# ANNUAL REPORT 2005

For the year ended March 31, 2005

AKEBONO BRAKE INDUSTRY CO., LTD.

Contents



## Profile

Akebono Brake Industry Co., Ltd. (hereafter "Akebono"), has been progressively developing brake friction materials and related products ever since it first began manufacturing woven linings for drum brakes and clutch facings in 1929. We currently supply products on an original equipment manufacturing (OEM) basis to almost all Japanese automakers. Akebono has a dominant market share in Japan, and its product range spans items for automobiles, motorbikes, rolling stock, forklifts and agricultural equipment. In recent years, our efforts have been directed at building a framework to become a global supplier of friction materials in Japan, North America and Europe, by applying our core technology "Friction and Vibration, their Control and Analysis," which we developed as an expert in brakes. As a global company, we are demonstrating our presence through the speedy supply of high-quality products that satisfy automakers' needs worldwide, and the development of environmental conversation technologies aimed at preserving a better global environment for future generations.

## Corporate Policies

- Customer Needs First
- Technology Realignment
- Establishing Tri-polar Network

## Corporate Mission

Through "Friction and Vibration, their Control and Analysis," we are determined to Protect, Grow and Support Every Individual Life.
※Tentative translation from original Japanese.

## Akebono's Declaration for the 21st Century

Akebono's Declaration for the 21st Century was made as a guide to clarify the Akebono Group's orientation and direction for the 21st century.

We will continue to create value long into the 21st century, pursuing our "Corporate Mission."
We hereby affirm that we will endeavor to:
1. Recognize the real value of what we create and provide
2. Assure our own indispensability by continuously creating new value
3. Accomplish our tasks with speed and the courage of one's own convictions without fear of failure
4. Achieve our aspirations through the pride of each and every individual.

### Forward-looking Statements

Current plans, projections, strategies and business performance and other statements reported herein which are not based on historic facts represent forecasts made under Akebono's assumptions and views, based on information available at the time of preparing this Annual Report.
These statements are therefore exposed to risks and uncertainties, including but not limited to those associated with the economic climate surrounding Akebono's business domain, trends in market competition, exchange rate, tax system and various institutions. Please note that actual business performance may differ significantly from Akebono's forecasts, due to various factors.

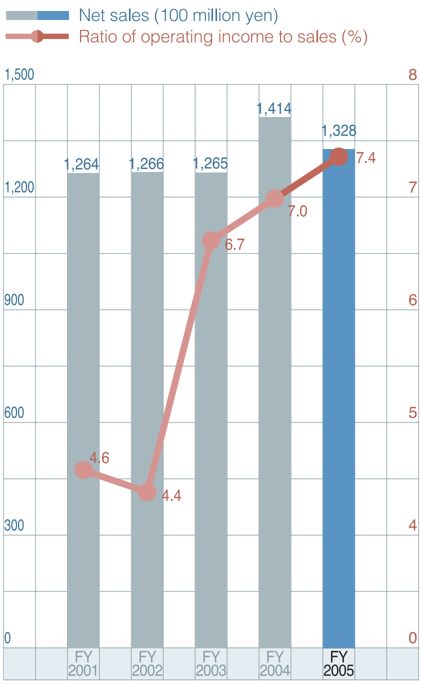
# Financial Highlights (Consolidated)

Akebono Brake Industry Co., Ltd., and consolidated subsidiaries
Fiscal years ending March 31, 2004 and March 31, 2005

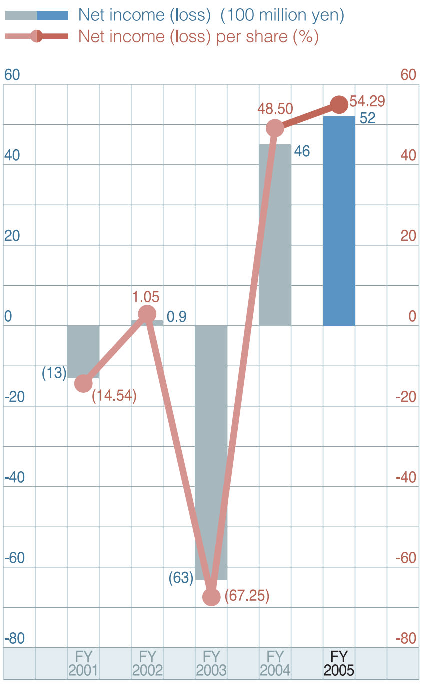
| | 100 million yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Fiscal year** | | | |
| Net sales | ¥1,328 | ¥1,414 | $1,241 |
| Operating income | 98 | 99 | 91 |
| Net income | 52 | 46 | 48 |
| Operating cash flow | 140 | 178 | 131 |
| **Year-end** | | | |
| Total assets | 1,222 | 1,266 | 1,142 |
| Shareholders' equity | 272 | 210 | 254 |
| Interest-bearing liabilities | 433 | 514 | 404 |
| | Yen | | U.S. dollars |
| **Per share data** | | | |
| Net income | ¥54.29 | ¥48.50 | $ 0.51 |
| Cash dividends | 6.00 | 4.00 | 0.06 |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at ¥107 = $1, the approximate exchange rate on March 31, 2005.

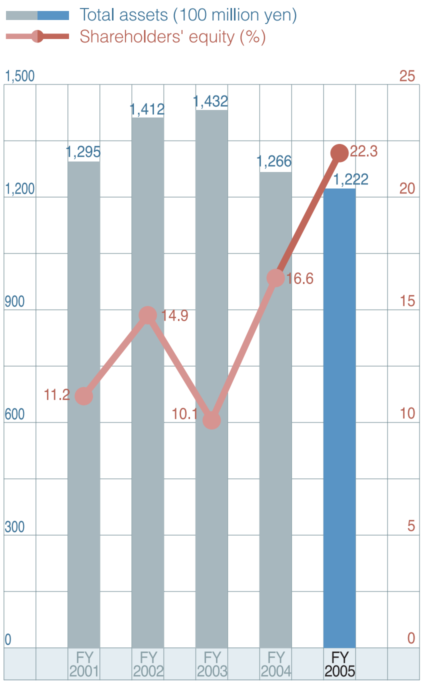
Net sales /
Ratio of operating income to sales




Net income (loss) /
Net income per share (net loss)




Total assets /
Shareholders' equity



# Aiming to take a further leap forward with the new "Global 30" medium-term management plan, based on the results achieved through "Forward 30"

**Hisataka Nobumoto**
President and CEO

### Achieved the objectives of the "Forward 30" medium-term three-year plan virtually according to plan

The Akebono Group has a medium- to long-term management objective of acquiring a 30% share of the global automotive OEM disc brake pad market. We positioned the "Forward 30" medium-term three-year management plan, which started in April 2002, as a period in which to gain a firm foothold toward achieving this objective, and carried out various initiatives accordingly.

Among them, the "Cost Revolution" program targeted primarily at domestic operations aimed to achieve dramatic cost cuts by consolidating and standardizing product design processes, parts and material quality, leading to a considerable improvement in profitability. In addition, we implemented a business restructuring initiative that involved withdrawing from the real estate and ABS (Anti-lock Brake System) businesses as planned. As a result, we were able to significantly improve our financial strength, with interest-bearing debt dropping by approximately 40% from 74 billion yen to 43.3 billion yen over the three years and the capital-to-asset ratio rising from 15% to 22%.

Furthermore, we made steady progress on building a solid business foundation for the future, expanding the range of applications for the products in our new sensor business and entering the Chinese market, where future growth is expected

### Results of "Forward 30"

- Improvement of financial constitution
- Implementation of the Cost Revolution program
- Launch of new business (sensors)
- Entry into the Chinese market

### Measures to Achieve "Global 30"

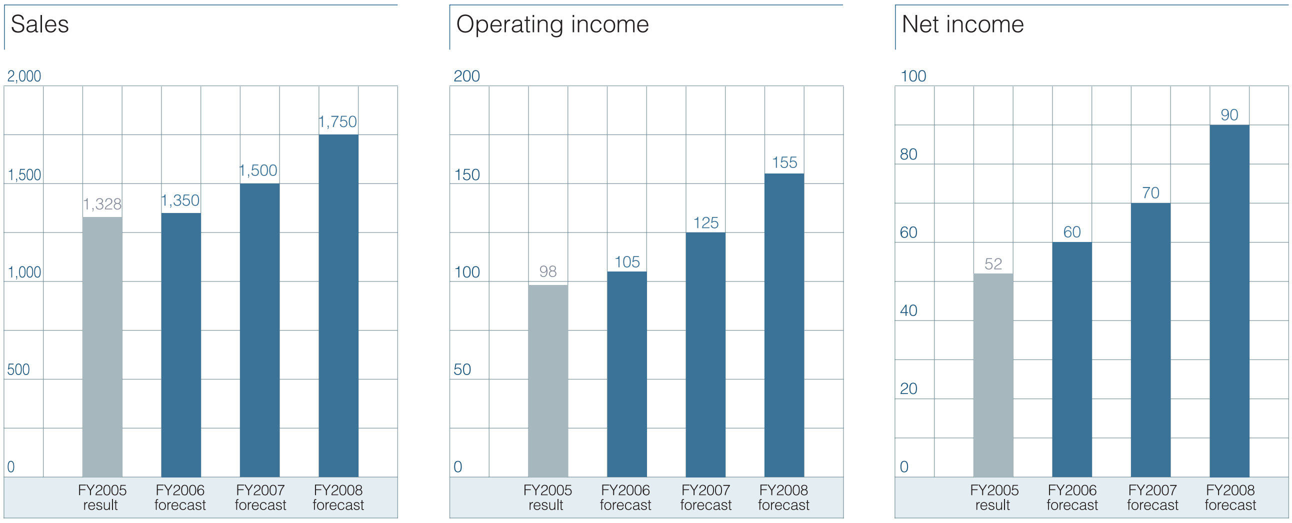
- Domestic business reorganization and capital investment
- Intensification of the Cost Revolution program
- Further streamlining
- Regionally-based business development

OEM disc brake pads
30%

Global share objectives

Aftermarket disc brake pads
10%

**“Global 30” Consolidated Financial Plan** (100 million yen)




over the mid-to-long term. In this manner, the results we achieved through our "Forward 30" initiatives were virtually according to plan, and will lead to future growth and expansion.

### Raising our global presence through the new "Global 30" medium-term management plan

On a consolidated basis, net sales for the year ended March 31, 2005 declined by around 8.6 billion yen from the previous year to 132.8 billion yen, mainly due to demands for greater price cuts from the "Big 3" in North America, the rise in the yen against the U.S. dollar and our withdrawal from the real estate business. Despite the negative influences of a surge in raw material prices caused by a global crisis in materials supply, efforts to cooperate with North American customers on price cuts, the exchange rate and other factors, the "Cost Revolution" program centering on Japan helped stem a corresponding decline in operating income, which dropped by just 100 million yen year-on-year to 9.8 billion yen, producing a record high operating income to sales ratio of 7.4%. Net income, on the other hand, increased by 600 million yen year-on-year to a record high of 5.2 billion yen, due to the accounting of an extraordinary profit which included profit on the return of the substitutional portion of the employee welfare pension fund.

In terms of future outlook, cutthroat competition in the automotive industry seems set to become even fiercer amidst large environmental changes. More specifically, we expect to see greater demand for enhanced products and services catering to offshore automotive production in countries such as China, as well as more intense competition in the field of eco-friendly technological innovation in response to the trend toward globalization and borderless markets. Moreover, severe price competition is likely to continue as discounting aimed at maintaining sales volume in the North American market is passed on to parts suppliers in the form of pressure for price cuts. On top of this, there are numerous other uncertain factors which could impact on the industry, including a supply shortage of steel products, exchange rate trends and interest rate rises.

In April 2005, the Akebono Group kicked off a new "Global 30" medium-term management plan, which continues on from the "Forward 30" plan and which will see us through to the achievement of our mid-to-long term "Global 30" objective. Under the "Global 30" plan, we aim to achieve a 30% share of the global automotive OEM disc brake pad market and a 10% share of the global automotive market for aftermarket disc brake pads. We also plan to grow our businesses in non-automotive fields. In order to achieve these objectives, the entire Group will work on tackling issues such as greater standardization and consolidation of products and parts and increased cost competitiveness so that we emerge a winner against global competition.

In doing so, I ask for your continued understanding and support.

# Aiming to achieve sales expansion and profit growth in each global market base under the new "Global 30" medium-term management plan

**Key "Global 30" initiatives and financial objectives** (Year ending March 31, 2008)


The Akebono Group kicked off a new medium-term three-year management plan dubbed "Global 30" in April 2005. "Global 30" is a sales and profit growth plan for surviving intense global competition, based on the corporate constitution capable of generating earnings that we built under "Forward 30." As mentioned earlier, the specific objectives of "Global 30" are to achieve a 30% share of the global automotive OEM disc brake pad market and to raise our share of the global automotive market for aftermarket disc brake pads from 5% to 10%.

In order to achieve these objectives, we will step up efforts made under "Forward 30" to consolidate and standardize products and parts as well as extend these efforts further to, for example, creating uniform pad molds. Furthermore, we will implement streamlining initiatives such as a revolution in the manufacturing of value-added products and a selection and consolidation program for production facilities in order to achieve annual cost reductions of 3 billion yen or more.

By geographic region, we will work to strengthen our profit bases and achieve business expansion in Japan and North America. For that purpose, we plan to completely overhaul and redevelop the main IT systems which we have used for many years in Japan.

Moreover, we will also solidify our business base in Europe and gain a foothold toward establishing a business presence in China over the duration of "Global 30." In order to implement these measures, we plan to increase our investment in production equipment, as well as our IT investment and R&D budget.

Under "Global 30," we will also strengthen our efforts to ensure protection of the global environment. For example, we will work on developing more environmentally-conscious products by raising the standard of our checks on the environmental safety of raw materials through a two-pronged system of evaluating the MSDS (Material Safety Data Sheets) provided by suppliers and conducting our own independent raw material analysis.


Business Strategy in Japan

# Implement various measures to tap new markets and customers

In Japan, we plan to increase sales to 115 billion yen in the year ending March 31, 2008, the final year of "Global 30," by tapping new customers and expanding sales to existing customers. In order to do this, we have put together a cross-departmental project team for each product type that consists of members from areas including product development, purchasing, production and sales. Responsible for sales activities, these project teams can provide continuous and more detailed service from the customer's initial development stage.

By sales channel, in the OE business targeted at automotive manufacturers, we will fortify our response to the progressing globalization of each manufacturer. We took the first step toward this in January 2005, when we created a new post for a manager responsible for sales activities on a global level.

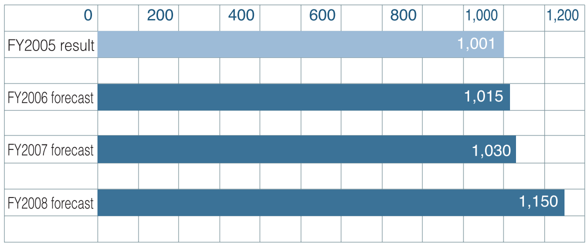
Next, in the aftermarket parts business targeted at parts distributors and auto repair shops, we will enhance our ability to identify and meet diversifying market needs. The "ai-network," which we kicked off in November 2002 as a membership-based network aimed at promoting mutual communication with parts distributors, now has approximately 130 members. The needs which we identify through the members of this network, who are close to the end users of our products, are used in our product development and commercialization process, already leading to the rollout of a new, environmentally-friendly product.

In addition, we will work to increase sales in our other areas of business, including the sensor business and industrial machinery and rolling stock businesses. In the industrial machinery and rolling stock businesses, we will focus on promoting overseas business expansion through sales of products for wind-power generators and Taiwan's bullet trains. In the sensor business, we have witnessed growth in our existing automotive sensor business in recent years. In particular, combined sensors are becoming an essential component in automotive based on the advancement of vehicle control systems.

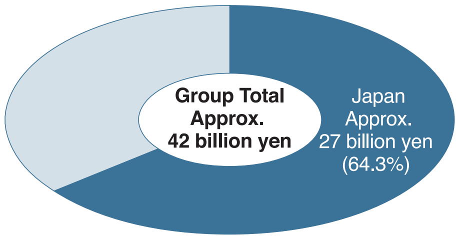
At the same time, we will achieve greater cost efficiency by stepping up the product and parts consolidation and standardization initiative we implemented under "Forward 30." More specifically, we will reduce our current range of parts by between 30% and 60%, while working to standardize the shapes of the molds for our disc brake pads. In promoting greater consolidation and standardization, we will target the entire process from product development to production and sales, thereby not only reducing costs but also improving quality and safety and realizing performance standards in line with customer needs in order to generate definite future business opportunities.

## Business Plan by Region

Sales (100 million yen)




Three-year Capital Investment Plan (FY2006 ~ FY2008)




TOPICS

### Establishment of production consulting company, APS Co., Ltd.

On March 25, 2005, Akebono established APS Co., Ltd., as a consulting company which uses "just in time" and "Jidoka" (automation with a human touch) techniques for improving productivity in manufacturing to thoroughly eliminate waste in corporate management. APS mainly performs consulting aimed at shortening lead times and achieving higher cost competitiveness. It also provides consulting services for production facilities in the Akebono Group.

**APS Company Profile**

Representative Director: Shunji Yokoo
President & Representative Director: Kazuhiko Seko
Location: 5-4-71 Higashi Hanyu-shi, Saitama
Established: March 25, 2005
Main Business: Consultation on lean production systems
Employees: 50 (as of the end of March 2005)
Capital: 10 million yen


## Business Strategy in North America

# Improve profitability by tapping new sales channels, developing new products and implementing the "Cost Revolution" program

In North America, we are going through a difficult period as the slump experienced by our main customers, the Big 3, continues and the vehicles fitted with Akebono Group products undergo model changes. Nevertheless, we will continue to aggressively expand both our OE and aftermarket parts businesses in North America.

In the OEM business, we will introduce standardized items that have sold well in Japan into the North American market and achieve both sales and profit growth by increasing sales to Japanese auto makers in addition to the Big 3, with whom Akebono enjoys a high sales volume per transaction. We also plan to extend our sales to European and Korean automakers.

In the aftermarket parts business, we will step up sales of high value-added, high-grade items. Furthermore, we are looking into starting business with the second largest distribution chain in North America after NAPA (National Auto Parts Association). At the same time, we will promote business expansion by enhancing our lineup of products for a broad range of applications, including products for high-load use in trucks as well as products for use in European vehicles sold in North America.

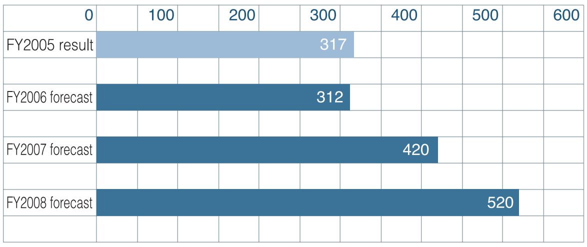
In terms of product development, Akebono Corporation (North America) is instrumental in developing high performance brake materials with outstanding vibration characteristics that can be used in a wide range of applications from passenger vehicles to pickup trucks. In doing so, it pursues not only excellent friction characteristics, but also low cost and reduced environmental load. Furthermore, Akebono Corporation (North America) has successfully developed and commercialized a new caliper made from an aluminum composite material aimed at reducing the weight of disc brakes for passenger vehicles, SUVs and pickup trucks. It has also developed a disc brake with next-generation rear parking that employs a new structure different from existing products, which is being adopted in various models of vehicle.

Moreover, Akebono Corporation (North America) is improving the profitability of its existing products by actively carrying out the Cost Revolution program, which has been successful in Japan. In addition to these efforts, it is also working with Akebono in Japan to develop products for next fiscal year, including low-priced brakes with an innovative new structure and calipers with improved thermal capacity.

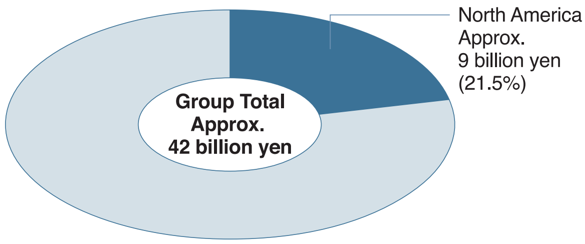
As a result of these measures, we plan to achieve sales of 52 billion yen in the year ending March 31, 2008.

### Business Plan by Region

Sales (100 million yen)




Three-year Capital Investment Plan (FY2006 ~ FY2008)




TOPICS

### Acquisition of Ambrake Corporation as a wholly-owned subsidiary

In August 2005, we acquired additional shares in Ambrake Corporation, a joint venture company entered into with Delphi Automative Systems L.L.C., making Ambrake Corporation a wholly-owned subsidiary. This share acquisition was made in view of a future reorganization and expansion of Akebono's North American business.

**Ambrake Corporation Profile**

President: Toru Wakabayashi
Location: 300 Ring Road, Elizabethtown, KY 42701 U.S.A.
Established: July 28, 1986
Main Business: Production and sale of brake-related products
Employees: 1,100 (as of the end of May 2005)
Capital: $34 million (paid-in capital)
Net sales: 35,706 million yen*(as of the end of December 2004)

*Converted at 1 U.S. dollar = 107 yen


## Business Strategy in Europe

# Strive to enhance competitiveness by combining original European production processes with Japanese quality control methods

The growth of Akebono's European business is about to take off, and in keeping we will strive to establish a business presence in the European market over the three-year duration of "Global 30."

Performance requirements in the European market are very different from those in Japan and the U.S. due to, for example, demand for braking from high speed on the Autobahn (which has no speed restrictions). In order to cater to these unique needs of the European market, we have introduced non-conventional equipment at our European production facilities and begun mass-manufacturing under new production methods. Naturally, we plan to feedback the know-how we obtain from introducing these new production methods in Europe to Akebono production facilities in Japan and other Group production facilities throughout the world.

Strict environmental standards are another characteristic peculiar to the European market. As a result, Akebono's European development facility, Akebono Europe S.A.S., purchases environmentally-friendly green materials in accordance with local environmental standards when developing products for vehicles manufactured for the European market and vehicles manufactured by European automakers for the U.S. market. Furthermore, it is moving ahead with an initiative to hire local people for the development team, thereby bringing its business closer to local customers.

Furthermore, sales activities by Akebono Europe GmbH (formerly the German office of Akebono Europe), which became a registered corporation in 2004, are also moving ahead well.

By business segment, the main OE business is benefiting as automakers begin adopting our disc brake pads in European vehicles thanks to recognition of the high braking quality and merchantability of brake materials developed by the Akebono Group. As of March 2005, the adoption of Akebono disc brake pads has been finalized in five models, and negotiations are underway for another 25 projects.

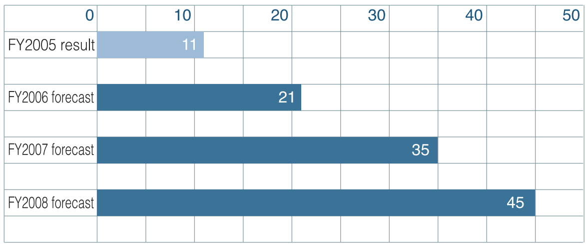
Akebono Arras S.A.S., a disc brake pad production facility, is carrying out mass production operations to meet orders, including those received from Opel for the European market and Audi and Volkswagen, etc., for the North American market.

In the aftermarket parts business, we also plan to experiment with a new approach. Specifically, we have outsourced production to a local OEM company with a reliable track record and have begun preparing to make a full-scale entry into the aftermarket parts business.

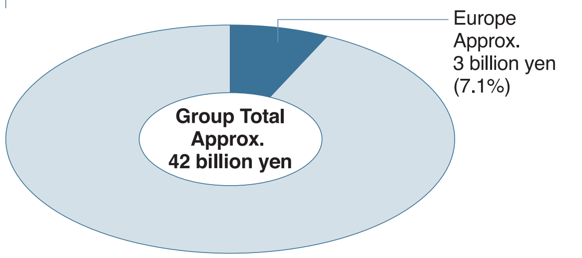
As a result of these measures, we plan to achieve sales of 4.5 billion yen in the year ending March 31, 2008.

### Business Plan by Region

Sales (100 million yen)




Three-year Capital Investment Plan (FY2006 ~ FY2008)




TOPICS

### Expanding into new OE business in Europe

Efforts to strengthen sales activities targeted at European manufacturers, primarily through Akebono Europe, are paying off. In June 2005, Daimler Chrysler's adoption of Akebono disc brake pads was finalized as a new source of OE business for the Akebono Group, and we commenced production through Akebono Arras, a manufacturing subsidiary of Akebono Europe. In the future, our disc brake pads will be fitted in Daimler Chrysler's E-Class vehicles for the North American market.

**Acquisition of new OE business (since 2005)**

| Market | Manufacturer |
|---|---|
| Europe | Opel, Fiat |
| North America | Audi, Volkswagen, Pontiac, Saab, Daimler Chrysler |


## Business Strategy in China

# Establish a business foundation in the Chinese market based on the know-how accumulated in Japan, America and Europe

In the fall of 2004, Akebono established two companies in China in order to meet the needs of customers with local manufacturing plants. These two companies are Akebono Corporation (Guangzhou), a brake assembly plant in Guangzhou, and Akebono Corporation (Suzhou), a manufacturing plant for friction materials in Suzhou. Groundbreaking ceremonies were held at the Guangzhou and Suzhou plants in December 2004 and February 2005 respectively, and construction of the plants has progressed well since.

Akebono Corporation (Guangzhou) is a drum brake and disc brake manufacturing facility targeted at Japanese manufacturers located in the precincts of Guangzhou, and is scheduled to begin producing drum brakes in October 2005. At present, it has six drum brake projects and five disc brake projects under development, and adoption in another 11 drum and disc brake projects is under study.

Akebono Corporation (Suzhou) is scheduled to begin production in November 2005 as a disc brake pad manufacturing facility which plans to do business not only with Japanese automakers, but also European and American automakers. As a result, Akebono Group companies in Japan, North America and Europe have each made a capital investment in the Suzhou plant, and will provide tri-polar support for Akebono's business in China.

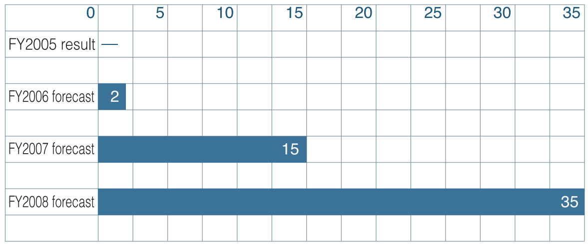
The profitability of these businesses in China depends largely on how much they can raise their local purchasing ratio of parts and materials early on. For this reason it is important to adopt the same approach as in Japan, North America and Europe, and establish in China not only production and sales facilities but also a research and development center which will help us promote local purchasing and provide a steady supply of products that meet local needs. Based on this strategy, we have established a technology development center in Guangzhou, through which we are aggressively promoting local purchasing. Our goal is to achieve a local procurement ratio of 60% or more of materials and parts at the Guangzhou plant from the start of production.

The Chinese market is a key market to expanding the Akebono Group's future global market share, and with this recognition in mind we plan to build a solid business base for the future in China over the three-year duration of "Global 30." Moreover, we intend to develop our business in China in a careful, certain manner, taking due account of factors such as future changes to legal regulations, economic trends and the social climate.

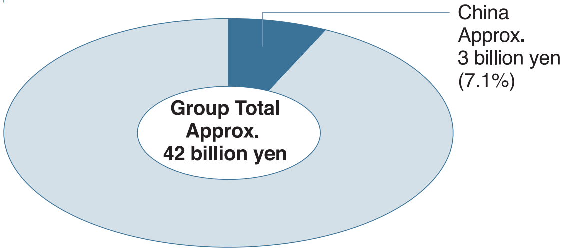
As a result of these measures, we plan to achieve sales of 3.5 billion yen in the year ending March 31, 2008.

### Business Plan by Region

Sales (100 million yen)




Three-year Capital Investment Plan (FY2006 ~ FY2008)




### Plant Profiles

**Akebono Corporation (Guangzhou)**

Capital: $7.5 million
General Manager: Yoshihiro Ishigaki
Location: Guangzhou Yonghe economic zone
Business: Drum brake assembly, disc brake processing and assembly

**Akebono Corporation (Suzhou)**

Capital: $9.1 million
General Manager: Yoshihiro Ishigaki
Location: Suzhou industrial zone
Business: Disc brake pad production

# The Akebono Group confirms implementation of "Global 30" and improves the brand value of the Group

### Introduction of Corporate Brand Management

The corporate mission of the Akebono Group states that "Through 'Friction and Vibration, their Control and Analysis,' we are determined to Protect, Grow and Support Every Individual Life.*" In order for the Akebono Group to survive global competition and continue to play an essential role in the future as well, it is important to promote the new "Global 30" medium-term management plan and further improve the "business value" of the company in addition to implementation of the corporate mission. In order to do so, we believe that effective use of our limited management resources is essential and all employees must work to propel the corporate activities along a single, unified vector (target direction).

Recognizing this, the Akebono Group has introduced the concept of corporate brand management, which refers to activities to heighten the brand value of the entire company, and has started making efforts to improve the business value for shareholders, customers and employees. We have already calculated the corporate brand value as a visible numerical figure. Next, we will set a specific target value and focus our efforts on incorporating the value into our company strategies in order to step up our efforts and raise this figure in the future.

* Tentative translation from original Japanese

### Strict Environmental Preservation and Compliance

Addressing global environmental issues and compliance with laws and regulations are not only important in improving our corporate brand image, but also a natural responsibility of any company. Regarding environmental issues, we have already been promoting our efforts to obtain ISO 14001 certification; so far all the production facilities of the Group, except for Amtec in North America, have obtained the certificate. We will work aggressively toward bringing not only the production phase, but indeed the entire product cycle, from utilization, disposal, recycling and reuse, into view. Regarding compliance as well, we will reinforce education and training of employees.

Through our implementation of "Global 30," including the efforts described above, the Akebono Group concentrates its efforts on improvement of the brand value of the Group and further heightens shareholder value, customer value and employee value.

**Hisataka Nobumoto**
President, CEO and Chairman of the Board

**Hidemitsu Kuwano**
Representative Director and Member of the Board

**Tsuyoshi Kashiwagi**
Executive Vice President and Member of the Board

**Shunji Yokoo**
Executive Vice President and Member of the Board

**Hiroki Sato**
Vice President and Member of the Board

**Toshimitsu Nishigaki**
Senior Managing Executive Officer and Member of the Board

**Yoshimasa Ogino**
Chief Financial Officer and Member of the Board

**Kunio Ito**
Member of the Board

## Executive Officers

**Senior Managing Executive Officers**
Sachiyuki Ishige
Kazuhiko Goto
Yoshihiro Ishigaki
Noboru Noguchi
Yukio Iwata
Satoshi Utsugi

**Managing Executive Officers**
Yoichi Iwata
Takeshi Saito
Mitsuo Sato
Yoshiharu Aizawa
Kiyoshi Dejima
Akiyo Ishida

**Executive Officers**
Masahiro Miyamoto
Toshimitsu Seo
Seiji Onoda
Katsuya Miyake
Takashi Kudo
Toru Wakabayashi
Shin Yamaguchi
Seiya Odaka
Sueyoshi Mizobuchi

## Auditors

**Corporate Auditors**
Hirotaka Tominaga
Keijiro Kimura

**Auditor**
Yoshihiko Yamamoto

## Advisors

**Executive Advisor**
Jay W. Chai

**Technical Advisor**
Toshihiko Kimura

**Advisors**
Shunichi Fujioka
Tadashi Kubota
Masatsugu Miyazawa

# Financial Section

## Consolidated Five-Year Summary

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries, Years ended March 31

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | **2005** | **2005** |
| **Net sales** | ¥126,450 | ¥126,655 | ¥126,595 | ¥141,386 | **¥132,836** | **$1,241,458** |
| **Net income (loss)** | (1,367) | 99 | (6,318) | 4,590 | **5,232** | **48,897** |
| **Shareholders' equity** | 14,490 | 21,111 | 14,502 | 21,049 | **27,192** | **254,131** |
| **Total assets** | 129,536 | 141,230 | 143,226 | 126,641 | **122,202** | **1,142,075** |
| | Yen | | | | | U.S. dollars |
| **Per share data** | | | | | | |
| **Net income (loss)** | | | | | | |
| **Basic** | ¥(14.54) | ¥1.05 | ¥(67.25) | ¥48.50 | **¥54.29** | **$0.51** |
| **Diluted** | — | 0.86 | — | 42.27 | **47.67** | **0.45** |
| **Cash dividends** | 2.00 | 1.00 | 1.00 | 4.00 | **6.00** | **0.06** |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at ¥107=$1, the approximate exchange rate on March 31, 2005.

## Non-Consolidated Five-Year Summary

Akebono Brake Industry Co., Ltd. Years ended March 31

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | **2005** | **2005** |
| **Net sales** | ¥ 98,418 | ¥ 94,826 | ¥ 98,277 | ¥100,508 | **¥101,839** | **$ 951,766** |
| **Net income (loss)** | 277 | 384 | (7,413) | 3,044 | **2,782** | **26,000** |
| **Shareholders' equity** | 19,983 | 24,903 | 17,838 | 22,413 | **25,991** | **242,907** |
| **Total assets** | 106,543 | 123,723 | 127,536 | 113,562 | **108,310** | **1,012,243** |
| | Yen | | | | | U.S. dollars |
| **Per share data** | | | | | | |
| **Net income (loss)** | | | | | | |
| **Basic** | ¥2.41 | ¥4.08 | ¥(78.83) | ¥32.17 | **¥28.86** | **$0.27** |
| **Diluted** | 1.97 | 3.36 | — | 28.19 | **25.56** | **0.24** |
| **Cash dividends** | 2.00 | 1.00 | 1.00 | 4.00 | **6.00** | **0.06** |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at ¥107=$1, the approximate exchange rate on March 31, 2005.

## Business Environment and Operating Overview

Amidst global economic recovery, the Japanese economy gained upward momentum in the year ended March 31, 2005, driven by strong capital investment, improved corporate earnings on the back of solid exports, and a mild increase in personal consumption. Nevertheless, the overall rate of recovery was moderate due to slow-downs in the global economic recovery and personal consumption growth in the second half of the year.

In the automotive industry, domestic vehicle production slightly surpassed the 10 million vehicle mark for the third consecutive year, but cutthroat competition for survival continues amidst large environmental changes such as a shift to offshore production in order to reinforce operations in China and elsewhere, eco-friendly technological innovation in response to the trend toward globalization and borderless markets and sharply rising prices induced by a global materials shortage.

Against this backdrop, the Akebono Group worked to achieve the objectives of the "Forward 30" medium-term three-year management plan, which started in April 2002, by promoting further cost reductions in the domestic market through the "Cost Revolution" program and simultaneously extending the program to global operations, as well as pressing forward with efforts to achieve market expansion by taking the aftermarket parts business global.

## Overview of Business Performance (Consolidated)

### Net Sales

Net sales in the year ended March 31, 2005 fell by approximately 8.6 billion yen year-on-year to 132.8 billion yen, mainly due to a decline in orders caused by dramatic production cuts by the Big 3 in North America, particularly GM and Ford, as well as cooperation on our part with demands for large price cuts to offset the Big 3's deteriorating profitability, and the impact of the rising yen against the U.S. dollar, etc.

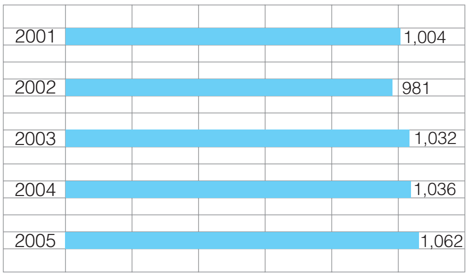
### Operating Income

Operating income in the year ended March 31, 2005 declined by approximately 100 million yen year-on-year to 9.8 billion yen, with negative factors such as price rises caused by a supply shortage of steel and other materials offset to a large extent by a decline in costs through return of the substitutional portion of the employee welfare pension fund and the results of streamlining achieved through the Cost Revolution program. The ratio of operating income to sales rose to 7.4%, up from 7.0% in the previous year.

### Net Income

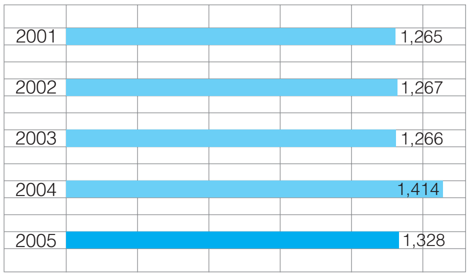
Despite the large drop in North American sales and surging raw material prices, net income rose to a record high of 5.2 billion yen, up 600 million yen from the previous year, because we were able to stem the year-on-year decline in operating income at around 100 million yen thanks to the impact of Cost Revolution streamlining and because the Group accounted a profit on the return of the substitutional portion of the employee welfare pension fund, thereby offsetting a loss from amortizing the difference arising from changing accounting standards of retirement benefits.

**Trends in domestic automobile production**



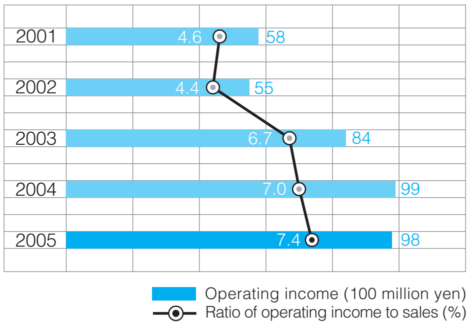

(Tens of thousands of vehicles)

**Net sales**

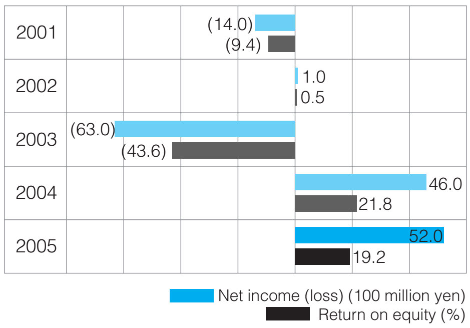



(100 million yen)

**Operating income / Ratio of operating income to sales**




**Net income (loss) / Return on equity**



## Trends by Segment

### Trends by Product

Sales of one of Akebono's flagship products, disc brakes, totaled 34.3 billion yen, down approximately 6.1 billion yen from the previous year, owing mainly to reduced sales in North America. Sales of disc brake pads, on the other hand, rose by approximately 2.0 billion yen year-on-year to 44.3 billion yen.

Sales of sensors also grew, rising by approximately 1.2 billion yen from the previous year to 4.1 billion yen in line with increased orders for combined sensors, which are used for vehicle control.

| Sales by product (100 million yen) | 2004 | 2005 | Change |
|---|---|---|---|
| Disc brakes | 404 | 343 | −61 |
| Drum brakes | 197 | 199 | +2 |
| Disc brake pads | 423 | 443 | +20 |
| Other auto parts | 251 | 181 | −70 |
| Industrial machinery components | 58 | 65 | +7 |
| Rolling stock components | 26 | 36 | +10 |
| Sensors | 29 | 41 | +12 |
| Other | 26 | 20 | −6 |
| Total | 1,414 | 1,328 | −86 |

### Trends by Geographical Location

In Japan, sales amounted to 100.1 billion yen, down around only 800 million yen from the previous year despite our withdrawal from the ABS and real estate businesses, and reduced orders resulting from production cuts by specific automakers. Operating income was 8.7 billion yen, up around 1.2 billion yen from the previous year thanks to the results of the "Cost Revolution" program.

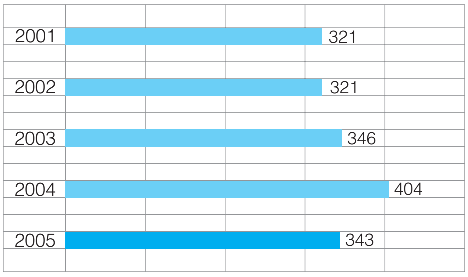
On the other hand, in North America, sales dropped by 8.3 billion yen year-on-year to 31.5 billion yen, owing to reduced orders in line with dramatic production adjustments implemented by the Big 3. Operating income also posted a 1.4 billion yen decline year-on-year to 1.3 billion yen.

In Europe, sales increased by 500 million yen from the previous year to 1.2 billion yen. European operations still registered a 200 million operating loss, but the extent of the loss declined by 200 million yen from the previous year, indicating an improved capacity to generate earnings. In the future, the entire Akebone Group will continue to focus its resources on establishing a solid business base in Europe.

In China, where the market is fraught with many uncertainties but mid-to-long term growth is expected, we established Akebono Corporation (Guangzhou) as a brake assembly plant in Guangzhou and Akebono Corporation (Suzhou) as a manufacturing plant for friction materials in Suzhou. These two companies will begin to contribute to sales at the end of March 2006. We believe that they will act as an important stepping stone to meeting the needs of customers who have already begun manufacturing in China and to achieving the goal of "Global 30" to acquire a 30% share of the global market for OEM disc brake pads.

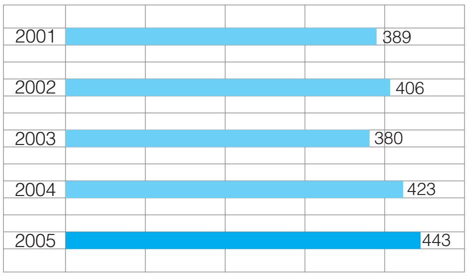
| Net sales and operating income by region (100 million yen) | | Japan | North America | Europe | Adjustments | Consolidated Total |
|---|---|---|---|---|---|---|
| 2004 | Sales to customers | 1,009 | 398 | 7 | — | 1,414 |
| | Transfer between geographic areas | 45 | 3 | 21 | (69) | — |
| | Total revenue | 1,054 | 401 | 28 | (69) | 1,414 |
| | Operating income | 75 | 27 | (5) | 2 | 99 |
| 2005 | Sales to customers | 1,001 | 315 | 12 | — | 1,328 |
| | Transfer between geographic areas | 41 | 2 | 19 | (62) | — |
| | Total revenue | 1,042 | 317 | 31 | (62) | 1,328 |
| | Operating income | 87 | 13 | (2) | 0 | 98 |

Trend in disc brake sales



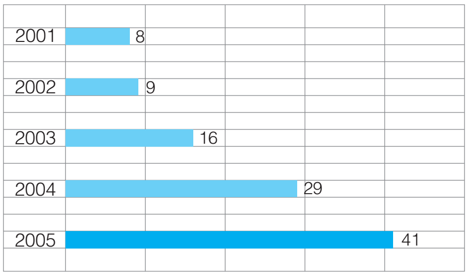
(100 million yen)

Trend in disc brake pad sales



(100 million yen)

Trend in sensor sales



(100 million yen)

## Financing and Liquidity

The Akebono Group is working to reduce assets in order to cut the payments of interest-bearing liabilities on financing, with the objective of strengthening the Group's financial constitution and ensuring a sound balance sheet. We also set long-term commitment lines of 10 billion yen with financial institutions in order to secure stable financing and obtain liquidity.

## Financial Status

Total assets as of March 31, 2005 amounted to 122.2 billion yen, down 4.4 billion yen year-on-year. Current assets fell by 1.6 billion yen to 40.2 billion yen, owing to a 1 billion yen decline in total deferred tax assets resulting from the elimination of a net loss carried forward and an 800 million yen decline in accrued revenue due to a reduced corporate tax return. Fixed assets also fell to 82 billion yen, down 2.8 billion yen year-on-year, due to a 2.4 billion yen drop in property, plant and equipment resulting from reduced capital investment and equipment disposal as well as a 600 million yen drop in deferred tax assets arising from reduced provisions for retirement benefits in line with return of the substitutional portion of the employee welfare pension fund.

In the liabilities section, current liabilities amounted to 51.7 billion yen, up 6.5 billion yen from the previous year. This was mainly attributable to a 6.7 billion increase in long-term debt scheduled to be repaid within one year by transfers from long-term liabilities. Long-term liabilities totaled 41.3 billion yen, down 17.1 billion yen from the previous year. This 17.1 billion yen decline was mostly comprised of 8.6 billion yen in transfers of convertible bonds to current liabilities and conversions of convertible bonds to shares, 3 billion yen in transfers of corporate bonds to current liabilities and 2.7 billion yen in reduced provisions for retirement benefits in line with return of the substitutional portion of the employee welfare pension fund. As a result, total liabilities declined by 10.6 billion yen year-on-year to 93 billion yen.

Efforts to reduce interest payments paid off in the year ended March 31, 2005, with the balance of interest-bearing liabilities amounting to 43.3 billion yen, down 8.2 billion yen from the previous year.

Shareholders' equity rose by 6.1 billion yen from the previous year to 27.2 billion yen, primarily due to the year's net income of 5.2 billion yen and a 900 million yen increase of capital and additional paid-in capital arising from the conversion of convertible bonds and exercise of stock purchasing rights. Furthermore, the capital-to-asset ratio rose by 5.7% year-on-year to 22.3%, and shareholders' equity per share, based on the number of issued shares at the end of the term, increased to 279.66 yen, up 58.81 yen from the previous year.

## Cash Flow

The closing balance of cash, deposits and cash equivalents on March 31, 2005 was 7.4 billion yen, up 900 million yen from the closing balance recorded on April 1, 2004. Moreover, free cash flow (cash flow from operating activities plus cash flow from investing activities) was 10.3 billion yen.

### Cash Flow from Operating Activities

Net cash provided by operating activities was 14 billion yen, resulting mainly from 5.2 billion yen in net income based on the Group's solid financial performance and 7.4 billion yen in depreciation.

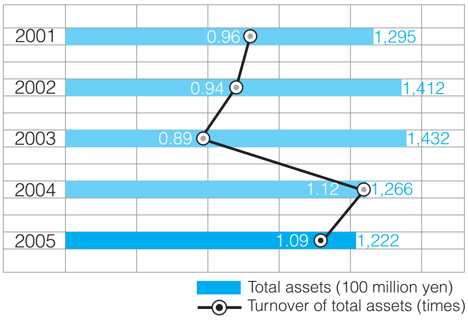
### Cash Flow from Investing Activities

Net cash used in investing activities was 3.7 billion yen. The main expenditures made were 5.2 billion yen in investments to acquire property, plant and equipment and 600 million yen in IT-related investments to acquire intangible fixed assets.

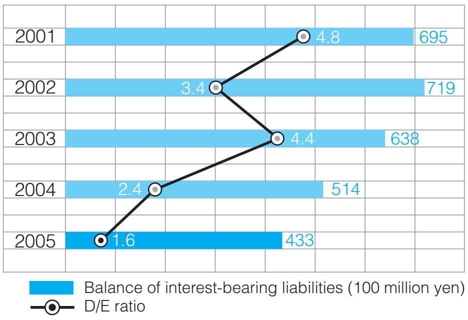
### Cash Flow from Financing Activities

Net cash used in financing activities totaled 9.4 billion yen (up 3.9 billion yen year-on-year). The main figures impacting this figure were a 1.5 billion yen inflow of cash from issuing bonds and a 6.9 billion outflow of cash for bond redemptions, as well as a 2.5 billion yen inflow of cash in the form of long-term borrowings and a 5.1 billion yen outflow of cash in long-term borrowings repayments. As a result of these activities, the balance of interest-bearing liabilities in the year ended March 31, 2005 amounted to 43.3 billion yen (down 8.1 billion yen year-on-year).

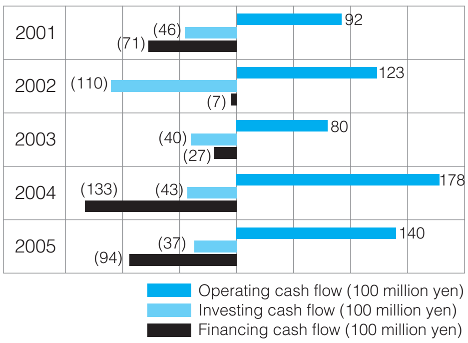
**Total assets / Turnover of total assets**



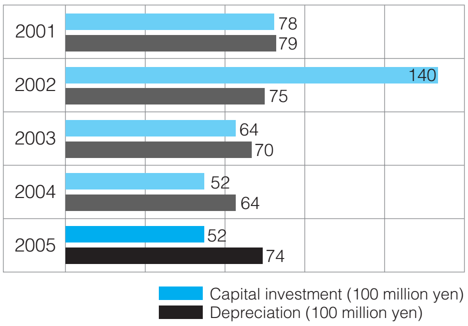

**Balance of interest-bearing liabilities / D/E ratio**




**Cash flow**




**Capital investment / Depreciation**



## Risk Information

**Impact of economic trends in the automotive industry**
The Akebono Group is highly dependent on the automotive industry, with products for new vehicle assembly accounting for about 70% of consolidated sales. As new vehicle sales in the automotive industry are largely controlled by economic trends, the business performance and financial standing of the Akebono Group is largely influenced by economic trends in the global automotive industry.

**Shortage of resources and rising prices**
The recent supply shortage and resulting price surge in steel products is becoming more and more serious. In response to this, the Akebono Group is carrying out an initiative capitalizing on the collective power of steelmakers, slit centers and pressed component suppliers as well as customers to increase the productivity of our resource usage. Specifically, we are working to absorb price rises and secure sufficient steel for production amidst short supply by eliminating all waste and completely using all steel materials, in turn by consolidating models based on a review of steel material standards, increasing yield and reviewing production and distribution inventory levels. Nevertheless, any further extreme deterioration in the situation of short supply and rising prices for steel and other materials could affect the Group's business performance and financial situation.

**Quality risk**
Many of the Akebono Group's products are used in parts for automobiles, rolling stock and industrial machinery, etc., that have a direct impact on their safety. Accordingly, there is a risk that substantial costs and reduced social confidence in Akebono products could impact on the Group's business performance and financial situation in the event that a product defect did arise and we were unable to prevent its flow on to customers. In order to prevent this from happening, the Akebono Group aims to continuously raise the standard of its advanced quality assurance system and strives to manufacture products based on thoroughgoing systems.

**Influence of trends in the North American region**
The ratio of total consolidated sales accounted for by the North American business is on the rise due to the Group's aggressive development of the OEM and aftermarket parts businesses in North America. Accordingly, factors which affect the profitability of North American business, such as economic trends in North America and changes in our North American customers' purchasing policies, pose a risk to the Group's business performance and financial situation.

**Chinese market**
The Akebono Group finalized its decision to enter the Chinese market during the year ended March 31, 2005 and is steadily preparing to begin production at manufacturing facilities in China in FY2005 (the year ending March 31, 2006). However, there is a risk that the Akebono Group's business performance and financial situation could be impacted by factors such as future changes in legal regulations, economic changes and the social climate in China.

**Risk of disasters, etc.**
At any time, the Akebono Group is prepared to deal with a suspension of operations arising from an earthquake, typhoon or other natural disaster. However, in the case of some products, a temporary stop in production could have an impact on the Akebono Group's overall business performance and financial situation.

**New product development risk**
The Akebono Group injects substantial management resources into product development in order to operate successfully as an independent auto parts manufacturer. However, there is a risk of product development impacting on the Akebono Group's future business performance and financial situation in the event that we are unable to develop the new products and new technology required by customers due to factors such as a divergence in our forecast and actual market and customer needs or an inability to keep up with rapid technological change within the industry.

**Exchange rate risk**
The financial statements of Akebono's overseas affiliates are shown in the local currency, but are then converted into yen for the purpose of preparing the Akebono Group's consolidated financial statements. As a result, the Akebono Group's consolidated financial statements are impacted by the exchange rates used for conversion even if the local currency value does not change. Note that with regard to transactions settled in foreign currencies, we consider the impact of any exchange rate variations to be small because we risk-hedge by, for example, entering into forward exchange contracts and because most of the business conducted by our overseas business bases is settled in the local currency.

**Risk of rising interest rates**
The trend in interest rates on the Akebono Group's consolidated interest-bearing liabilities could potentially impact on the Group's business performance and financial standing.

**Projected benefit obligation**
The Akebono Group employs long-term government bond yields as a reference point for setting the discount rates used to calculate our projected benefit obligation. For that reason, any future slump in long-term government bond yields could lead to an increase in our projected benefit obligation, and the resulting rise in the group's retirement benefit costs could impact on the Group's overall business performance and financial situation.

**Asbestos-related health disorders**
The level of risk that we face in association with the asbestos problem is unclear. However, in the event that any kind of asbestos-related health disorder did arise among neighboring residents of our plants, retired employees or current employees, the resulting emergence of substantial medical costs and decline in social confidence toward the Group could potentially have an impact on the Group's business performance and financial situation. For this reason, the Akebono Group continues to carry out active information disclosure and deal with the asbestos problem in cooperation with regional governments and other related organizations.

## Fiscal 2005 Forecast

Although there are a number of unpredictable factors which could impact on the Akebono Group's results for the year ending March 31, 2006, including a supply shortage of steel materials, a surge in raw material prices, exchange rate trends and interest rate rises, we aim to achieve "technology differentiation" and "strengthened production" by continuing to implement the "Global 30" medium-term three-year management plan which began in April 2004. As part of this plan, we will step up our business expansion in the domestic market and North America as well as establish a business base in Europe and steadily solidify our business base in China. Furthermore, in doing so, we will tackle numerous issues head-on, including effective usage of the Group's management resources on a global level, strengthening of the Group's management foundations and harmonious coexistence with the natural environment, thereby continuing to create "value" throughout the 21st Century.

On a consolidated basis, we forecast sales of 135 billion yen, operating income of 10.5 billion yen and net income of 6 billion yen for the year ending March 31, 2006.

| ASSETS | Millions of yen 2005 | Millions of yen 2004 | Thousands of U.S. dollars (Note 1) 2005 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 7,437 | ¥ 6,542 | $ 69,505 |
| Time deposits | 19 | 28 | 177 |
| Receivables: | | | |
| Notes and accounts receivable, trade | 18,784 | 18,452 | 175,551 |
| Affiliates | 1,961 | 2,722 | 18,327 |
| Other | 4,314 | 5,082 | 40,318 |
| | 25,059 | 26,256 | 234,196 |
| Less allowance for doubtful accounts | (44) | (3) | (411) |
| | 25,015 | 26,253 | 233,785 |
| Inventories (Note 3) | 4,982 | 5,291 | 46,561 |
| Deferred income taxes (Note 8) | 1,792 | 2,780 | 16,748 |
| Other current assets | 991 | 886 | 9,261 |
| | 40,236 | 41,780 | 376,037 |
| **Property, plant and equipment** (Note 5)**:** | | | |
| Land | 21,153 | 21,298 | 197,692 |
| Buildings and structures | 36,525 | 37,149 | 341,355 |
| Machinery, equipment and tools | 102,432 | 103,221 | 957,309 |
| Construction in progress | 2,413 | 1,794 | 22,551 |
| | 162,523 | 163,462 | 1,518,907 |
| Less accumulated depreciation | (101,207) | (99,722) | (945,860) |
| | 61,316 | 63,740 | 573,047 |
| **Investments and other assets:** | | | |
| Investment securities (Note 4) | 5,991 | 5,548 | 55,991 |
| Investments in affiliates | 5,175 | 5,303 | 48,365 |
| Research and development costs | — | 68 | — |
| Deferred income taxes (Note 8) | 6,626 | 7,185 | 61,925 |
| Other | 2,858 | 3,017 | 26,710 |
| | 20,650 | 21,121 | 192,991 |
| **Total assets** | ¥122,202 | ¥126,641 | $1,142,075 |

See notes to consolidated financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen 2005 | Millions of yen 2004 | Thousands of U.S. dollars (Note 1) 2005 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Note 5) | ¥ 9,134 | ¥ 9,504 | $ 85,365 |
| Current portion of long-term debt (Note 5) | 17,824 | 11,171 | 166,579 |
| Payables: | | | |
| Notes and accounts payable, trade | 13,744 | 14,811 | 128,448 |
| Affiliates | 1,821 | 1,864 | 17,019 |
| Other | 350 | 366 | 3,271 |
| | 15,915 | 17,041 | 148,738 |
| Accrued expenses | 6,733 | 6,178 | 62,925 |
| Accrued income taxes (Note 8) | 706 | 483 | 6,598 |
| Other current liabilities | 1,437 | 885 | 13,430 |
| | 51,749 | 45,262 | 483,635 |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 5) | 16,311 | 30,753 | 152,439 |
| Accrued employees' retirement benefits (Note 6) | 16,365 | 19,015 | 152,944 |
| Accrued retirement benefits for directors and corporate auditors (Note 7) | 806 | — | 7,533 |
| Deferred income taxes (Note 8) | 5,520 | 5,421 | 51,589 |
| Other long-term liabilities | 2,290 | 3,171 | 21,402 |
| | 41,292 | 58,360 | 385,907 |
| **Minority interests in consolidated subsidiaries** | 1,969 | 1,970 | 18,402 |
| **Shareholders' equity** (Notes 9 and 10)**:** | | | |
| Common stock: | | | |
| Authorized - 320,000,000 shares | | | |
| Issued - 97,508,561 shares in 2005 | | | |
| - 95,508,175 shares in 2004 | 9,628 | 9,200 | 89,981 |
| Additional paid-in capital | 4,077 | 3,650 | 38,103 |
| Retained earnings | 7,274 | 2,349 | 67,981 |
| Accumulated other comprehensive income | 6,311 | 5,904 | 58,982 |
| | 27,290 | 21,103 | 255,047 |
| Less common stock held in treasury | (98) | (54) | (916) |
| | 27,192 | 21,049 | 254,131 |
| **Total liabilities and shareholders' equity** | ¥122,202 | ¥126,641 | $1,142,075 |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Net sales** | ¥132,836 | ¥141,386 | $1,241,458 |
| **Costs and expenses:** | | | |
| Cost of sales | 106,815 | 113,029 | 998,271 |
| Selling, general and administrative expenses | 16,180 | 18,427 | 151,215 |
| | 122,995 | 131,456 | 1,149,486 |
| **Operating income** | 9,841 | 9,930 | 91,972 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 111 | 86 | 1,037 |
| Equity in earnings of affiliates | 1,386 | 1,521 | 12,953 |
| Interest expenses | (714) | (1,230) | (6,673) |
| Other, net (Note 13) | (2,259) | (2,640) | (21,112) |
| | (1,476) | (2,263) | (13,795) |
| **Income before income taxes and minority interests** | 8,365 | 7,667 | 78,177 |
| **Income taxes** (Note 8)**:** | | | |
| Current | 898 | 1,547 | 8,393 |
| Deferred | 1,702 | 590 | 15,906 |
| | 2,600 | 2,137 | 24,299 |
| **Income before minority interests** | 5,765 | 5,530 | 53,878 |
| **Minority interests in consolidated subsidiaries** | (533) | (940) | (4,981) |
| **Net income** | ¥ 5,232 | ¥ 4,590 | $ 48,897 |

**Per share data**

| | yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Net income** | | | |
| Basic | ¥54.29 | ¥48.50 | $0.51 |
| Diluted | 47.67 | 42.27 | 0.45 |
| **Cash dividends** | 6.00 | 4.00 | 0.06 |

See notes to consolidated financial statements.

| | | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of common stock | Common stock | Additional paid-in capital | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Treasury stock at cost | Total shareholders' equity |
| **Balance at March 31, 2003** | 94,019,118 | ¥9,038 | ¥7,612 | ¥(8,924) | ¥6,799 | ¥(23) | ¥14,502 |
| Comprehensive income | | | | | | | |
| Net income | | | | 4,590 | | | 4,590 |
| Other comprehensive income, net of tax | | | | | | | |
| Revaluation excess of land | | | | (7) | (1,398) | | (1,405) |
| Unrealized gain on available-for-sale securities | | | | | 1,325 | | 1,325 |
| Foreign currency translation adjustments | | | | | (822) | | (822) |
| Transfer from additional paid-in capital | | | (4,127) | 4,127 | | | — |
| Adjustments due to decrease in consolidated subsidiaries | | | | 2,563 | | | 2,563 |
| Total comprehensive income | | | | | | | 6,251 |
| Treasury stock purchased, net | | | | | | (31) | (31) |
| Stock issued under stock option plan | 1,489,057 | 162 | 165 | | | | 327 |
| **Balance at March 31, 2004** | 95,508,175 | ¥9,200 | ¥3,650 | ¥ 2,349 | ¥5,904 | ¥(54) | 21,049 |
| Comprehensive income | | | | | | | |
| Net income | | | | 5,232 | | | 5,232 |
| Other comprehensive income, net of tax | | | | | | | |
| Revaluation excess of land | | | | (79) | (4) | | (83) |
| Unrealized gain on available-for-sale securities | | | | | 410 | | 410 |
| Foreign currency translation adjustments | | | | | 1 | | 1 |
| Adjustments due to decrease in consolidated subsidiaries | | | | 153 | | | 153 |
| Total comprehensive income | | | | | | | 5,713 |
| Cash dividends | | | | (381) | | | (381) |
| Treasury stock purchased, net | | | | | | (44) | (44) |
| Stock issued under stock option plan | 2,000,386 | 428 | 427 | | | | 855 |
| **Balance at March 31, 2005** | 97,508,561 | ¥9,628 | ¥4,077 | ¥ 7,274 | ¥6,311 | ¥(98) | ¥27,192 |

| | | Thousands of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of common stock | Common stock | Additional paid-in capital | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Treasury stock at cost | Total shareholders' equity |
| **Balance at March 31, 2003** | 94,019,118 | $84,467 | $71,140 | $(83,402) | $63,542 | $(215) | $135,532 |
| Comprehensive income | | | | | | | |
| Net income | | | | 42,897 | | | 42,897 |
| Other comprehensive income, net of tax | | | | | | | |
| Revaluation excess of land | | | | (65) | (13,065) | | (13,130) |
| Unrealized gain on available-for-sale securities | | | | | 12,383 | | 12,383 |
| Foreign currency translation adjustments | | | | | (7,682) | | (7,682) |
| Transfer from additional paid-in capital | | | (38,570) | 38,570 | | | — |
| Adjustments due to decrease in consolidated subsidiaries | | | | 23,953 | | | 23,953 |
| Total comprehensive income | | | | | | | 58,421 |
| Treasury stock purchased, net | | | | | | (290) | (290) |
| Stock issued under stock option plan | 1,489,057 | 1,514 | 1,542 | | | | 3,056 |
| **Balance at March 31, 2004** | 95,508,175 | $85,981 | $34,112 | $ 21,953 | $55,178 | $(505) | $196,719 |
| Comprehensive income | | | | | | | |
| Net income | | | | 48,897 | | | 48,897 |
| Other comprehensive income, net of tax | | | | | | | |
| Revaluation excess of land | | | | (738) | (37) | | (775) |
| Unrealized gain on available-for-sale securities | | | | | 3,832 | | 3,832 |
| Foreign currency translation adjustments | | | | | 9 | | 9 |
| Adjustments due to decrease in consolidated subsidiaries | | | | 1,430 | | | 1,430 |
| Total comprehensive income | | | | | | | 53,393 |
| Cash dividends | | | | (3,561) | | | (3,561) |
| Treasury stock purchased, net | | | | | | (411) | (411) |
| Stock issued under stock option plan | 2,000,386 | 4,000 | 3,991 | | | | 7,991 |
| **Balance at March 31, 2005** | 97,508,561 | $89,981 | $38,103 | $67,981 | $58,982 | $(916) | $254,131 |

See notes to consolidated financial statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| **Cash flows from operating activities:** | | | |
| Net income | **¥ 5,232** | ¥ 4,590 | **$ 48,897** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | **7,401** | 6,433 | **69,168** |
| Loss on sale and disposal of property, plant and equipment | **877** | 18 | **8,196** |
| Provision for doubtful accounts | **43** | (7) | **402** |
| Loss (gain) on sale and devaluation of investment securities | **311** | (325) | **2,907** |
| Net periodic retirement benefit costs | **(2,650)** | 3,969 | **(24,766)** |
| Equity in earnings of affiliates | **(1,386)** | (1,521) | **(12,953)** |
| Minority interests | **533** | 282 | **4,981** |
| Deferred income taxes | **1,702** | 1,388 | **15,906** |
| Decrease of allowance for loss on liquidation of subsidiaries | **—** | (1,115) | **—** |
| Changes in assets and liabilities | | | |
| Receivables | **390** | 5,987 | **3,645** |
| Inventories | **272** | 1,432 | **2,542** |
| Payables | **(960)** | (1,800) | **(8,972)** |
| Accrued expenses | **373** | (347) | **3,486** |
| Accrued income taxes | **132** | (821) | **1,234** |
| Other | **1,750** | (361) | **16,355** |
| Net cash provided by operating activities | **14,020** | 17,802 | **131,028** |
| **Cash flows from investing activities:** | | | |
| Additions to property, plant and equipment | **(5,150)** | (5,238) | **(48,131)** |
| Proceeds from sale of property, plant and equipment | **1,354** | 1,524 | **12,654** |
| Additions to intangible assets | **(635)** | (1,108) | **(5,934)** |
| Payment for purchase of investment securities | **—** | (4) | **—** |
| Proceeds from sale of investment securities | **93** | 1,115 | **869** |
| Other | **607** | (636) | **5,673** |
| Net cash used in investing activities | **(3,731)** | (4,347) | **(34,869)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of long-term debt | **4,000** | 4,950 | **37,383** |
| Repayments of long-term debt | **(12,066)** | (7,539) | **(112,766)** |
| Decrease in short-term borrowings | **(370)** | (9,399) | **(3,458)** |
| Payments of capital lease obligations | **(1,460)** | (1,157) | **(13,645)** |
| Proceeds from issuance of stocks | **855** | 326 | **7,991** |
| Dividends paid | **(380)** | (2) | **(3,552)** |
| Other | **54** | (449) | **505** |
| Net cash used in financing activities | **(9,367)** | (13,270) | **(87,542)** |
| **Effect of exchange rate changes on cash** | **(27)** | (36) | **(252)** |
| **Net increase in cash and cash equivalents** | **895** | 149 | **8,365** |
| **Cash and cash equivalents at beginning of year** | **6,542** | 6,393 | **61,140** |
| **Cash and cash equivalents at end of year** | **¥ 7,437** | ¥ 6,542 | **$ 69,505** |
| **Supplemental disclosure of cash flow information:** | | | |
| Cash paid during the year for | | | |
| Interest | **¥ 773** | ¥ 1,290 | **$ 7,224** |
| Income taxes | **767** | 2,367 | **7,168** |

See notes to consolidated financial statements.

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with generally accepted accounting principles and practices in Japan. In preparing the consolidated financial statements, certain reclassifications have been made to the financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information. The United States dollar amounts included herein are given solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥107=$1, the approximate exchange rate at March 31, 2005. The translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars.

## 2. Summary of significant accounting policies

**(a) Consolidation**

The consolidated financial statements include the accounts of Akebono Brake Industry Co., Ltd. (the "Company"), and all of its subsidiaries (collectively the "Companies").

Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method. Investments in associated companies are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant inter-company balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

**(b) Foreign currency translation**

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current exchange rates and all income and expense accounts are translated at average rates of exchange during the year. The resulting translation adjustments are accumulated and reported as part of other comprehensive income.

Foreign currency receivables and payables of the Companies are translated into yen at the rate in effect at the balance sheet date and the resulting translation gains and losses are credited or charged to income for the year.

**(c) Cash and cash equivalents**

In reporting cash flows, the Company considers cash and time deposits with maturities of three months or less to be cash and cash equivalents. Such time deposits may be withdrawn on demand without diminution of principal.

**(d) Inventories**

Finished goods and work in process are stated at cost, which is determined by the average cost method for finished goods and the first-in, first-out method for work in process. Materials and supplies are stated at the most recent purchase prices.

**(e) Investments**

Investment securities are stated at fair value. Unrealized gains or losses on investment securities are reported as part of other comprehensive income.

**(f) Property, plant and equipment**

Depreciation of the Company and its consolidated domestic subsidiaries is computed on the declining balance method over the estimated useful lives of assets except buildings acquired since April 1, 1998 for which the straight line method is adopted.

Depreciation of its consolidated foreign subsidiaries is computed primarily on the straight line method over the estimated useful lives of the respective assets.

**(g) Research and development costs**

Research and development costs are charged to income when incurred.

**(h) Employees' retirement and pension plans**

Under the employees' retirement plans for the Company and certain subsidiaries, the annual provision for retirement benefits is calculated to state the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

**(i) Income taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. 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 and the tax bases of assets and liabilities.

**(j) Derivative financial instruments**

The Companies use a variety of derivative financial instruments, including foreign currency forward contracts and interest rate swaps and interest rate options as a means of hedging exposure to foreign currency and interest rate risks. The Companies do not enter into derivative transactions for trading or speculative purposes. Interest rate swaps and interest rate options are utilized to manage exposure to interest rate risk related to borrowings. These swaps and options which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap and option agreements are recognized and included in interest expense or income.

## 3. Inventories

Inventories at March 31, 2005 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Finished goods | **¥3,540** | ¥3,823 | **$33,084** |
| Work in process | **513** | 545 | **4,795** |
| Materials and supplies | **929** | 923 | **8,682** |
| | **¥4,982** | ¥5,291 | **$46,561** |

## 4. Investment securities

The carrying amounts and aggregate fair value of investment securities at March 31, 2005 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Cost | **¥3,827** | ¥4,006 | **$35,766** |
| Unrealized gains | **2,063** | 1,528 | **19,281** |
| Unrealized losses | **0** | (87) | **0** |
| Fair value | **¥5,890** | ¥5,447 | **$55,047** |

## 5. Short-term bank loans and long-term debt

The weighted average annual interest rates applicable to the short-term bank loans at March 31, 2005 and 2004 were 1.3% and 1.4% respectively. Long-term debt at March 31, 2005 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| 1.00% unsecured convertible bonds, convertible into common stock at ¥605.60 per share, due in 2005 | ¥ 7,964 | ¥ 8,631 | $ 74,430 |
| 1.80% unsecured bonds, due in 2004 | 0 | 6,000 | 0 |
| 0.25%-0.59% unsecured bonds, due in 2005 | 2,340 | 2,404 | 21,869 |
| 0.38%-0.40% unsecured bonds, due in 2006 | 2,000 | 2,000 | 18,691 |
| 0.46%-0.75% unsecured bonds, due in 2007 | 2,300 | 1,000 | 21,495 |
| 0.49% unsecured bonds, due in 2008 | 1,000 | 1,000 | 9,346 |
| 0.51%-7.78% loans principally from banks, due serially through 2013 | 17,501 | 20,079 | 163,561 |
| 2.70% payable to trust company, due serially through 2013 | 1,030 | 810 | 9,626 |
| | 34,135 | 41,924 | 319,018 |
| Less current portion | 17,824 | 11,171 | 166,579 |
| | ¥16,311 | ¥30,753 | $152,439 |

At March 31, 2005 and 2004, property, plant and equipment which has a carrying amount of ¥3,325 million ($31,075 thousand) and ¥20,732 million, respectively, were pledged as collateral for short-term bank loans, long-term debt and other obligations guaranteed.

## 6. Employees' retirement and pension plans

Under most circumstances, employees terminating their employment are entitled to lump-sum severance payment based on the rate of pay at termination, years of service and certain other factors. In addition to the aforementioned lump-sum severance payments, most employees are covered by the Company's non-contributory pension plan.
The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Projected benefit obligations | ¥26,858 | ¥62,184 | $251,009 |
| Fair value of plan assets | (6,514) | (19,174) | (60,878) |
| | 20,344 | 43,010 | 190,131 |
| Unrecognized transitional obligation | — | (2,527) | — |
| Unrecognized actuarial loss | (4,939) | (21,506) | (46,159) |
| Unrecognized prior service cost | 960 | 38 | 8,972 |
| | ¥16,365 | ¥19,015 | $152,944 |

The components of net periodic benefit costs for the year ended March 31, 2005 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Service cost | ¥ 2,040 | ¥ 2,241 | $ 19,066 |
| Interest cost | 1,227 | 1,400 | 11,467 |
| Expected return on plan assets | (763) | (681) | (7,131) |
| Amortization of transitional obligation | 2,267 | 2,565 | 21,187 |
| Recognized actuarial loss | 1,230 | 1,402 | 11,495 |
| Amortization of prior service cost | (255) | (19) | (2,383) |
| | 5,746 | 6,908 | 53,701 |
| Gain on return of substitutional portion of Welfare Pension Fund Plans | (5,135) | — | (47,991) |
| | ¥ 611 | ¥ 6,908 | $ 5,710 |

The Company received approval from the Ministry of Health, Labor and Welfare in the year ended March 31, 2005 with respect to its application for exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the Welfare Pension Fund Plans which resulted in the transfer of the pension obligations and the related assets to the government. The Company accounted for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefits obligation under its Welfare Pension Fund Plans. As a result, the Company recognized a gain as shown in the above table.

Assumption used for the years ended March 31, 2005 and 2004 are set forth as follows:

| | 2005 | 2004 |
|---|---|---|
| Discount rate | 2.00% | 2.00% |
| Expected rate of return on plan assets | 2.50%—4.45% | 3.00%—4.45% |
| Recognition period at actuarial gain/loss | 15 years | 15 years |
| Amortization period of transitional obligation | 5 years | 5 years |
| Amortization period of prior service cost | 5 years | 5 years |

## 7. Retirement benefits for directors and corporate auditors

Effective in the year ended March 31, 2005, the Company changed its accounting policy for retirement benefits for directors and corporate auditors. Previously, retirement benefits to directors and corporate auditors were recognized after approval at the shareholders' meeting and charged to income when paid. During the current year, the Company provided for accrued retirement benefits to directors and corporate auditors in the amount of ¥806 million ($7,533 thousand) to state the liabilities at the amount that would be required if all directors and corporate auditors had retired at the end of the current year and charged to income. Effective April 1, 2005, the Company reformed its retirement benefits plan to directors and corporate auditors. Under the new plan, no liabilities for retirement benefits to directors are incurred and the Company provides for accrued retirement benefits to corporate auditors in the amount that would be required if all corporate auditors had retired at each balance sheet date.

## 8. Income taxes

Japanese taxes on income applicable to the Companies would normally result in an aggregate tax rate of 40.0% and 40.9% for the years ended March 31, 2005 and 2004 respectively.
Deferred tax assets and liabilities are recognized for all temporary differences between the financial statements and income tax bases of assets and liabilities, operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The differences between the statutory tax rate and effective income tax rate at March 31, 2005 and 2004 were reconciled as follows:

| | 2005 | 2004 |
|---|---|---|
| Statutory tax rate | 40.0% | 40.9% |
| Increase (decrease) in taxes resulting from: | | |
| Permanently non-deductible expenses | 1.3 | 1.2 |
| Inter-company profits and dividends eliminated for which no tax effect was recognized | — | 8.0 |
| Foreign earnings taxed at different rates | (4.6) | (2.5) |
| Foreign tax credits | — | (1.5) |
| Research and development tax credit | (1.8) | (3.2) |
| Effect of loss on liquidation of subsidiaries | (1.5) | (12.6) |
| Other | (2.3) | (2.4) |
| Effective income tax rate | 31.1% | 27.9% |

Significant components of the deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Deferred tax assets: | | | |
| Inventories | ¥ — | ¥ 25 | $ — |
| Accrued expenses | 763 | 782 | 7,131 |
| Operating loss carryforwards | — | 1,959 | — |
| Foreign tax credit carryforwards | 477 | 268 | 4,458 |
| Employees' retirement benefits | 6,302 | 7,021 | 58,897 |
| Retirement benefits for directors and corporate auditors | 322 | — | 3,009 |
| Other | 554 | (90) | 5,178 |
| | 8,418 | 9,965 | 78,673 |
| Deferred tax liabilities: | | | |
| Allowance for doubtful accounts | — | 582 | — |
| Property, plant and equipment, principally due to differences in depreciation and capitalized interest | 1,626 | 1,089 | 15,196 |
| Land revaluation | 3,894 | 3,897 | 36,393 |
| Other | — | (147) | — |
| | 5,520 | 5,421 | 51,589 |
| Net deferred tax assets | ¥ 2,898 | ¥ 4,544 | $ 27,084 |

Note: Above deferred tax assets and liabilities included in the consolidated balance sheets at March 31, 2005 and 2004 were as follows:

| | Millions of yen | | Thousands of US dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Current assets | | | |
| Deferred income taxes | ¥ 1,792 | ¥ 2,780 | $ 16,748 |
| Investments and other assets | | | |
| Deferred income taxes | 6,626 | 7,185 | 61,925 |
| Long-term liabilities | | | |
| Deferred income taxes | (5,520) | (5,421) | (51,589) |
| Net deferred tax assets | ¥ 2,898 | ¥ 4,544 | $ 27,084 |

## 9. Common stock

Under the Japanese Commercial Code, at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid- in capital.
The Code permits companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

## 10. Shareholders' equity and per share data

The Commercial Code provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriation of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable.

In addition, semi-annual dividends may be paid upon resolution of the Board of Directors, subject to limitation imposed by the Japanese Commercial Code. Basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share was computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during the year after giving effect to the diluted potential of shares of common stock to be issued upon the conversion of convertible bonds and the exercise of warrants.

## 11. Leasing arrangements

The Companies lease certain machinery, computer equipment and other assets. Total rental expenses for the years ended March 31, 2005 and 2004 were ¥1,634 million ($15,271 thousand) and ¥3,723 million, respectively, including ¥1,963 million ($18,346 thousand) and ¥2,273 million of lease payments under finance leases.

Pro forma information of leased property such as aquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Acquisition cost | ¥ 5,298 | ¥ 9,840 | $ 49,514 |
| Accumulated depreciation | (2,802) | (4,997) | (26,187) |
| Net leased property | ¥ 2,496 | ¥ 4,843 | $ 23,327 |
| Obligations under finance leases: | | | |
| Due within one year | ¥ 1,038 | ¥ 3,079 | $ 9,701 |
| Due after one year | 1,454 | 2,128 | 13,589 |
| Total | ¥ 2,492 | ¥ 5,207 | $ 23,290 |
| Depreciation expenses under finance leases: | ¥ 1,131 | ¥ 1,738 | $ 10,570 |

Depreciation expense, which is not reflected in the accompanying statements of operation, is computed by the straight-line method.

## 12. Research and development costs

Research and development costs (including cost related to improvements to existing products) charged to income for the years ended March 31, 2005 and 2004 were ¥9,554 million ($89,290 thousand) and ¥8,588 million, respectively.

## 13. Other income (expenses): Other, net

Other income (expenses): Other, net for the years ended March 31, 2005 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Gain on sale of property, plant and equipment | ¥ 17 | ¥ 55 | $ 159 |
| Loss on disposal of property, plant and equipment | (895) | (73) | (8,364) |
| Loss on disposal of inventories | (175) | (116) | (1,636) |
| Gain (loss) on sale and devaluation of investment securities | (310) | 325 | (2,897) |
| Gain on sale of plant to affiliates | 7 | 65 | 65 |
| Retirement benefits to directors and statutory auditors | (204) | (4) | (1,906) |
| Provision for retirement benefits to directors and statutory auditors | (806) | — | (7,532) |
| Amortization of transitional obligation of employees' retirement and pension plan | (2,254) | (2,541) | (21,065) |
| Gain on return of substitutional portion of Welfare Pension Fund Plan. | 5,135 | — | 47,991 |
| Depreciation of equipment leased to subsidiaries and others | (71) | (64) | (664) |
| Amortization of research and development costs and other assets | (109) | (122) | (1,019) |
| Compensation for assurance of products | (1,459) | (313) | (13,636) |
| Provision for doubtful accounts | — | (94) | — |
| Exchange gain (loss) | (75) | (38) | (701) |
| Other, net | (1,060) | 280 | (9,907) |
| | ¥(2,259) | ¥(2,640) | $(21,112) |

## 14. Commitments and contingencies

Contingent liabilities at March 31, 2005 and 2004 for trade notes discounted with banks and trade notes delivered with endorsements for payments amounted to ¥55 million ($514 thousand) and ¥62 million, respectively, and contingent liabilities at March 31, 2005 and 2004 for guarantees for bank loans and lease obligations amounted to ¥527 million ($4,925 thousand) and ¥7,942 million, respectively.
Commitments for capital expenditures outstanding at March 31, 2005 and 2004 were in the approximate amounts of ¥14 million ($131 thousand) and ¥436 million, respectively.

## 15. Reporting segments

Information about the Companies' operations in different geographic areas for the two years ended March 31, 2005 and 2004 was as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Japan | North America | Europe | Adjustments | Consolidated |
| **2005** | | | | | |
| Sales to customers | **¥100,149** | **¥31,532** | **¥1,155** | **¥ —** | **¥132,836** |
| Transfer between geographic areas | **4,070** | **226** | **1,997** | **(6,293)** | **—** |
| Total revenue | **104,219** | **31,758** | **3,152** | **(6,293)** | **132,836** |
| Operating income | **8,711** | **1,272** | **(233)** | **91** | **9,841** |
| Identifiable assets | **¥ 97,144** | **¥18,992** | **¥5,942** | **¥124** | **¥122,202** |
| **2004** | | | | | |
| Sales to customers | ¥100,934 | ¥39,784 | ¥ 668 | ¥ — | ¥141,386 |
| Transfer between geographic areas | 4,519 | 274 | 2,151 | (6,944) | — |
| Total revenue | 105,453 | 40,058 | 2,819 | (6,944) | 141,386 |
| Operating income | 7,542 | 2,712 | (477) | 153 | 9,930 |
| Identifiable assets | ¥100,422 | ¥19,135 | ¥5,829 | ¥1,255 | ¥126,641 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Japan | North America | Europe | Adjustments | Consolidated |
| **2005** | | | | | |
| Sales to customers | **$935,972** | **$294,692** | **$10,794** | **$ —** | **$1,241,458** |
| Transfer between geographic areas | **38,037** | **2,112** | **18,664** | **(58,813)** | **—** |
| Total revenue | **974,009** | **296,804** | **29,458** | **(58,813)** | **1,241,458** |
| Operating income | **81,411** | **11,888** | **(2,178)** | **850** | **91,972** |
| Identifiable assets | **$907,888** | **$177,495** | **$55,533** | **$ 1,159** | **$1,142,075** |
| **2004** | | | | | |
| Sales to customers | $943,308 | $371,813 | $ 6,243 | $ — | $1,321,364 |
| Transfer between geographic areas | 42,234 | 2,561 | 20,103 | (64,897) | — |
| Total revenue | 985,542 | 374,374 | 26,346 | (64,897) | 1,321,364 |
| Operating income | 70,486 | 25,346 | (4,458) | 1,430 | 92,804 |
| Identifiable assets | $938,523 | $178,832 | $54,477 | $ 11,729 | $1,183,561 |

## 16. Stock-Based Compensation Plan

The Company has stock option plans. On June 23, 2000, the shareholders of the Company approved the issuance of stock options for most of its employees. The number of shares to be issued on the exercise of stock options is 2,680,000 shares of common stock of the Company. The issued stock options are exercisable from June 24, 2002 to June 23, 2006. The options will be granted at ¥209 ($1.95) per share as an exercise price of the Company's common stock at the date of option grant. On June 18, 2004, the shareholders of the Company approved the issuance of stock options for the directors, officers, corporate auditors and certain employees of the Company and its affiliates. The number of shares to be newly issued or transferred from treasury stocks on the exercise of stock options issued pursuant to the aforesaid shareholders' approval is 693,000 shares of common stock of the Company. The issued stock options are exercisable from August 1, 2006 to July 31, 2010. The options will be granted at ¥555 ($5.19) per share as an exercise price of the Company's common stock at the date of option grant.

On June 22, 2005, the shareholders of the Company approved the issuance of stock options for the directors, officers, corporate auditors and advisors of the Company. The number of shares to be newly issued or transferred from treasury stocks on the exercise of stock options issued pursuant to aforesaid shareholders' approval is 220,000 shares of common stock of the Company. The issued stock options are exercisable within four years after the date of option grant. The options will be granted at ¥1 ($0.01) per share as an exercise price of the Company's common stock at the date of option grant.

## 17. Derivatives

The Companies enter into foreign currency forward contracts to hedge exchange risk associated with certain assets and liabilities denominated in foreign currencies. Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2005 and 2004 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets March 31, 2005 and 2004, are excluded from disclosure of market value information.

The Companies also enter into interest rate swap and rate options contracts to manage its exposure to fluctuations in interest on certain liabilities. Such contracts outstanding at March 31, 2005 and 2004 were as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2005** | | | 2004 | | | **2005** | | |
| | Contract amount | Fair value | Unrealized gain (loss) | Contract amount | Fair value | Unrealized gain (loss) | Contract amount | Fair value | Unrealized gain (loss) |
| Interest rate swap: | | | | | | | | | |
| Receive float / pay fix | **¥9,440** | **¥(64)** | **¥(64)** | ¥9,810 | ¥(83) | ¥(83) | **$88,224** | **$(598)** | **$(598)** |
| Interest rate options: | | | | | | | | | |
| Rate floors | | | | | | | | | |
| Contracts to sell | **—** | **—** | **—** | 169 | (2) | (2) | **—** | **—** | **—** |
| | **¥9,440** | **¥(64)** | **¥(64)** | ¥9,979 | ¥(85) | ¥(85) | **$88,224** | **$(598)** | **$(598)** |

## 18. Subsequent event

On June 22, 2005, the Company's shareholders authorized the appropriation of retained earnings as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥6 per share) | **¥583** | **$5,449** |

**To the Board of Directors of Akebono Brake Industry Co., Ltd.**

We have audited the accompanying consolidated balance sheets of Akebono Brake Industry Co., Ltd., and its consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Japan and included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Akebono Brake Industry Co., Ltd., and its consolidated subsidiaries as of March 31, 2005 and 2004 and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles in Japan.

The United States dollar amounts shown in the consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into US dollars on the basis described in Note 1.

Kainan Audit Corporation

June 28, 2005

Tokyo, Japan

# Investor Information

### ■ Trade Name
Akebono Brake Industry Co., Ltd.

### ■ Address
Global Head Office
19-5 Nihonbashi Koamicho, Chuo-ku, Tokyo
103-8534 Japan
TEL: 03-3668-5171  FAX: 03-5695-7391

Ai-City (Headquarters)
5-4-71 Higashi, Hanyu City, Saitama Prefecture 348-8508 Japan
TEL: 048-560-1500
FAX: 048-560-2880

### ■ Established
January 27, 1929

### ■ Paid-in Capital
9,628 million yen

### ■ Stock Listing
First Section of the Tokyo Stock Exchange

### ■ Common Stock
Authorized: 320,000,000 shares
Issued: 97,508,561 shares

### ■ Number of Employees (Consolidated)
4,469

### ■ Transfer Agent and Registrar
Corporate Agency Department of UFJ Trust Bank Limited
10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081 Japan

### ■ Annual General Meeting of Shareholders
The annual general meeting of shareholders of Akebono Brake Industry Co., Ltd., is normally held in June every year.

### ■ Principal Shareholders
Toyota Motor Corporation
Robert Bosch Corporation
Japan Trustee Services Bank, Ltd.
Delphi Automotive Systems L.L.C.
Isuzu Motors Limited
HSBC-FUND Services, Sparx Asset Management Co., Ltd.
Aisin Seiki Co., Ltd.
Bridgestone Corporation
The Master Trust Bank of Japan, Ltd.
Mizuho Corporate Bank, Ltd.

### ■ Contact
ir_pr@akebono-brake.co.jp

(As of March 31, 2005)

http://www.akebono-brake.co.jp/

AKEBONO BRAKE INDUSTRY CO., LTD.