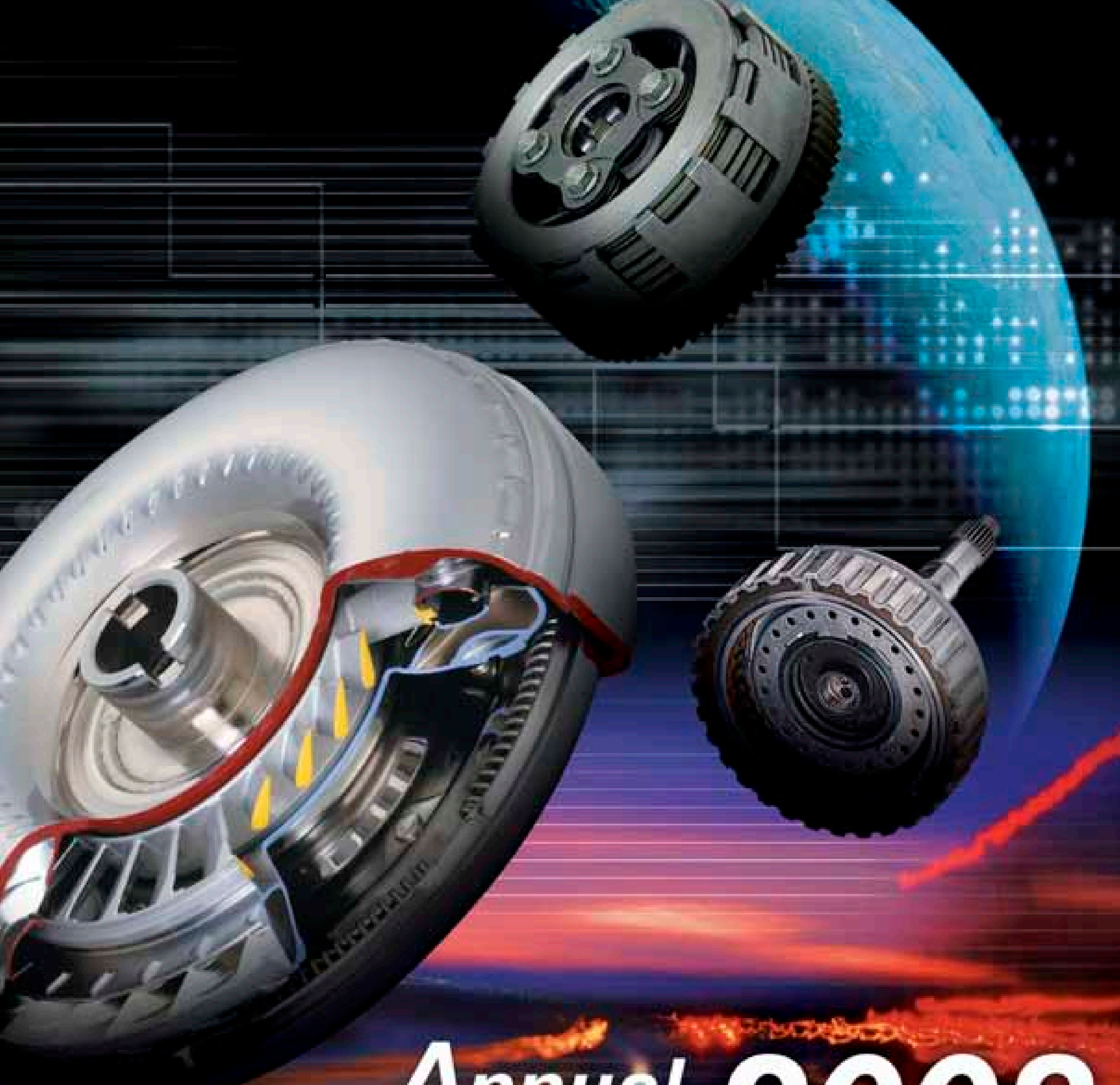
EXEDY

EXEDY Corporation



Annual Report 2008

Year Ended March 31, 2008

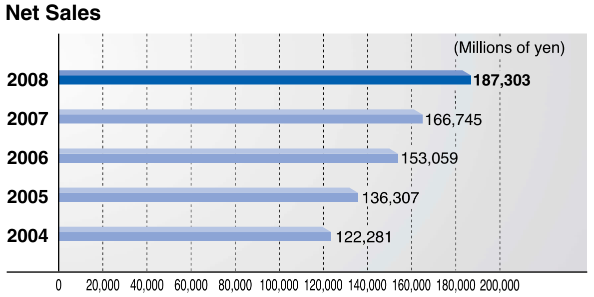
Consolidated Financial Highlights

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2007 and 2008

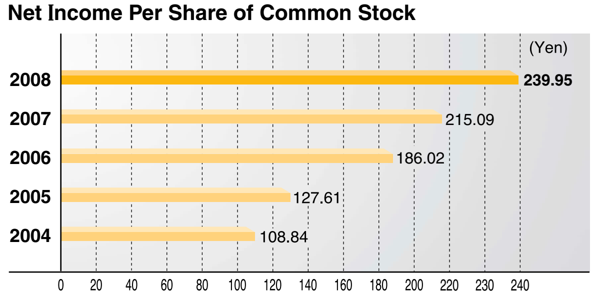
	Japanese yen (millions)		U.S. dollars (thousands)	% Change
	2007	**2008**	**2008**	2007/2008
For the year:				
Net sales	¥166,745	¥187,303	$1,869,476	+12.3%
Net income	10,497	11,658	116,361	+11.1%
At year-end:				
Total assets	¥144,073	¥158,147	$1,578,471	+9.8%
Net assets	99,847	110,033	1,098,241	+10.2%
Per share data:	Japanese yen		U.S. dollars	
Net income	¥ 215.09	¥ 239.95	$ 2.39	+11.6%
Net assets	1,907.92	2,102.64	20.99	+10.2%
Cash dividends	34.00	50.00	0.50	+47.1%

Note: Dollar figures are translated, for convenience only, at the rate of ¥100.19 to U.S. $1.00.

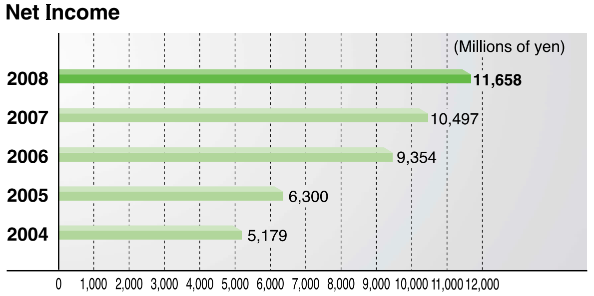
Net Sales



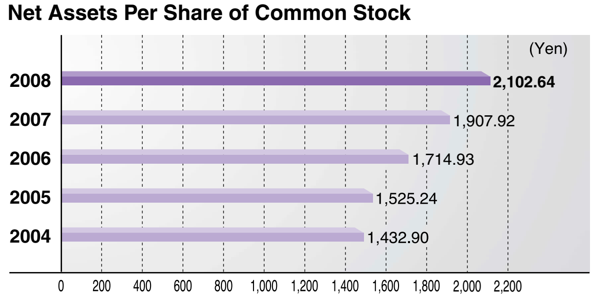
Net Income Per Share of Common Stock



Net Income



Net Assets Per Share of Common Stock



Note: Figures for FY 2005 and FY 2004 in the chart above show shareholders' equity per share of common stock.

To Our Shareholders

Business Operations

Review of Fiscal Year 2007

In the period under review, while the Japanese automotive industry posted sluggish sales growth in the major industrialized countries, there was a sharp increase in demand elsewhere, especially in the BRICs nations. As a result, global production volumes grew at a steady pace. Due to growing demand for fuel-efficient vehicles that comply with carbon dioxide emissions standards, Japanese automakers increased their market share in the overseas market.

On the other hand, the rising prices of oil and materials such as steel are placing pressure on the automotive industry's profits. In this unforgiving business environment, the EXEDY Group focused its efforts on the development and expanded sales of products that contribute to improving fuel efficiency, in order to meet the changing needs of customers and society as a whole.

These efforts brought about favorable consolidated results for the fiscal year, with net sales climbing to ¥187.3 billion (an increase of 12.3% over the previous fiscal year), operating income reaching ¥19.7 billion (an increase of 18.7% over the previous fiscal year), ordinary income growing to ¥19.5 billion (an increase of 12.7% over the previous fiscal year), and net income rising to ¥11.6 billion (an increase of 11.1% over the previous fiscal year).

Outlook for Fiscal Year 2008

In the automatic transmission (AT) business centered in Japan and the United States, automakers' continued outsourcing of parts is expected to contribute to an increase in orders. However, factors such as the U.S. economic slowdown brought about by turmoil in financial markets, and the declining price competitiveness of Japanese cars due to the appreciation of the yen against the dollar, may cause sales growth to slow down.

In contrast, we expect the manual transmission (MT) business in the Asian market outside Japan to show continued expansion.

As a result of the rising yen against the dollar, likely surges in steel price, and the depreciation burden of increased capital investment for AT-related products, we foresee a severe profit picture in the coming year.

The EXEDY Group will make a concerted effort to obtain increased orders through continuous improvements in quality, and the aggressive development of environment-friendly products that contribute to higher fuel efficiency, vibration reduction, and noise reduction. The Group also intends to make the utmost efforts to streamline its operation and ensure profitability.

Consequently, we forecast a net sales of ¥195.0 billion (an increase of 4.1% over the previous fiscal year), an operating income of ¥18.5 billion (a decrease of 6.5% from the previous fiscal year), an ordinary income of ¥18.0 billion (a decrease of 8.1% from the previous fiscal year), and a net income of ¥11.0 billion (a decrease of 5.6% from the previous fiscal year).

July 2008

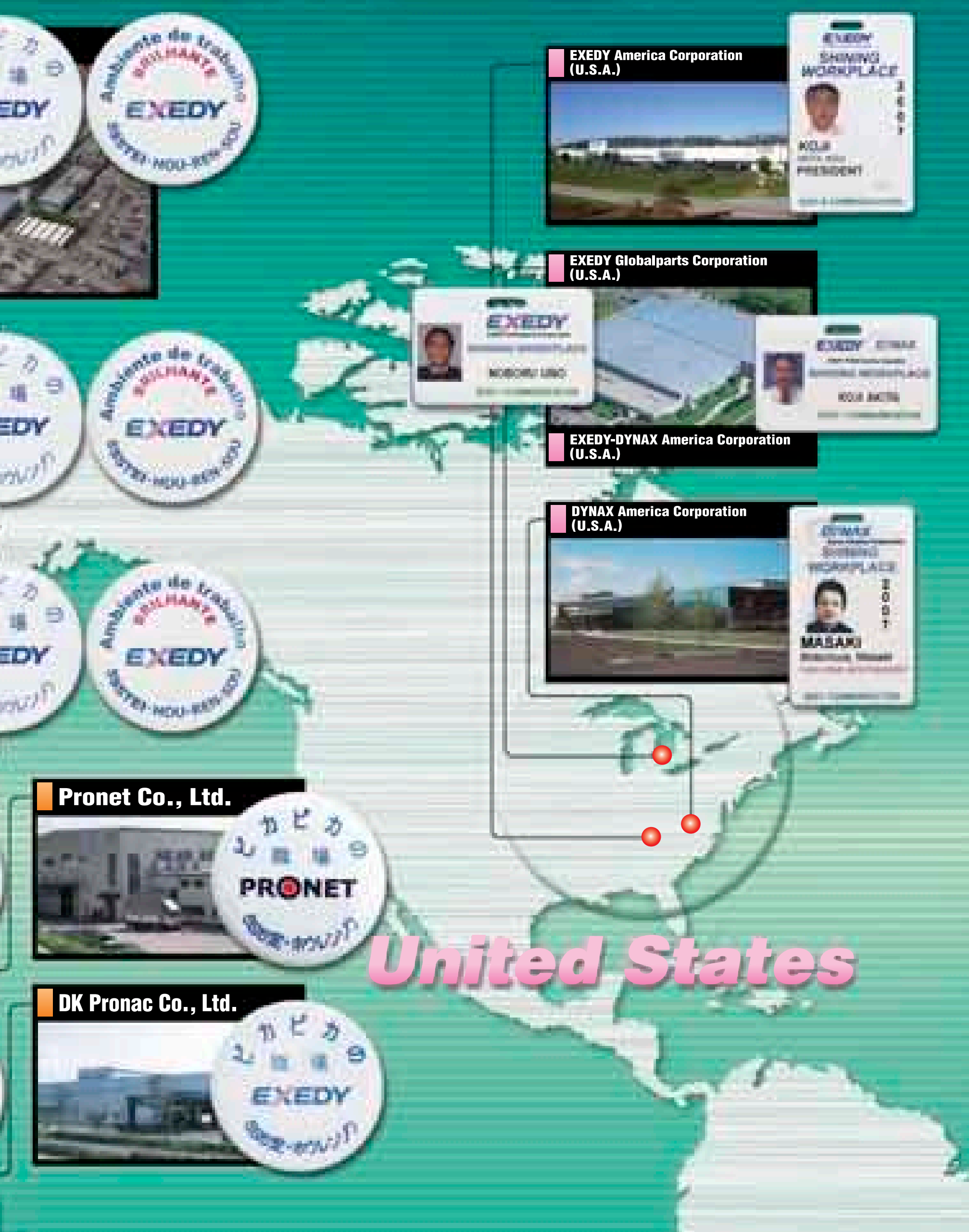
Haruo Shimizu
President and Chief Executive Officer

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

Making Shining workplace

Locations of Plants, Sales Offices and Affiliated Companies

Throughout the EXEDY Group, we are working to promote higher standards of safety, quality, and communication.

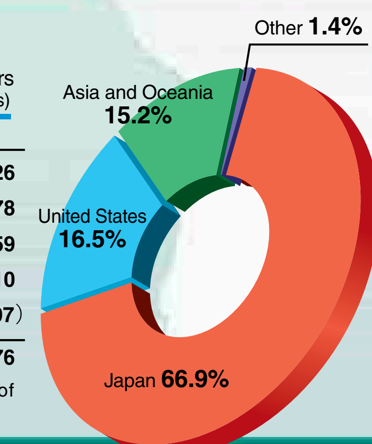


Net Sales by Location

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	2008	2008
Japan	¥130,804	¥140,449	$1,401,826
United States	30,065	34,654	345,878
Asia and Oceania	24,334	31,987	319,259
Other	2,348	2,907	29,010
Eliminations (inter-segment net sales)	(20,806)	(22,694)	(226,497)
Total	¥166,745	¥187,303	$1,869,476

$1=¥100.19

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



Topics of the Year

Osaka Auto Messe 2008

Civic Race
• Took first place in the first race of the year in April 2008

Super Endurance Race
• Took first place in the first race of the year in April 2008
• Took first place in the second race of the year in May 2008

Corporate logos on the sides of transport trucks

2007 Major Vehicles Using EXEDY Group Products

HONDA FIT
2007-2008 Japan Car of the Year

MAZDA Demio
2008 World Car of the Year
2008 RJC Car of the Year

Consolidated Five-Year Summary

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	Japanese yen (millions)					U.S. dollars (thousands)
	2004	2005	2006	2007	**2008**	**2008**
For the year:						
Net sales	¥ 122,281	¥ 136,307	¥ 153,059	¥ 166,745	**¥ 187,303**	**$1,869,478**
Net income	5,179	6,300	9,354	10,497	**11,658**	**116,359**
At year-end:						
Total assets	¥ 110,799	¥ 123,289	¥ 133,440	¥ 144,073	**¥ 158,147**	**$1,578,471**
Current assets	55,399	63,783	66,433	70,265	**82,000**	**818,445**
Property, plant and equipment	47,041	49,719	57,240	65,011	**68,220**	**680,906**
Current liabilities	25,074	27,647	30,667	32,932	**37,207**	**371,364**
Long-term debt	2,594	2,687	2,726	2,727	**2,966**	**29,604**
Shareholders' equity	69,614	76,032	—	—	**—**	**—**
Shareholders' equity / Total assets	62.8%	61.7%	—%	—%	**—%**	**—%**
Net assets	—	—	90,259	99,847	**110,033**	**1,098,244**
Net assets / Total assets	—%	—%	67.6%	64.3%	**64.6%**	**64.6%**
Retained earnings	55,406	60,808	69,050	75,049	**84,934**	**847,729**
Per share data:	Japanese yen					U.S. dollars
Net income	¥ 108.84	¥ 127.61	¥ 186.02	¥ 215.09	**¥ 239.95**	**$ 2.39**
Net income – diluted	106.12	127.59	—	—	**—**	**—**
Shareholders' equity	1,432.90	1,525.24	—	—	**—**	**—**
Net assets	—	—	1,714.93	1,907.92	**2,102.64**	**20.99**

Notes: 1. Dollar figures are translated, for convenience only, at the rate of ¥100.19 to U.S. $1.00.
2. 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 Note1(r). This standard retroactively applied to the net assets for fiscal year 2006.

Financial Section

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Consolidated Statements of Cash Flows 11
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Corporate Data 26

Consolidated Balance Sheets

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2007 and 2008

	Japanese yen (millions)		U.S. dollars (thousands)
ASSETS	2007	**2008**	**2008**
Current Assets:			
Cash and cash equivalents [Notes 1(p)]	¥ 15,736	**¥ 22,422**	**$ 223,795**
Time deposits	236	**727**	**7,256**
Notes and accounts receivable (Notes 3 & 4) –			
Trade	35,099	**37,660**	**375,886**
Non-consolidated subsidiaries and affiliates	164	**183**	**1,827**
Allowance for doubtful accounts	(395)	**(204)**	**(2,036)**
Inventories (Notes 2 & 3)	14,532	**15,937**	**159,068**
Deferred tax assets (Note 13)	2,566	**2,723**	**27,178**
Short-term loans	737	**697**	**6,957**
Other current assets	1,590	**1,855**	**18,514**
Total current assets	70,265	**82,000**	**818,445**
Property, Plant and Equipment (Note 3):			
Land	7,588	**7,698**	**76,834**
Buildings and structures	34,572	**36,590**	**365,206**
Machinery and vehicles	93,154	**100,726**	**1,005,350**
Tools and furniture	30,952	**33,688**	**336,241**
Construction in progress	7,726	**6,805**	**67,921**
	173,992	**185,507**	**1,851,552**
Less – accumulated depreciation	(108,981)	**(117,287)**	**(1,170,646)**
Total property, plant and equipment	65,011	**68,220**	**680,906**
Investments and Other Assets:			
Investments in securities (Note 10)	1,627	**1,477**	**14,742**
Investments in and loans to non-consolidated subsidiaries and affiliates	682	**752**	**7,506**
Long-term loans	165	**151**	**1,507**
Deferred tax assets (Note 13)	3,435	**3,105**	**30,991**
Other assets	2,888	**2,442**	**24,374**
Total investments and other assets	8,797	**7,927**	**79,120**
	¥144,073	**¥158,147**	**$1,578,471**

	Japanese yen (millions)		U.S. dollars (thousands)
LIABILITIES AND NET ASSETS	2007	**2008**	**2008**
Current Liabilities:			
Short-term borrowings including current portion of long-term debt (Notes 3 & 18)	¥ 4,624	**¥ 5,713**	**$ 57,022**
Notes and accounts payable –			
Trade	17,747	**18,614**	**185,787**
Construction	1,232	**1,719**	**17,157**
Non-consolidated subsidiaries and affiliates	57	**34**	**339**
Accrued expenses	5,759	**6,426**	**64,138**
Accrued income taxes	2,932	**3,878**	**38,706**
Other current liabilities	581	**823**	**8,215**
Total current liabilities	32,932	**37,207**	**371,364**
Long-term Liabilities:			
Long-term debt (Notes 3 & 18)	2,727	**2,966**	**29,604**
Deferred tax liabilities (Note 13)	1,020	**1,521**	**15,181**
Employees' severance and retirement benefits (Note 12)	6,345	**5,719**	**57,082**
Retirement benefits for directors and corporate auditors	277	**458**	**4,571**
Other long-term liabilities	925	**243**	**2,425**
Total long-term liabilities	11,294	**10,907**	**108,863**
Contingent Liabilities (Note 4)			
Net Assets [Note 1(r)]			
Shareholders' Equity (Note 14):			
Common stock			
Authorized – 168,000 thousand shares in 2007 and 2008			
Issued – 48,594 thousand shares in 2007 and 2008	8,284	**8,284**	**82,683**
Capital surplus	7,541	**7,541**	**75,267**
Retained earnings	75,049	**84,934**	**847,729**
Treasury stock			
8 thousand shares in 2007 and 10 thousand shares in 2008	(26)	**(36)**	**(359)**
Total shareholders' equity	90,848	**100,723**	**1,005,320**
Valuation and Translation Adjustments:			
Net unrealized holding gains on other securities	698	**436**	**4,352**
Foreign currency translation adjustments [Note 1(c)]	1,153	**995**	**9,931**
Total valuation and translation adjustments	1,851	**1,431**	**14,283**
Minority Interests	7,148	**7,879**	**78,641**
Total net assets	99,847	**110,033**	**1,098,244**
	¥144,073	**¥158,147**	**$1,578,471**

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

Consolidated Statements of Income

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2007 and 2008

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	**2008**	**2008**
Net Sales	¥166,745	**¥187,303**	**$1,869,478**
Cost of Sales	130,019	**144,216**	**1,439,425**
Gross profit	36,726	**43,087**	**430,053**
Selling, General and Administrative Expenses (Note 5)	20,055	**23,306**	**232,618**
Operating income	16,671	**19,781**	**197,435**
Other (Income) Expenses:			
Interest and dividend income	(167)	**(211)**	**(2,106)**
Interest expense	221	**274**	**2,735**
Losses on sale or disposal of property, plant and equipment	260	**286**	**2,855**
Equity in gains of non-consolidated subsidiaries and affiliates	(112)	**(108)**	**(1,078)**
Foreign exchange (gains) losses, net	(479)	**240**	**2,395**
Gains on reversal of allowance for doubtful accounts	—	**(216)**	**(2,156)**
Gains on reversal of reserve for warranty	—	**(560)**	**(5,589)**
Imparement losses on property, plant and equipment (Note 6)	—	**98**	**978**
Other, net	(431)	**(279)**	**(2,785)**
	(708)	**(476)**	**(4,751)**
Income before income taxes and minority interests	17,379	**20,257**	**202,186**
Income Taxes (Note 13)			
Current	4,957	**6,742**	**67,292**
Deferred	1,295	**785**	**7,835**
Minority Interests in Net Income of Consolidated Subsidiaries	630	**1,072**	**10,700**
Net Income	¥ 10,497	**¥ 11,658**	**$ 116,359**

	Japanese yen		U.S. dollars
Per Share Data (Note 17):			
Net income	¥ 215.09	**¥ 239.95**	**$ 2.39**
Net income – diluted	—	**—**	**—**
Cash dividends	34.00	**50.00**	**0.50**

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

Consolidated Statements of Changes in Net Assets

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2007 and 2008

	Japanese yen (millions)								
	Number of issued shares (thousands)	Shareholders' equity					Valuation and translation adjustments		
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Minority interests
Balance as of March 31, 2006	49,794	¥ 8,284	¥ 8,768	¥ 69,050	¥ (2,951)	¥ 83,151	¥ 744	¥ 30	¥ 6,334
Net income	—	—	—	10,497	—	10,497	—	—	—
Purchase of treasury stock	—	—	—	—	(1,153)	(1,153)	—	—	—
Retire treasury stock	(1,200)	—	(1,227)	(2,853)	4,080	—	—	—	—
Cash dividends paid	—	—	—	(1,541)	—	(1,541)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(104)	—	(104)	—	—	—
Other, net	—	—	—	—	—	—	(46)	1,123	814
Balance as of March 31, 2007	48,594	¥ 8,284	¥ 7,541	¥ 75,049	¥ (26)	¥ 90,848	¥ 698	¥ 1,153	¥ 7,148
Net income	**—**	**—**	**—**	**11,658**	**—**	**11,658**	**—**	**—**	**—**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(10)**	**(10)**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(1,773)**	**—**	**(1,773)**	**—**	**—**	**—**
Other, net	**—**	**—**	**—**	**—**	**—**	**—**	**(262)**	**(158)**	**731**
Balance as of March 31, 2008	**48,594**	**¥ 8,284**	**¥ 7,541**	**¥ 84,934**	**¥ (36)**	**¥ 100,723**	**¥ 436**	**¥ 995**	**¥ 7,879**

	U.S. dollars (thousands)							
	Shareholders' equity					Valuation and translation adjustments		
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Minority interests
Balance as of March 31, 2007	$82,683	$75,267	$749,067	$(260)	$ 906,757	$6,967	$11,508	$71,344
Net income	**—**	**—**	**116,359**	**—**	**116,359**	**—**	**—**	**—**
Purchase of treasury stock	**—**	**—**	**—**	**(99)**	**(99)**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**(17,697)**	**—**	**(17,697)**	**—**	**—**	**—**
Other, net	**—**	**—**	**—**	**—**	**—**	**(2,615)**	**(1,577)**	**7,297**
Balance as of March 31, 2008	**$82,683**	**$75,267**	**$847,729**	**$(359)**	**$1,005,320**	**$4,352**	**$ 9,931**	**$78,641**

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 March 31, 2007 and 2008

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	2008	2008
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥17,379	**¥20,257**	**$202,186**
Adjustments for:			
Depreciation and amortization	9,432	**10,863**	**108,424**
Losses on sale or disposal of property, plant and equipment	260	**286**	**2,855**
Impairment losses on property, plant and equipment	—	**98**	**978**
Decrease in allowance for doubtful accounts	(17)	**(155)**	**(1,547)**
Decrease in employees' severance and retirement benefits	(863)	**(626)**	**(6,248)**
Interest and dividend income	(167)	**(211)**	**(2,106)**
Interest expense	221	**274**	**2,735**
Increase in notes and accounts receivables	(2,563)	**(2,457)**	**(24,523)**
Decrease (increase) in inventories	662	**(1,405)**	**(14,023)**
Increase in notes and accounts payables	799	**550**	**5,489**
Other, net	(122)	**218**	**2,175**
Sub-total	25,021	**27,692**	**276,395**
Interest and dividend income received	172	**231**	**2,306**
Interest paid	(227)	**(263)**	**(2,625)**
Income taxes paid	(4,412)	**(5,834)**	**(58,230)**
Net cash provided by operating activities	20,554	**21,826**	**217,846**
Cash Flows from Investing Activities:			
Increase in time deposits	(184)	**(216)**	**(2,156)**
Decrease in time deposits	13	**214**	**2,136**
Payments for purchase of property, plant and equipment	(15,048)	**(13,619)**	**(135,932)**
Proceeds from sale of property, plant and equipment	205	**171**	**1,707**
Payments for acquisitions of intangible assets	(679)	**(206)**	**(2,056)**
Payments for purchase of investment in securities	(11)	**(285)**	**(2,845)**
Payments for additional portion of consolidated subsidiaries	—	**(228)**	**(2,276)**
Payments for acquisitions of consolidated subsidiaries	—	**(1)**	**(10)**
Additions to loans receivable	(458)	**(54)**	**(539)**
Collection of loans receivable	262	**114**	**1,138**
Other, net	160	**2**	**21**
Net cash used in investing activities	(15,741)	**(14,108)**	**(140,812)**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings, net	(526)	**1,026**	**10,241**
Proceeds from long-term loans payable	179	**561**	**5,599**
Repayments of long-term loans payable	(655)	**(460)**	**(4,591)**
Payments for acquisitions of treasury stock	(1,155)	**(10)**	**(100)**
Cash dividends paid	(1,541)	**(1,771)**	**(17,676)**
Cash dividends paid to minority shareholders	(207)	**(349)**	**(3,483)**
Other, net	29	**71**	**708**
Net cash used in financing activities	(3,876)	**(932)**	**(9,302)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	275	**(100)**	**(999)**
Net Increase in Cash and Cash Equivalents	1,212	**6,686**	**66,733**
Cash and Cash Equivalents at Beginning of Year	14,512	**15,736**	**157,062**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	12	**—**	**—**
Cash and Cash Equivalents at End of Year	¥15,736	**¥22,422**	**$223,795**

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
The accompanying consolidated financial statements of Exedy Corporation ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange law in Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated 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 appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange law in Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S. $1.00. The convenience translation should not be construed as representation 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.

(Changes in accounting policies)
Effective from April 1, 2007, the Company and its domestic subsidiaries changed accounting method for depreciation of property, plant and equipment based on an amendment in corporation tax law. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥375 million ($3,743 thousand), respectively.

Furthermore, those assets acquired before April 1, 2007 were allowed, after depreciating to 95% of their acquisition costs, to be depreciated to ¥1 in five years using the straight line method.
The effect of this change was to decrease operating income by ¥405 million ($4,042 thousand) and income before income taxes and minority interests by ¥406 million ($4,052 thousand), respectively.

The effect of these changes on segment information is discussed in the relevant sections of this report.

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

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(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 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.

(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.

(r) 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 and income before income taxes and minority interests for the year ended March 31, 2007 decreased by ¥107 million, 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.

2. Inventories

Inventories as of March 31, 2007 and 2008 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	2008	2008
Finished goods	¥ 5,804	¥ 6,509	$ 64,967
Work-in process	2,611	3,257	32,508
Raw materials	5,283	5,327	53,169
Supplies	834	844	8,424
	¥14,532	¥15,937	$159,068

3. Assets Pledged as Collateral

The following assets were pledged as collateral for ¥699 million of secured short-term loans from banks and ¥263 million of secured long-term loans from government-sponsored agencies as of March 31, 2007, and for ¥1,689 million ($16,858 thousand) of secured short-term loans from banks and ¥113 million ($1,128 thousand) of secured long-term loans from government-sponsored agencies as of March 31, 2008:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	2008	2008
Notes and accounts receivable and inventories	¥1,191	¥1,142	$11,398
Land	152	152	1,517
Buildings and structures, net	233	220	2,196
Machinery and vehicles, net	6	5	50
	¥1,582	¥1,519	$15,161

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.

4. Contingent Liabilities

Contingent liabilities for guarantees by the Company as of March 31, 2007 and 2008 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	2008	2008
Guarantees of loans from banks of affiliates under the equity method	¥500	¥ —	$ —

Trade note receivable endorsed was ¥56 million and discounted was ¥19 million for the year ended March 31, 2007. Trade note receivable discounted was ¥16 million ($160 thousand) for the year ended March 31, 2008.

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, 2007 and 2008 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	2008	2008
Research and development expenses	¥3,552	¥ 4,546	$45,374

6. Impairment of Fixed Assets

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

Impairment losses on fixed assets for the year ended March 31, 2008 were as follows:

March 31, 2008

Asset Group	Asset Type	Location	Usage	Japanese yen (millions)	U.S. dollars (thousands)
Asset which does not belong	Land	Hyogo Pref.	Idle	¥70	$699
to any business category	Land	Osaka Pref.	Idle	28	279
				¥98	$978

7. Changes in Net Assets

(a) Shares issued / Treasury stock

March 31, 2007	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
	49,794	—	1,200	48,594
Treasury stock:				
Common stock (thousands)	856	352	1,200	8
	856	352	1,200	8

(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.

March 31, 2008	Number of shares as of March 31, 2007	Increase	Decrease	Number of shares as of March 31, 2008
Shares issued:				
Common stock (thousands)	48,594	—	—	48,594
	48,594	—	—	48,594
Treasury stock:				
Common stock (thousands)	8	2	—	10
	8	2	—	10

(Note) The increase of treasury stock - common stock 2 thousand is due to purchase of the stocks less than standard unit 2 thousand.

(b) Dividends

(1) Dividends

March 31, 2007

Resolution	Type of shares	Cash dividends paid Japanese yen (millions)	Dividends per share (Japanese yen)	Cut-off date	Effective date
Ordinary general meeting of the shareholders on June 27, 2006	Common stock	¥ 832	¥ 17.0	March 31, 2006	June 28, 2006
Board of Directors' meeting on October 26, 2006	Common stock	¥ 709	¥ 14.5	September 30, 2006	November 28, 2006

March 31, 2008

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 26, 2007	Common stock	¥ 947 $9,452	¥ 19.5 $ 0.19	March 31, 2007	June 27, 2007
Board of Directors' meeting on October 30, 2007	Common stock	¥ 826 $8,245	¥ 17.0 $ 0.17	September 30, 2007	November 28, 2007

(2) Dividends, of which cut-off date was in the year ended March 31, 2008, and effective date of which will be in the year ending March 31, 2009

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, 2008	Common stock	¥ 1,603 $16,000	Retained earnings	¥ 33.0 $ 0.33	March 31, 2008	June 27, 2008

8. Cash Flows

(a) Acquisition of newly consolidated subsidiaries

In the year ended March 31, 2008, the Company acquired the outstanding shares of Kinugawa Cast Iron Co.,Ltd. The assets and liabilities of Kinugawa Cast Iron Co., Ltd. acquired by the Company and the reconciliation between the acquisition cost and net cash used for the acquisition were as follows:

	Japanese yen (millions)	U.S. dollars (thousands)
Current assets	¥ 216	$2,156
Non-current assets	210	2,096
Consolidation difference	93	928
Current liabilities	(215)	(2,146)
Non-current liabilities	(280)	(2,794)
Acquisition cost	24	240
Cash and cash equivalents of newly consolidated subsidiary	(23)	(230)
Net acquisition cost	¥ 1	$ 10

(b) Non-cash investing and financing activities

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

	Japanese yen (millions)
Decrease of capital surplus	¥1,227
Decrease of retained earnings	2,853
Decrease of treasury stock	¥4,080

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 years ended March 31, 2007 and 2008 was as follows:

	Japanese yen (millions)			
March 31, 2007	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance
Machinery and vehicles	¥ 290	¥ 137	¥ —	¥ 153
Tools and furniture	158	117	—	41
Other	61	58	—	3
	¥ 509	¥ 312	¥ —	¥ 197

	Japanese yen (millions)				U.S. dollars (thousands)			
March 31, 2008	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance
Machinery and vehicles	**¥ 334**	**¥ 216**	**¥ —**	**¥ 118**	**$3,334**	**$2,156**	**$ —**	**$1,178**
Tools and furniture	**131**	**29**	**—**	**102**	**1,307**	**289**	**—**	**1,018**
Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 465	**¥ 245**	**¥ —**	**¥ 220**	**$4,641**	**$2,445**	**$ —**	**$2,196**

The scheduled maturities of future lease payments, on such lease contracts for the years ended March 31, 2007 and 2008 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	**2008**	**2008**
Due within one year	¥ 78	**¥ 63**	**$ 629**
Due over one year	119	**157**	**1,567**
	¥ 197	**¥ 220**	**$2,196**
Lease payments for the year	¥ 88	**¥ 79**	**$ 789**

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 ¥88 million and ¥79 million ($789 thousand) for the years ended March 31, 2007 and 2008, respectively.

The Company had no leased assets on which impairment should be recognized for the years ended March 31, 2007 and 2008.

(b) Operating leases

The scheduled maturities of future lease payments under non-cancelable operating leases as of March 31, 2007 and 2008, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	**2008**	**2008**
Due within one year	¥ 0	**¥ 3**	**$ 30**
Due over one year	—	**10**	**100**
	¥ 0	**¥ 13**	**$ 130**

10. Securities

Other securities with book values (fair values) exceeding acquisition costs as of March 31, 2007 and 2008 were as follows:

	Japanese yen (millions)		
March 31, 2007	Acquisition cost	Book value	Difference
Equity securities	¥ 398	¥1,560	¥1,162
Interest-bearing securities	—	—	—
Others	—	—	—
	¥ 398	¥1,560	¥1,162

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2008	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 356**	**¥ 1,184**	**¥ 828**	**$ 3,553**	**$11,818**	**$8,265**
Interest-bearing securities	**—**	**—**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 356	**¥ 1,184**	**¥ 828**	**$ 3,553**	**$11,818**	**$8,265**

Other securities with book values (fair values) not exceeding acquisition costs as of March 31, 2007 and 2008 were as follows:

	Japanese yen (millions)		
March 31, 2007	Acquisition cost	Book value	Difference
Equity securities	¥ —	¥ —	¥ —
Interest-bearing securities	—	—	—
Others	—	—	—
	¥ —	¥ —	¥ —

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2008	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 326**	**¥ 227**	**¥ (99)**	**$ 3,254**	**$ 2,266**	**$ (988)**
Interest-bearing securities	**—**	**—**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 326	**¥ 227**	**¥ (99)**	**$ 3,254**	**$ 2,266**	**$ (988)**

The book value of securities with no available fair values as of March 31, 2007 and 2008 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	**2008**	**2008**
Other securities with no fair value Non-listed equity securities	¥ 67	**¥ 66**	**$ 658**

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 very little 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, 2007 and 2008.

	Japanese yen (millions)		
March 31, 2007	Contract amount	Fair value	Gain (loss)
Forward exchange contracts:			
To sell U.S. dollars	¥ 624	¥ 621	¥ 3
Currency swaps:			
Payment Rupiahs			
Receipt U.S. dollars	46	(6)	(6)
	¥ —	¥ —	¥ (3)

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2008	Contract amount	Fair value	Loss	Contract amount	Fair value	Loss
Currency swaps:						
Payment Rupiahs						
Receipt U.S. dollars	**34**	**(3)**	**(3)**	**339**	**(30)**	**(30)**
	¥ —	**¥ —**	**¥ (3)**	**$ —**	**$ —**	**$ (30)**

12. Employees' Severance and Retirement Benefits

The Company and its domestic consolidated 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, 2007 and 2008 consisted of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	**2008**	**2008**
Projected benefit obligation	¥11,883	**¥11,742**	**$117,197**
Fair value of pension assets	(5,553)	**(5,494)**	**(54,835)**
	6,330	**6,248**	**62,362**
Unrecognized actuarial differences	15	**(529)**	**(5,280)**
Liability for employees' severance and retirement benefits	¥ 6,345	**¥ 5,719**	**$ 57,082**

Included in the consolidated statements of income for the years ended March 31, 2007 and 2008 were employees' severance and retirement benefit expenses comprised of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	**2008**	**2008**
Service costs	¥ 471	**¥ 461**	**$ 4,601**
Interest costs	237	**236**	**2,356**
Expected return on plan assets	(103)	**(111)**	**(1,108)**
Amortization of actuarial differences	(465)	**(37)**	**(369)**
Employees' severance and retirement benefit expenses	140	**549**	**5,480**
Others	155	**166**	**1,657**
	¥ 295	**¥ 715**	**$ 7,137**

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

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

	2007	**2008**
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**

13. Income Taxes

Significant components of the Company's and consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	**2008**	**2008**
Deferred tax assets:			
Employees' severance and retirement benefits	¥ 2,558	**¥ 2,309**	**$23,046**
Net operating losses carried forward	2,174	**2,084**	**20,800**
Accrued bonuses to employees	836	**949**	**9,472**
Impairment losses on property, plant and equipment	—	**475**	**4,741**
Unrealized gains (inventories)	218	**385**	**3,843**
Losses on devaluation of inventories	245	**305**	**3,044**
Accrued enterprise tax	219	**279**	**2,785**
Accounts payable for defined contribution pension to employees	523	**238**	**2,375**
Unrealized gains (fixed assets)	219	**196**	**1,956**
Accrued warranty costs	323	**191**	**1,906**
Retirement benefits for directors and corporate auditors	—	**185**	**1,847**
Other	969	**905**	**9,033**
Total deferred tax assets	8,284	**8,501**	**84,848**
Valuation allowance	(551)	**(1,101)**	**(10,989)**
Deferred tax assets	7,733	**7,400**	**73,859**
Deferred tax liabilities:			
Retained earnings of overseas subsidiaries	(1,017)	**(1,515)**	**(15,121)**
Property, plant and equipment	(688)	**(822)**	**(8,204)**
Reserve for advanced depreciation	(339)	**(334)**	**(3,334)**
Net unrealized holding gains on other securities	(465)	**(292)**	**(2,914)**
Reserve for special depreciation	(86)	**—**	**—**
Other	(157)	**(130)**	**(1,298)**
Deferred tax liabilities	(2,752)	**(3,093)**	**(30,871)**
Net deferred tax assets	¥ 4,981	**¥ 4,307**	**$42,988**

The Company and its consolidated subsidiaries are 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, 2007 and 2008.
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, 2007 and 2008:

	2007	**2008**
Statutory tax rate	40.4%	**40.4%**
Adjustments for:		
Non-deductible expenses	2.1	**0.4**
Per capita inhabitant tax	0.1	**0.1**
Tax credit for research and development expenses	(1.5)	**(1.6)**
Different tax rates applied to overseas subsidiaries	(3.0)	**(4.0)**
Increase of retained earnings of overseas subsidiaries	2.0	**2.5**
Other	(4.1)	**(0.6)**
Effective tax rate	36.0%	**37.2%**

14. Shareholders' Equity

As described in Note 1, net assets comprise three subsections, which are shareholders' equity, valuation and translation adjustments and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

15. 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 motorcycle, plants and other facilities.

Business segment information for the years ended 31, 2007 and 2008 was as follows:

		Japanese yen (millions)		U.S. dollars (thousands)
		2007	2008	2008
Sales:	Manual automotive drivetrain operations	¥ 50,914	¥ 58,026	$ 579,160
	Automatic automotive drivetrain operations	99,660	110,513	1,103,034
	Other operations	22,271	24,489	244,426
	Eliminations (inter-segment net sales)	(6,100)	(5,725)	(57,142)
		¥166,745	¥187,303	$1,869,478
Operating Costs and Expenses:	Manual automotive drivetrain operations	¥ 43,859	¥ 48,591	$ 484,989
	Automatic automotive drivetrain operations	91,293	100,690	1,004,991
	Other operations	20,171	23,166	231,221
	Non-allocated operating expenses and eliminations	(5,249)	(4,925)	(49,158)
		¥150,074	¥167,522	$1,672,043
Operating Income:	Manual automotive drivetrain operations	¥ 7,055	¥ 9,435	$ 94,171
	Automatic automotive drivetrain operations	8,366	9,823	98,044
	Other operations	2,100	1,323	13,205
	Non-allocated operating expenses and eliminations	(850)	(800)	(7,985)
		¥ 16,671	¥ 19,781	$ 197,435
Assets:	Manual automotive drivetrain operations	¥ 39,901	¥ 44,495	$ 444,106
	Automatic automotive drivetrain operations	75,723	80,837	806,837
	Other operations	15,510	17,369	173,361
	Corporate and eliminations	12,939	15,446	154,167
		¥144,073	¥158,147	$1,578,471
Depreciation and Amortization:	Manual automotive drivetrain operations	¥ 2,658	¥ 3,021	$ 30,153
	Automatic automotive drivetrain operations	6,172	7,131	71,175
	Other operations	701	814	8,125
	Corporate and eliminations	(99)	(103)	(1,029)
		¥ 9,432	¥ 10,863	$ 108,424
Capital Expenditures:	Manual automotive drivetrain operations	¥ 3,300	¥ 3,084	$ 30,782
	Automatic automotive drivetrain operations	12,149	9,460	94,421
	Other operations	816	1,756	17,527
	Corporate and eliminations	(327)	(57)	(570)
		¥ 15,938	¥ 14,243	$ 142,160

(Notes) 1. 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 in the Manual automotive drivetrain operations, ¥60 million in the Automatic automotive drivetrain operations and ¥11 million in the Other operations, and operating income for each segment decreased by the same amount.

2. Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed accounting method for depreciation of property, plant and equipment based on an amendment in corporation tax law. As compared with the previous method, operating costs and expenses increased by ¥88 million ($878 thousand) in the Manual automotive drivetrain operations, ¥238 million ($2,376 thousand) in the Automatic automotive drivetrain operations and ¥49 million ($489 thousand) in the Other operations, and operating income for each segment decreased by the same amount. Furthermore, those assets acquired before April 1, 2007 were allowed, after depreciating to 95% of their acquisition costs, to be depreciated to ¥1 in five years using the straight line method. As compared with the previous method, operating costs and expenses increased by ¥154 million ($1,536 thousand) in the Manual automotive drivetrain operations, ¥172 million ($1,717 thousand) in the Automatic automotive drivetrain operations and ¥79 million ($789 thousand) in the Other operations, and operating income for each segment decreased by the same amount.

Geographic area segment information for the years ended March 31, 2007 and 2008 was as follows:

		Japanese yen (millions)		U.S. dollars (thousands)
		2007	2008	2008
Sales:	Japan	¥130,804	¥140,449	$1,401,827
	America	30,065	34,654	345,883
	Asia-Oceania	24,334	31,987	319,263
	Other	2,348	2,907	29,015
	Eliminations (inter-segment net sales)	(20,806)	(22,694)	(226,510)
		¥166,745	¥187,303	$1,869,478
Operating Costs and Expenses:	Japan	¥118,645	¥126,795	$1,265,545
	America	28,809	33,497	334,335
	Asia-Oceania	21,283	27,317	272,652
	Other	2,118	2,481	24,763
	Non-allocated operating expenses and eliminations	(20,781)	(22,568)	(225,252)
		¥150,075	¥167,522	$1,672,043
Operating Income:	Japan	¥ 12,159	¥ 13,654	$ 136,281
	America	1,255	1,157	11,548
	Asia-Oceania	3,051	4,670	46,611
	Other	230	426	4,253
	Non-allocated operating expenses and eliminations	(24)	(126)	(1,258)
		¥ 16,671	¥ 19,781	$ 197,435
Assets:	Japan	¥ 84,295	¥ 87,433	$ 872,672
	America	24,926	25,669	256,203
	Asia-Oceania	24,208	31,517	314,572
	Other	1,760	2,022	20,182
	Corporate and eliminations	8,884	11,506	114,842
		¥144,073	¥158,147	$1,578,471

(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 in Japan segment and operating income for each segment decreased by the same amount.

3. Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed accounting method for depreciation of property, plant and equipment based on an amendment in corporation tax law. As compared with the previous method, operating costs and expenses increased by ¥375 million ($3,743 thousand) in Japan segment and operating income for each segment decreased by the same amount. Furthermore, those assets acquired before April 1, 2007 were allowed, after depreciating to 95% of their acquisition costs, to be depreciated to ¥1 in five years using the straight line method. As compared with the previous method, operating costs and expenses increased by ¥405 million ($4,042 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, 2007 and 2008 were as follows :

	Japanese yen (millions)		U.S. dollars (thousands)
	2007	2008	2008
America	¥ 29,998	¥ 34,678	$ 346,122
Asia-Oceania	26,783	32,032	319,713
Other	7,326	9,004	89,869
	¥ 64,107	¥ 75,714	$ 755,704

16. Related Party Transactions

For the years ended March 31, 2007 and 2008, 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 years ended March 31, 2007 and 2008 were as follows:

March 31, 2007

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

March 31, 2008

Categories	Name	Address	Capital Japanese yen (millions) U.S. dollars (thousands)	Operation	Voting rights (%)	Relationship: Directors	Relationship: Business relationship	Trade	Amount Japanese yen (millions) U.S. dollars (thousands)	Accounts	Balance Japanese yen (millions) U.S. dollars (thousands)
Other related company's subsidiary	Aisin AW Co., Ltd.	Anjo City Aichi Pref.	¥ 26,480 $264,298	Manufacturing automotive parts	—	1	Sale of products	Sale of products	¥ 9,035 $90,179	Accounts receivable	¥ 1,916 $19,124
										Advanced received	¥ 6 $ 60

(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 amounts.

17. Per Share Data

Per share data for the years ended March 31, 2007 and 2008 were as follows:

	Japanese yen 2007	Japanese yen 2008	U.S. dollars 2008
Net income	¥ 215.09	¥ 239.95	$ 2.39
Net income – diluted	—	—	—
Net assets	1,907.92	2,102.64	20.99

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 years ended March 31, 2007 and 2008 were as follows:

	Japanese yen (millions) 2007	Japanese yen (millions) 2008	U.S. dollars (thousands) 2008
Net income per share of common stock			
Net income	¥10,497	¥11,658	$116,359
Amounts not attributed to ordinary shareholders	—	—	—
Net income attributed to ordinary shareholders	¥10,497	¥11,658	$116,359
The weighted average number of shares (thousands)	48,802	48,585	

18. Short-term Borrowings and Long-term Debt

Short-term borrowings and long-term debt as of March 31, 2007 and 2008 were as follows:

	Japanese yen (millions) 2007	Japanese yen (millions) 2008	U.S. dollars (thousands) 2008	Weighted average interest rates	Year due
Short-term borrowings	¥ 4,175	¥ 5,194	$51,842	3.7%	
Current portion of long-term debt	449	519	5,180	3.4	
Long-term debt	2,727	2,966	29,604	4.9	2009-2017
Other interest bearing debt	96	107	1,067	1.1	
	¥ 7,447	¥ 8,786	$87,693		

Annual maturities of long-term debt as of March 31, 2008 were as follows:

Years ending March 31	Japanese yen (millions)	U.S. dollars (thousands)
2010	¥ 854	$ 8,524
2011	112	1,118
2012	30	299
2013 and thereafter	1,970	19,663
	¥2,966	$29,604

Independent Auditors' Report

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES

To the Shareholders and Board of Directors of EXEDY Corporation:

We have audited the accompanying consolidated balance sheets of EXEDY Corporation and consolidated subsidiaries as of March 31, 2008 and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated financial statements of EXEDY Corporation and its consolidated subsidiaries as of March 31, 2007 and for the year then ended, were audited by other auditors who have ceased operations. Those auditors' report dated June 26, 2007, was an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EXEDY Corporation and its consolidated subsidiaries as of March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 26, 2008

Corporate Data

BOARD OF DIRECTORS

As of June 30, 2008

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
Akira Hirai

Auditors:
Naoaki Sawada
Kanshirou Toyoda
Koji Okada
Takenori Yamasaki

OUTLINE OF COMPANY

As of March 31, 2008

Name:
EXEDY Corporation

Established:
July 1, 1950

Paid-in Capital:
¥8,284 million

Number of Employees:
2,159

Number of Authorized Shares:
168,000 thousand shares

Number of Issued Shares:
48,594 thousand shares

Number of Shareholders:
5,279

Average Number of Shares Held by One Shareholder:
9,205 shares

Listed on First Sections, Tokyo/Osaka Stock Exchange

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Head Office:
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Osaka, 572-8570
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Tokyo Denki Sangyo Co., Ltd. 's Center Bldg.,
6th Floor, 1255-1 Iida-cho, Ota-shi,
Gunma, 373-0851
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Anjo-shi, Aichi, 446-0056
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Kawagoe Plant:
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Hokkaido, 066-8585
Tel: 81-123-24-3247 Fax: 81-123-49-2050

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6-11 Taguchi Kenkyu Danchi, Higashi
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DK Building Service Co., Ltd.:
1-1-33 Kidamotomiya, Neyagawa-shi,
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Tel: 81-72-824-7633 Fax: 81-72-824-1043

Nippon Retarder System Co., Ltd.:
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DBS Career Service Co., Ltd.:
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Tel: 81-72-824-7633 Fax: 81-72-824-1043

Pronet Co., Ltd.:
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701-2625
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OVERSEAS NETWORK

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EXEDY Corporation
Mission Statement

The Shape of Our Future: "Creation of Fulfillment"

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

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

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

Our Guiding Principles

Every one of us

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

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

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

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

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

Business Domain

With advanced technology, 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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