

**EXEDY**

EXEDY Corporation



**Annual Report 2007**

Year Ended March 31, 2007

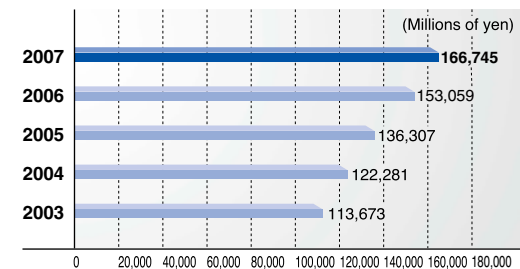
## Consolidated Financial Highlights

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
As of March 31, 2006 and 2007

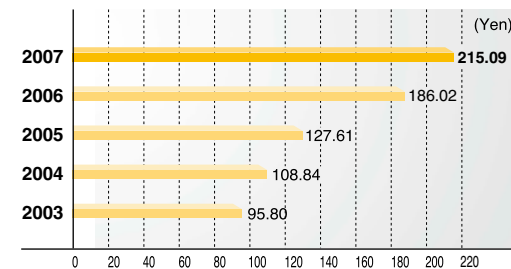
	Japanese yen (millions)		U.S. dollars (thousands)	% Change
	2006	2007	2007	2006/2007
<b>For the year:</b>				
Net sales	¥ 153,059	¥ 166,745	\$ 1,412,497	+8.9%
Net income	9,354	10,497	88,921	+12.2%
<b>At year-end:</b>				
Total assets	¥ 133,440	¥ 144,073	\$ 1,220,443	+8.0%
Net assets	90,259	99,847	845,799	+10.6%
<b>Per share data:</b>				
	Japanese yen		U.S. dollars	
Net income	¥ 186.02	¥ 215.09	\$ 1.82	+15.6%
Net assets	1,714.93	1,907.92	16.16	+11.3%
Cash dividends	27.00	34.00	0.29	+25.9%

Note: Dollar figures are translated, for convenience only, at the rate of ¥118.05 to U.S. \$1.00.

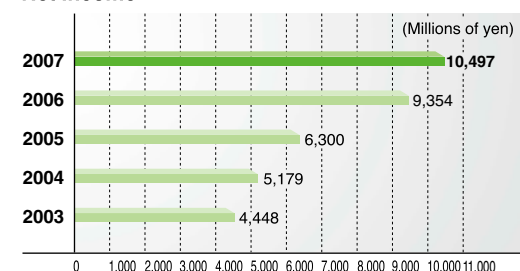
Net Sales



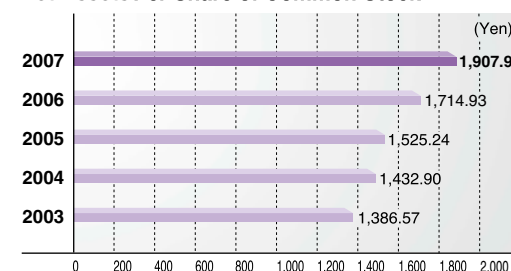
Net Income Per Share of Common Stock



Net Income



Net Assets Per Share of Common Stock



Note: Figures for FY 2005 and preceding years in the chart above show shareholders' equity per share of common stock.

## Business Operations

### Review of Fiscal Year 2006

In the period under review, while Japan's automotive industry suffered from sluggish sales growth in the major industrialized nations, there was a sharp increase in demand elsewhere, especially in the BRICs countries. As a result, global production volumes grew at a steady pace. Due to increasing demand for fuel-efficient vehicles in response to rising oil prices and carbon dioxide emissions regulations, Japanese automakers increased their market share in the overseas market.

On the other hand, rising prices of materials such as aluminum and copper are placing pressure on profit for the automotive industry. In this environment, the EXEDY Group continued its efforts to increase production of products that contribute to improved fuel efficiency in the automatic automotive drivetrain business (AT business), where automakers are increasingly outsourcing such parts. In the manual automotive drivetrain business (MT business) and other areas (particularly motorcycle clutches), efforts were made to expand business in the Asian market outside Japan.

Thanks to these efforts, consolidated results for the fiscal year were favorable, with net sales reaching ¥166.7 billion (an increase of 8.9% over the previous fiscal year), operating income climbing to ¥16.6 billion (an increase of 11.9% over the previous fiscal year), ordinary income rising to ¥17.3 billion (an increase of 10.4% over the previous fiscal year), and net income growing to ¥10.4 billion (an increase of 12.2% over the previous fiscal year).

### Outlook for Fiscal Year 2007

In the Japanese market, growth is expected to slacken off as a result of the weak production volume forecast for the automotive industry. In the North American market, while prospects for the future of the industry continue to be unclear, orders for our new products are expected to increase. We expect that the Asian market outside Japan will remain strong.

The group plans to press forward with the development of environment-friendly products geared toward improved fuel efficiency and noise/vibration control, while making a unified effort to strengthen its quality control systems in order to better meet the needs of its customers. Increased depreciation (resulting from the notification of the Ministry of Finance regarding revisions related to depreciable assets' useful lives, etc.), along with rising costs resulting from increases in torque converter production, is expected to put pressure on earnings. The group intends to further its streamlining efforts to secure firm earnings.

Consequently, we forecast net sales of ¥177.0 billion (an increase of 6.1% over the previous fiscal year), operating income of ¥16.8 billion (an increase of 0.8% over the previous fiscal year), ordinary income of ¥16.8 billion (a decrease of 3.3% from the previous fiscal year), and net income of ¥10.2 billion (a decrease of 2.8% from the previous fiscal year).



From left to right: Etsuji Terada (Executive Managing Director), Katsumi Shintou (Managing Director), Masayuki Matsuda (Managing Director), Haruo Shimizu (President and Chief Executive Officer), Yoshitsugu Sakamoto (Managing Director), and Hisayasu Masaoka (Managing Director)

## Financial Position

### Review of cash flows in Fiscal Year 2006

In cash flow from operating activities, strong expansion in operations and business results caused net income before taxes to rise by ¥1.6 billion against the previous fiscal year to ¥17.3 billion, while depreciation expenses increased ¥400.0 million from the previous year to ¥9.4 billion. The corporate tax paid was ¥4.4 billion. In balance, funds received from operating activities rose ¥7.0 billion to ¥20.5 billion.

Cash flow from investments was ¥15.7 billion. Expenditures for capital investment, chiefly for AT business expansion, climbed to ¥15.0 billion from ¥13.9 billion the previous year.

Cash flow from financial activities was ¥3.8 billion, an increase of ¥1.0 billion over the previous year. Dividend payout was ¥1.5 billion, expenditures from acquisition of treasury stock stood at ¥1.1 billion, and long-term loan payments totaled ¥600.0 million.

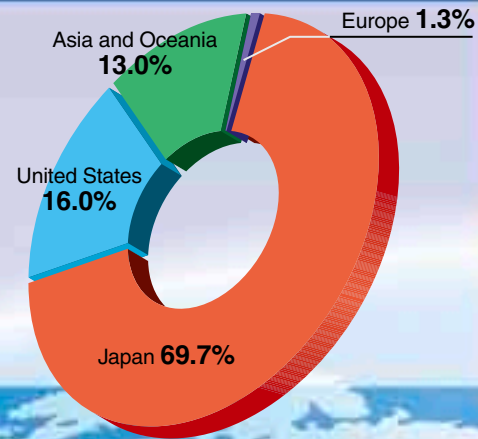
July 2007

Haruo Shimizu  
President and Chief Executive Officer

# Business Results by Market

## Net Sales by Location

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Japan	¥121,418	¥130,804	\$1,108,035
United States	28,037	30,065	254,677
Asia and Oceania	20,516	24,334	206,136
Europe	1,956	2,348	19,891
Eliminations	(18,868)	(20,806)	(176,242)
Total	¥153,059	¥166,745	\$1,412,497



The chart at right shows the percentage of sales to customers outside the Group.  
\$1=¥118.05

## Europe

Total sales reached ¥2.3 billion (an increase of 20.1% over the previous fiscal year), with operating income of ¥200.0 million (an increase of 2.2% over the previous fiscal year).



## New Motorcycle Clutch Production Company Established in Indonesia

P.T. EXEDY Motorcycle Indonesia Co., Ltd.

P.T. EXEDY Motorcycle Indonesia was established in July 2006, becoming our second motorcycle clutch plant in Indonesia. We now operate five motorcycle clutch production facilities in three Southeast Asian countries (Thailand, Vietnam, and Indonesia), and the scope of our motorcycle business in the ASEAN region continues to grow.

## Japan

Increased orders from Japanese automakers for AT-related products lifted total sales to ¥130.8 billion (an increase of 7.7% over the previous fiscal year), and operating income to ¥12.1 billion (an increase of 11.3% over the previous fiscal year).

## Asia and Oceania

As a result of steady growth in the Asian automotive industry outside Japan, and increased orders for motorcycle clutches, total sales climbed to ¥24.3 billion (an increase of 18.6% over the previous fiscal year), and operating income climbed to ¥3.0 billion (an increase of 74.6% over the previous fiscal year).

## New Clutch Sales Company Established in Guangzhou

EXEDY Guangzhou Co., Ltd.

A new clutch sales company, EXEDY Guangzhou Co., Ltd., was established in May 2006. It will supplement our ongoing efforts to expand our existing OEM-centered sales activities with a new emphasis on aftermarket sales. In this way we hope to expand the scope of our business operations in the rapidly growing Chinese clutch market.

## New Torque Converter Plant Completed in Shanghai

EXEDY (Shanghai) Co., Ltd.

In anticipation of an increase in the production volume of automatic transmission vehicles in China, a new torque converter plant was constructed within EXEDY (Shanghai) Co., Ltd., in October 2006. This is our third torque converter plant worldwide, following our Ueno Division and EXEDY America Corporation. Our aim is to increase the market share of our plants in Japan, the U.S.A., and China, eventually achieving an annual production volume of 8 million units worldwide by 2010.



## 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.

## United States

Buoyed by increased orders for AT-related products, total sales rose to ¥30.0 billion (an increase of 7.2% over the previous fiscal year). However, increased product launch costs held operating income to ¥1.2 billion (a 36.3% decrease from the previous fiscal year).



## EXEDY America Corporation

### Manual automotive drivetrain

Head Office	●	
Kawagoe Plant	●	
DK Pronac Co., Ltd.	●	
EXEDY America Corporation	●	2
EXEDY Chongqing Co., Ltd.	●	9
EXEDY (Thailand) Co., Ltd.	●	12
EXEDY (Malaysia) Sdn. Bhd.	●	13
P.T. EXEDY Indonesia	●	15
Ceekay Daikin Ltd.	●	16
Euro EXEDY Clutch Ltd.	●	18

### Automatic automotive drivetrain

<p>〈Torque converter〉</p> <p>Ueno Division</p>	●	
EXEDY America Corporation	●	2
EXEDY (Shanghai) Co., Ltd.	●	5
<p>〈Clutch pack, Friction plates〉</p> <p>DYNAX Corporation</p>	●	
DYNAX America Corporation	●	1
DYNAX Industry (Shanghai) Co., Ltd.	●	6
Shanghai DYNAX Co., Ltd.	●	7

### Clutches for motorcycles

EXEDY Vietnam Co., Ltd.	●	10
EXEDY Friction Material Co., Ltd.	●	11
EXEDY (Thailand) Co., Ltd.	●	12
P.T. EXEDY Motorcycle Indonesia	●	14
P.T. EXEDY Indonesia	●	15

### Friction facing for manual clutches

EXEDY (Shanghai) Co., Ltd.	●	5
EXEDY Friction Material Co., Ltd.	●	11

### Sales/warehousing

EXEDY Globalparts Corporation	●	3
EXEDY Australia Pty. Ltd.	●	4
EXEDY Guangzhou Co., Ltd.	●	8
EXEDY Middle East FZCO	●	17
EXEDY Clutch Europe Ltd.	●	19

# Topics of the Year

## Awards for Safety and Product Quality

EXEDY places great importance on safety and product quality initiatives, and our efforts in these areas are highly regarded. Concerning safety, in March 2007 we became the only company among the 103 members of the Kyohokai Safety and Health Research Group to receive the Toyota Safety Award from Toyota Motor Corporation. In May 2007 we received the Special Quality Award from Daihatsu Motor Co., Ltd. This award is the highest honor for product quality presented by Daihatsu to its major suppliers, and only two companies out of 206 received it this year. EXEDY has won the award for the past seven consecutive years.



Toyota Safety Prize

Daihatsu Special Quality Award plaques received over the years

## Strategic Strengthening of the EXEDY Brand

As part of our strategy to advance the EXEDY brand, we participated in 11 auto parts exhibitions worldwide in FY 2006. Since the automobile market is expanding in emerging nations, led by Brazil, Russia, India, and China (BRICs), we exhibited at the Moscow International Motor Show (MIMS 2006) for the first time. In the field of motor sports we have sponsored both GT championship races and super endurance races, and cars equipped with EXEDY high-performance sports car clutches have performed well in these events.



Moscow International Motor Show 2006



GT 300 Class victory



Super endurance race

### GM Saturn Aura

EXEDY Torque Converter  
(produced by EXEDY America Corporation)



2007 North American Car of the Year

## 2006 Major Global Vehicles Using EXEDY Products

### Lexus LS460

DYNAX AT Parts



2006-2007 Japan Car of the Year

### Suzuki SX4

EXEDY Manual Clutch and  
DYNAX AT Parts



# Consolidated Five-Year Summary

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31

	Japanese yen (millions)					U.S. dollars (thousands)
	2003	2004	2005	2006	2007	2007
<b>For the year:</b>						
Net sales .....	¥ 113,673	¥ 122,281	¥ 136,307	¥ 153,059	¥ 166,745	\$1,412,497
Net income .....	4,448	5,179	6,300	9,354	10,497	88,921
<b>At year-end:</b>						
Total assets .....	¥ 108,907	¥ 110,799	¥ 123,289	¥ 133,440	¥144,073	\$1,220,443
Current assets .....	54,213	55,399	63,783	66,433	70,265	595,211
Property, plant and equipment .....	48,108	47,041	49,719	57,240	65,011	550,710
Current liabilities .....	24,733	25,074	27,647	30,667	32,932	278,971
Long-term debt .....	8,354	2,594	2,687	2,726	2,727	23,098
Shareholders' equity .....	63,192	69,614	76,032	—	—	—
Shareholders' equity / Total assets .....	58.0%	62.8%	61.7%	—%	—%	—%
Net assets .....	—	—	—	90,259	99,847	845,799
Net assets / Total assets .....	—%	—%	—%	67.6%	64.3%	64.3%
Retained earnings .....	51,136	55,406	60,808	69,050	75,049	635,739
<b>Per share data:</b>						
	Japanese yen					U.S. dollars
Net income .....	¥ 95.80	¥ 108.84	¥ 127.61	¥ 186.02	¥ 215.09	\$ 1.82
Net income – diluted .....	93.32	106.12	127.59	—	—	—
Shareholders' equity .....	1,386.57	1,432.90	1,525.24	—	—	—
Net assets .....	—	—	—	1,714.93	1,907.92	16.16

Notes: 1. Dollar figures are translated, for convenience only, at the rate of ¥118.05 to U.S. \$1.00.  
2. In fiscal year 2004, the new accounting standard for impairment of fixed assets was adopted.  
3. In fiscal year 2007, net assets are stated under "Accounting standard for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005)" and "Implementation guidance for Accounting standard for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No. 8 issued on December 9, 2005) as referred to in Note 1(q). This standard retroactively applied to the net assets for fiscal year 2006.

# Financial Section

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# Consolidated Balance Sheets

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
As of March 31, 2006 and 2007

ASSETS	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
<b>Current Assets:</b>			
Cash and cash equivalents [Notes 1(o) & 3]	¥ 14,512	¥ 15,736	\$ 133,298
Time deposits	60	236	1,995
Notes and accounts receivable (Notes 3 & 4) –			
Trade	31,948	35,099	297,326
Non-consolidated subsidiaries and affiliates	135	164	1,389
Allowance for doubtful accounts	(1,220)	(395)	(3,348)
Securities (Note 9)	364	—	—
Inventories (Notes 2 & 3)	14,514	14,532	123,102
Deferred tax assets (Note 12)	2,555	2,566	21,741
Short-term loans	2,510	737	6,240
Other current assets	1,055	1,590	13,468
Total current assets	66,433	70,265	595,211
<b>Property, Plant and Equipment (Note 3):</b>			
Land	7,262	7,588	64,277
Buildings and structures	32,282	34,572	292,861
Machinery and vehicles	84,874	93,154	789,105
Tools and furniture	28,295	30,952	262,191
Construction in progress	4,930	7,726	65,454
	157,643	173,992	1,473,888
Less – accumulated depreciation	(100,403)	(108,981)	(923,178)
Total property, plant and equipment	57,240	65,011	550,710
<b>Investments and Other Assets:</b>			
Investments in securities (Note 9)	1,703	1,627	13,785
Investments in and loans to			
non-consolidated subsidiaries and affiliates	1,025	682	5,773
Long-term loans	188	165	1,400
Deferred tax assets (Note 12)	4,303	3,435	29,095
Other assets	2,548	2,888	24,469
Total investments and other assets	9,767	8,797	74,522
	¥133,440	¥144,073	\$1,220,443

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

LIABILITIES AND NET ASSETS	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
<b>Current Liabilities:</b>			
Short-term borrowings including			
current portion of long-term debt (Notes 3 & 17)	¥ 5,341	¥ 4,624	\$ 39,173
Notes and accounts payable –			
Trade	15,820	17,747	150,333
Construction	1,343	1,232	10,435
Non-consolidated subsidiaries and affiliates	272	57	483
Accrued expenses	4,997	5,759	48,785
Accrued income taxes	2,351	2,932	24,840
Other current liabilities	543	581	4,922
Total current liabilities	30,667	32,932	278,971
<b>Long-term Liabilities:</b>			
Long-term debt (Notes 3 & 17)	2,726	2,727	23,098
Deferred tax liabilities (Note 12)	665	1,020	8,642
Employees' severance and retirement benefits (Note 10)	7,184	6,345	53,746
Retirement benefits for directors and corporate auditors	356	277	2,343
Other long-term liabilities	1,583	925	7,844
Total long-term liabilities	12,514	11,294	95,673
<b>Contingent Liabilities (Note 4)</b>			
<b>Net Assets [Note 1(q)]</b>			
<b>Shareholders' Equity (Note 13):</b>			
Common stock			
Authorized – 168,000 thousand shares in 2006 and 2007			
Outstanding – 49,794 thousand shares in 2006 and 48,594 thousand shares in 2007	8,284	8,284	70,175
Capital surplus	8,768	7,541	63,879
Retained earnings	69,050	75,049	635,739
Treasury stock			
856 thousand shares in 2006 and 8 thousand shares in 2007	(2,951)	(26)	(221)
Total shareholders' equity	83,151	90,848	769,572
<b>Valuation and Translation Adjustments:</b>			
Net unrealized holding gains on other securities	744	698	5,909
Foreign currency translation adjustments [Note 1(c)]	30	1,153	9,765
Total valuation and translation adjustments	774	1,851	15,674
<b>Minority Interests</b>	6,334	7,148	60,553
Total net assets	90,259	99,847	845,799
	¥133,440	¥144,073	\$1,220,443



# Consolidated Statements of Cash Flows

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2006 and 2007

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests	¥15,736	¥17,379	\$147,214
Adjustments for:			
Depreciation and amortization	9,002	9,432	79,899
Losses on sale or disposal of property, plant and equipment	217	260	2,200
Gains on sale of investments in securities	(1)	—	—
Decrease in allowance for doubtful accounts	(20)	(17)	(143)
Decrease in employees' severance and retirement benefits	(932)	(863)	(7,308)
Interest and dividend income	(133)	(167)	(1,415)
Interest expense	186	221	1,870
Increase in notes and accounts receivables	(2,191)	(2,563)	(21,715)
Decrease (increase) in inventories	(1,921)	662	5,611
Increase (decrease) in notes and accounts payables	(28)	799	6,768
Other, net	(1,173)	(122)	(1,029)
Sub-total	18,742	25,021	211,952
Interest and dividend income received	135	172	1,458
Interest paid	(181)	(227)	(1,925)
Income taxes paid	(5,174)	(4,412)	(37,370)
Net cash provided by operating activities	13,522	20,554	174,115
<b>Cash Flows from Investing Activities:</b>			
Increase in time deposits	(304)	(184)	(1,555)
Decrease in time deposits	19	13	113
Payments for purchase of property, plant and equipment	(13,946)	(15,048)	(127,469)
Proceeds from sale of property, plant and equipment	170	205	1,736
Payments for acquisitions of intangible assets	(137)	(679)	(5,755)
Proceeds from sale of investments in securities	1	—	—
Payments for additional investments in consolidated subsidiaries	(48)	—	—
Payments for investments in non-consolidated subsidiaries	(350)	—	—
Additions to loans receivable	(1,751)	(458)	(3,879)
Collection of loans receivable	723	262	2,217
Other, net	73	148	1,247
Net cash used in investing activities	(15,550)	(15,741)	(133,345)
<b>Cash Flows from Financing Activities:</b>			
Increase (decrease) in short-term borrowings, net	1,176	(526)	(4,452)
Proceeds from long-term loans payable	546	179	1,513
Repayments of long-term loans payable	(427)	(655)	(5,549)
Payments for acquisitions of treasury stock	(2,946)	(1,155)	(9,779)
Cash dividends paid	(1,022)	(1,541)	(13,058)
Cash dividends paid to minority shareholders	(161)	(207)	(1,749)
Other, net	—	29	244
Net cash used in financing activities	(2,834)	(3,876)	(32,830)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	481	275	2,324
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(4,381)	1,212	10,264
<b>Cash and Cash Equivalents at Beginning of Year</b>	18,893	14,512	122,929
<b>Cash and Cash Equivalents of Newly Consolidated Subsidiaries</b>	—	12	105
<b>Cash and Cash Equivalents at End of Year</b>	¥14,512	¥15,736	\$133,298

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 domestic consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Corporate Law of Japan 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 Japanese GAAP. 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 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, 2007, which was ¥118.05 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 net assets 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 net assets.

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

The Company and its domestic consolidated subsidiaries compute the depreciation of property, plant and equipment by using the declining-balance method and its overseas consolidated subsidiaries mainly by using the straight-line method. The depreciation of buildings acquired by the Company and its domestic consolidated subsidiaries on and after April 1, 1998 is computed by using the straight-line method.

Estimated useful lives of property, plant and equipment are as follows:  
Buildings and structures ..... 3 – 50 years  
Machinery and vehicles ..... 2 – 15 years  
Tools and furniture ..... 2 – 20 years

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.

### (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 Japanese GAAP. 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 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.

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.

**(l) Retirement benefits for directors and corporate auditors**

The Company and its domestic consolidated 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 in Japan 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) 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 net assets per share is based on the number of common stock shares outstanding at the year-end, excluding the Company's treasury stock and based on net assets attributing to ordinary shareholders excluding minority interests.

Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

**(o) 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.

**2. Inventories**

Inventories as of March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Finished goods .....	¥ 5,947	¥ 5,804	\$ 49,164
Work-in process .....	4,998	5,283	44,754
Raw materials .....	2,814	2,611	22,119
Supplies .....	755	834	7,065
	<u>¥14,514</u>	<u>¥14,532</u>	<u>\$123,102</u>

**3. Assets Pledged as Collateral**

The following assets were pledged as collateral for ¥213 million of secured short-term loans from banks and ¥412 million of secured long-term loans from government-sponsored agencies as of March 31, 2006, and for ¥699 million (\$5,922 thousand) of secured short-term loans from banks and ¥263 million (\$2,224 thousand) of secured long-term loans from government-sponsored agencies as of March 31, 2007:

**(p) Reclassification**

Certain comparative figures have been reclassified to conform to the current year's presentation.

**(q) Changes in accounting policies**

**Accounting standard for presentation of net assets in the balance sheet**

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries applied "Accounting standard for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005)", and "Implementation guidance for Accounting standard for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No. 8 issued on December 9, 2005)".

"Net assets" in the consolidated balance sheets for this year is presented according to the revision of "Regulations Concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006. Furthermore, the Company presented its net assets in the consolidated balance sheets using the new presentation as of March 31, 2006.

**Accounting standard for directors' and corporate auditors' bonuses**

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries applied "Accounting standard for directors' and corporate auditors' bonuses" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005).

As a result of the application of this standard, operating income for the year ended March 31, 2007 decreased by ¥104 million (\$881 thousand) and income before income taxes and minority interests for the year ended March 31, 2007 decreased by ¥107 million (\$906 thousand), respectively.

In addition, the effect of the application of this standard on segment information is discussed in the relevant sections of this report.

**Accounting standard for decrease of treasury stock and legal reserve**

Effective from the year ended March 31, 2007, the Company applied "Accounting standard for decrease of treasury stock and legal reserve" (Accounting Standards Board of Japan Statement No. 1 final version issued on August 11, 2006) and "Implementation guidance for Accounting standard for decrease of treasury stock and legal reserve (Accounting Standards of Japan Guidance No. 2 final version issued on August 11, 2006)".

There is no effect of the application of this standard on statements of income.

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Notes and accounts receivable and inventories .....	¥1,181	¥1,191	\$10,090
Land .....	152	152	1,290
Buildings and structures, net .....	247	233	1,974
Machinery and vehicles, net .....	8	6	49
	<u>¥1,588</u>	<u>¥1,582</u>	<u>\$13,403</u>

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, 2006 were also pledged for deferred payment of electricity.

**4. Contingent Liabilities**

Contingent liabilities for guarantees by the Company as of March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Guarantees of loans from banks of affiliates under the equity method .....	¥500	¥500	\$4,235

Trade note receivable endorsed was ¥56 million (\$478 thousand) and discounted was ¥19 million (\$158 thousand) for the year ended March 31, 2007.

**5. Research and Development Expenses**

Research and development expenses are charged to income as incurred. Research and development expenses charged to income for the years ended March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Research and development expenses .....	¥3,714	¥3,552	\$30,092

**6. Changes in Net Assets**

**(a) Shares issued and outstanding / Treasury stock**

	Number of shares as of March 31, 2006	Increase	Decrease	Number of shares as of March 31, 2007
Shares issued:				
Common stock (thousands) .....	49,794	—	1,200	48,594
	<u>49,794</u>	<u>—</u>	<u>1,200</u>	<u>48,594</u>
Treasury stock:				
Common stock (thousands) .....	856	352	1,200	8
	<u>856</u>	<u>352</u>	<u>1,200</u>	<u>8</u>

- (Notes) 1. The decrease of share issued - common stock 1,200 thousand is due to retire treasury stock on January 22, 2007 as approved by the Board of Directors' meeting held on December 26, 2006.  
2. The increase of treasury stock - common stock 352 thousand is due to purchase of the stocks 350 thousand and the stocks less than standard unit 2 thousand as approved by the Board of Directors' meeting held on October 26, 2006.  
3. The decrease of treasury stock - common stock 1,200 thousand is due to retire treasury stock on January 22, 2007 as approved by the Board of Directors' meeting held on December 26, 2006.

**(b) Dividends**

(1) Dividends						
Resolution	Type of shares	Cash dividends paid Japanese yen (millions) U.S. dollars (thousands)	Dividends per share (Japanese yen) (U.S. dollars)	Cut-off date	Effective date	
Ordinary general meeting of the shareholders on June 27, 2006	Common stock	¥ 832 \$7,047	¥ 17.0 \$ 0.14	March 31, 2006	June 28, 2006	
Board of Directors' meeting on October 26, 2006	Common stock	¥ 709 \$6,011	¥ 14.5 \$ 0.12	September 30, 2006	November 28, 2006	



(2) Dividends, of which the cut-off date was in the year ended March 31, 2007, and effective date of which will be in the year ending March 31, 2008

Resolution	Type of shares	Cash dividends paid Japanese yen (millions) U.S. dollars (thousands)	Resources of dividends	Dividends per share (Japanese yen) (U.S. dollars)	Cut-off date	Effective date
Ordinary general meeting of the shareholders on June 26, 2007	Common stock	¥ 948 \$8,026	Retained earnings	¥ 19.5 \$ 0.17	March 31, 2007	June 27, 2007

## 7. Cash Flows

### Non-cash investing and financing activities

In the year ended March 31, 2007, the Company retired 1,200 thousand treasury stock.

	Japanese yen (millions)	U.S. dollars (thousands)
Decrease of capital surplus .....	¥1,227	\$10,391
Decrease of retained earnings .....	2,853	24,168
Decrease of treasury stock .....	¥4,080	\$34,559

## 8. 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 years ended March 31, 2006 and 2007 was as follows:

	Japanese yen (millions)			
	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance
<b>March 31, 2006</b>				
Machinery and vehicles .....	¥1,073	¥ 320	¥ —	¥ 753
Tools and furniture .....	162	122	—	40
Other .....	78	61	—	17
	¥1,313	¥ 503	¥ —	¥ 810

	Japanese yen (millions)				U.S. dollars (thousands)			
	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance
<b>March 31, 2007</b>								
Machinery and vehicles .....	¥ 290	¥ 137	¥ —	¥ 153	\$2,453	\$1,159	\$ —	\$1,294
Tools and furniture .....	158	117	—	41	1,339	995	—	344
Other .....	61	58	—	3	521	487	—	34
	¥ 509	¥ 312	¥ —	¥ 197	\$4,313	\$2,641	\$ —	\$1,672

The scheduled maturities of future lease payments, on such lease contracts for the year ended March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Due within one year .....	¥ 158	¥ 78	\$ 660
Due over one year .....	652	119	1,012
	¥ 810	¥ 197	\$1,672
Lease payments for the year .....	¥ 213	¥ 88	\$ 748

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 ¥213 million and ¥88 million (\$748 thousand) for the years ended March 31, 2006 and 2007, respectively.

The Company had no leased assets on which impairment should be recognized for the years ended March 31, 2006 and 2007.

### (b) Operating leases

The scheduled maturities of future lease payments under non-cancelable operating leases as of March 31, 2006 and 2007, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Due within one year .....	¥ 2	¥ 0	\$ 1
Due over one year .....	0	—	—
	¥ 2	¥ 0	\$ 1

## 9. Securities

Other securities with book values (fair values) exceeding acquisition costs as of March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		
	Acquisition cost	Book value	Difference
<b>March 31, 2006</b>			
Equity securities .....	¥ 389	¥1,637	¥1,248
Interest-bearing securities .....	—	—	—
Others .....	—	—	—
	¥ 389	¥1,637	¥1,248

	Japanese yen (millions)			U.S. dollars (thousands)		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
<b>March 31, 2007</b>						
Equity securities .....	¥ 398	¥ 1,560	¥ 1,162	\$ 3,369	\$13,214	\$9,845
Interest-bearing securities .....	—	—	—	—	—	—
Others .....	—	—	—	—	—	—
	¥ 398	¥ 1,560	¥ 1,162	\$ 3,369	\$13,214	\$9,845

Other securities with book values (fair values) not exceeding acquisition costs as of March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		
	Acquisition cost	Book value	Difference
<b>March 31, 2006</b>			
Equity securities .....	¥ —	¥ —	¥ —
Interest-bearing securities .....	—	—	—
Others .....	—	—	—
	¥ —	¥ —	¥ —

	Japanese yen (millions)			U.S. dollars (thousands)		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
<b>March 31, 2007</b>						
Equity securities .....	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Interest-bearing securities .....	—	—	—	—	—	—
Others .....	—	—	—	—	—	—
	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —

The book value of securities with no available fair values as of March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Other securities with no fair value			
Non-listed equity securities			
Carrying amount .....	¥ 66	¥ 67	\$ 571
Investment trust fund .....	364	—	—

Maturities of other securities with maturities as of March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
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	—	—
After one year through five years .....	—	—	—
After five years through ten years .....	—	—	—
Over ten years .....	—	—	—

Other securities sold in the years ended March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Sales value .....	¥ 1	¥ —	\$ —
Gains .....	1	—	—
Losses .....	—	—	—

## 10. Employees' Severance and Retirement Benefits

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, 2006 and 2007 consists of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Projected benefit obligation	¥11,832	¥11,883	\$100,659
Fair value of pension assets	(5,135)	(5,553)	(47,042)
	6,697	6,330	53,617
Unrecognized actuarial differences	487	15	129
Liability for employees' severance and retirement benefits	¥ 7,184	¥ 6,345	\$ 53,746

Included in the consolidated statements of income for the years ended March 31, 2006 and 2007 were employees' severance and retirement benefit expenses comprised of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Service costs	¥ 706	¥ 471	\$ 3,988
Interest costs	242	237	2,004
Expected return on plan assets	(87)	(103)	(870)
Amortization of actuarial differences	(375)	(465)	(3,942)
Employees' severance and retirement benefit expenses	486	140	1,180
Others	154	155	1,316
	¥ 640	¥ 295	\$ 2,496

(Note) "Others" represents the payments to defined contribution pension plans.

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

	2006	2007
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	2.0%	2.0%
Amortization of prior service costs	1 year	1 year
Amortization of actuarial differences	1 year	1 year

## 11. Derivatives

The only derivative transactions the Company and its consolidated subsidiaries engages in are forward currency exchange contracts and currency swaps for the purpose of hedging against exchange rate risks. The Company and its consolidated subsidiaries do 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 and currency swaps 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 and its consolidated subsidiaries have 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, 2006 and 2007.

	Japanese yen (millions)			U.S. dollars (thousands)		
	Contract amount	Fair value	Gain (loss)	Contract amount	Fair value	Gain (loss)
<b>March 31, 2006</b>						
Forward exchange contracts:						
To sell U.S. dollars	¥ 497	¥ 501	¥ (4)			
	¥ 497	¥ 501	¥ (4)			
<b>March 31, 2007</b>						
Forward exchange contracts:						
To sell U.S. dollars	¥ 624	¥ 621	¥ 3	\$5,288	\$5,259	\$ 29
Currency swaps:						
Payment Rupiahs	46	(6)	(6)	389	(54)	(54)
Receipt U.S. dollars	¥ —	¥ —	¥ (3)	\$ —	\$ —	\$ (25)

## 12. Income Taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
<b>Deferred tax assets:</b>			
Employees' severance and retirement benefits	¥ 2,900	¥ 2,558	\$21,666
Net operating losses carried forward	2,628	2,174	18,416
Accrued bonuses to employees	800	836	7,082
Accrued defined contribution pension to employees	887	523	4,428
Accrued warranty costs	261	323	2,733
Losses on devaluation of inventories	279	245	2,072
Accrued enterprise tax	167	219	1,859
Unrealized income (fixed assets)	209	219	1,856
Unrealized income (inventories)	231	218	1,850
Allowance for doubtful accounts	530	152	1,284
Other	765	817	6,927
<b>Total deferred tax assets</b>	9,657	8,284	70,173
Valuation allowance	(944)	(551)	(4,666)
<b>Deferred tax assets</b>	8,713	7,733	65,507
<b>Deferred tax liabilities:</b>			
Retained earnings of overseas subsidiaries	(661)	(1,017)	(8,612)
Property, plant and equipment	(744)	(688)	(5,827)
Reserve for advanced depreciation	(342)	(339)	(2,870)
Net unrealized holding gains on other securities	(504)	(465)	(3,936)
Reserve for special depreciation	(143)	(86)	(730)
Other	(132)	(157)	(1,338)
<b>Total deferred tax liabilities</b>	(2,526)	(2,752)	(23,313)
Valuation allowance	6	—	—
<b>Deferred tax liabilities</b>	(2,520)	(2,752)	(23,313)
<b>Net deferred tax assets</b>	¥ 6,193	¥ 4,981	\$42,194

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 40.4% for the years ended March 31, 2006 and 2007.

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, 2006 and 2007:

	2006	2007
<b>Statutory tax rate</b>	40.4%	40.4%
<b>Adjustments for:</b>		
Non-deductible expenses	0.2	2.1
Per capita inhabitant tax	0.1	0.1
Tax credit for research and development expenses	(2.1)	(1.5)
Different tax rates applied to overseas subsidiaries	(2.0)	(3.0)
Effect of net operating losses carried forward by overseas subsidiaries	—	(4.5)
Increase of retained earnings of overseas subsidiaries	—	2.0
Other	(0.8)	0.4
<b>Effective tax rate</b>	35.8%	36.0%

## 13. Shareholders' Equity

The Company is subject to the Corporate Law of Japan that went into force on May 1, 2006.

The Corporate Law of Japan provides that an amount equal to 10% of cash dividends to be paid be appropriated as a legal reserve. And 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 a 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.

## 14. Segment Information

The Company and its consolidated subsidiaries operate in 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 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 March 31, 2006 and 2007 was as follows:

		Japanese yen (millions)		U.S. dollars (thousands)
		2006	2007	2007
<b>Sales:</b>	Manual automotive drivetrain operations .....	¥ 49,311	¥ 50,914	\$ 431,288
	Automatic automotive drivetrain operations .....	89,908	99,660	844,215
	Other operations .....	19,597	22,271	188,658
	Eliminations (inter-segment net sales) .....	(5,757)	(6,100)	(51,664)
		<u>¥153,059</u>	<u>¥166,745</u>	<u>\$1,412,497</u>
<b>Operating Costs and Expenses:</b>	Manual automotive drivetrain operations .....	¥ 43,287	¥ 43,859	\$ 371,528
	Automatic automotive drivetrain operations .....	81,927	91,293	773,344
	Other operations .....	18,089	20,171	170,872
	Non-allocated operating expenses and eliminations .....	(5,146)	(5,249)	(44,464)
		<u>¥138,157</u>	<u>¥150,074</u>	<u>\$1,271,280</u>
<b>Operating Income:</b>	Manual automotive drivetrain operations .....	¥ 6,025	¥ 7,055	\$ 59,760
	Automatic automotive drivetrain operations .....	7,981	8,366	70,871
	Other operations .....	1,508	2,100	17,785
	Non-allocated operating expenses and eliminations .....	(612)	(850)	(7,199)
		<u>¥ 14,902</u>	<u>¥ 16,671</u>	<u>\$ 141,217</u>
<b>Assets:</b>	Manual automotive drivetrain operations .....	¥ 39,187	¥ 39,901	\$ 338,001
	Automatic automotive drivetrain operations .....	69,426	75,723	641,452
	Other operations .....	11,537	15,510	131,381
	Corporate and eliminations .....	13,290	12,939	109,609
		<u>¥133,440</u>	<u>¥144,073</u>	<u>\$1,220,443</u>
<b>Depreciation and Amortization:</b>	Manual automotive drivetrain operations .....	¥ 2,730	¥ 2,658	\$ 22,516
	Automatic automotive drivetrain operations .....	5,425	6,172	52,281
	Other operations .....	961	701	5,938
	Corporate and eliminations .....	(114)	(99)	(836)
		<u>¥ 9,002</u>	<u>¥ 9,432</u>	<u>\$ 79,899</u>
<b>Capital Expenditures:</b>	Manual automotive drivetrain operations .....	¥ 2,427	¥ 3,300	\$ 27,958
	Automatic automotive drivetrain operations .....	11,269	12,149	102,913
	Other operations .....	861	816	6,911
	Corporate and eliminations .....	(85)	(327)	(2,774)
		<u>¥ 14,472</u>	<u>¥ 15,938</u>	<u>\$ 135,008</u>

(Note) Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards for directors' and corporate auditors' bonuses. As compared with the previous method, operating costs and expenses increased by ¥33 million (\$275 thousand) in Manual automotive drivetrain operations, ¥60 million (\$511 thousand) in Automatic automotive drivetrain operations and ¥11 million (\$95 thousand) in Other operations, and operating income for each segment decreased by the same amount.

Geographic area segment information for the years ended March 31, 2006 and 2007 was as follows:

		Japanese yen (millions)		U.S. dollars (thousands)
		2006	2007	2007
<b>Sales:</b>	Japan .....	¥121,418	¥130,804	\$1,108,035
	America .....	28,037	30,065	254,677
	Asia-Oceania .....	20,516	24,334	206,136
	Other .....	1,956	2,348	19,891
	Eliminations (inter-segment net sales) .....	(18,868)	(20,806)	(176,242)
		<u>¥153,059</u>	<u>¥166,745</u>	<u>\$1,412,497</u>
<b>Operating Costs and Expenses:</b>	Japan .....	¥110,491	¥118,645	\$1,005,037
	America .....	26,068	28,809	244,045
	Asia-Oceania .....	18,769	21,283	180,290
	Other .....	1,730	2,118	17,940
	Non-allocated operating expenses and eliminations .....	(18,901)	(20,781)	(176,032)
		<u>¥138,157</u>	<u>¥150,074</u>	<u>\$1,271,280</u>
<b>Operating Income:</b>	Japan .....	¥ 10,928	¥ 12,159	\$ 102,998
	America .....	1,969	1,255	10,632
	Asia-Oceania .....	1,748	3,051	25,846
	Other .....	225	230	1,951
	Non-allocated operating expenses and eliminations .....	32	(24)	(210)
		<u>¥ 14,902</u>	<u>¥ 16,671</u>	<u>\$ 141,217</u>
<b>Assets:</b>	Japan .....	¥ 80,210	¥ 84,295	\$ 714,065
	America .....	22,809	24,926	211,149
	Asia-Oceania .....	20,113	24,208	205,067
	Other .....	1,367	1,760	14,910
	Corporate and eliminations .....	8,941	8,884	75,252
		<u>¥133,440</u>	<u>¥144,073</u>	<u>\$1,220,443</u>

(Notes) 1. The Company's operations are classified into geographical areas as follows: Japan, America, Asia-Oceania (Thailand, Malaysia, China, Indonesia, Vietnam, Australia and United Arab Emirates) and Other (Europe).  
2. Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards for directors' and corporate auditors' bonuses. As compared with the previous method, operating costs and expenses increased by ¥104 million (\$881 thousand) in Japan segment and operating income for each segment decreased by the same amount.

Net sales outside Japan for the years ended March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
America .....	¥ 28,006	¥ 29,998	\$ 254,109
Asia-Oceania .....	25,323	26,783	226,881
Other .....	6,630	7,326	62,058
	<u>¥ 59,959</u>	<u>¥ 64,107</u>	<u>\$ 543,048</u>

## 15. Related Party Transactions

For the year ended March 31, 2007, the Company and its consolidated subsidiaries had operational transactions with Aisin AW Co., Ltd. Aisin AW Co., Ltd. is a subsidiary of Aisin Seiki Co., Ltd. which holds 33.4% of the Company's voting rights.

A summary of the significant transactions between the Company and its consolidated subsidiaries and such a company for the year ended March 31, 2007 was as follows:

Categories	Name	Address	Capital Japanese yen (millions) U.S. dollars (thousands)	Operation	Voting rights (%)	Relationship		Trade	Amount Japanese yen (millions) U.S. dollars (thousands)	Accounts	Balance Japanese yen (millions) U.S. dollars (thousands)
						Directors	Business relationship				
Other related company's subsidiary	Aisin AW Co., Ltd.	Anjo City Aichi Pref.	¥ 26,480 \$224,312	Manufacturing automotive parts	—	1	Sale of products	Sale of products	¥ 8,440 \$71,496	Accounts receivable Advanced received	¥ 2,010 \$17,029 ¥ 4 \$ 36

(Transaction terms and policy determination thereof)

With regard to sale of products, prices and other transaction terms are determined by negotiation in consideration of market situation.

(Note) Consumption taxes are included in the balance, but not in the trade amount.

## 16. Per Share Data

Per share data for the year ended March 31, 2006 and 2007 were as follows:

	Japanese yen		U.S. dollars
	2006	2007	2007
Net income .....	¥ 186.02	¥ 215.09	\$ 1.82
Net income – diluted .....	—	—	—
Net assets .....	1,714.93	1,907.92	16.16

Diluted net income per share is not disclosed because potentially dilutive securities are not issued.

The information on which per share data was calculated for the year ended March 31, 2006 and 2007 was as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2006	2007	2007
Net income per share of common stock			
Net income .....	¥ 9,354	¥10,497	\$88,921
Amounts not attributed to ordinary shareholders .....	104	—	—
(Bonuses to directors and corporate auditors) .....	(104)	(—)	(—)
Net income attributed to ordinary shareholders .....	<u>¥ 9,250</u>	<u>¥10,497</u>	<u>\$88,921</u>
The weighted average number of shares (thousands) .....	49,724	48,802	48,802

## 17. Short-term Borrowings and Long-term Debt

Short-term borrowings and long-term debt as of March 31, 2006 and 2007 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	Weighted average interest rates	Year due
	2006	2007	2007		
Short-term borrowings .....	¥ 4,720	¥ 4,175	\$35,367	3.4%	
Current portion of long-term debt .....	621	449	3,806	2.7	
Long-term debt .....	2,726	2,727	23,098	5.4	2008-2012
Other debt .....	217	96	815	0.9	
	<u>¥ 8,284</u>	<u>¥ 7,447</u>	<u>\$63,086</u>		

Annual maturities of long-term debt as of March 31, 2007 were as follows:

Years ending March 31	Japanese yen (millions)	U.S. dollars (thousands)
2009 .....	¥ 543	\$ 4,597
2010 .....	103	868
2011 .....	80	682
2012 and thereafter .....	<u>2,001</u>	<u>16,951</u>
	<u>¥2,727</u>	<u>\$23,098</u>

## 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 2007, and the related consolidated statements of income, changes in net assets, 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 2007, 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(q), effective from the year ended March 31, 2007, EXEDY Corporation and its domestic consolidated subsidiaries applied Accounting standard for presentation of net assets in the balance sheet and Implementation guidance for Accounting standard for presentation of net assets in the balance sheet.

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.

  
**Misuzu Audit Corporation**  
 Osaka, Japan

June 26, 2007

## 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.

## Board of Directors

As of June 30, 2007

*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  
 Hideki Miura  
 Masanori Motoura  
 Shougo Okamura  
 Hidehito Hisakawa  
 Koji Akita  
 Hiromu Yamasaki  
 Toshiharu Yamamoto**

*Auditors:*

**Naoaki Sawada  
 Kanshirou Toyoda  
 Koji Okada  
 Takenori Yamasaki**

## Outline of Company

As of March 31, 2007

*Name:*

**EXEDY Corporation**

*Established:*

**July 1, 1950**

*Paid-in Capital:*

**¥8,284 million**

*Number of Employees:*

**1,871**

*Number of Authorized Shares:*

**168,000 thousand shares**

*Number of Issued Shares:*

**48,594 thousand shares**

*Number of Shareholders:*

**5,777**

*Average number of shares held*

*by one Shareholder:*

**8,412 shares**

*Listed on First Sections,*

*Tokyo/Osaka Stock Exchange*

## Directory

*Head Office:*

1-1-1 Kidamotomiya,  
 Neyagawa-shi, Osaka  
 572-8570, Japan  
 Phone: 81-72-824-6933  
 Facsimile: 81-72-821-7913

*Tokyo Sales Office:*

DBS Tokyo, 2-17-2 Iwamoto-  
 cho, Chiyoda-ku, Tokyo  
 101-0032, Japan

*Kitakanto Sales Office:*

Tokyo Denki Sangyo Co.,  
 Ltd.'s Center Bldg., 6th Floor,  
 1255-1 Iida-cho, Ota-shi,  
 Gunma 373-0851, Japan

*Shizuoka Sales Office:*

TBM Bldg., 2nd Floor, 6-20  
 Aratajima-cho, Fuji-shi,  
 Shizuoka 417-0043, Japan

*Hamamatsu Sales Office:*

CITY21 Bldg., 6th Floor,  
 320-4 Sunayama-cho,  
 Naka-ku, Hamamatsu-shi,  
 Shizuoka 430-0926, Japan

*Chubu Sales Office:*

Tosho Bldg., 2nd Floor,  
 1-16-5 Mikawaanjo-cho,  
 Anjo-shi, Aichi 446-0054,  
 Japan

*Hiroshima Sales Office:*

DBS Hiroshima, 6-6  
 Sakaemachi, Kaita-cho,  
 Aki-gun, Hiroshima  
 736-0043, Japan

*Ueno Division:*

2418 Ota-cho, Iga-shi, Mie  
 518-0825, Japan

*Kawagoe Plant:*

1-103-25 Yoshinodai,  
 Kawagoe-shi, Saitama  
 350-0833, Japan

## EXEDY Overseas Network

**EXEDY HOLDINGS OF AMERICA CORPORATION**  
 8601 HAGGERTY ROAD SOUTH, BELLEVILLE,  
 MICHIGAN 48111, U.S.A.  
 PHONE: 1-734-397-3333  
 FACSIMILE: 1-734-397-9567

**EXEDY GLOBALPARTS CORPORATION**  
 8601 HAGGERTY ROAD SOUTH, BELLEVILLE,  
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 PHONE: 1-734-397-3333  
 FACSIMILE: 1-734-397-7300

**EXEDY AMERICA CORPORATION**  
 2121 HOLSTON BEND DRIVE, MASCOT,  
 TENNESSEE 37806, U.S.A.  
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 FACSIMILE: 1-865-932-2230

**DYNAX AMERICA CORPORATION**  
 568 EAST PARK DRIVE, ROANOKE,  
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**EXEDY-DYNAX AMERICA CORPORATION**  
 8601 HAGGERTY ROAD SOUTH, BELLEVILLE,  
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**EXEDY CHONGQING CO., LTD.**  
 158 TAOYUAN ROAD, NANAN DISTRICT,  
 CHONGQING, CHINA  
 PHONE: 86-23-62924439  
 FACSIMILE: 86-23-62900348

**EXEDY (SHANGHAI) CO., LTD.**  
 1399 CHENGQIAO ROAD, FENGXIAN DISTRICT,  
 SHANGHAI 201400, CHINA  
 TEL: 86-21-6710-9075  
 FACSIMILE: 86-21-5743-4257

**EXEDY GUANGZHOU CO., LTD.**  
 No. 406, E-ARIA, LONGFU CAR ACCESSORIES  
 CENTRE, HENGFU ROAD, GUANGZHOU, CHINA  
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 FACSIMILE: 86-20-83489370

**SHANGHAI DYNAX CO., LTD.**  
 No. 2 PLANT 1399 CHENGQIAO ROAD, FENGXIAN  
 DISTRICT, SHANGHAI 201400, CHINA  
 PHONE: 86-21-5743-7465  
 FACSIMILE: 86-21-5743-7458

**DYNAX INDUSTRY (SHANGHAI) CO., LTD.**  
 No. 350 RONGXIANG ROAD, SONGJIANG  
 EXPORT PROCESSING ZONE, SHANGHAI  
 201613, CHINA  
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 FACSIMILE: 86-21-5774-8389

**EXEDY CORPORATION ASEAN REGIONAL OFFICE**  
 700/316 MOO 6, BANGNA-TRAD ROAD,  
 TUMBON DON HUA ROH, AMPHUR MUANG,  
 CHONBURI 20000, THAILAND  
 PHONE: 66-38-214-423  
 FACSIMILE: 66-38-214-422

**EXEDY (Thailand) CO., LTD.**  
 700/316 MOO 6, BANGNA-TRAD ROAD,  
 TUMBON DON HUA ROH, AMPHUR MUANG,  
 CHONBURI 20000, THAILAND  
 PHONE: 66-38-214-423  
 FACSIMILE: 66-38-214-422

**EXEDY FRICTION MATERIAL CO., LTD.**  
 700/359 MOO 6, BANGNA-TRAD ROAD, KM57.  
 TUMBON DON HUA ROH, AMPHUR MUANG,  
 CHONBURI 20000, THAILAND  
 PHONE: 66-38-743-923  
 FACSIMILE: 66-38-743-927

**EXEDY (MALAYSIA) SDN. BHD.**  
 PT 16748, JALAN PERMATA 1/5,  
 ARAB-MALAYSIAN INDUSTRIAL PARK,  
 71800 NILAI, NEGERI SEMBILAN, MALAYSIA  
 PHONE: 60-6-7992988  
 FACSIMILE: 60-6-7996388

**P.T. EXEDY INDONESIA**  
 JALAN PEGANGSAAN DUA KM2 No. 64,  
 KELAPA GADING, JAKARTA, UTARA 14250,  
 INDONESIA  
 PHONE: 62-21-4603353  
 FACSIMILE: 62-21-4603355

**P.T. EXEDY MOTORCYCLE INDONESIA**  
 JL. PULOBUARAN RAYA KAV. IIIFF 8-9 PULO  
 GADUNG JAKARTA TIMUR 13920, INDONESIA  
 PHONE: 62-21-4602581  
 FACSIMILE: 62-21-4602580

**EXEDY VIETNAM CO., LTD.**  
 KHAI QUANG INDUSTRIAL ZONE, VINH YEN  
 CITY, VINH PHUC PROVINCE, SOCIALIST  
 REPUBLIC OF VIETNAM  
 PHONE: 84-211-721252  
 FACSIMILE: 84-211-721253

**CEEKAY DAIKIN LIMITED**  
 N.K.M. INTERNATIONAL HOUSE, 4TH FLOOR  
 178, BABUBHAI. M. CHINAI MARG, MUMBAI 400  
 020, INDIA  
 PHONE: 91-22-22020849  
 FACSIMILE: 91-22-22043939

**EXEDY MIDDLE EAST FZCO**  
 P.O. BOX 18199, WAREHOUSE No. ZE5 & ZE6,  
 JEBEL ALI FREE ZONE, JEBEL ALI, DUBAI,  
 U.A.E.  
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 FACSIMILE: 971-4-883-2500

**EXEDY AUSTRALIA PTY. LTD.**  
 21 FIVEWAYS BOULEVARD, KEYSBOROUGH,  
 VICTORIA 3173, AUSTRALIA  
 PHONE: 61-3-9701-5556  
 FACSIMILE: 61-3-9701-5684

**EXEDY CLUTCH EUROPE LTD.**  
 UNIT 2, ROKEBY COURT, MANOR PARK,  
 RUNCORN, CHESHIRE, WA7 1RW, ENGLAND  
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 FACSIMILE: 44-1928-571852

**EURO EXEDY CLUTCH LTD.**  
 2800, TATABANYA, BUZAVIRAG UT4, HUNGARY  
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 FACSIMILE: 36-34-311-122



**EXEDY Corporation**

1-1-1, Kidamotomiya, Neyagawa-shi, Osaka 572-8570, Japan  
Phone: 81-72-824-6933 Facsimile: 81-72-821-7913  
URL <http://www.exedy.com>

## **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.*