ANNUAL REPORT 2006

Year ended Mar. 31, 2006

AKEBONO BRAKE INDUSTRY CO., LTD.

Akebono Brake Industry Co., Ltd. ("Akebono") has been developing brake friction materials and related products ever since it began producing woven linings for drum brakes and clutch facings in 1929. Akebono currently supplies products to most Japanese automotive manufacturers on an OEM (original equipment manufacturing) basis. In addition to having a dominant share in the Japanese market, Akebono has expanded its range to non-automotive products, including parts for motorcycles, rolling stock, forklifts and agricultural equipment. In recent years, Akebono has been focusing its efforts on building a global framework to supply friction material in Japan, North America and Europe, with "Friction and Vibration, their Control and Analysis" positioned as a core technology, as developed by brake experts. A global company, Akebono is expanding its presence by rapidly supplying high-quality products to satisfy the needs of automotive manufacturers worldwide and developing environmentally friendly technology to leave a better world for future generations.

Corporate Mission

Through "Friction and Vibration, their Control and Analysis", we are determined to protect, cherish and support every individual life.

Corporate Goals

- Customer needs first
- Technology realignment
- Establish a tri-polar network

Akebono's Declaration for the 21st Century

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

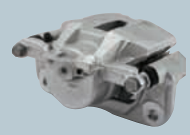
Akebono will continue to create value throughout the 21st century in pursuit of its Corporate Mission.

We hereby affirm that we will:

1. **Recognize the true value of what we create and provide**
2. **Ensure our indispensability by continuously creating new value**
3. **Accomplish our tasks with speed and conviction, without fear of failure**
4. **Achieve our aspirations through the pride of each and every individual**

Varied and Diverse Akebono Products

Brake Assembly



Disc Brakes for Bicycles

Drum Brakes for Bicycles

Disc Brakes for Wind-Power Generators

Brakes for Linear Motorcars

Friction Materials

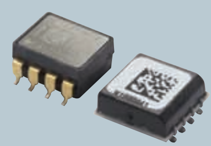
Disc Brake Pad

Drum Brake Lining

Disc Lining for Bullet Trains

Brake Shoes for Rolling Stock

Sensors



Accelerometers

Combined Sensors

Single-Axial Capacitive Accelerometers

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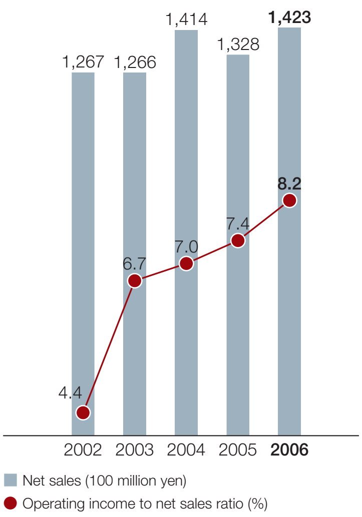
Financial Highlights (Consolidated)

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries
Each fiscal year ended March 31

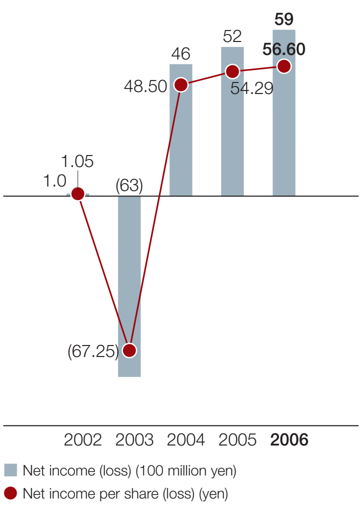
	100 million yen		Million U.S. dollars
	2006	2005	**2006**
Fiscal year			
Net sales	**¥1,423**	¥1,328	**$1,216**
Operating income	**117**	98	**100**
Net income	**59**	52	**50**
Year-end			
Total assets	**1,501**	1,222	**1,283**
Shareholders'equity	**410**	272	**351**
	yen		U.S. dollars
Per share data			
Net income	**¥56.60**	¥54.29	**$ 0.48**
Cash dividends	**6.00**	6.00	**0.05**

Note: Yen amounts are translated into U.S. dollars, for convenience only, at US$1 = ¥117, the approximate exchange rate as of March 31, 2006.

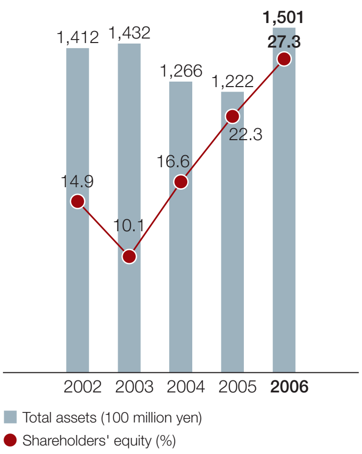
Net sales /
Operating income to net sales ratio
Each fiscal year ended March 31



Net income (loss) /
Net income per share (loss)
Each fiscal year ended March 31



Total assets / Shareholders' equity
Each fiscal year ended March 31



Cautionary Statement Concerning Outlooks

Current plans, projections, strategies, business performance and other statements reported herein which are not historic facts represent forecasts made under Akebono's assumptions and views based on information available at the time this Report was prepared. Theses statements, therefore, are 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 rates, tax systems and various institutions. Please note that actual business performance may differ significantly from Akebono's forecasts due to various factors.

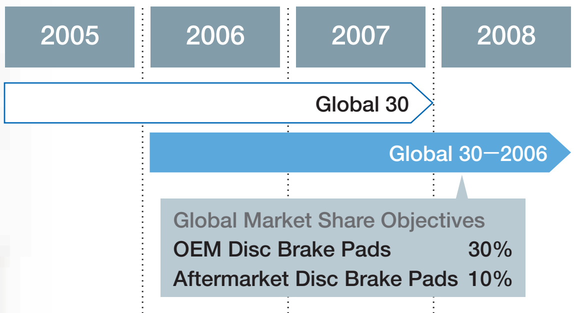
Seeking business growth and expansion, viewing changes in market conditions as an opportunity

Record-high net income achieved in severe market conditions

In the new medium-term management plan "Global 30," which started in April 2005, the Akebono Group set objectives to achieve a 30% share in the global OEM disc brake pad market and to increase share in the global aftermarket brake pad market from the current 5% to 10%. During the period under review, which was the first year under the Plan, we worked on cost reduction, rationalization of production processes and capital investment, among other things, in order to realize increased sales and profits in the Japanese, North American, European and Chinese markets.

Consolidated net sales of 142.3 billion yen, up 9.4 billion yen (+7.1%) year-on-year, and a consolidated operating income of 11.7 billion yen, up 1.9 billion yen (+19.2%) year-on-year were recorded in the period under review. These increases are attributable to making former joint venture Ambrake a wholly-owned subsidiary, and cost reduction measures and brisk sales in Japan, despite negative factors including a surge in the prices of raw materials and a lower than expected performance among the "Big 3" in North America. Consolidated net income for the period under review was the highest ever at 5.9 billion yen (+11.9%), up 600 million yen year-on-year.

[Diagram 1] Roadmap for New Medium-Term Management Plan "Global 30 - 2006"
Each fiscal year ending March 31



President, CEO & Chairman of Board

Revised Medium-Term Management Plan "Global 30" and formulated "Global 30 - 2006"

The Big 3, whose major products include SUVs, struggled more than expected in the North American market, which accounts for approximately 30% of our consolidated net sales, due to growth in hybrid car and compact car markets, spurred by high oil prices and environmental concerns. Amid this situation, we dissolved our capital ties with U.S.-based Delphi Automotive Systems in June 2005, making Ambrake Corporation, formerly a 50:50 joint venture with Delphi, into a wholly-owned subsidiary by the end of August.

As a result, the results of former affiliate Ambrake Corporation boosted consolidated results over the four month period from September through December, thereby contributing to the increase in net sales and income for the period. Since Ambrake's figures are included in the consolidated business performance for all of fiscal 2006, our net sales plan for the North American business is 61 billion yen, up 21.5 billion yen year-on-year.

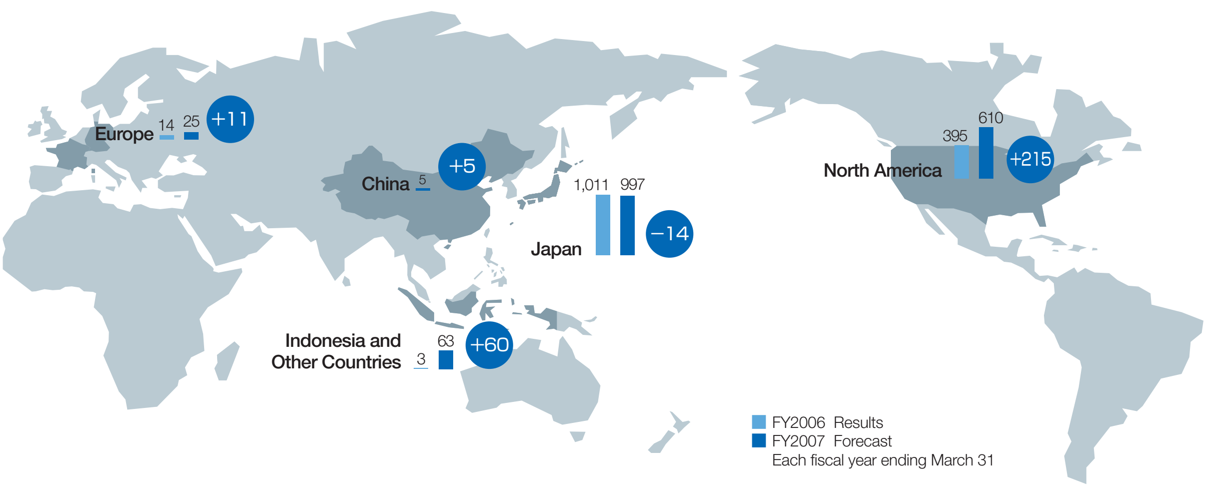
In March 2006, we made former Indonesia affiliate PT Tri Dharma Wisesa into a consolidated subsidiary by increasing our investment stake of 30% to 50%. We expect this will result in a net sales increase in Indonesia and other Asian countries of 6.3 billion yen in fiscal 2006, up 6 billion yen year-on-year (see Diagram 2).

Against the backdrop of major changes in the business environment, we reviewed "Global 30," which commenced in April 2005, and formulated a new three-year medium-term management plan called "Global 30 - 2006," which started in April 2006 (see Diagram 1). Under "Global 30 - 2006," we will be accelerating the reorganization of our North American business and the global strategy of the aftermarket business, in addition to implementing measures in the previous "Global 30."

Challenges under "Global 30 - 2006"

From a regional perspective, the reorganization of our North American business to enhance competitiveness is an important part of "Global 30 - 2006." Making Ambrake Corporation into a wholly-owned subsidiary is another step in this reorganization. To bolster the management structure and exploit synergies, managerial resources have been dispatched from Japan and HQ functions in Michigan are being transferred to Kentucky,

[Diagram 2] Net Sales Plan by Region (Unit: 100 million yen)



where our production sites are concentrated. The HQ function transfer is scheduled to complete by November of 2006. At the same time, by the end of the year we will set targets to achieve an optimal production arrangement centered on Ambrake Corporation.

Another important aspect to "Global 30 - 2006-" is global expansion in the aftermarket business, which mainly involves selling friction material (see Table 1). Improvement and development of sales channels, expansion of product range, and development of a line-up that meets end-user needs are being implemented with emphasis on North America, which still has high potential for business expansion. For example, we are selling products for high-end cars in North America through NAPA (National Auto Parts Association), a business partner since fiscal 2002. Our next plan is to expand our range to include products for mid-range cars, where larger business volumes are expected.

Preparing for the Challenges of "Global 30 - 2006"

Business conditions in the automotive industry are changing rapidly. Environmentally friendly hybrid and electric cars are expected to be more popular moving forward. The Akebono Group is working on high-response and high-efficiency brake controls that meet these market needs.

We will also develop globally competitive products by accurately ascertaining customer needs through global benchmarking and increased R&D cooperation in Japan, North America, Europe and Asia, including China. At the same time, we intend to drive further growth by enhancing our cost competitiveness and implementing continued commonization and standardization in our products and parts.

With these measures in place, we aim to achieve net sales of 200 billion yen and an operating income of 20 billion yen under "Global 30 - 2006" (see Table 2). Your continued understanding and support are appreciated as we move forward.

[Table 1] Global 30 -2006 Net Sales Plan by Business
Each fiscal year ending March 31

	FY2006 Results	FY2007 Forecast	FY2009 Target	Rate of Growth from FY2006
OEM	917	1,154	1,300	+42%
Aftermarket	343	388	500	+46%
Industrial machinery components and rolling stock	103	100	130	+26%
Sensors	45	43	55	+22%
Others	15	15	15	—
Total	1,423	1,700	2,000	+41%

[Table 2]FY2008 Targets under New Medium-Term Management Plan "Global 30 - 2006"
Each fiscal year ending March 31

	Net sales	Operating income	Operating income to sales ratio	Capital-to-asset ratio
FY2006 (Results)	142.2 billion yen	11.7 billion yen	8.2%	27.3%
FY2007 (Forecast)	170 billion yen	14.0 billion yen	8.2%	29.8%
FY2009 (Target)	200 billion yen	20.0 billion yen	10.0%	38.0%

Enhancing corporate value by responding rapidly to the changing business environment

To increase its global competitiveness, Akebono is investing aggressively and strengthening its business foundation. With the full acquisition of Ambrake Corporation and other business reorganization measures in place, Akebono is looking to further growth and expansion.
Yoshimasa Ogino, CFO, was interviewed on the objectives and significance of these investments, as well as future policies.

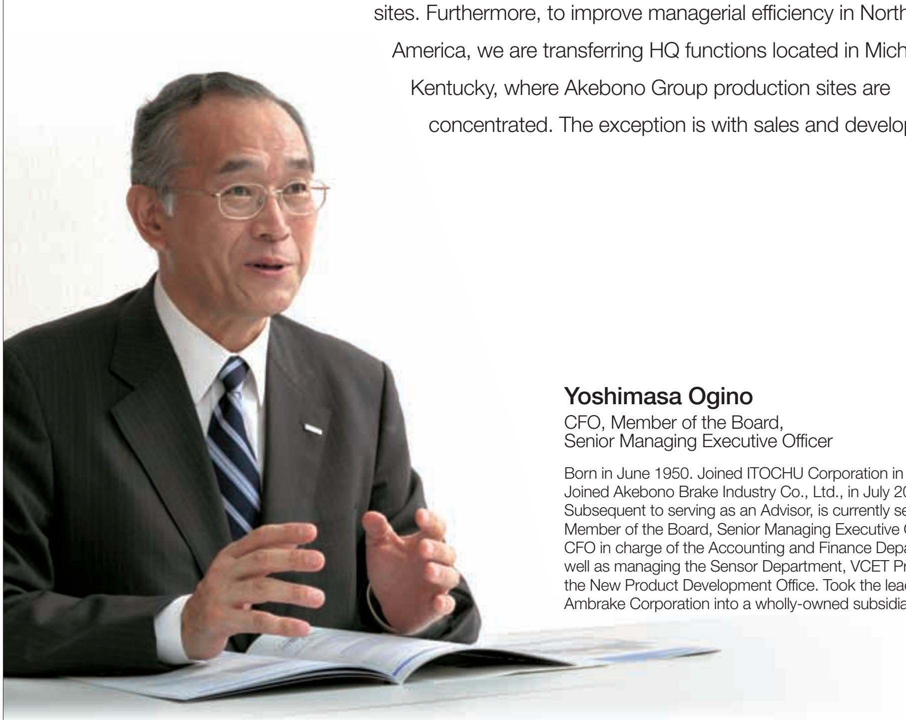
Question 1

What is your outlook on the North American business, given a lower than expected performance from the Big 3?

We will improve the managerial efficiency of our North American business at an accelerated rate and support its expansion and growth.

With high oil prices and environmental concerns, the market for fuel-efficient and low-CO_2-emission hybrid cars and compact cars, which Japanese companies excel at making, is growing in North America, a region that accounts for approximately 30% of our net sales. While the lower than expected performance of the Big 3 is due mainly to slow sales of large and heavy SUV models, a look at the overall market reveals that car replacement demand should increase. So North America remains an important market for us.

We are reorganizing our business in the North American market to ensure more efficient business management as we strive to increase net sales. To kick start this process, we invested approximately 4 billion yen to make Ambrake Corporation, previously a 50:50 joint venture with Delphi Automotive Systems, a wholly-owned subsidiary at the end of August 2005. As a result, we believe that Ambrake can manufacture products for new customers including Ford and DaimlerChrysler, in addition to traditional customers like GM and Japanese automotive manufacturers. The consolidation will also enable a wider reorganization of other production sites. Furthermore, to improve managerial efficiency in North America, we are transferring HQ functions located in Michigan to Kentucky, where Akebono Group production sites are concentrated. The exception is with sales and development



Yoshimasa Ogino
CFO, Member of the Board,
Senior Managing Executive Officer

Born in June 1950. Joined ITOCHU Corporation in 1975. Joined Akebono Brake Industry Co., Ltd., in July 2004. Subsequent to serving as an Advisor, is currently serving as a Member of the Board, Senior Managing Executive Officer, and CFO in charge of the Accounting and Finance Department, as well as managing the Sensor Department, VCET Project and the New Product Development Office. Took the lead in making Ambrake Corporation into a wholly-owned subsidiary.

functions targeted at the Big 3. In conjunction with this transfer, we are optimizing production classification and improving business efficiency by, among other things, establishing a coherent system covering the development-production-sales cycle at Amtec Brake, which is responsible for the aftermarket business in North America.

The North American market offers Akebono ample room for expansion despite a few remaining unknowns, since there still is plenty of room for improvement, including cost reduction. We will direct the North American business towards growth by increasing sales to Japanese automotive manufacturers in addition to our traditional customers, the Big 3, and enhance our aftermarket lineup, another measure included in the "Global 30 - 2006" plan.

Question 2

There was a sudden surge in assets as a result of a series of business investments. What are your views concerning future balance sheets?

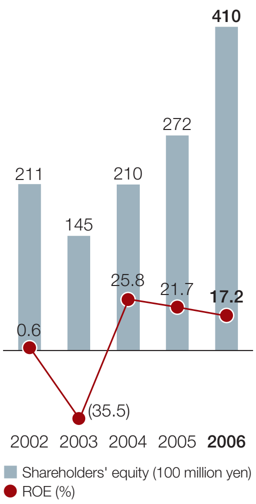
Although the increase in assets is a result of expanded capital investment, we will further strengthen our financial standing.

Maintaining financial strength holds important strategic significance for surviving future global competition. Our financial standing has been improving steadily compared with the balance sheet as of the end of fiscal 2001, due mainly to a decrease in interest-bearing liabilities and an increase in capital.

In particular, total assets increased in this period by 27.9 billion yen year-on-year, from 122.2 billion yen to 150.1 billion, due to an increase in the number of consolidated subsidiaries. These include the previously mentioned Ambrake Corporation, Akebono Brake Sanyo Manufacturing, which is now reorganizing as the principle production site for western Japan, and PT Tri Dharma Wisesa, our production site in Indonesia. These consolidated subsidiaries accounted for total asset increases of approximately 19 billion yen, 6.5 billion yen and 4.5 billion yen, respectively.

At the same time, we are striving to reinforce our financial standing based on income generation. Current shareholder equity increased to 41.0 billion yen due to the conversion of 8 billion yen worth of corporate bonds and the retention of income. On the other hand, return on equity (ROE) fell from 21.7% to 17.2% due partly to shareholder equity being fragile until now. Our immediate aim is to maintain an ROE in the 16% to 17% range.

Trends in Shareholders' Equity / ROE
Each fiscal year ending March 31



Question 3

How do you intend to improve profits in areas other than North America, particularly the European market, in order to increase global competitiveness?

We disposed of and depleted equipment in our French subsidiary.

By establishing Akebono Arras S.A.S. in 1998, a production site for disc brake pads, our European business now has functions ranging from development, production and sales. Initially, we focused on establishing our presence in the European market by using equipment with proven track records in Japan and North America. However, as we learned more about the European market, we became aware of the requirements for equipment specific to the region. As a result, we switched out the equipment. Although the deficit in Europe increased temporarily from 200 million yen to 400 million yen in this period due to additional costs resulting from the switch out, business inquiries from customers have taken an upward turn, indicating good future prospects for our European business. This allowed us to dispose of and deplete the fixed assets of Akebono Arras S.A.S. Due mainly to the depletion of equipment with declining operation rates resulting from the switch-out, depreciation is expected to decrease beginning in fiscal 2006. We aim to balance the budget of our European business in fiscal 2006 and achieve profitability in fiscal 2007.

Question 4

What is the future plan for investment by region?

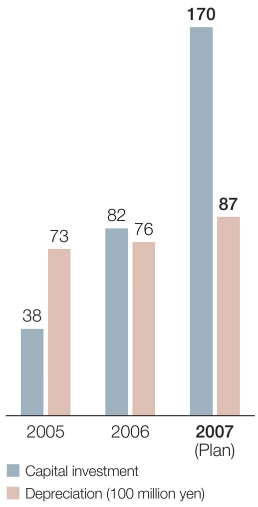
We are planning a large-scale renovation of aging facilities and equipment, mainly in Japan, the core region of the Akebono Group.

For the next fiscal period, we are planning a total regional investment of 17.0 billion yen, which is approximately twice the current amount. The break down is: 10.0 billion yen in Japan, 5.5 billion yen in North America, 300 million yen in Europe and 1.2 billion yen in China and Asia.

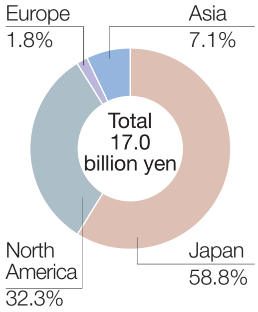
Particularly in Japan, the region at the center of our global strategy, we will be investing 1.7 billion yen in research and development and 400 million yen in the Sensor Department, which will be a new source of revenue. In addition, we will conduct an extensive renovation of aging equipment and facilities, as well as make investments focused 5 years to 10 years ahead. Based on these investments, we will reinforce sales in the industrial machinery business, which includes products for rolling stock, wind-power generators and large cranes, in addition to the automotive industry, our mainstay business.

In North America, where there is room for further reorganization, we are planning to invest in research and development, as well as in equipment renovation, to achieve optimal production allocation. In Europe, China and Asia, we will invest in research equipment to increase production. As you can see, Akebono's attempts to reinforce its global competitiveness have only just begun. We will continue to work on strengthening our financial soundness and implement "Global 30 - 2006," our strategy for expansion and growth.

Trends in Capital Investment and Depreciation
Each fiscal year ended March 31



2007 Breakdown of Capital Investment (Planned)



Corporate Governance Structure

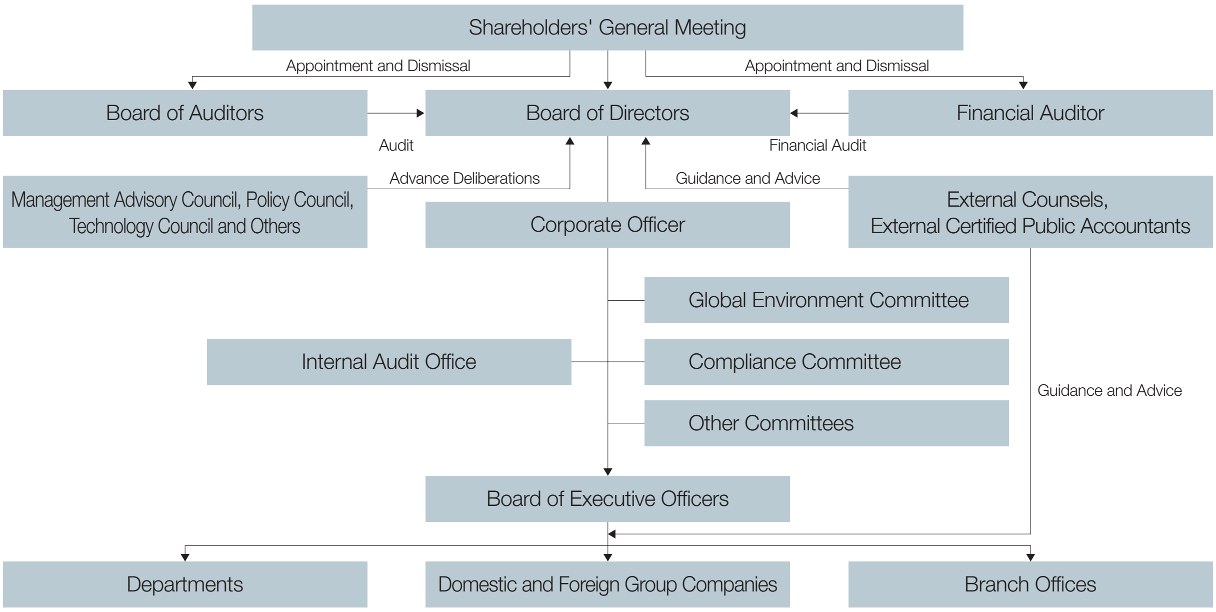
Increasing the transparency of business management, while enhancing risk management by improving internal controls

By strengthening corporate governance, Akebono is striving to conduct its business in a fair manner by increasing the transparency of business management. As a part of this effort, the Executive Officer System was implemented in April 2000 to clarify responsibilities and authority, and improve managerial efficiency. The Board of Directors, which supervises business management, is comprised of eight Board Members, one of whom is an External Director.

A Risk Management Committee led by top management was also established in May 2006 to ascertain, manage and prevent risks that the Akebono Group faces. Furthermore, there is a three-part auditing system involving auditors, financial auditors and the Internal Audit Office, in order to reinforce internal and external systems for monitoring the execution of business affairs by management.

Based on its Corporate Mission stating "Through ‘Friction and Vibration, their Control and Analysis’, we are determined to protect, cherish and support every individual life", Akebono will also continue to honor its social responsibilities as a manufacturer of essential safety products, by enhancing product safety, conserving the environment and recycling, improving internal control systems, and complying with regulations and corporate policies.

Corporate Governance Structural Diagram



Risk Management Committee

The Risk Management Committee establishes and executes objectives and plans for risk management approved by the Board of Directors, draws up internal regulations on risk management, assesses the implementation status and efficacy of risk management, and determines correction and improvement measures related to the risk management system. The Committee is also responsible for promptly and accurately conveying information and implementing emergency structures in the event of emergencies depending on risk levels, be they market trends, economic trends, resources, quality, disasters, compliance, information security, fluctuations of interest and exchange rates and other risks that could seriously impact business performance.

The Akebono Group's five selected priority risk measures for fiscal 2006 are market fluctuation, production continuity, quality, legal affairs and information security. Manuals on response methods for earthquakes and other disasters were prepared and distributed in preparation for emergencies.

Compliance Structure

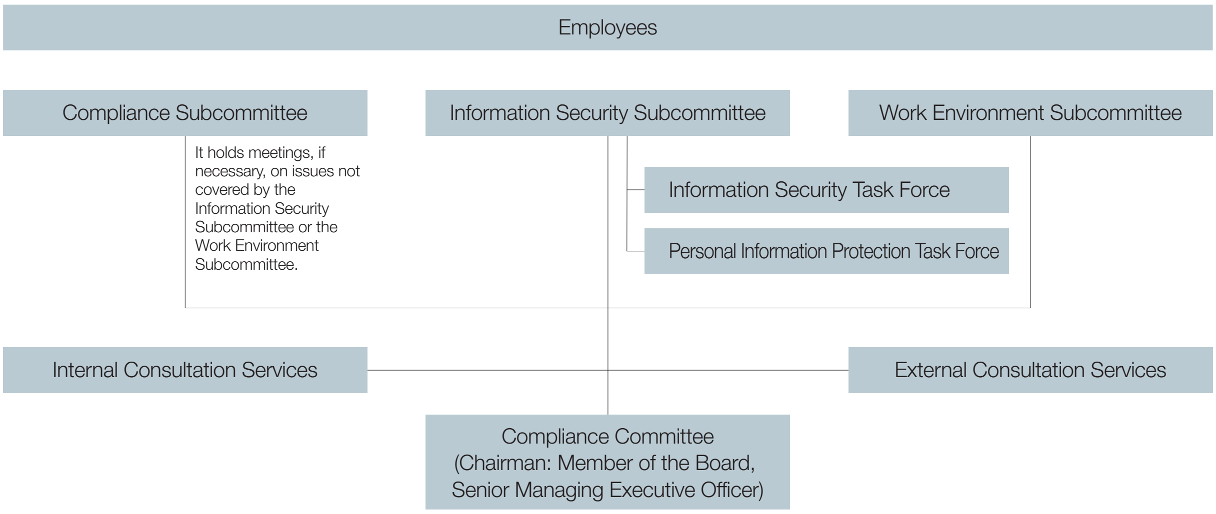
Increasing compliance awareness by continually transmitting information and providing training and education to employees

The Akebono Group believes that compliance is not only limited to the common observation of rules and regulations, but also includes the necessity for employees to act as responsible members of society, by adhering to social customs, corporate ethics and exercising common sense.

Based on this belief, the Compliance Committee, established in January 2003, is engaged in various activities to enable each and every employee to consciously act as a member of a company that manufactures brakes, which are important safety components. The Committee is actively working on promoting compliance awareness by publishing "Compliance News", posting decisions on internal bulletins and starting external consultation services in addition to internal consultation services, not to mention providing training and education to employees.

Compliance News

Compliance Structural Diagram



Internal Consultation Services and External Consultation Services

The internal consultation service has representatives at five sites within the Akebono Group to deal promptly and appropriately with employee questions, problems and complaints. It is striving to detect problems early and prevent recurrences by reinforcing specialized services, such as "Complaint Box," "Corporate Ethics Hotline," "Sexual Harassment / Interpersonal Relations Hotline," "Mental Health Consultation," "Livelihood Consultation Services" and "Akebono Brake Health Insurance Telephone Consultation."

An "Employee Opinion Survey" has been conducted each year since 2003 to monitor satisfaction and the results of the survey are utilized to improve the workplace. In September 2005, external consultation services were outsourced to a specialized external organization and the "Corporate Ethics and Work Environment Hotline" was launched. This made it possible to provide both internal and external consultation services to Group company employees, including temporary and part-time employees.

Directors and Officers

(As of June 20, 2006)

Hisataka Nobumoto
Representative Director
Chairman of the Board
President & CEO

Hidemitsu Kuwano
Representative Director
Member of the Board

Tsuyoshi Kashiwagi
Member of the Board

Shunji Yokoo
Representative Director
Member of the Board
Executive Vice President

Hiroki Sato
Member of the Board
Executive Vice President

Toshimitsu Nishigaki
Member of the Board
Senior Managing Executive Officer

Yoshimasa Ogino
Member of the Board
Senior Managing Executive Officer

Kunio Ito
Member of the Board
(External Director)

Executive Officers

Senior Managing Executive Officers	Sachiyuki Ishige Kazuhiko Goto Yoshihiro Ishigaki Yukio Iwata Satoshi Utsugi
Managing Executive Officers	Yoichi Iwata Takeshi Saito Mitsuo Sato Yoshiharu Aizawa Kiyoshi Dejima Takashi Kudo
Executive Officers	Koji Kobayashi Masahiro Miyamoto Toru Wakabayashi Shin Yamaguchi Seiya Odaka Sueyoshi Mizobuchi

Auditors

Corporate Auditors	Akiyo Ishida Keijiro Kimura
Auditors	Hidejiro Matsuda Kesao Endo

Advisors

Executive Advisor	J. W. Chai

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries
Each fiscal year ended March 31

CONTENTS

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries
Each fiscal year ended March 31

Business Environment and Operating Overview

The Japanese economy generally remained steady in FY2005 despite the impact of a surge in oil prices, among other things, and took a clear upward turn with improved corporate earnings, due to strong capital investments and solid exports, as well as a mild increase in personal consumption.

In the automotive industry, domestic vehicle production remained high, surpassing the 10 million mark for the fourth consecutive year at 10.89 million units. However, intense competition still continues on a global level amid major changes in the business environment, such as indications of restructuring among automotive parts manufacturers due to the lower than expected performance of the Big 3 in the United States, a surge in prices for raw materials, and the emergence of developing countries.

Against this backdrop, Akebono reviewed its medium-term three-year management plan "Global 30," which started in April 2005, and launched a new medium-term management plan called "Global 30 - 2006." (see page 3 for details).

Overview of Business Performance (Consolidated)

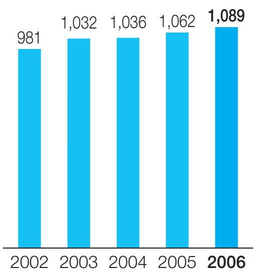
Net Sales

Despite the impact of a decline in orders caused by dramatic production cuts by the Big 3 in the United States, particularly GM and Ford, net sales increased by 9.4 billion yen year-on-year to 142.3 billion yen, due partly to a net sales increase resulting from Ambrake Corporation becoming a new wholly-owned subsidiary and underlying support from a strong domestic market.

Operating Income and Net Income

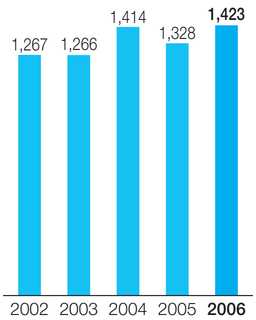
Although there were negative factors such as a shortage of supplies, particularly in steel, and an increase in the prices of raw materials due to higher oil prices, operating income increased by 1.9 billion yen year-on-year to 11.7 billion yen, due partly to the impact of streamlining achieved through the Cost Revolution program executed mainly in Japan and North America, a decrease in operating costs due to reduced benefit payments from the corporation pension fund, and the full acquisition of Ambrake Corporation as a wholly-owned subsidiary. As regards other earnings (expenses), a decrease in equity-method investment gain, due to Ambrake Corporation becoming a wholly-owned subsidiary, and the inclusion of losses mainly from the disposal and depletion of equipment in France, with a view to achieving profitability in the French business in the future, resulted in an increase in net income by 600 million yen year-on-year to 5.9 billion yen, renewing a record high for the second consecutive year.

Trends in Domestic Automobile Production
Each fiscal year ended March 31



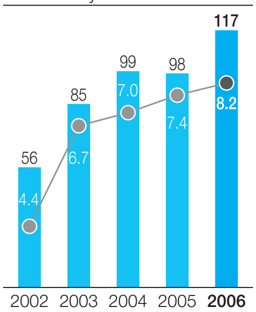
(10,000 vehicles)

Net Sales
Each fiscal year ended March 31



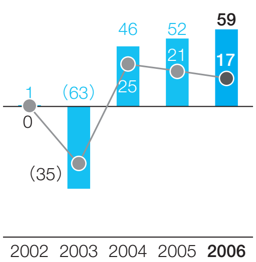
(100 million yen)

Operating Income / Operating Income to Sales Ratio
Each fiscal year ended March 31



Operating income (100 million yen)
Operating income to sales ratio (%)

Net Income (Loss) / Return on Equity (ROE)
Each fiscal year ended March 31



Net income (loss) (100 million yen)
Return on equity (ROE) (%)

Trends by Segment

Trends by Product

Sales of disc brakes and drum brakes, Akebono's flagship products, increased by 7.0 billion yen from the previous year to 41.3 billion yen and by 2.6 billion yen to 22.5 billion yen, respectively, due mainly to the impact of Ambrake Corporation in North America becoming a wholly-owned subsidiary.

Sales of sensors also increased by approximately 400 million yen year-on-year to 4.5 billion yen, owing to an increase in orders for combined sensors used for vehicle control and other purposes.

Net Sales by Product (Unit: 100 million yen)	2005	2006	Rate of change
Disc brakes	343	413	70
Drum brakes	199	225	26
Disc brake pads	444	447	3
Other automotive parts	180	175	▲5
Industrial machinery components	65	69	4
Rolling stock components	36	34	▲2
Sensors	41	45	4
Others	20	15	▲5
Total	1,328	1,423	94

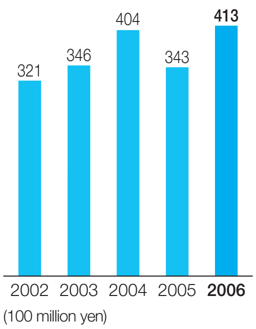
Trends by Geographical Location

In Japan, net sales increased by 900 million yen year-on-year to 101.0 billion yen, backed by strong domestic automobile production resulting from healthy auto exports and light vehicle sales. Operating income was 10.1 billion yen, up 1.4 billion yen from the previous year, owing to the effects of cost reduction, among other things.

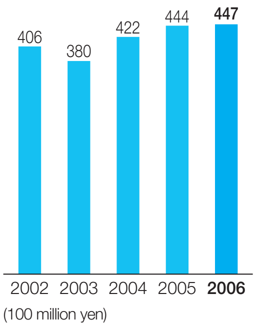
In North America, on the other hand, the business environment remained challenging due to the effects of declining orders caused by significant product adjustments carried out mainly by the Big 3. However, net sales increased by 8.0 billion yen from the previous year to 39.5 billion yen, due mainly to Ambrake Corporation becoming a wholly-owned subsidiary. Operating income also increased to 1.9 billion yen, up 600 million yen from the previous year, as a result of reducing expenses, mainly in back-office sections, in addition to cost cutting measures.

Although business with local manufacturers is steadily expanding in Europe and other areas, with net sales increasing by 600 million yen year-on-year to 1.7 billion, operating loss increased by 200 million yen from the previous year to 400 million yen, due to a cost increase resulting from an equipment switch-out. The Akebono Group will concentrate its efforts on establishing a firm foundation for its European business in order to achieve profitability at an early date. As for the Chinese market, which is expected to grow on a medium- to long-term basis, Akebono Corporation (Guangzhou), a disc brake and drum brake assembly plant in Guangzhou, began production in November 2005, and Akebono Corporation (Suzhou), a disc brake pad production plant in Suzhou, began production in February 2006. Because their accounts are settled on a calendar-year basis, the business results for Europe and other areas include two months worth of net sales for Akebono Corporation (Guangzhou).

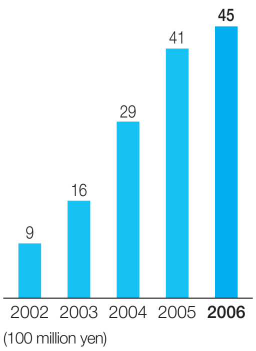
Trend in Disc Brake Sales
Each fiscal year ended March 31



Trend in Disc Brake Pad Sales
Each fiscal year ended March 31

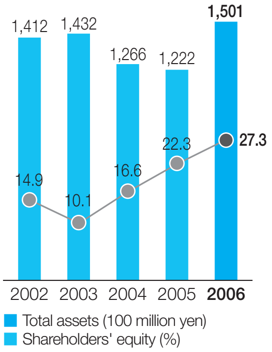


Trend in Sensor Sales
Each fiscal year ended March 31

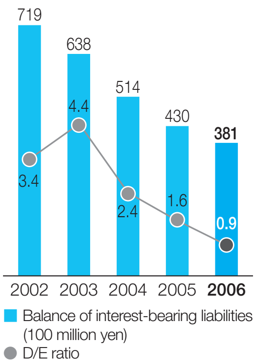


Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries
Each fiscal year ended March 31

Total assets /
Shareholders' equity
Each fiscal year ended March 31



Balance of interest-bearing liabilities/
D/E ratio
Each fiscal year ended March 31



Financing and Liquidity

The Akebono Group is working on reducing assets in order to reduce interest-bearing liabilities by generating funds, with the objective of strengthening its financial standing and ensuring a sound balance sheet. Furthermore, Akebono has 14.5 billion yen in overdraft agreements and loan commitment agreements with financial institutions to secure stable financing and liquidity.

Financial Status

Consolidated subsidiaries such as Ambrake Corporation, Akebono Brake Sanyo Manufacturing Co., Ltd., and PT Tri Dharma Wisesa significantly impacted Akebono Group's balance sheet for this period, and total assets increased by 27.9 billion yen from the previous year to 150.1 billion yen. Current assets increased by 7.5 billion yen from the previous year to 47.7 billion yen. Due to the prominent effect of the aforementioned increase in the number of consolidated subsidiaries, notes, accounts receivable and inventory assets increased by 5.5 billion yen and 3.5 billion yen, respectively. Fixed assets increased by 20.5 billion yen from the previous year to 102.4 billion yen. Another major cause of the increase in fixed assets was an increase in the number of consolidated subsidiaries. Tangible fixed assets such as buildings and equipment increased by 18.6 billion yen, intangible fixed assets comprised mainly of IT investment increased by 2.9 billion yen, and investment and other assets decreased by 1.1 billion yen. Although stocks of affiliated companies (investment securities) decreased by 4.8 billion yen as a result of consolidating Ambrake Corporation and other companies, which had been equity-method affiliates, the total amount of investment and other assets increased by 2.5 billion yen due to an increase in the market value of investment securities and other reasons. A 1.9 billion yen loss from the depletion of fixed assets was recorded for the year ended March 31, 2006.

Current liabilities increased by 6.7 billion yen to 58.5 billion yen and fixed liabilities increased by 5.1 billion yen from the previous year to 46.4 billion yen. As a result, total liabilities increased by 11.9 billion yen from the previous year to 104.9 billion yen. As with current assets and fixed assets, the increase in the number of consolidated subsidiaries contributed greatly to increases in notes and accounts payable, and short-term loans by 4.4 billion yen and 4.1 billion yen, respectively. Furthermore, corporate bonds and convertible bonds scheduled for redemption within one year decreased by 4.1 billion yen and 8.0 billion yen, respectively, due to redemption. The main reason for the increase in fixed liabilities is an increase in accrued employees' retirement benefits by 800 million yen and in long-term accrued accounts payable by 4.0 billion yen, as opposed to a decrease in long-term debt by 600 million yen.

Owners' equity increased by 13.9 billion yen from the previous year to 41.0 billion yen due to an increase in capital and capital surplus by 7.9 billion yen, as a result of a conversion of convertible bonds and the exercise of stock purchasing rights, in addition to current net income of 5.9 billion yen. As a result, the capital-to-asset ratio increased by 5.0% year-on-year to 27.3%, and shareholders' equity per share increased by 103.56 yen year-on-year to 383.22 yen.

Cash Flow

The closing balance of cash, deposits and cash equivalents as of March 31, 2006, was 5.1 billion yen, down 2.3 billion yen from the closing balance as of April 1, 2005. Free cash flow (total cash flow from operating and investment activities) was 300 million yen.

Cash Flow from Operating Activities

Net cash from operating activities was 12.2 billion yen (down 1.8 billion yen year-on-year). Net income before taxes and other adjustments of 7.3 billion yen and depreciation of 7.6 billion yen were major contributors.

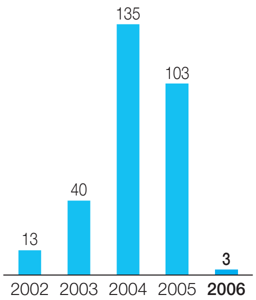
Cash Flow from Investing Activities

Net cash used in investment activities was 11.9 billion yen (up 8.1 billion yen year-on-year). The main factors impacting the figure were outflows of 5.7 billion yen in production facility-related investment to acquire tangible fixed assets, 2.5 billion yen in IT-related investment to acquire intangible fixed assets, and 4.2 billion yen to acquire shares of affiliated companies to make Ambrake Corporation and other companies wholly-owned subsidiaries.

Cash Flow from Financing Activities

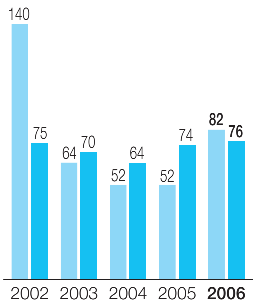
Net cash used in financing activities was 3.2 billion yen (down 6.1 billion yen year-on-year). The main factor impacting the figure was an outflow of 4.9 billion yen in the issue of corporate bonds.

Free Cash Flow
Each fiscal year ended March 31



Free cash flow (100 million Yen)

Capital Investment / Depreciation
Each fiscal year ended March 31



Capital investment (100 million yen)
Depreciation (100 million yen)

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries
Each fiscal year ended March 31

Risk Information

Economic Conditions

The operating income of the Akebono Group is affected by economic condition in countries or regions where group companies manufacture and sell products. In other words, economic recessions in the Group's major markets (including Japan, North America, Asia and Europe) and a resulting decrease in demand exceeding expectations could negatively impact the Group's business performance and financial status.

Dependence on OEM Customers

OEM products account for approximately 70% of the Akebono Group's operating income. As such, there is a possibility that the poor performance of automotive manufacturers and Tier 1 manufacturers (manufacturers doing business directly with automotive manufacturers), unforeseen terminations of agreements, price discounting, and changes in procurement policies could negatively impact the Group's business performance and financial status.

Procurement of Materials/Components and Market Trends

Although the Akebono Group procures raw materials, steel products, components and other items from multiple external suppliers, a number of raw materials and components are purchased only from specific companies. There is a possibility that surges in prices and shortages of materials due to changes in the market situation, delays in delivery due to the lack of production capacity on the part of the suppliers, defects in products manufactured by the suppliers, deteriorating management, unforeseen accidents and other factors could have a negative impact on the Akebono Group's business performance and financial status by causing an increase in the Group's product costs, and delays and/or suspensions of production.

Advances into Foreign Markets

The Akebono Group is currently engaged in production and sales activities in various regions including North America, Europe and Asia. These advances into foreign markets involve the following risks, and there is a possibility that the following events could result in delay and/or suspension of production and sales. Such delays and suspensions may negatively impact the Group's business performance and financial status.

- Unforeseen laws and regulations, changes in tax systems resulting in adverse impacts
- Emergence of adverse political or economic factors
- Difficulty in recruiting and securing human resources and the occurrence of labor difficulties
- Insufficient technological infrastructure
- Social confusion caused by terrorism, wars and strikes

Quality Risks

The Akebono Group is always aiming to improve the standard of its advanced quality assurance system and striving to manufacture products under the best possible conditions. Since many of the Group's products are used in parts that are directly related to safety, there is a possibility that the Group's business performance and financial status could be impacted negatively in the unlikely event of a product defect and the Group's failure to prevent its outflow to customers, resulting in substantial costs and a loss of social confidence.

New Product Development

Although the Akebono Group injects substantial management resources into the development of new products and technology to expand its business as an independent automotive parts manufacturer, there is a possibility that the Group's business performance and financial status could be impacted negatively in the event it is unable to develop new products and/or technology required by customers due to reasons such as discrepancies between forecasts and actual market conditions and/or customer needs, and sudden technological changes in the industry.

Protection of Intellectual Property

The Akebono Group possesses know-how that allows it to differentiate products from its competitors. Since these technologies and know-how are indispensable to the future development of the Group, Akebono is focusing its best efforts on protecting these assets. In some regions, however, the protection of intellectual properties is not sufficient or adequately restrictive. As such, there is a possibility that Akebono will not be able to prevent third parties from using the Group's intellectual property to manufacture similar products. Such delays and suspensions may negatively impact the Group's performance and financial status.

Information Security and Protection of Personal Information

The Akebono Group established a special committee on information security and protection of personal information to prevent information leakage from both hardware and software (through compliance with regulations and activities, and an educational campaign to increase awareness). However, there is a possibility that the Group's business performance and financial status could be impacted negatively due to a loss of social confidence in the event of leakage of confidential information and/or personal information that the Group possesses.

In addition, in the event a computer system malfunctions or shuts down due to a computer virus, hacking or any other reason, it may be difficult to conduct business as usual depending on the nature and scale of the problem. As such, there is a possibility that the Group's business performance and financial status could be negatively affected.

Statutory Restrictions

The Akebono Group conducts business operations in countries that have various restrictions, including gas emission standards, environmental regulations on noise, conservation of energy, recycling and levels of pollutant emission from production plants, safety regulations on motor vehicles, regulations on corporate transactions, tax laws and so on. Although the Group is thoroughly enforcing compliance with laws and regulations, there is a possibility that the Group's business performance and financial status could be affected by events such as unforeseen revisions of laws and regulations.

Fluctuation of Exchange Rates and Interest Rates

The Akebono Group's regional business units conduct import transactions of raw materials and components and export transactions of finished products locally. Although the Group is striving to minimize exchange rate risk by using means such as foreign currency reserves, it is difficult to hedge all risks. As such, there is a possibility that a fluctuation in exchange rates could negatively impact the Group's business performance and financial status. There also is a possibility that changes in interest rates applicable to the Group's consolidated interest-bearing liabilities could negatively impact the Group's business performance and financial status.

Effects of Currency Conversion

Although the financial statements of Akebono Group's overseas affiliates are prepared in local currencies, figures are converted to yen when preparing the Group's consolidated financial statement. As a result, the values indicated in consolidated financial statements are impacted by exchange rates at the time of conversion, even when the local values remain the same.

Depletion Accounting

The Akebono Group owns or rents facilities for production, sales and distribution, among other things. There is a possibility that the Group's business performance and financial status could be impacted negatively, in the event depletion is required for fixed asset holding or financially leased assets due to the application of depletion accounting to fixed business assets.

Asbestos

Although Akebono is working proactively on the asbestos issue by establishing a special in-house committee and offering a consultation service counter, there is a possibility that the Group's business performance and financial status could be negatively impacted by expenses or lawsuits arising from health problems of employees who were involved with products containing asbestos and residents in the vicinity of Akebono's plants.

Natural and other Disasters

The Akebono Group has measures in place in preparation for the suspension of operations due to earthquakes, typhoons and other natural disasters. However, there is a possibility that the Group's business performance and financial status could be negatively impacted in the event of a temporary suspension inproduction of some products.

FY2006 Forecast

With oil prices hovering at high levels due to political instability, shortage of steel products, a surge in prices of raw materials, fluctuations in exchange rates and an increase in interest rates, as well as many uncertainties including trends in China, predicting what will happen in FY2006 remains challenging. Domestic production cannot be expected to increase significantly in the automotive industry, and the effects of the lower than expected performance of the Big 3 are expected to continue in North America. Amid this situation, Akebono will proceed to develop technology and reinforce global production through the cultivation of human resources by continued implementation of the three-year medium-term management plan "Global 30 - 2006," which started in April 2006. We will endeavor to face these numerous challenges, and continue to generate value throughout the 21st century. On a consolidated basis, we forecast net sales of 170.0 billion yen, operating income of 14.0 billion yen and net income of 7.5 billion yen for FY2006.

Consolidated Balance Sheets

Akebono Brake Industry Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 5,108	¥ 7,437	$ 43,658
Receivables:			
Trade notes	2,440	5,550	20,855
Trade accounts	22,461	13,234	191,974
Associated companies	610	1,961	5,214
Other	4,670	4,314	39,915
Allowance for doubtful accounts	(214)	(44)	(1,829)
Inventories (Note 5)	8,469	4,982	72,385
Deferred tax assets (Note 10)	1,923	1,792	16,436
Prepaid expenses and other current assets	2,219	1,010	18,965
Total current assets	47,686	40,236	407,573
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 7):			
Land	22,118	21,153	189,043
Buildings and structures	43,420	36,525	371,111
Machinery, equipment and vehicle	124,734	84,338	1,066,103
Furniture and fixtures	22,857	18,093	195,358
Construction in progress	2,084	2,414	17,812
Total	215,213	162,523	1,839,427
Accumulated depreciation	(135,286)	(101,207)	(1,156,291)
Net property, plant and equipment	79,927	61,316	683,136
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	8,537	5,991	72,966
Investments in associated companies	356	5,175	3,043
Goodwill	928		7,932
Deferred tax assets (Note 10)	7,156	6,626	61,162
Other assets	5,629	2,945	48,111
Allowance for doubtful accounts	(113)	(87)	(966)
Total investments and other assets	22,493	20,650	192,248
TOTAL	¥150,106	¥122,202	$1,282,957

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 13,280	¥ 9,134	$ 113,504
Current portion of long-term debt (Note 7)	12,211	17,907	104,368
Payables:			
Trade notes	5,749	3,851	49,137
Trade accounts	14,121	9,893	120,692
Associated companies	50	1,821	427
Other	643	266	5,496
Income taxes payable	2,935	6,733	25,085
Accrued expenses	8,840	706	75,556
Other current liabilities	648	1,438	5,538
Total current liabilities	58,477	51,749	499,803
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	19,914	16,311	170,205
Liability for retirement benefits (Notes 2 and 8)	18,125	17,171	154,915
Deferred tax liabilities (Note 10)	7,074	5,520	60,462
Other	1,308	2,290	11,179
Total long-term liabilities	46,421	41,292	396,761
MINORITY INTERESTS	4,199	1,969	35,889
CONTINGENT LIABILITIES (Note 14)			
SHAREHOLDERS' EQUITY (Notes 9 and 16):			
Common stock—authorized, 320,000,000 shares; issued, 110,816,343 shares in 2006 and 97,508,561 shares in 2005	13,559	9,628	115,889
Capital surplus	7,912	4,077	67,624
Retained earnings	12,878	7,274	110,068
Land revaluation surplus	5,835	5,841	49,872
Unrealized gain on available-for-sale securities	2,812	1,271	24,034
Foreign currency translation adjustments	523	(801)	4,470
Treasury stock—at cost, 3,803,551 shares in 2006 and 274,558 shares in 2005	(2,510)	(98)	(21,453)
Total shareholders' equity	41,009	27,192	350,504
TOTAL	¥150,106	¥122,202	$1,282,957

Consolidated Statements of Income

Akebono Brake Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES	¥142,260	¥132,836	$1,215,897
COST OF SALES	111,407	106,815	952,196
Gross profit	30,853	26,021	263,701
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	19,123	16,180	163,445
Operating income	11,730	9,841	100,256
OTHER INCOME (EXPENSES):			
Interest and dividend income	165	111	1,410
Interest expense	(903)	(714)	(7,718)
Loss on disposal of property, plant and equipment	(446)	(895)	(3,812)
Loss on impairment of long-lived assets (Note 6)	(1,936)	–	(16,547)
Amortization of transitional obligations for employees' retirement benefits (Note 8)	–	(2,254)	–
Equity in earnings of associated companies	828	1,386	7,077
Gain on return of substitution portion of welfare	–	5,135	–
Compensation for assurance of products	(421)	(1,459)	(3,598)
Other–net (Note 11)	(1,705)	(2,786)	(14,572)
Other expenses–net	(4,418)	(1,476)	(37,760)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	7,312	8,365	62,496
INCOME TAXES (Note 10):			
Current	2,703	898	23,103
Deferred	(1,566)	1,702	(13,385)
Total income taxes	1,137	2,600	9,718
MINORITY INTEREST IN NET INCOME	(318)	(533)	(2,718)
NET INCOME	¥ 5,857	¥ 5,232	$ 50,060

PER SHARE OF COMMON STOCK (Notes 2.q and 15):	Yen		U.S. dollars
Basic net income	¥56.60	¥54.29	$0.48
Diluted net income	52.12	47.67	0.45
Cash dividends applicable to the year	6.00	6.00	0.05

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Akebono Brake Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Thousands	Millions of Yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Surplus	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2004	95,508	¥9,200	¥3,650	¥2,349	¥5,845	¥861	¥(802)	¥(54)
Net income	–	–	–	5,232	–	–	–	–
Cash dividends, ¥6 per share	–	–	–	(381)	–	–	–	–
Repurchase of treasury stock	–	–	–	–	–	–	–	(44)
Exercise of warrants	2,001	428	427	–	–	–	–	–
Transfer from land revaluation surplus, net of taxes	–	–	–	(79)	(4)	–	–	–
Adjustment due to decrease in consolidated subsidiaries	–	–	–	153	–	–	–	–
Net increase in unrealized gain on available-for-sale securities	–	–	–	–	–	410	–	–
Net change in foreign currency translation adjustments	–	–	–	–	–	–	1	–
BALANCE, MARCH 31, 2005	97,509	9,628	4,077	7,274	5,841	1,271	(801)	(98)
Adjustment of retained earnings for newly consolidated subsidiaries	–	–	–	325	–	–	–	–
Net income	–	–	–	5,857	–	–	–	–
Cash dividends, ¥6 per share	–	–	–	(583)	–	–	–	–
Repurchase of treasury stock	–	–	–	–	–	–	–	(2,499)
Disposal of treasury stock	–	–	(86)	–	–	–	–	87
Conversion of convertible bonds	12,797	3,877	3,868	–	–	–	–	–
Exercise of warrants	510	54	53	–	–	–	–	–
Transfer from land revaluation surplus, net of taxes	–	–	–	6	(6)	–	–	–
Net increase in unrealized gain on available-for-sale securities	–	–	–	–	–	1,541	–	–
Net change in foreign currency translation adjustments	–	–	–	–	–	–	1,324	–
Others	–	–	–	(1)	–	–	–	–
BALANCE, MARCH 31, 2006	110,816	¥13,559	¥7,912	¥12,878	¥5,835	¥2,812	¥523	¥(2,510)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Surplus	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	$ 82,290	$34,846	$ 62,171	$49,923	$10,863	$(6,846)	$ (838)
Adjustment of retained earnings for newly consolidates subsidiaries	–	–	2,778	–	–	–	–
Net income	–	–	50,060	–	–	–	–
Cash dividends, $0.05 per share	–	–	(4,983)	–	–	–	–
Repurchase of treasury stock	–	–	–	–	–	–	(21,359)
Disposal of treasury stock	–	(735)	–	–	–	–	744
Conversion of convertible bonds	33,137	33,060	–	–	–	–	–
Exercise of warrants	462	453	–	–	–	–	–
Transfer from land revaluation surplus, net of taxes	–	–	51	(51)	–	–	–
Net increase in unrealized gain on available-for-sale securities	–	–	–	–	13,171	–	–
Net change in foreign currency translation adjustments	–	–	–	–	–	11,316	–
Others	–	–	(9)	–	–	–	–
BALANCE, MARCH 31, 2006	$115,889	$67,624	$110,068	$49,872	$24,034	$ 4,470	$(21,453)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Akebono Brake Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 7,312	¥8,365	$ 62,496
Adjustments for:			
Income taxes—paid	(637)	(767)	(5,444)
Depreciation and amortization	7,622	7,401	65,145
Net loss on sales and disposals of property, plant and equipment	425	877	3,632
Loss on impairment of long-lived assets	1,936	–	16,547
Provision for allowance for doubtful accounts	151	43	1,291
Provision for (reversal of) accrued retirement benefits	97	(2,650)	829
Net (gain) loss on sales of investment securities	(204)	90	(1,744)
Equity in earnings of associated companies	(828)	(1,386)	(7,077)
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Decrease in notes and accounts receivable	509	390	4,350
(Increase) decrease in inventories	(146)	272	(1,248)
Decrease in notes and accounts payable	(2,902)	(960)	(24,803)
Other—net	(1,176)	2,345	(10,051)
Total adjustments	4,847	5,655	41,427
Net cash provided by operating activities	12,159	14,020	103,923
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(5,709)	(5,150)	(48,795)
Proceeds from sales of property, plant and equipment	270	1,354	2,308
Purchases of intangible assets	(2,509)	(635)	(21,444)
Proceeds from sales of investment securities	262	93	2,239
Payments for purchase of consolidated subsidiaries, net of cash acquired	(4,174)	–	(35,675)
Other—net	(17)	607	(146)
Net cash used in investing activities	(11,877)	(3,731)	(101,513)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	2,695	(370)	23,034
Proceeds from long-term debt	9,000	4,000	76,923
Repayments of long-term debt	(12,091)	(12,066)	(103,342)
Payments of capital lease obligations	–	(1,460)	–
Proceeds from issuance of common stock	107	855	915
Dividends paid	(582)	(380)	(4,974)
Net increase in treasury stock	(2,498)	–	(21,350)
Other—net	127	54	1,085
Net cash used in financing activities	(3,242)	(9,367)	(27,709)
FORWARD	¥ (2,960)	¥ 922	$ (25,299)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	185	(27)	1,581
CASH AND CASH EQUIVALENTS INCREASED BY MERGER	446		3,812
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,329)	895	(19,906)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,437	6,542	63,564
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 5,108	¥7,437	$ 43,658
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common stock	¥ 7,746	–	$ 66,205
ADDITIONAL INFORMATION:			
Assets acquired and liabilities assumed in acquisition:			
Assets acquired	¥18,661	–	$159,496
Goodwill	940	–	8,034
Liabilities assumed	(8,704)	–	(74,393)
Minority interests	(892)	–	(7,624)
Investments in associated companies	(5,189)	–	(44,351)
Cash paid for the capital	4,816	–	41,162
Accounts payable	(152)	–	(1,299)
Cash and cash equivalents of consolidated subsidiaries	(490)	–	(4,188)
Cash paid, net of cash acquired	¥ 4,174	–	$ 35,675

See notes to consolidated financial statements.

Akebono Brake Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

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 accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically 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 consolidated financial statements are stated in Japanese yen, the currency of the country in which Akebono Brake Industry Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117 to $1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain reclassifications have been made in the 2005 consolidated financial statements to conform to the classifications used in 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—

The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its 33 significant (29 in 2005) subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

In the fiscal year ended March 31, 2006, additional equity of Ambrake Corporation ("AMBRAKE") PT. Tri Dharma Wisesa and 2 other companies were acquired. In addition, Akebono Brake Sanyo Manufacturing Co., Ltd. (formerly Sanyo Brake Industry Co., Ltd. , which was an associated company) was included in the consolidation as subsidiaries due to form a merger with Sanyo Hydraulic Industry Co., Ltd., which was a subsidiary and excluded from the consolidation as a result of merger.

Investments in 1 (5 in 2005) associated companies are accounted for by the equity method.

Investments in the remaining 3 (4 in 2005) 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.

The differences between the cost and the underlying net equity (at fair value) of investments in consolidated subsidiaries and associated companies accounted for by the equity method have been amortized over a period of 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. 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.

c. Allowance for Doubtful Accounts—

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

d. Inventories—

Finished products and work in process are stated at cost, which is determined by the average cost method. Raw Materials and supplies are stated cost, which is determined by the last purchased price method.

Inventories of certain foreign subsidiaries are stated by lower of cost or market method. Cost is determined by first-in, first-out method.

e. Investment Securities—

All securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving average.

Non-marketable securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to 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.

The range of useful lives is principally from 3 to 60 years for buildings and structures, and from 2 to 12 years for machinery and equipment.

g.Land Revaluation—

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities. As at March 31, 2006, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥ 2,484 million ($ 21,231 thousand).

h. Long-lived Assets—

In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets for the year ended March 31,2006.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥488 million ($4,171 thousand).

i. Retirement and Pension Plans—

The Company and certain consolidated subsidiaries accrue for the liability for employees retirement benefits. The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date. But a retirement benefits to directors of the Company suspend the new addition from April 1, 2005.

j. Research and Development Costs—

Research and development costs are charged to income when incurred.

k. Leases—

All leases of the Company and consolidated domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

l. Income Taxes—
The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2006, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries. 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. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. Appropriations of Retained Earnings—
Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

n. Foreign Currency Transactions—
All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

o. Foreign Currency Financial Statements—
The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

p. Derivatives and Hedging Activities—
The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates.

Foreign exchange forward contracts, currency options, interest rate swaps, interest rate options, are utilized by the Group to reduce foreign currency exchange and interest rate risks.

The Group does not enter into derivatives for trading or speculative purposes.

The Group has adopted "Accounting Standard for Financial Instruments" and "Accounting Standard for Foreign Currency Transactions."

These standards require that: (a) all derivatives be recognized as either assets or liabilities and measured at fair value, with gains or losses on these derivative transactions being recognized in the statement of income and (b) for derivatives used for hedging purpose, if such derivatives qualify for hedge accounting due to high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on these derivative transactions are deferred until maturity.

Foreign exchange forward contracts, currency options employed to hedge the foreign currency fluctuations are measured at fair value and the related unrealized gains and losses are recognized in income.

Interest rate swaps and interest rate options employed to hedge interest rate fluctuations are measured at fair value and the related unrealized gains and losses are recognized in income.
Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not assured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

q. Per Share Information—
Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding stock option.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

r. New Accounting Pronouncements
Business combination and business separation
In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test. Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options
On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors
Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. ACCOUNTING CHANGE

Derivative Financial Instruments
Prior to April 1, 2005, assets and liabilities denominated in foreign currencies that hedged by foreign currency forward contracts were translated at the contracted rates, if the forward contracts qualified for hedge accounting.

Effective April 1, 2005, the Company and its subsidiaries changed their method of accounting for such hedge activities. Under new policy, foreign currency forward contracts employed to hedge foreign exchange exposures are measured at fair value and the unrealized gains (losses) are recognized in income. The effect of this change was immaterial.

Revenue Recognition
AMBRAKE, which became a wholly owned subsidiary of the Company for the fiscal year ended March 31, 2006, deferred both gain and losses on tooling sales and amortized these amounts into income over life of the related program. As a result of the acquisition of AMBRAKE, AMBRAKE changed its accounting policy and now recognizes these gains and losses immediately upon the sale of tooling. The effect of this change was to increase income before income taxes and minority interests by ¥219 million ($1,872 thousand).

Inventories
The Company changed its accounting policy for work in process from cost which is determined by the first-in, first-out method to the average cost method for the fiscal year ended March 31, 2006. The reason for this change was to calculate revenue and expenses in order to match production process. The effect of this change was immaterial.

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Marketable equity securities	¥8,466	¥5,890	$ 72,359
Non-marketable equity securities	71	101	607
Total	¥8,537	¥5,991	$ 72,966

The carrying amounts and aggregate fair values of marketable equity securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2006				
Available-for-sale—Equity securities	¥3,775	¥4,692	¥1	¥8,466
March 31, 2005				
Available-for-sale—Equity securities	3,827	2,063	–	5,890

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2006				
Available-for-sale—Equity securities	$32,265	$40,103	$9	$ 72,359

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Equity securities	¥71	¥101	$ 607

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥262 million ($2,239 thousand) and ¥93 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥204 million ($1,744 thousand) and nothing, respectively, for the year ended March 31, 2006 and nothing and ¥90 million, respectively, for the year ended March 31, 2005.

5. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Finished products	¥5,828	¥3,540	$ 49,812
Work in process	769	513	6,573
Raw materials and supplies	1,872	929	16,000
Total	¥8,469	¥4,982	$ 72,385

Akebono Brake Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥1,936 million ($16,547 thousand) on the following group of long-lived assets:

Location	Major Use	Asset Category	Millions of yen	Thousands of U.S. Dollars
Sagae city, Yamagata Pref.	Idle land	Land	¥145	$1,239
Saitama city, Saitama Pref., others	Idle equipment	Machinery, equipment and tools	95	812
Saitama city, Saitama Pref.	Idle facilities	Buildings and structures	44	376
Hanyu city, Saitama Pref.	Idle facilities	Buildings and structures	46	393
Tatebayashi city, Gunma Pref.	Idle land	Land	65	556
Okayama city, Okayama Pref.	Idle land, others	Land	174	1,487
Kentucky state, U.S.A.	Idle facilities	Buildings and structures	78	667
Arras city, France, others	Idle equipment, others	Machinery, equipment and tools	1,240	10,598
Others	Idle land, others	Land, others	49	419
Total			¥1,936	$16,547

The Company classified fixed assets into groups by product category, which are the minimum units generating cash flows. The Company reduced the carrying amount of the assets to a recoverable amount and recognized an impairment loss of ¥1,936 million ($16,547 thousand) for the idle assets listed above. The carrying amount of the lands listed above is measured at its net selling price by referring to the real estate appraisal value based on the real estate appraisal standards mainly. The impairment loss of the assets located in United States of America and France is recognized on the local accounting standards.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2006 and 2005 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.40% to 14.75% and 0.40% to 2.45% at March 31, 2006 and 2005, respectively.
Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
1.0% Japanese yen unsecured convertible bonds, convertible into common stock at ¥604.50 per share, due in 2005 *	¥ –	¥ 7,964	$ –
0.25%–0.59% Japanese yen unsecured bonds, due in 2005	–	2,340	–
0.38%–0.40% Japanese yen unsecured bonds, due in 2006	–	2,000	–
0.46%–1.04% Japanese yen unsecured bonds, due in 2007	2,100	2,300	17,949
0.49% Japanese yen unsecured bonds, due in 2008	1,000	1,000	8,547
0.46% Japanese yen unsecured bonds, due in 2010	900	–	7,692
15.75% secured bank loan due in 2008	180	–	1,538
1.5% secured bank loan due in 2013	803	909	6,863
0.72%–4.86% unsecured loans principally from banks, due serially through 2011	19,160	16,592	163,761
3.0%–5.13% unsecured other debt due in 2011	7,352	393	62,838
1.75% secured other debt due in 2013	630	720	5,385
Total	32,125	34,218	274,573
Less current portion	(12,211)	(17,907)	(104,368)
Long-term debt, less current portion	¥19,914	¥16,311	$170,205

* The Company changed the exercise price from ¥605.60 to ¥604.50 from August 2, 2005.

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

Year Ending	Millions of Yen	Thousands of U.S. Dollars
March 31		
2007	¥11,161	$ 95,393
2008	2,963	25,325
2009	3,292	28,137
2010	1,534	13,111
2011 and thereafter	964	8,239
Total	¥19,914	$ 170,205

The carrying amounts of assets pledged as collateral for short-term bank loans and long-term debt at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Trade accounts	¥484	$ 4,137
Inventories	61	521
Building and structures—net of accumulated depreciation	2,504	21,402
Machinery, equipment and vehicle—net of accumulated depreciation	54	461
Land	895	7,650
Total	¥3,998	$ 34,171

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

8. RETIREMENT AND PENSION PLANS

The Company and consolidated subsidiaries have severance payment plans for employees,directors and corporate auditors.

The Company and its domestic consolidated subsidiaries have defined benefit plans, qualified defined benefit pensions plan, tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are the entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain foreign consolidated subsidiaries have defined benefit and contribution plans. The Company also makes contributions to NIHON JIDOSHA BUHIN KOGYO KOSEI NENKIN KIKIN and SAITAMAKEN TRUCK KOSEI NENKIN KIKIN, joint contributory pension plans established by company engaged in the automobile industry. The Company's portion of funded assets of these joint contributory pension plans at March 31, 2006 was estimated ¥898 million ($7,675 thousand).

The liability for retirement benefits at March 31, 2006 and 2005 for directors and corporate auditors is ¥960 million ($8,206 thousand) and ¥806 million respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders meeting (in accordance with the Japanese Commercial Code (the "Code")).

The liability for employees' retirement benefits at March 31, 2006 and 2005, consisted of the following.

	Millions of Yen			Thousands of U.S. Dollars	
	2006		2005	2006	
	Domestic Plans	Foreign Plans	Group Plans	Domestic Plans	Foreign Plans
Projected benefit obligations	¥ (28,748)	¥ (235)	¥ (26,858)	$ (245,709)	$ (2,009)
Fair value of plan assets	9,649	–	6,514	82,470	–
Unfunded retirement benefit obligation	(19,099)	(235)	(20,344)	(163,239)	(2,009)
Unrecognized actuarial obligation loss	2,950	16	4,939	25,214	137
Unrecognized prior service cost	(706)	49	(960)	(6,035)	419
Net accrued pension liabilities	(16,855)	(170)	(16,365)	(144,060)	(1,453)
Prepaid pension cost	(140)	–	–	(1,196)	–
Liability for employees' retirement benefits	¥(16,995)	¥ (170)	¥ (16,365)	$ (145,256)	$ (1,453)

In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for past and future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the past and future obligation by the Ministry of Health, Labor and Welfare on December 1, 2004.

The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on May 20, 2005 and the effect of this transferred was immaterial.

The components of net periodic benefit costs and relevant gains and losses for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen			Thousands of U.S. Dollars	
	2006		2005	2006	
	Domestic Plans	Foreign Plans	Group Plans	Domestic Plans	Foreign Plans
Service cost	¥1,181	¥388	¥2,040	$ 10,094	$3,316
Interest cost	536	–	1,227	4,581	–
Expected return on plan assets	(101)	–	(763)	(863)	–
Amortization of transitional obligation	–	–	2,267	–	–
Recognized actuarial loss	400	–	1,230	3,419	–
Amortization of prior service cost	(255)	–	(255)	(2,180)	–
Retirement benefits expense	1,761	388	5,746	15,051	3,316
Gain on return of substitutional portion of Welfare Pension Fund Plans	–	–	(5,135)	–	–
Effect of application of the standard method for calculation of retirement benefit obligation	645	–	–	5,513	–
Net periodic benefit costs	¥2,406	¥388	¥611	$ 20,564	$3,316

Assumption used for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	1.50%	2.50%–4.45%
Amortization period of prior service cost	5 years	5 years
Recognition period at actuarial gain/loss	14–15 years	15 years
Amortization period of transitional obligation	–	5 years

9. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥5,913 million ($50,538 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the Company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

On June 22, 2005, June 18, 2004 and June 23, 2000, the Company's shareholders approved a stock option plan for the Group's directors and employees. Under the plan, 3,560 thousand options in the aggregate granted to them to purchase shares of the Company's common stock during the exercise period from April 19, 2006 to April 18, 2010, from August 1, 2005 to July 31, 2009, from August 1, 2006 to July 31, 2010 and from June 24, 2002 to June 23, 2006. The options were granted at exercise prices of ¥1, ¥1, ¥554 and ¥209. As a result of the exercise of the stock option plan, the Company received ¥107 million ($915 thousand) from the issuance of 642 thousand shares at a price of ¥209 and ¥1 of which ¥53 million ($453 thousand) was transferred to the additional paid-in capital in accordance with the Code for the year ended March 31, 2006.

The Company issued 12,798 thousand shares and 1,101 thousand shares for the years ended March 31, 2006 and 2005, respectively, of common stock in connection with conversions of bonds.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Employees' retirement benefits	¥6,784	¥6,302	$ 57,983
Accrued bonus	885	763	7,564
Retirement benefits for directors and corporate auditors	375	–	3,205
Accrued enterprise tax	307	322	2,624
Impairment loss	229	–	1,957
Accrued expense	343	–	2,932
Undistributed loss of foreign consolidated subsidiaries	1,816	–	15,521
Foreign tax credit	–	477	–
Other	970	554	8,291
Less valuation allowance	(172)	–	(1,470)
Total	11,537	8,418	98,607
Deferred tax liabilities:			
Unrealized gain on securities	1,876	825	16,034
Property and equipment	3,561	1,626	30,436
Land revaluation surplus	3,890	3,894	33,248
Other	205	(825)	1,753
Total	9,532	5,520	81,471
Net deferred tax assets	¥2,005	¥2,898	$ 17,136

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	40.0%	40.0%
Expenses not deductible for income tax purposes	1.9	1.3
Special tax credit on experiment and research expenses	(9.7)	(1.8)
Foreign tax credit	(8.9)	–
Valuation allowance	2.3	–
Tax credit carryforwards	8.7	–
Dividends from foreign consolidated subsidiaries eliminated for consolidation purpose	8.4	–
Decrease in deferred tax liabilities for acquired foreign subsidiaries	(5.2)	–
Undistributed loss of foreign consolidated subsidiaries	(16.2)	–
Investment loss of foreign consolidated subsidiaries	(4.5)	–
Effect of loss on liquidation of consolidated subsidiaries	–	(1.5)
Lower income tax rates applicable to income in certain foreign countries	–	(4.6)
Other—net	(1.2)	(2.3)
Actual effective tax rate	15.6%	31.1%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs were ¥484 million ($4,137 thousand), included in selling, general and administrative expenses, and ¥422 million, included in selling, general and administrative expenses and other expenses, for the years ended March 31, 2006 and 2005, respectively.

Akebono Brake Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

12. LEASES

The Group leases certain machinery, computer equipment and other assets.

Total rental expenses including lease payments for the years ended March 31, 2006 and 2005 were ¥1,373 million ($11,735 thousand) and ¥3,014 million, respectively.

For the year ended March 31, 2006, the Group recorded an impairment loss of ¥15 million ($128 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in long-term liabilities—other.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance lease, depreciation expense, interest expense and other information 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, 2006 and 2005 was as follows:

	Millions of Yen			
	2006			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	¥1,890	¥669	¥1,556	¥4,115
Accumulated depreciation	1,046	495	1,023	2,564
Accumulated impairment loss	15	–	–	15
Net leased property	¥ 829	¥174	¥ 533	¥1,536

	Thousands of U.S. Dollars			
	2006			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	$ 16,154	$5,718	$ 13,299	$ 35,171
Accumulated depreciation	8,941	4,231	8,743	21,915
Accumulated impairment loss	128	–	–	128
Net leased property	$ 7,085	$1,487	$ 4,556	$ 13,128

	Millions of Yen			
	2005			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	¥2,597	¥ 870	¥1,831	¥5,298
Accumulated depreciation	1,314	553	935	2,802
Net leased property	¥1,283	¥ 317	¥ 896	¥2,496

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥817	¥1,038	$ 6,983
Due after one year	772	1,454	6,598
Total	¥1,589	¥2,492	$13,581

Allowance for impairment loss on leased property of ¥15 million ($128 thousand) as of March 31, 2006 is not included in the obligations under finance leases.

Depreciation expense, interest expense and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥911	¥1,131	$7,786
Interest expense	57	143	487
Lease payments	973	1,541	8,316
Impairment loss	15	–	128

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥179	¥1,320	$1,530
Due after one year	292	3,386	2,496
Total	¥471	¥4,706	$4,026

13. DERIVATIVES

The Company enters into derivative financial instruments ("derivatives"), including foreign currency forward contracts, interest rate swaps, interest rate options and currency options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

The Company does not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made with the ordinary course of business in accordance with internal policies which regulate the authorization.

The Group had the following derivatives contracts outstanding at March 31, 2006 and 2005:

	Millions of Yen					
	2006			2005		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:						
Selling U.S. dollars	**¥ 71**	**¥ 70**	**¥1**	–	–	–
Buying Euro	**128**	**128**	**–**	–	–	–
Interest rate swaps— Receive fixed pay floating	**–**	**–**	**–**	¥9,440	¥(64)	¥(64)

	Thousands of U.S. Dollars		
	2006		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:			
Selling U.S. dollars	**$ 607**	**$ 598**	**$9**
Buying Euro	**1,094**	**1,094**	**–**

The contract amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit risk.

14. CONTINGENT LIABILITIES

At March 31, 2006, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted	**24**	**205**
Trade notes delivered with endorsements	**27**	**231**
Guarantees for bank loans	**576**	**4,923**
The covering duty ceiling with credits fluidity	**661**	**5,650**

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
Year Ended March 31, 2006				
Basic EPS—Net income available to common shareholders	**¥5,857**	**103,488**	**¥56.60**	**$ 0.48**
Effect of dilutive securities:				
Stock option	**–**	**790**		
Convertible bonds	**15**	**8,395**		
Diluted EPS—Net income for computation	**¥5,872**	**112,673**	**¥52.12**	**$ 0.45**
Year Ended March 31, 2005				
Basic EPS—Net income available to common shareholders	¥5,232	96,376	¥54.29	
Effect of dilutive securities:				
Warrants	–	649		
Convertible bonds	48	13,665		
Diluted EPS—Net income for computation	¥5,280	110,690	¥47.67	

Akebono Brake Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

16. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings
The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders meeting held on June 20, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥6 ($0.05) per share	¥642	$5,487

b. Stock Option Plan
At the Company's shareholders meeting held on June 20, 2006, the Company's shareholders approved a stock option plan for the Group's directors and employees. Under the plan, 30 thousand options (middle-term options) and 59 thousand options (long-term options) were granted to them to purchase shares of the Company's common stock during the exercise period from July 4, 2008 to July 3, 2010 and from July 4, 2011 to July 3, 2016. Both the options were granted at exercise price of ¥1.

17. SEGMENT INFORMATION

Information about industry segments, geographical segments and sales to foreign customers of the Company and subsidiaries for the years ended March 31, 2006 and 2005 are as follows:

(1) Industry Segments
The Group operates in a single industry which includes sales and manufacture of various brake on a worldwide basis.

(2) Geographical Segments
The geographical segments of the Company and subsidiaries for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen				
	2006				
	Japan	North America	Europe and others	Eliminations and Corporate	Consolidated
Sales to customers	¥101,046	¥39,482	¥ 1,732	–	¥142,260
Interarea transfers	5,097	365	1,744	¥ (7,206)	–
Total revenue	106,143	39,847	3,476	(7,206)	142,260
Operating expenses	96,075	37,970	3,895	(7,410)	130,530
Operating income (loss)	¥ 10,068	¥ 1,877	¥ (419)	¥ 204	¥ 11,730
Total assets	¥110,067	¥38,430	¥11,772	¥(10,163)	¥150,106

	Thousands of U.S. Dollars				
	2006				
	Japan	North America	Europe and others	Eliminations and Corporate	Consolidated
Sales to customers	$863,641	$337,453	$ 14,803	–	$1,215,897
Interarea transfers	43,564	3,120	14,906	$(61,590)	–
Total revenue	907,205	340,573	29,709	(61,590)	1,215,897
Operating expenses	821,154	324,530	33,291	(63,334)	1,115,641
Operating income (loss)	$ 86,051	$ 16,043	$ (3,582)	$ 1,744	$ 100,256
Total assets	$940,744	$328,461	$100,615	$(86,863)	$1,282,957

	Millions of Yen				
	2005				
	Japan	North America	Europe	Eliminations and Corporate	Consolidated
Sales to customers	¥100,149	¥31,532	¥1,155	–	¥132,836
Interarea transfers	4,070	226	1,997	¥(6,293)	–
Total revenue	104,219	31,758	3,152	(6,293)	132,836
Operating expenses	95,508	30,486	3,385	(6,384)	122,995
Operating income (loss)	¥ 8,711	¥ 1,272	¥ (233)	¥ 91	¥ 9,841
Total assets	¥ 97,144	¥18,992	¥5,942	¥ 124	¥122,202

Notes: 1. The Company and subsidiaries are summarized in three segments by geographic area based on the countries where the Group is located.
The segments consisted principally of the following countries:
North America: United States of America
Europe and Others: France, China, Indonesia

2. Corporate assets consist primarily of cash and cash equivalents, investments securities and others. Corporate assets as of March 31, 2006 and2005 were ¥12,020 million ($102,735 thousand) and ¥13,044 million, respectively.

3. The effect of adoption of the new accounting standard for impairment of fixed assets,described in Note 2.h was to decrease total assets of Japan by ¥488 million ($4,171 thousand) from the segment in the prior year.

(3) Sales to Foreign Customers

The sales to foreign customers of the Company and subsidiaries for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen			
	2006			
	North America	Europe	Other	Total
Overseas sales (A)	**¥37,270**	**¥2,195**	**¥7,384**	**¥ 46,849**
Consolidated sales (B)	**–**	**–**	**–**	**142,260**
(A)/(B)	**26.2%**	**1.5%**	**5.2%**	**32.9%**

	Thousands of U.S. Dollars			
	2006			
	North America	Europe	Other	Total
Overseas sales (A)	**$ 318,547**	**$ 18,761**	**$ 63,111**	**$ 400,419**
Consolidated sales (B)	**–**	**–**	**–**	**1,215,897**

	Millions of yen			
	2006			
	North America	Europe	Other	Total
Overseas sales (A)	¥31,303	¥633	¥6,491	¥ 38,427
Consolidated sales (B)	–	–	–	132,836
(A)/(B)	23.6%	0.5%	4.9%	29.0%

Notes: The Company and subsidiaries are summarized in three segments by geographic area based on the countries where the customers are located. The segments consisted of the following countries:

North America: United States of America
Europe: Germany, France
Other: Indonesia, Taiwan, China

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Akebono Brake Industry Co., Ltd. (the "Company") and subsidiaries (together, the "Group") as of March 31, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

The consolidated financial statements of the Group for the year ended March 31, 2005 were audited by other auditors whose report, dated June 28, 2005, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Akebono Brake Industry Co., Ltd. and subsidiaries as of March 31, 2006, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 3 to the consolidated financial statements, certain foreign newly consolidated subsidiaries changed their method of accounting for revenue recognition as of December 31, 2005.

As discussed in Note 2.h to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets for the fiscal year ended March 31, 2006.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 20, 2006

Member of
Deloitte Touche Tohmatsu

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Founded
January 27, 1929

Paid-in Capital
13,559 million yen

Stock Listing
First Section of the Tokyo Stock Exchange

Common Stock
Authorized: 320,000,000 shares
Issued: 110,816,343 shares

Number of Employees (Consolidated)
6,736

Registrar of Shareholder List
Corporate Agency Department
Mitsubishi UFJ Trust and Banking
7-10-11 Higashisuna, Koto-ku, Tokyo 137-8081 Japan

Annual Shareholders General Meeting
The annual shareholders general meeting is normally held in June each year.

Principal Shareholders
Toyota Motor Corporation
Robert Bosch Corporation
Japan Trustee Services Bank, Ltd.
Isuzu Motors Limited
HSBC-FUND Services, Sparx Asset Management Co., Ltd.
Deutsche Bank AG, Frankfurt
The Master Trust Bank of Japan, Ltd.
Aisin Seiki Co., Ltd.
Bridgestone Corporation
Investors Bank and Trust Company IC Clients

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(As of March 31, 2006)

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