 billion (an increase of 44.9% over the previous year) and operating profits rose to ¥1.7 billion (an increase of 0.6% over the previous year).

Mass Production of Friction Facing Begun in China

EXEDY (Shanghai) Corporation

In June 2005, EXEDY (Shanghai) Friction Material Co., Ltd. launched mass production of friction facing for manual clutches. In preparation for the start of torque converter production in 2007, the company also changed its name to EXEDY (Shanghai) Corporation.



EXEDY America Corporation

Manual automotive drivetrain

- HEAD OFFICE ●
- Kawagoe Plant ●
- DK Pronac Co., Ltd. ●
- EXEDY America Corporation 2
- EXEDY CHONGQING Co., Ltd. 8
- EXEDY (Thailand) Co., Ltd. 11
- EXEDY (MALAYSIA) SDN. BHD. 12
- P.T. EXEDY Indonesia 13
- Ceekay Daikin Ltd. 14
- Euro EXEDY Clutch Ltd. 16

Automatic automotive drivetrain

〈Torque converter〉

- Ueno Division ●
- EXEDY America Corporation 2

〈Clutch pack, Friction plates〉

- DYNAX Corporation ●
- DYNAX America Corporation 1
- DYNAX Industry (Shanghai) Corporation 6
- Shanghai DYNAX Corporation 7

Clutches for motorcycles

- EXEDY Vietnam Co., Ltd. 9
- EXEDY Friction Material Co., Ltd. 10
- EXEDY (Thailand) Co., Ltd. 11
- P.T. EXEDY Indonesia 13

Friction facing for manual clutches

- EXEDY (Shanghai) Corporation 5
- EXEDY Friction Material Co., Ltd. 10

Sales/warehousing

- EXEDY Globalparts Corporation 3
- EXEDY AUSTRALIA pty Ltd. 4
- EXEDY MIDDLE EAST FZCO 15
- EXEDY Clutch Europe Ltd. 17

Topics of the Year

Aisin AW New Technology Cooperation Award

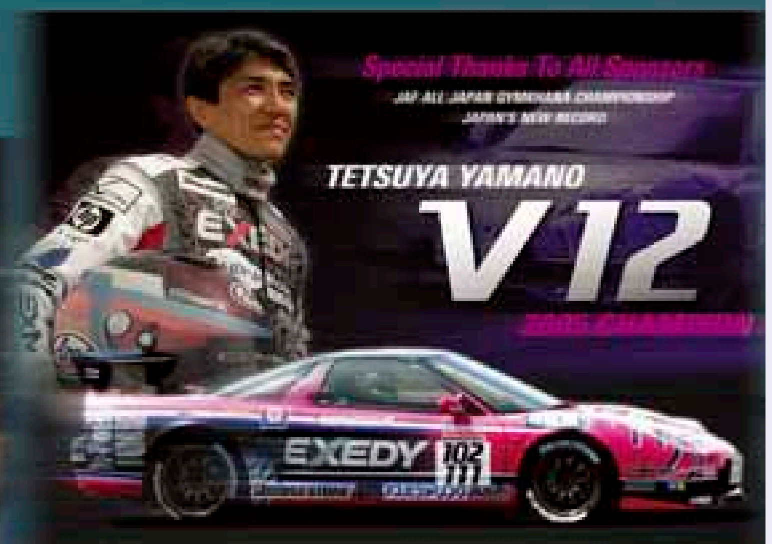
In April 2005, Aisin AW Co., Ltd. presented the New Technology Cooperation Award to EXEDY for two of the Company's products: the T030 HEV torque limiter damper and the F101 torque converter non-woven friction facing. The award honors innovations (including new products, technologies, materials, and processes) newly adopted in the industry. EXEDY is the only company to have won two of these awards simultaneously.

T030HEV torque limiter damper

Strategic Strengthening of the EXEDY Brand

As part of its commitment to raising the recognition of the EXEDY brand throughout the world market, in FY 2006 EXEDY participated in six auto parts exhibitions in five overseas countries, as well as three such events in Japan. In the field of motor sports, EXEDY has been a sponsor of Tetsuya Yamano, who won the All Japan Gymkhana Championship a record 12 consecutive times. His unprecedented accomplishment also demonstrated the outstanding performance of EXEDY clutches.

SEMA Show 2005 (USA Las Vegas)



Tetsuya Yamano, winner of the All Japan Gymkhana Championship 12 consecutive times

2005 Major Global Vehicles Using EXEDY Products

VW Polo GTI
DYNAX AT Parts

Peugeot 407
EXEDY Torque Converter

Mazda Roadster
EXEDY Manual Clutch and DYNAX AT Parts
(2005–2006 Japan Car of the Year)

Consolidated Five-year Summary

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended as of March 31

	Japanese yen (millions)					U.S. dollars (thousands)
	2002	2003	2004	2005	**2006**	**2006**
For the year:						
Net sales	¥ 101,215	¥ 113,673	¥ 122,281	¥ 136,307	**¥ 153,059**	**$1,302,962**
Net income	1,482	4,448	5,179	6,300	**9,354**	**79,625**
At year-end:						
Total assets	¥ 106,576	¥ 108,907	¥ 110,799	¥ 123,289	**¥ 133,440**	**$1,135,954**
Current assets	50,817	54,213	55,399	63,783	**66,433**	**565,533**
Property, plant and equipment	48,514	48,108	47,041	49,719	**57,240**	**487,273**
Current liabilities	28,325	24,733	25,074	27,647	**30,667**	**261,068**
Long-term debt	5,914	8,354	2,594	2,687	**2,726**	**23,204**
Shareholders' equity	60,081	63,192	69,614	76,032	**83,925**	**714,438**
Shareholders' equity / Total assets	56.4%	58.0%	62.8%	61.7%	**62.9%**	**62.9%**
Retained earnings	47,219	51,136	55,406	60,808	**69,050**	**587,813**
Per share data:	Japanese yen					U.S. dollars
Net income	¥ 30.99	¥ 95.80	¥ 108.84	¥ 127.61	**¥ 186.02**	**$ 1.58**
Net income – diluted	30.84	93.32	106.12	127.59	**—**	**—**
Shareholders' equity	1,320.08	1,386.57	1,432.90	1,525.24	**1,712.80**	**14.58**

Notes:
1. Dollar figures are translated, for convenience only, at the rate of ¥117.47 to U.S. $1.00.
2. Effective as of April 1, 2002, per share data are stated under "Accounting Standards for computing net income per share of common stock (Standards of Enterprise accounting No. 2)" and "Implementation Guideline of Standards for computing net income per share of common stock (Implementation Guideline of Standards of Enterprise accounting No. 4)".
3. In fiscal year 2004, the new accounting standard for impairment of fixed assets was adopted as referred to in Note 1(g).
4. In fiscal year 2005, the method of accounting for employees' severance and retirement benefits was changed as referred to in Notes 1(k) and 7.

Financial Section

Consolidated Balance Sheets

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2005 and 2006

ASSETS	Japanese yen (millions) 2005	Japanese yen (millions) 2006	U.S. dollars (thousands) 2006
Current Assets:			
Cash and cash equivalents [Notes 1(p) & 6]	¥ 18,893	**¥ 14,512**	**$ 123,536**
Time deposits	67	**60**	**513**
Notes and accounts receivable (Note 6) –			
Trade	**28,922**	**31,948**	**271,965**
Non-consolidated subsidiaries and affiliates	187	**135**	**1,151**
Allowance for doubtful accounts	(1,239)	**(1,220)**	**(10,388)**
Securities (Note 3)	—	364	3,094
Inventories (Notes 2 & 6)	11,856	**14,514**	**123,556**
Deferred tax assets (Note 4)	2,437	**2,555**	**21,754**
Short-term loans	1,321	**2,510**	**21,367**
Other current assets	1,339	**1,055**	**8,983**
Total current assets	63,783	**66,433**	**565,533**
Property, Plant and Equipment (Note 6):			
Land	7,118	**7,262**	**61,823**
Buildings and structures	28,930	**32,282**	**274,809**
Machinery and vehicles	79,960	**84,874**	**722,514**
Tools and furniture	26,055	**28,295**	**240,867**
Construction in progress	3,282	**4,930**	**41,969**
	145,345	**157,643**	**1,341,982**
Less – accumulated depreciation	(95,626)	**(100,403)**	**(854,709)**
Total property, plant and equipment	49,719	**57,240**	**487,273**
Investments and Other Assets:			
Investment in securities (Note 3)	1,127	**1,703**	**14,500**
Investments in and loans to			
non-consolidated subsidiaries and affiliates	723	**1,025**	**8,729**
Long-term loans	193	**188**	**1,598**
Deferred tax assets (Note 4)	5,291	**4,303**	**36,634**
Other assets	2,453	**2,548**	**21,687**
Total investments and other assets	9,787	**9,767**	**83,148**
	¥123,289	**¥133,440**	**$1,135,954**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Japanese yen (millions) 2005	Japanese yen (millions) 2006	U.S. dollars (thousands) 2006
Current Liabilities:			
Short-term borrowings including			
current portion of long-term debt (Note 5)	¥ 3,617	**¥ 5,341**	**$ 45,470**
Notes and accounts payable –			
Trade	14,985	**15,820**	**134,674**
Construction	863	**1,343**	**11,429**
Non-consolidated subsidiaries and affiliates	174	**272**	**2,314**
Accrued expenses	4,792	**4,997**	**42,537**
Accrued income taxes	2,964	**2,351**	**20,014**
Other current liabilities	252	**543**	**4,630**
Total current liabilities	27,647	**30,667**	**261,068**
Long-term Liabilities:			
Long-term debt (Note 5)	2,687	**2,726**	**23,204**
Deferred tax liabilities (Note 4)	487	**665**	**5,664**
Employees' severance and retirement benefits (Note 7)	8,115	**7,184**	**61,153**
Retirement benefits for directors and corporate auditors	375	**356**	**3,028**
Other long-term liabilities	2,802	**1,583**	**13,477**
Total long-term liabilities	14,466	**12,514**	**106,526**
Minority Interests	5,144	**6,334**	**53,922**
Contingent Liabilities (Note 10)			
Shareholders' Equity (Note 8):			
Common stock			
Authorised – 168,000 thousand shares in 2005 and 2006			
Outstanding – 49,794 thousand shares in 2005 and 2006	8,284	**8,284**	**70,521**
Capital surplus	8,768	**8,768**	**74,637**
Retained earnings	60,808	**69,050**	**587,813**
Net unrealized holding gains on securities	414	**744**	**6,333**
Foreign currency translation adjustments [Note 1(c)]	(2,237)	**30**	**258**
Treasury stock			
4 thousand shares in 2005 and			
856 thousand shares in 2006	(5)	**(2,951)**	**(25,124)**
Total shareholders' equity	76,032	**83,925**	**714,438**
	¥123,289	**¥133,440**	**$1,135,954**

Consolidated Statements of Income

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended as of March 31, 2005 and 2006

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	**2006**	**2006**
Net Sales	¥136,307	**¥153,059**	**$1,302,962**
Cost of Sales	104,010	**118,323**	**1,007,260**
Gross profit	32,297	**34,736**	**295,702**
Selling, General and Administrative Expenses	19,513	**19,834**	**168,843**
Operating income	12,784	**14,902**	**126,859**
Other (Income) Expenses :			
Interest and dividend income	(104)	**(133)**	**(1,134)**
Interest expense	158	**186**	**1,583**
Losses on sale or disposal of property, plant and equipment	295	**217**	**1,850**
Allowance for doubtful accounts	886	**—**	**—**
Gains on sale of investments in securities	(1,192)	**(1)**	**(6)**
Loss on reorganization of subsidiary's business	479	**—**	**—**
Amortization of the net transition obligation for employees' severance and retirement benefits	607	**—**	**—**
Losses on change of plan for employees' severance and retirement benefits (Note 7)	2,923	**—**	**—**
Equity in losses (gains) of non-consolidated subsidiaries and affiliates	70	**(104)**	**(883)**
Foreign exchange loss (gain), net	76	**(688)**	**(5,859)**
Other, net	(306)	**(311)**	**(2,647)**
	3,892	**(834)**	**(7,096)**
Income before income taxes and minority interests	8,892	**15,736**	**133,955**
Income Taxes (Note 4)			
Current	4,524	**4,596**	**39,124**
Deferred	(3,223)	**1,045**	**8,896**
Minority Interests in Net Income of Consolidated Subsidiaries	1,291	**741**	**6,310**
Net Income	¥ 6,300	**¥ 9,354**	**$ 79,625**

	Japanese yen		U.S. dollars
Per Share Data (Note 11):			
Net income	¥ 127.61	**¥ 186.02**	**$ 1.58**
Net income – diluted	127.59	**—**	**—**
Cash dividends	18.00	**27.00**	**0.23**

The accompanying notes to the 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, 2005 and 2006

		Japanese yen (millions)					
	Number of outstanding shares (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance as of 31 March, 2004	48,520	¥ 7,227	¥ 7,712	¥55,406	¥ 1,113	¥ (1,843)	¥ (1)
Net income	—	—	—	6,300	—	—	—
Net unrealized holding gains (losses) on securities	—	—	—	—	(699)	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(394)	—
Exercise of warrants	74	46	46	—	—	—	—
Public stock offering	1,200	1,011	1,010	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(4)
Cash dividends paid	—	—	—	(801)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(97)	—	—	—
Balance as of 31 March, 2005	49,794	8,284	8,768	60,808	414	(2,237)	(5)
Net income	—	—	—	9,354	—	—	—
Net unrealized holding gains (losses) on securities	—	—	—	—	330	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	2,267	—
Purchase of treasury stock	—	—	—	—	—	—	(2,946)
Cash dividends paid	—	—	—	(1,022)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(90)	—	—	—
Balance as of 31 March, 2006	49,794	¥ 8,284	¥ 8,768	¥69,050	¥ 744	¥ 30	¥ (2,951)

		U.S. dollars (thousands)					
	Number of outstanding shares (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance as of 31 March, 2005	49,794	$ 70,521	$ 74,637	$517,646	$ 3,522	$ (19,037)	$ (43)
Net income	—	—	—	79,625	—	—	—
Net unrealized holding gains (losses) on securities	—	—	—	—	2,811	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	19,295	—
Purchase of treasury stock	—	—	—	—	—	—	(25,081)
Cash dividends paid	—	—	—	(8,688)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(770)	—	—	—
Balance as of 31 March, 2006	49,794	$ 70,521	$ 74,637	$587,813	$ 6,333	$ 258	$ 25,124

The accompanying notes to the 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, 2005 and 2006

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 8,892	¥15,736	$133,955
Adjustments for:			
Depreciation and amortization	7,999	9,002	76,634
Losses on sale or disposal of property, plant and equipment	295	217	1,850
Gains on sale of investments in securities	(1,192)	(1)	(6)
Increase (decrease) in allowance for doubtful accounts	1,065	(20)	(169)
Increase (decrease) in employees' severance and retirement benefits	187	(932)	(7,930)
Interest and dividend income	(104)	(133)	(1,134)
Interest expense	158	186	1,583
Increase in notes and accounts receivable	(3,650)	(2,191)	(18,652)
Increase in inventories	(1,366)	(1,921)	(16,357)
Increase (decrease) in notes and accounts payable	1,845	(28)	(239)
Other, net	2,662	(1,173)	(9,983)
Sub-total	16,791	18,742	159,552
Interest and dividend income received	104	135	1,145
Interest paid	(149)	(181)	(1,544)
Income taxes paid	(3,377)	(5,174)	(44,040)
Net cash provided by operating activities	13,369	13,522	115,113
Cash Flows from Investing Activities:			
Increase in time deposits	(41)	(304)	(2,584)
Decrease in time deposits	31	19	158
Payments for purchase of property, plant and equipment	(10,882)	(13,946)	(118,720)
Proceeds from sale of property, plant and equipment	132	170	1,447
Payments for acquisitions of intangible assets	(545)	(137)	(1,166)
Payments for investments in securities	(12)	(11)	(93)
Proceeds from sale of investments in securities	1,767	1	7
Payments for additional investments in consolidated subsidiaries	—	(48)	(411)
Acquisition of consolidated subsidiary, net of cash acquired (Note 12)	(103)	—	—
Payments for investments in non-consolidated subsidiaries	(100)	(350)	(2,980)
Additions to loans receivable	(1,926)	(1,751)	(14,902)
Collection of loans receivable	694	723	6,157
Other, net	146	84	715
Net cash used in investing activities	(10,839)	(15,550)	(132,372)
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings, net	1,648	1,176	10,010
Proceeds from long-term loans payable	159	546	4,650
Repayments of long-term loans payable	(3,236)	(427)	(3,636)
Proceeds from issuance of common stock	2,021	—	—
Payments for acquisitions of treasury stock	—	(2,946)	(25,082)
Cash dividends paid	(801)	(1,021)	(8,689)
Cash dividends paid to minority shareholders	(212)	(162)	(1,379)
Other, net	88	—	—
Net cash used in financing activities	(333)	(2,834)	(24,126)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(56)	481	4,091
Net Increase (Decrease) in Cash and Cash Equivalents	2,141	(4,381)	(37,294)
Cash and Cash Equivalents at Beginning of Year	16,752	18,893	160,830
Cash and Cash Equivalents at End of Year	¥18,893	¥14,512	$123,536

The accompanying notes to the 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 the 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"). Overseas consolidated subsidiaries have adopted accounting generally accepted in their respective countries and no adjustment has been made to their financial statements on consolidation, as allowed under accounting principles and practices generally accepted in Japan. Certain accounting principles and practices generally accepted in Japan are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

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 of Japan. 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 is included solely for the convenience of the reader, using the prevailing exchange rate as at March 31, 2006, which was ¥117.47 to U.S. $1.00. These 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 the 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 using 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 valued 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 for the current period.

The 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 the average rates during the year. Translation adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of net income but are reported as "Foreign currency translation adjustments" in a component of shareholder's 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 the sale of such securities are computed using the moving average cost method.

Other securities with no available fair market value are stated at moving average cost, net of the amount considered uncollectible.

If the fair market value of other securities declines significantly, such securities are stated at fair market value and the difference between the fair market value and the carrying amount is recognized as a 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 value. Supplies are mainly 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 using the straight-line method.

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

Software is amortized using the straight-line method over the useful life (3 – 5 years) of the software.

From the year ended March 31, 2004, the Company adopted new Japanese accounting standards for Impairment of Fixed Assets ("Opinion concerning the establishment of Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and "Implementation Guidelines on Standards for Impairment of fixed assets (Implementation Guidelines on Standards of Enterprise accounting No. 6 issued on October 31, 2003)". On the balance sheet, impairment losses are subtracted from the book cost of each asset type.

(h) Leases
The Company and its domestic consolidated subsidiaries account for leases which transfer substantially all the risks and rewards of ownership of the leased assets as capital leases, leases which do not transfer ownership of the leased 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. Overseas consolidated subsidiaries of the Company account for leases that transfer substantially all risks and rewards of ownership of the leased assets as capital leases.

(i) Income taxes
The Company and its consolidated subsidiaries recognize the 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 most of its consolidated subsidiaries provide 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. Actuarial differences are fully amortized in the year following the year in which the actuarial differences are recognized. Prior service costs are recognized in expenses in the year in which they are incurred.

In order to reduce actuarial differences, reflect employees' performance in retirement payments and shift to new pension plans, the Company and its domestic consolidated subsidiaries revised their retirement benefit plans effective as of March 31, 2005, implemented retirement benefit plans fully based on employees' performance, adopted pension plans known as "Cash balance plans" and transferred a certain portion of the defined benefit pension plans to defined contribution pension plans.

In accordance with the revision of retirement benefit plans, the Company and its domestic consolidated subsidiaries changed their accounting policies related to employees' severance and retirement benefits as follows:

Through the year ended March 31, 2004, actuarial differences were amortized on a straight-line basis over 15 years, which was within the estimated average remaining service lives of employees, beginning in the year following the year in which the actuarial differences were recognized. From the year ended March 31, 2005, the Company and its domestic consolidated subsidiaries changed their method of accounting for actuarial differences and adopted the policy of charging the entire amount of actuarial differences to income in the year following the year in which the actuarial differences are recognized.

In previous years, prior service costs were amortized using the straight-line method over 15 years, which was within the estimated average remaining service lives of employees, beginning in the year in which the prior service costs were recognized. From the year ended March 31, 2005, the Company and its domestic consolidated subsidiaries changed their method of accounting for prior service costs and adopted the policy of charging the prior service costs to income as incurred.

In relation to the change of accounting policies described above, in the year ended March 31, 2005, income before income taxes and minority interests decreased by ¥2,581 million compared with what would have been recorded under the previous accounting policies.

(l) Retirement benefits for directors and corporate auditors
The Company and its domestic subsidiaries have unfunded retirement allowance 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 ¥3,945 million and ¥3,714 million ($31,617 thousand) for the years ended March 31, 2005 and 2006, 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 the full exercise of outstanding warrants and full conversion of convertible bonds at the beginning of the year (or at the time of issuance, if this is after the 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 in hand, demand deposits and short-term investments which have maturities of three months or less when purchased, are easily convertible into cash and have few risks of fluctuation of value.

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

2. Inventories

Inventories as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Finished goods	¥ 5,411	¥ 5,947	$ 50,629
Work-in process	3,633	4,998	42,545
Raw materials	2,213	2,814	23,951
Supplies	599	755	6,431
	¥11,856	¥14,514	$123,556

3. Securities

Other securities with book values (fair values) exceeding acquisition costs as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		
March 31, 2005	Acquisition cost	Book value	Difference
Equity securities	¥ 362	¥1,045	¥ 683
Interest-bearing securities	—	—	—
Others	—	—	—
	¥ 362	¥1,045	¥ 683

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2006	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 389	¥ 1,637	¥ 1,248	$ 3,308	$13,935	$10,627
Interest-bearing securities	—	—	—	—	—	—
Others	—	—	—	—	—	—
	¥ 389	¥ 1,637	¥ 1,248	$ 3,308	$13,935	$10,627

Other securities with book values (fair values) not exceeding acquisition costs as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		
March 31, 2005	Acquisition cost	Book value	Difference
Equity securities	¥ 18	¥ 18	¥ —
Interest-bearing securities	—	—	—
Others	—	—	—
	¥ 18	¥ 18	¥ —

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2006	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ —	¥ —	¥ —	$ —	$ —	$ —
Interest-bearing securities	—	—	—	—	—	—
Others	—	—	—	—	—	—
	¥ —	¥ —	¥ —	$ —	$ —	$ —

The book value of securities with no available fair values as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Other securities with no fair value			
Non-listed equity securities			
Carrying amount	¥ 64	¥ 66	$ 566
Investment trust fund	—	364	3,096

Maturities of other securities with maturities as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Corporate bonds			
Within one year	¥ —	¥ —	$ —
After one year through five years	—	—	—
After five years through ten years	—	—	—
Over ten years	—	—	—
Other			
Investment trust fund			
Within one year	—	364	3,096
After one year through five years	—	—	—
After five years through ten years	—	—	—
Over ten years	—	—	—

Other securities sold in the year ended March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Sales value	¥1,767	¥ 1	$ 7
Gains	1,192	1	6
Losses	—	—	—

4. Income Taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Deferred tax assets:			
Employees' severance and retirement benefits	¥ 3,191	¥ 2,900	$24,690
Net operating loss carried forward	2,666	2,628	22,372
Accrued defined contribution pension to employees	1,199	887	7,549
Accrued bonuses to employees	765	800	6,810
Allowance for doubtful accounts	536	530	4,511
Losses on devaluation of inventories	286	279	2,376
Unrealized income (inventories)	221	231	1,962
Accrued enterprise tax	211	167	1,426
Unrealized income (fixed assets)	210	209	1,782
Accrued warranty costs	173	261	2,224
Other	869	765	6,509
Total deferred tax assets	10,327	9,657	82,211
Valuation allowance	(811)	(944)	(8,037)
Deferred tax assets	9,516	8,713	74,174
Deferred tax liabilities:			
Property, plant and equipment	(817)	(744)	(6,335)
Retained earnings of overseas subsidiaries	(487)	(661)	(5,631)
Reserve for advanced depreciation	(346)	(342)	(2,912)
Net unrealized holding gains on securities	(276)	(504)	(4,293)
Reserve for special depreciation	(202)	(143)	(1,219)
Other	(177)	(132)	(1,110)
Total deferred tax liabilities	(2,305)	(2,526)	(21,500)
Valuation allowance	30	6	50
Deferred tax liabilities	(2,275)	(2,520)	(21,450)
Net deferred tax assets	¥ 7,241	¥ 6,193	$52,724

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.4% for the years ended March 31, 2005 and March 31, 2006.
The following table summarizes 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, 2005 and 2006:

	2005	2006
Statutory tax rate	40.4%	40.4%
Adjustments for:		
Non-deductible expenses	0.4	0.2
Per capita inhabitant tax	0.2	0.1
Tax credit for research and development expenses	—	(2.1)
Different tax rates applied to overseas subsidiaries	—	(2.0)
Effect of operating loss carried forward by overseas subsidiaries	(5.6)	—
Write-off of valuation allowance	(21.4)	—
Other	0.6	(0.8)
Effective tax rate	14.6%	35.8%

5. Short-term Borrowings and Long-term Debt

Short-term borrowings and long-term debt as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	Weighted average interest rates	Year due
	2005	2006	2006		
Short-term borrowings	¥ 3,357	¥ 4,720	$40,187	2.8%	
Current portion of long-term debt	260	621	5,283	2.1	
Long-term debt	2,687	2,726	23,204	5.1	2007-2009
Other debt	—	217	1,849	0.3	
	¥ 6,304	¥ 8,284	$70,523		

Annual maturities of long-term debt as of March 31, 2006 were as follows:

Year ending March 31,	Japanese yen (millions)	U.S. dollars (thousands)
2008	¥ 2,532	$ 21,550
2009	194	1,654
2010	—	—
2011	—	—
	¥ 2,726	$ 23,204

6. Assets Pledged as Collateral

The following assets were pledged as collateral for ¥563 million of secured long-term loans from government sponsored agencies as of March 31, 2005, and for ¥213 million ($1,809 thousand) of secured short-term loan from banks and ¥412 million ($3,512 thousand) of secured long-term loans from government sponsored agencies as of March 31, 2006:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Notes and accounts receivable and inventories	¥ —	¥ 1,181	$ 10,051
Land	152	152	1,297
Buildings and structures, net	12	247	2,098
Machinery and vehicles, net	261	8	71
	¥ 425	¥ 1,588	$ 13,517

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 at the 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.

Cash deposits of ¥9 million as of March 31, 2005 and ¥9 milliion ($79 thousand) as of March 31, 2006 were also pledged for deferred payment of electricity.

7. Employees' Severance and Retirement Benefits

As a result of the revision of the retirement benefit plans effective March 31, 2005, the Company and its domestic subsidiaries adopt defined benefit retirement plans: cash balance plans and lump-sum payment plans, as well as defined contribution pension plans.

The liability for employees' severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2005 and 2006 consists of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Projected benefit obligation	¥12,104	¥11,832	$100,723
Fair value of pension assets	(4,364)	(5,135)	(43,714)
	7,740	6,697	57,009
Unrecognized actuarial differences	375	487	4,144
Liability for employees' severance and retirement benefits	¥ 8,115	¥ 7,184	$ 61,153

(Notes) 1. The decrease in liability for employees' severance and retirement benefits arising from the transition to the revised plan effective March 31, 2005 is summarized as follows:

	Japanese yen (millions)
Decrease in projected benefit obligation	¥ (6,329)
Unrecognized actuarial differences	547
Unrecognized prior service costs	3,156
Decrease in liability for employees' severance and retirement benefits	¥ (2,626)

The total pension liabilities to be transferred over 4 years to the defined contribution plan system amounted to ¥2,967 million. The amount to be transferred subsequent to March 31, 2005 amounted to ¥2,967 million, which was included under "Notes and accounts payable" and "Other long-term liabilities".

2. The increase in liability for employee's severance and retirement benefits due to the change of accounting policies is summarized as follows:

	Japanese yen (millions)
Unrecognized actuarial differences	¥ 5,737
Unrecognized prior service costs	(3,156)
Increase in liability for employees' severance and retirement benefits	¥ 2,581

Included in the consolidated statements of income for the years ended March 31, 2005 and 2006 were employees' severance and retirement benefit expenses comprised of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	**2006**	**2006**
Service costs	¥ 820	**¥ 706**	**$ 6,011**
Interest costs	350	**242**	**2,060**
Expected return on plan assets	(103)	**(87)**	**(743)**
Amortization of net transition obligation	607	**—**	**—**
Amortization of actuarial differences	429	**(375)**	**(3,193)**
Employees' severance and retirement benefit expenses	2,103	**486**	**4,135**
Losses on change of plan for employees' severance and retirement benefits	2,923	**—**	**—**
Other	–	**154**	**1,315**
	¥ 5,026	**¥ 640**	**$ 5,450**

(Notes) **For the year ended March 31, 2005**

1. ¥342 million of the increase in expenses relating to the transfer of a certain portion of defined benefit plans to defined contribution plans was included in "Losses on change of plan for employees' severance and retirement benefits".
2. ¥2,581 million of the increase in expenses due to the change of accounting policies was included in "Losses on change of plan for employees' severance and retirement benefits".

For the year ended March 31, 2006

1. "Other" represents the payments to defined contribution pension plans.

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

	2005	**2006**
Method of attributing the projected benefits to periods of service	straight-line basis	**straight-line basis**
Discount rate	2.0%	**2.0%**
Expected rate of return on plan assets	3.0%	**2.0%**
Amortization of net transition obligation	5 years	**—**
Amortization of prior service costs	1 year	**1 year**
Amortization of actuarial differences	1 year	**1 year**

8. 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 and recorded 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 be appropriated as a legal reserve. Before September 30, 2001, no further appropriation was required when the legal reserve equaled 25% or more of common stock. Pursuant to the amendments to the Code, no further appropriation is required when the sum of the 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 through a resolution at an ordinary general meeting of shareholders.
The legal reserve might be used to reduce a deficit or it might be transferred to common stock through the 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 27, 2006:

	Japanese yen (millions)	U.S. dollars (thousands)
Balance at March 31, 2006	**¥69,050**	**$587,813**
Appropriations – Cash dividends paid (¥17.0 per share outstanding at March 31, 2006)	**832**	**7,082**
Bonuses to directors and corporate auditors	**85**	**724**
Balance after appropriations	**¥68,133**	**$580,007**

9. Leases

(a) Finance 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, is described below.

Pro forma information regarding 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, 2005 and 2006 was as follows:

	Japanese yen (millions)			
March 31, 2005	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance
Machinery and vehicles	¥1,027	¥ 200	¥ —	¥ 827
Tools and furniture	274	188	—	86
Other	190	136	—	54
	¥1,491	¥ 524	¥ —	¥ 967

	Japanese yen (millions)				U.S. dollars (thousands)			
March 31, 2006	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance
Machinery and vehicles	**¥1,073**	**¥ 320**	**¥ —**	**¥ 753**	**$ 9,134**	**$ 2,726**	**$ —**	**$ 6,408**
Tools and furniture	**162**	**122**	**—**	**40**	**1,380**	**1,043**	**—**	**337**
Other	**78**	**61**	**—**	**17**	**661**	**510**	**—**	**151**
	¥1,313	**¥ 503**	**¥ —**	**¥ 810**	**$11,175**	**$ 4,279**	**$ —**	**$ 6,896**

The scheduled maturities of future lease payments, on such lease contracts as of March 31, 2005 and 2006, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	**2006**	**2006**
Due within one year	¥ 202	**¥ 158**	**$ 1,344**
Due over one year	765	**652**	**5,552**
	¥ 967	**¥ 810**	**$ 6,896**
Lease payments for the year	¥ 211	**¥ 213**	**$ 1,817**

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

Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, calculated by the straight-line method, would be ¥211 million and ¥213 million ($1,817 thousand) for the years ended March 31, 2005 and 2006, respectively.

The Company had no leased assets on which impairment should be recognized for the years ended March 31, 2005 and 2006.

(b) Operating leases

The scheduled maturities of future lease payments under non-cancelable operating leases as of March 31, 2005 and 2006, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	**2006**	**2006**
Due within one year	¥ 6	**¥ 2**	**$ 15**
Due over one year	2	**0**	**1**
	¥ 8	**¥ 2**	**$ 16**

10. Contingent Liabilities

Contingent liabilities for guarantees by the Company as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	**2006**	**2006**
Guarantees of loans from banks of affiliates under the equity method	¥ 950	**¥ 500**	**$ 4,256**

11. Per Share Data

Per share data as of March 31, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	**2006**	**2006**
Net income	¥ 127.61	**¥ 186.02**	**$ 1.58**
Net income – diluted	127.59	**—**	**—**
Shareholders' equity	1,525.24	**1,712.80**	**14.58**

The information on which per share data was calculated as of March 31, 2005 and 2006 was as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
Net income per share of common stock			
Net income	¥ 6,300	¥ 9,354	$79,625
Amounts not attributed to ordinary shareholders	90	104	885
(Bonuses to directors and corporate auditors)	(90)	(104)	(885)
Net income attributed to ordinary shareholders	¥ 6,210	¥ 9,250	$78,740
The weighted average number of shares (thousands)	48,662	49,724	49,724

	Japanese yen		U.S. dollars
	2005	2006	2006
Net income-diluted per share of common stock			
Effect of dilutive securities			
On net income (net-of-tax interest expense)	¥ —	¥ —	$ —
On the weighted average number of shares (thousands)	6	—	—

12. Cash Flows

Acquisition of newly consolidated subsidiaries

In the year ended March 31, 2005, the Company acquired a majority of the outstanding shares of P. T. EXEDY Indonesia, which was previously accounted for using the equity method. The assets and liabilities of P. T. EXEDY Indonesia upon consolidation with the Company and the reconciliation between the acquisition cost and net cash used for the acquisition are as follows:

	Japanese yen (millions)
Current assets	¥ 669
Non-current assets	223
Consolidation difference	79
Current liabilities	(654)
Non-current liabilities	(27)
Minority interest	(98)
Acquisition cost	192
The Company's interest prior to acquisition	(49)
Cash and cash equivalents of newly consolidated subsidiary	(40)
Net acquisition cost	¥ 103

13. Derivatives

The only derivative transactions the Company engages in are forward currency exchange contracts and for the purpose of hedging against exchange rate risks. The Company does not engage in derivative transactions for trading or speculative purposes. Hedging accounting through derivative transactions was not applied as the necessary conditions were not met. Forward currency exchange contracts bear risk due to changes in the exchange rate. However, as the company trades only with banking facilities, there is 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 the necessary approval.

The following table provides information on derivative instruments as of March 31, 2005 and 2006.

	Japanese yen (millions)		
March 31, 2005	Contract amount	Fair value	Gain (loss)
Forward exchange contracts:			
To sell U.S. dollars	¥ —	¥ —	¥ —
	¥ —	¥ —	¥ —

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2006	Contract amount	Fair value	Gain (loss)	Contract amount	Fair value	Gain (loss)
Forward exchange contracts:						
To sell U.S. dollars	¥ 497	¥ 501	¥ (4)	$ 4,227	$ 4,263	$ (36)
	¥ 497	¥ 501	¥ (4)	$ 4,227	$ 4,263	$ (36)

14. Segment Information

The Company and its consolidated subsidiaries operate three in 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 sale of torque converters and wet friction clutch plates. The Other segment consists of industrial machine drivetrain operations, that is, the manufacture and sale of powershift transmissions, and other operations including the sale and manufacture of clutches for motorcycles, plants and other facilities.

Business segment information for the years ended as of March 31, 2005 and 2006 was as follows:

		Japanese yen (millions)		U.S. dollars (thousands)
		2005	2006	2006
Sales:	Manual automotive drivetrain operations	¥ 46,657	¥ 49,311	$ 419,779
	Automatic automotive drivetrain operations	76,690	89,908	765,369
	Other operations	18,919	19,597	166,824
	Eliminations (inter-segment net sales)	(5,959)	(5,757)	(49,010)
		¥136,307	¥153,059	$1,302,962
Operating Costs and Expenses:	Manual automotive drivetrain operations	¥ 40,862	¥ 43,287	$ 368,492
	Automatic automotive drivetrain operations	69,883	81,927	697,425
	Other operations	18,036	18,089	153,989
	Non-allocated operating expenses and eliminations	(5,258)	(5,146)	(43,803)
		¥123,523	¥138,157	$1,176,103
Operating Income (Loss):	Manual automotive drivetrain operations	¥ 5,795	¥ 6,025	$ 51,287
	Automatic automotive drivetrain operations	6,807	7,981	67,944
	Other operations	884	1,508	12,835
	Non-allocated operating expenses and eliminations	(702)	(612)	(5,207)
		¥ 12,784	¥ 14,902	$ 126,859
Assets:	Manual automotive drivetrain operations	¥ 35,642	¥ 39,187	$ 333,594
	Automatic automotive drivetrain operations	61,607	69,426	591,007
	Other operations	12,022	11,537	98,209
	Corporate and eliminations	14,018	13,290	113,144
		¥123,289	¥133,440	$1,135,954
Depreciation and Amortization:	Manual automotive drivetrain operations	¥ 2,587	¥ 2,730	$ 23,239
	Automatic automotive drivetrain operations	4,860	5,425	46,186
	Other operations	629	961	8,183
	Corporate and eliminations	(77)	(114)	(974)
		¥ 7,999	¥ 9,002	$ 76,634
Capital Expenditures:	Manual automotive drivetrain operations	¥ 3,814	¥ 2,427	$ 20,658
	Automatic automotive drivetrain operations	6,874	11,269	95,933
	Other operations	990	861	7,331
	Corporate and eliminations	(118)	(85)	(724)
		¥ 11,560	¥ 14,472	$ 123,198

Geographic area information for the years ended as of March 31, 2005 and 2006 was as follows:

		Japanese yen (millions)		U.S. dollars (thousands)
		2005	2006	2006
Sales:	Japan	¥110,171	¥121,418	$1,033,610
	America	25,361	28,037	238,671
	Asia-Oceania	14,157	20,516	174,652
	Other	1,691	1,956	16,647
	Eliminations (inter-segment net sales)	(15,073)	(18,868)	(160,618)
		¥136,307	¥153,059	$1,302,962
Operating Costs and Expenses:	Japan	¥100,486	¥110,491	$ 940,586
	America	24,083	26,068	221,911
	Asia-Oceania	12,419	18,769	159,774
	Other	1,502	1,730	14,730
	Non-allocated operating expenses and eliminations	(14,967)	(18,901)	(160,898)
		¥123,523	¥138,157	$1,176,103
Operating Income (Loss):	Japan	¥ 9,685	¥ 10,928	$ 93,025
	America	1,278	1,969	16,760
	Asia-Oceania	1,738	1,748	14,879
	Other	189	225	1,918
	Non-allocated operating expenses and eliminations	(106)	32	277
		¥ 12,784	¥ 14,902	$ 126,859
Assets:	Japan	¥ 77,005	¥ 80,210	$ 682,815
	America	18,853	22,809	194,170
	Asia-Oceania	15,097	20,113	171,220
	Other	1,182	1,367	11,633
	Corporate and eliminations	11,152	8,941	76,116
		¥123,289	¥133,440	$1,135,954

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, 2005 and 2006 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2005	2006	2006
America	¥ 25,823	¥ 28,006	$ 238,409
Asia-Oceania	19,659	25,323	215,574
Other	6,132	6,630	56,439
	¥ 51,614	¥ 59,959	$ 510,422

Report of Independent Auditors

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES

To the Board of Directors and Shareholders of EXEDY Corporation

We have audited the accompanying consolidated balance sheets of EXEDY Corporation and its subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EXEDY Corporation and its subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 1(k), effective for the year ended March 31, 2005, EXEDY Corporation and its subsidiaries changed their accounting policies related to employees' severance and retirement benefits.

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.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Osaka, Japan
June 27, 2006

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, 2006

President and Chief Executive Officer:
Haruo Shimizu

Executive Managing Director:
Etsuji Terada

Managing Directors:
Hisayasu Masaoka
Masayuki Matsuda
Yoshitsugu Sakamoto
Katsumi Shintou

Directors:
Mikio Natsume
Kenji Takehara
Hideki Miura
Masanori Motoura
Shougo Okamura
Hidehito Hisakawa
Koji Akita
Hiromu Yamasaki

Auditors:
Naoaki Sawada
Kanshirou Toyoda
Koji Okada
Takenori Yamasaki

Outline of Company

As of March 31, 2006

Name:
EXEDY Corporation

Established:
July 1, 1950

Paid-in Capital:
¥8,284 million

Number of Employees:
1,569

Number of Authorized Shares:
168,000 thousand shares

Number of Issued Shares:
49,794 thousand shares

Number of Shareholders:
5,712

Average number of shares held by one Shareholder:
8,717 shares

Listed on First Sections, Tokyo/Osaka Stock Exchange

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URL http://www.exedy.co.jp

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.

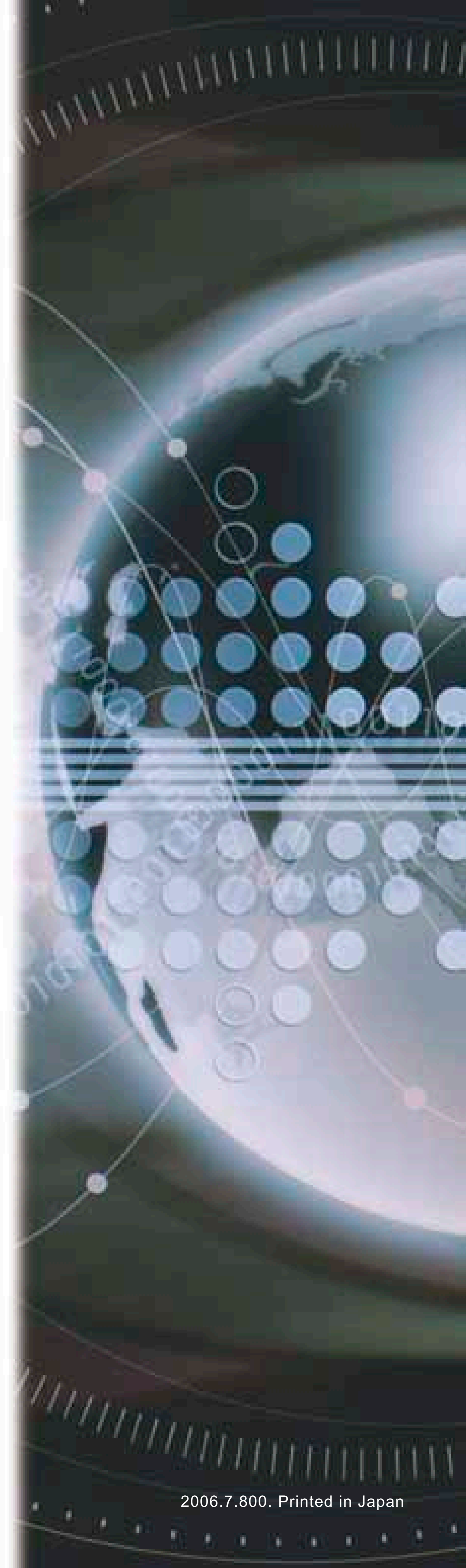
Practices what we preach.
- A company that accomplishes its stated goals.

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



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