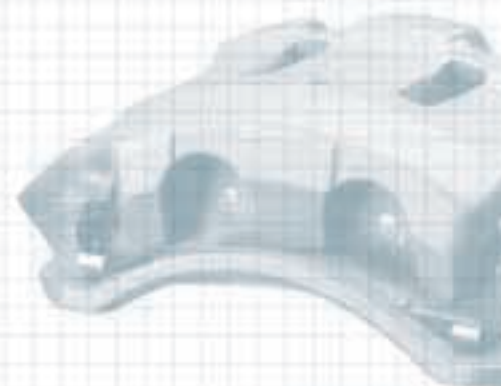




Committed to Constant Innovation

ANNUAL REPORT 2004 For the year ended March 31, 2004



Profile

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

Corporate Policies

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

Corporate Mission

Through "Friction and Vibration, their Control and Analysis", we are determined to Protect, Grow and Support Every Individual Life.

※Tentative translation from original Japanese.

Akebono's Declaration for the 21st Century

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

We will continue to create value long into the 21st century, pursuing our "Corporate Mission."

We hereby affirm that we will endeavor to:

1. Recognize the real value of what we create and provide
2. Assure our own indispensability by continuously creating new value
3. Accomplish our tasks with speed and the courage of one's own convictions without fear of failure
4. Achieve our aspirations through the pride of each and every individual.

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Forward-looking Statements

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

Financial Highlights (Consolidated)

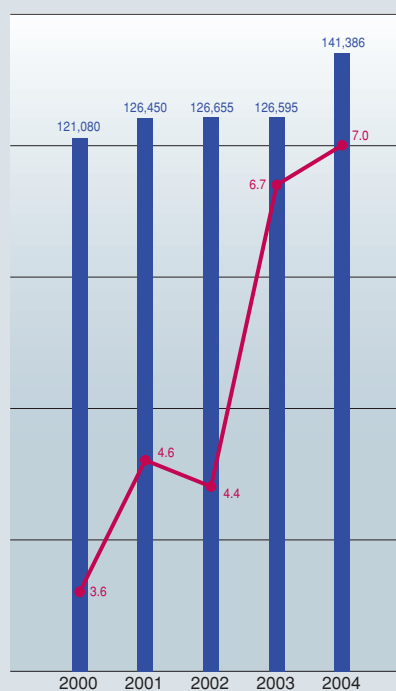
Akebono Brake Industry Co., Ltd., and consolidated subsidiaries
Fiscal years ending March 31, 2003 and March 31, 2004

	Millions of yen		Thousand of U.S. dollars
	2004	2003	2004
Fiscal Year			
Net sales	¥141,386	¥126,595	\$1,333,830
Operating income	9,930	8,453	93,679
Net income (loss)	4,590	(6,318)	43,302
Operating cash flow	17,802	8,035	167,943
Year-end			
Total assets	126,641	143,226	1,194,726
Shareholders' equity	21,049	14,502	198,575
Interest-bearing liabilities	51,428	63,855	485,170
Per share data			
Net income (loss)	¥ 48.50	¥ (67.25)	\$ 457.55
Cash dividends	4.00	1.00	37.74

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at ¥106 = \$1, the approximate exchange rate on March 31, 2004.

Net sales /
Ratio of operating income to sales

■ Net sales (Millions of yen)
● Ratio of operating income to sales (%)



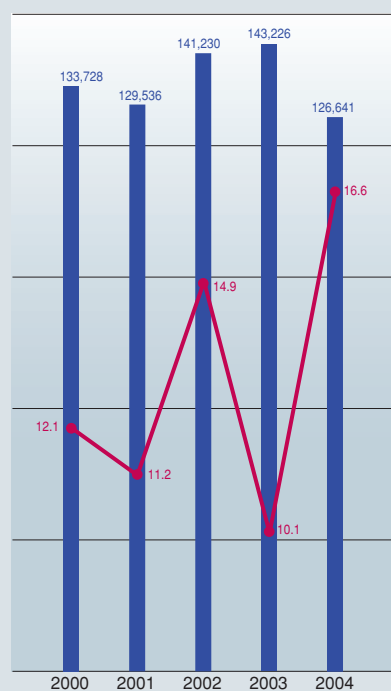
Net income (loss) /
Net income per share (net loss)

■ Net income (loss) (Millions of yen)
● Net income per share (net loss) (%)



Total assets / Shareholders' equity

■ Total assets (Millions of yen)
● Shareholders' equity (%)



Enhancing our ability to beat global competition by strengthening our financial constitution and striving to create a steady flow of income and equity



Financial Results for the Year Ended March 2004

In the year ended March 2004, the Japanese economy benefited from a recovery in the worldwide economy, recording increased exports and investments in plant and equipment. During the second half, consumption also picked up on the back of rising share prices, and together with improved corporate profitability, contributed to a steady revival of the country's economic outlook.

In the automotive industry, there was a calendar year increase in domestic production of 0.3% to 10.36 million units, surpassing the 10 million mark for the second consecutive year due to special demand for trucks that was spurred by emission regulations, and growth in exports. Nevertheless, the automotive industry continued to be plagued by fierce competition, amidst significant environmental changes including a shift to overseas production exemplified by growth of the Chinese market, increasing globalization, and environmentally and ecologically friendly technological innovation.

In this climate, Akebono continued to implement its "Forward 30" medium-term management plan that began in April 2002, with the aim of achieving its "Global 30" goal of acquiring a 30% share of the global automotive OEM disc brake pad market. Under "Forward 30", Akebono continued to further reduce costs under the "Cost Revolution" program in the domestic market, attain profitability in the sensor business, a new business venture, reinforce sales to new markets in North America and increase activity in the European market. As a result, net sales for the year ended March 2004 posted a record high of 141,386 million yen, up 14,791 million yen (+11.7%) over the previous year. On the income side, negative factors such as changes in the composition of sales, a strong yen and an increase in retirement benefits were offset by the impact of Akebono's cost reductions and other rationalization efforts, generating operating income of 9,930 million yen (+17.5%). Despite posting an extraordinary loss of 2,541 million yen for the difference in depreciation and amortization when accounting standards for retirement allowances were changed, Akebono was able to register a record high in net income of 4,590 million yen.

KEY DEVELOPMENTS

1 Special demand for trucks spurred by emission regulations



Emission regulations enforced under the Nox and PM Law enacted by the national Government and through ordinances imposed by local governments in Tokyo and other prefectures including Saitama, Chiba and Kanagawa produced demand, mostly for trucks, as Japanese consumers traded in their diesel vehicles between 2002 and 2003. Demand also increased for the two to four-ton class trucks that Akebono targets, generating a 2,300 million yen increase in sales according to internal calculations.

2 Cost reductions through "Cost Revolution" activities

Under the "Forward 30" medium-term management plan, Akebono is moving ahead with a "Cost Revolution" program to revolutionize its fundamental business processes and achieve cost cuts beyond the boundaries of existing cost reductions. At Akebono, we have responded to the need to share parts in order to achieve dramatic cost cuts in the truck industry, reducing the number of our basic disc brake models for commercial vehicles from fifteen before "Forward 30" commenced to five at present. Furthermore, we have integrated materials used in our aftermarket disc brake pads, reducing the number of models offered from twenty-one to five. In addition to consolidating parts and components, we have also worked on standardizing the types and specifications of our fixture components and cutting tools, and standardizing production processes, for example by unifying heating times used in the production process for disc brake pads. As a result, we achieved cost reductions of 3,800 million yen in the year ended March 2004.

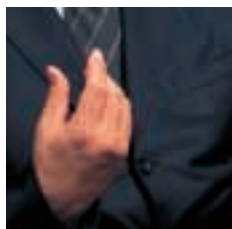
3 Profitability of the sensor business

The new sensor business grew to surpass the size of Akebono's rolling stock business, mainly due to growth of our combined sensor, which combines an accelerometer with an angular rate sensor. Sales from the new sensor business increased by approximately 1,300 million yen year-on-year to roughly 2,900 million yen, and on a single-year basis the business became profitable. At Akebono, we have positioned the sensor business as the core of our new business ventures, and plan to focus aggressively on its expansion.



4 Sales reinforcement in the North American market

In addition to increased disc brake and disc brake pad orders for pick-up trucks, expanded orders for aftermarket parts from new customers and the impact of a change in Akebono's consolidated accounting term contributed to an increase of 12,800 million yen in sales from the previous year in the North American region. Operating income rose by 800 million yen owing to increased sales costs for sales promotions and impacts from the exchange rate and the change in consolidated accounting term. (Excluding the impact of the change in consolidated accounting term, sales in the North American region increased by 4,400 million yen and operating income was flat.)



Policies and Outlook for the Year Ending March 2005

In the year ending March 2005, Akebono will initiate the following measures aimed at completing the final year of the "Forward 30" medium-term management plan.

In the domestic market, we will put renewed effort into our "Cost Revolution" program, while moving steadily ahead with new ventures centered on the industrial machinery/rolling stock business and sensor business in anticipation of a post-peak decline in domestic truck demand, which drove our financial results in the year ended March 2004.

In the Asian market, **PT. Tri Dharma Wisesa**, an Indonesian affiliate accounted for under the equity method, **is experiencing an increase in orders from local manufacturers**, and will continue to strengthen its position even further. Akebono will also work to steadily expand its base in Asia, tapping new business such as supplying disc brakes for bullet trains in Taiwan, based on its 44% share of the domestic market for bullet train disc brakes.

In the North American market, Akebono expects a decrease in net sales after conversion into yen because plans were based on an exchange rate of \$1=¥100. However, in anticipation of future model changes to new vehicles fitted with Akebono products, on a local currency basis we hope to keep income flat. Towards that end, we will carry out broad-scale measures to promote sales, such as **expanding the range of disc brake pad products** we supply to the National Auto Parts Association (NAPA), with whom we began business last fiscal year as a new venture targeting the North American market for aftermarket parts.

In March 2003, Akebono hired a new European COO to head Akebono Europe in France and lead Akebono's European arm to profitability. **As a result of efforts to enhance its local marketing**, Akebono's reputation is steadily increasing. Apart from adding production facilities to support these measures, from here on we will strengthen our newly incorporated sales office in Germany and aggressively move ahead with sales and production activities that were to date limited by regulations in the local market.

As for Akebono's much-expected entry into the Chinese market, plans and studies are currently underway **to open a business hub in Guangzhou** by the middle of 2005.

In line with these globalization measures, Akebono will also take the "Cost Revolution" program that has hereto been concentrated on domestic operations global. In plans for the year ending March 2005, we forecast the impact of the "Cost Revolution" on operating income to be 4,000 million yen in Japan and 500 million yen in North America.

In the fiscal year ending March 2005, we forecast a decline in sales on the back of reduced truck demand in Japan and the impact of exchange rate conversion in the North American market. However, through the above-mentioned measures, we aim to follow the precedent set in the year ended March 2004 in setting new record highs for both operating income and net income.

KEY DEVELOPMENTS



① Asian Market

PT. Tri Dharma Wisesa receives increased orders from local manufacturers



Thanks to activated production and sales by automakers in the Asian region, PT. Tri Dharma Wisesa, an affiliate in Indonesia accounted for by the equity method, is benefiting from increased

orders. Akebono has also commenced business with Suzuki Motor Corporation, the only Japanese automaker with which it had no previous OEM supply record.



② North American Market

Expanding the range of disc brake pads

As a new business targeting the North American market for aftermarket parts, Akebono has begun selling Ultra Premium Line disc brake pads through the 12,000 or so sales outlets belonging to the

National Auto Parts Association (NAPA). Hereafter, we plan to add Premium Line disc brake pads to this distribution network in order to raise sales volume and income.



③ European Market

Enhancing local marketing

Aiming to make Akebono's European arm profitable, in March 2003 Akebono hired a new COO with a career spanning twenty-six years in the automotive industry and extensive experience in both Europe and North America for Akebono Europe, which controls all of Akebono's European operations. By carrying out aggressive operations leveraging the network brought to us by this new COO, Akebono Europe is witnessing a steady increase in local inquiries, raising expectations for a future expansion of orders. Furthermore, Akebono plans to introduce new friction material production equipment with a monthly production capacity of 200,000 units at its European production base, Akebono Arras. Here, other measures to increase customer satisfaction while reducing costs include building a production system fully integrated from installation to handling equipment trouble and spare parts management.

In addition, Akebono has registered Akebono Europe's German office as a corporation, and now plans to extend its range of business activities in the local market from collecting information and advertising to sales and production.



④ Chinese market

Planning to open a business hub in Guangzhou

In order to capitalize on the advancement of motorization in China, Akebono is moving ahead with plans to open a new business hub in Guangzhou by the middle of 2005. By entering the Chinese market, we plan to accelerate progress toward "Global 30", develop production and logistics expertise regarding local automakers that can then be shared with Akebono's facilities globally, and implement the "Cost Revolution" program underway in the domestic market on a global scale.



Achieving "Global 30"

Through promoting the "Forward 30" medium-term management plan, Akebono has successfully developed a constitution that creates a steady flow of income, evidenced by our forecast of a second consecutive year of record income figures. However, the fact remains that there is still room for improvement in both our profitability and financial constitution.

With this recognition, in the year ended March 2004 we focused on controlling investments in plant and equipment, and with the income and equity thus created, reducing interest-bearing liabilities. As a result, our interest-bearing liabilities declined from 63,900 million yen in the previous year to 51,400 million yen as of March 31, 2004. Furthermore, various other financial indicators also improved, with our shareholders' equity ratio rising from 10.1% to 16.6% and our amortization schedule dropping from 7.9 years to 2.9 years. In addition, our retirement benefits debt, which has accounted for 2,500 million yen in annual expenditure, will be completely amortized in the year ending March 2005, and we are taking measures to improve financing, such as setting commitment lines and conducting swap trading to fix interest rates.

In this way, Akebono's financial constitution is steadily moving along the right track, but in order to survive in an automotive industry caught in the middle of fierce competition, we must strengthen our financial constitution even further. As we move ahead, we will continue to refrain from feeling satisfaction with the present in favor of striving to develop a constitution that creates a steady flow of equity and income toward eventual realization of "Global 30".

In doing so, I ask for the continued understanding and support of all our shareholders.

A handwritten signature in black ink, appearing to read "Hisataka Nobumoto". The signature is stylized and cursive.

Hisataka Nobumoto
President, CEO and Chairman of the Board

NEW BUSINESS

Sensor Business

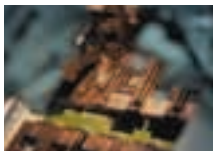
Potential for development of broad applications in the sensor business

In line with our core positioning of "Friction and Vibration, their Control and Analysis", we have extended our development of brake products to a new sensor business that delivers alternative applications for our vibration control technology. Our sensors are made primarily for vehicle control, but in recent years we have capitalized on their superior features in developing and proposing new products for the civil engineering and construction industries.

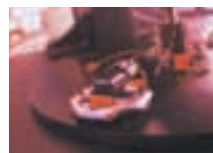
The sensor business only accounts for a small proportion of Akebono's sales, but in the past few years it has been growing steadily, recording a large increase in sales to 2,900 million yen (+81.2%) in the year ended March 2004. Furthermore, in the same year the sensor business became profitable. From here on, we plan to extend our sensor technology, focusing on developing new applications and markets for it in a bid to facilitate growth of the sensor business into one of our core businesses for the future.

Supporting intelligent vehicle systems

The main activities of our sensor business are developing and selling accelerometers and angular rate sensors, which are essential for automotive chassis control. Furthermore, we have worked hard to combine these technologies and develop a combined sensor with even more advanced functions. This combined sensor is receiving a great deal of attention as a product indispensable for intelligent vehicle systems.



Reaching into various other industries, including civil engineering and construction



Akebono's business extends beyond the automotive sector; we are also involved in developing and selling products for the civil engineering and construction industries, including an "IT inclinometer system", which measures slight movements in the Earth's surface and below for signs of landslides, and a "loose tile detector", which accurately identifies loose tiles in the outer walls of buildings.

TOPICS

IT inclinometer system wins civil engineering award

In March 2003, Akebono commenced joint development of a "ground inclinometer system utilizing accelerometers (IT inclinometer system)" with the Expressway Research Institute of the Japan Highway Public Corporation. This system has since won a technological development award from the Japan Society of Civil Engineers in recognition of its achievement in contributing to the advancement of civil engineering and society through the development and application of technology innovative in its planning, design or management. The main features of the IT inclinometer system are:

- Ability to electronically transmit measured data via the internet, enabling measurement results to be confirmed from a remote location.
- Compact size, from the inclinometer unit to the data analysis equipment, helping the system realize high

economic performance by reducing installation costs, owing to the lower number of boreholes required, and measurement costs due to the system's automated function.

- High levels of reliability and durability because the system employs Akebono's trusted high performance sensors for automobiles.

Developed by semiconductor micromachining technology (semiconductor fine processing) and adapting our high precision accelerometer for automobiles, the IT inclinometer system uses inclinometers placed in the earth to measure changes in the inclination between the surface of the earth and below to an accuracy of one thousandth of a degree, and has already been installed at various locations.

Introducing various measures to achieve transparency, fairness and speed in management decision-making

Fast-paced change in the management environment

Amidst a global management environment changing at an increasingly fast pace, Akebono has naturally set up legally required corporate structures such as the General Meeting of Shareholders, Board of Directors, Board of Auditors and Independent Auditors, in order to make timely, precise management decisions. In addition, Akebono holds regular monthly meetings, including Policy Meetings and Executive Committee Meetings, with the aim of smoothing communication between management and executives. These meetings are attended by at least two corporate auditors.

Clarification of management responsibility and scope of authority

In April 2000, Akebono introduced an executive officer system in a bid to make management stronger and more efficient by clarifying management responsibility and scope of authority. Our audit structure is comprised of three parts: corporate auditors, independent auditors and the Internal Audit Office. Two of our four corporate auditors are external auditors, strengthening the supervision of our business practices from both inside and outside the company. We also receive guidance and advice where suitable from external lawyers and certified accountants.

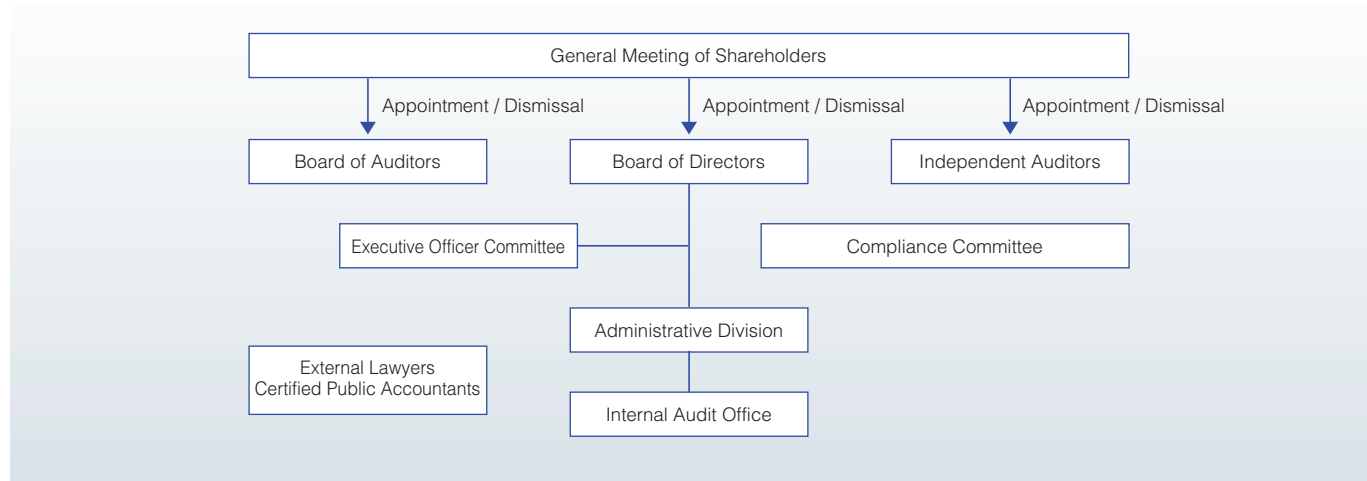
Strengthening our compliance system

In order to achieve our corporate vision and obtain the correct understanding and trust of our various stakeholders, it is vital for all our employees not just to observe the law, but to observe internal regulations, respect social norms and behave in a manner in line with our corporate ethics. Based on this thinking, at Akebono we have positioned compliance as one of our most important methods of strengthening corporate governance, establishing a Compliance Committee headed by our Representative Director in January 2003. Since then, we have documented the general attitude that all Akebono employees should observe in a Compliance Manual, and promoted awareness of compliance among employees at training sessions and other forums. Furthermore, by establishing an Internal Audit Office we are strengthening our management and operation systems on a company-wide scale, as well as our system for supervising execution of work practices.

Timely, precise disclosure

We strive to make timely, precise disclosure of information about Akebono's corporate activities and financial results through such means as our website, printed materials, and various information sessions. Furthermore, we have set up a Management Update Meeting, where shareholders can exchange opinions with company executives directly after the General Meeting of Shareholders has finished, in order to help shareholders understand the current details of our business.

Diagram of Corporate Structures and Internal Control Mechanisms



Directors and Officers



President, CEO
and Chairman of the Board
Hisataka Nobumoto



Representative Director
and Member of the Board
Hidemitsu Kuwano



Executive Vice President
and Member of the Board
Tsuyoshi Kashiwagi



Senior Vice President
and Member of the Board
Shunji Yokoo



Vice President
and Member of the Board
Hiroki Sato



Vice President
and Member of the Board
Tadashi Kubota



Senior Managing Executive
Officer and Member of the Board
Toshimitsu Nishigaki

Executive Officers

Senior Managing Executive Officer	Sachiyuki Ishige
Senior Managing Executive Officer	Kazuhiko Goto
Senior Managing Executive Officer	Yoshihiro Ishigaki
Senior Managing Executive Officer	Noboru Noguchi
Senior Managing Executive Officer	Yukio Iwata
Senior Managing Executive Officer	Satoshi Utsugi
Managing Executive Officer	Yoichi Iwata
Managing Executive Officer	Takeshi Saito
Managing Executive Officer	Akiyo Ishida
Managing Executive Officer	Mitsuo Sato
Managing Executive Officer	Yoshiharu Aizawa
Managing Executive Officer	Kiyoshi Dejima
Executive Officer	Toshimitsu Seo
Executive Officer	Seiji Onoda
Executive Officer	Masahiro Miyamoto
Executive Officer	Katsuya Miyake
Executive Officer	Takashi Kudo

Auditors

Corporate Auditor	Yoshihiko Yamamoto
Corporate Auditor	Masatsugu Miyazawa
Corporate Auditor	Hiroataka Tominaga
Corporate Auditor	Hidenori Matsumoto

Advisors

Executive Advisor	Jay W. Chai
Technical Advisor	Toshihiko Kimura
Advisor	Shunichi Fujioka

(As of June 18, 2004)

Promoting environmentally conscious management and CSR management

Akebono's first goal is to contribute to society by delivering safe, high quality products to our customers. At the same time, we are strongly aware that carrying out measures to ensure the safety of the global environment is one of our most important management tasks.

At Akebono, we strive to achieve management carried out with a sense of corporate social responsibility, through measures such as establishing and promoting awareness of an ethical corporate code of conduct that the entire group must respect.

Broadening acquisition of ISO14001 certification to overseas group companies

Every production plant in Akebono's domestic group has already acquired ISO14001 certification. Acquisition by overseas production plants is also progressing steadily, with Akebono Corporation (North America) obtaining certification in July 2003. Having already acquired certification at three of our North American plants, by March 2005 we aim to complete acquisition at the one remaining facility there, as well as at our two European affiliates.

Working toward zero industrial emissions

Since declaring our "challenge to achieve zero emissions" in June 1997, Akebono has worked to achieve zero emissions through activities such as cutting industrial waste and promoting recycling. We have already achieved zero emissions at two domestic production plants, and are upgrading our efforts with the aim of quickly achieving zero emissions at our remaining four production plants in the year ending March 2005.

Executing the corporate code of conduct (compliance)

In April 2003, Akebono established its "Norms Governing Corporate Conduct" and "Standards Governing Corporate Conduct" as a step toward developing a system of compliance. The Norms Governing Corporate Conduct specifies the general attitude that every employee in the group must observe, while the Standards Governing Corporate Conduct details precautions for observing the Norms faithfully. Furthermore, Akebono has set up a Compliance Committee in order to promote the awareness, understanding and observance of these two policies by each and every employee.

Acquisition of certification as a special status enterprise under the Law to Promote Employment of the Disabled

On September 16, 2003 Akebono established the wholly-owned subsidiary Akebono 123 Co., Ltd., and became the first manufacturer in Saitama Prefecture to acquire certification as a special status enterprise under the Law to Promote Employment of the Disabled.

By encouraging cooperation between business and society, and between disabled and able-bodied persons, Akebono will contribute not only to the environment but to society as a whole, thereby fulfilling its social responsibilities.

Consolidated Five-Year SummaryAkebono Brake Industry Co., Ltd., and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2000	2001	2002	2003	2004	2004
Net sales -----	¥121,080	¥126,450	¥126,655	¥126,595	¥141,386	\$1,333,830
Net income (loss) -----	(924)	(1,367)	99	(6,318)	4,590	43,302
Shareholders' equity -----	15,495	14,490	21,111	14,502	21,049	198,575
Total assets -----	133,728	129,536	141,230	143,226	126,641	1,194,726
	Yen					U.S. dollars
Per share data						
Net income (loss) -----	¥(9.84)	¥(14.54)	¥1.05	¥(67.25)	¥48.50	\$457.55
Cash dividends -----	3.00	2.00	1.00	1.00	4.00	37.74

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at ¥106=\$1, the approximate exchange rate on March 31, 2004.

Non-Consolidated Five-Year SummaryAkebono Brake Industry Co., Ltd.
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2000	2001	2002	2003	2004	2004
Net sales -----	¥ 95,443	¥ 98,418	¥ 94,826	¥ 98,277	¥100,508	\$ 948,189
Net income (loss) -----	474	277	384	(7,413)	3,044	28,717
Shareholders' equity -----	19,983	19,983	24,903	17,838	22,413	211,443
Total assets -----	105,930	106,543	123,723	127,536	113,562	1,071,340
	Yen					U.S. dollars
Per share data						
Net income (loss) -----	¥5.05	¥2.41	¥4.08	¥(78.83)	¥32.17	\$303.49
Cash dividends -----	3.00	2.00	1.00	1.00	4.00	37.74

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at ¥106=\$1, the approximate exchange rate on March 31, 2004.

Business Environment and Operating Overview

In fiscal 2003 (ended March 2004), the Japanese economy benefited from a recovery in the worldwide economy, recording increased exports and capital spending. From the second half onward, consumption also picked up on the back of rising share prices, and together with improved corporate profitability, contributed to a steady revival of the country's economic outlook.

In the automotive industry, there was a calendar year increase in domestic production of 0.3% to 10.36 million units, surpassing the 10 million mark for the second consecutive year due to special demand for trucks that was spurred by emission regulations, and growth in exports. Nevertheless, the automobile industry continued to be plagued by fierce competition, amidst significant environmental changes including a shift to overseas production exemplified by growth of the Chinese market, increasing globalization, and environmentally and ecologically friendly technological innovation.

In such a climate, the entire Akebono group proceeded with carrying out the medium-term management plan "Forward 30" commenced in April 2002. This involved promoting further cost reductions in the domestic market through the "Cost Revolution" program and simultaneously extending the program on a global scale, as well as moving ahead with efforts to expand our market by taking the aftermarket parts business global.

Overview of Business Performance

Net Sales

Net sales in fiscal 2003 increased by 14,791 million yen from the previous year to 141,386 million yen on the back of truck demand, which was spurred by the enforcement of emissions regulations, sales growth in the sensor business and solid orders in the North American market.

※Note: Due to an adjustment to the accounting period of Akebono Corporation (North America), the above increase in fiscal 2003 net sales was calculated using North American sales figures for only nine months of fiscal 2002. For reference, if the sales figures for twelve months had been used, net sales would have increased by 6,360 million yen (4.7%).

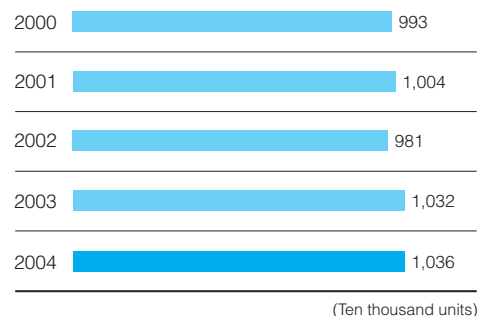
Cost of Sales and Selling, General and Administrative Expenses

Due to factors such as the aforementioned adjustment to the accounting period of Akebono Corporation (North America) in fiscal 2002 and an increase in retirement benefits, cost of sales in fiscal 2003 increased by 11,388 million yen year-on-year to 113,029 million yen. Selling, general and administrative expenses also increased by 1,926 million yen from the previous year to 18,427 million yen. Nevertheless, growth in these expenses was offset by factors such as 3,800 million yen in cost cuts achieved through "Forward 30" initiatives, generating a second consecutive year of record-high operating income, which recorded a rise of 1,477 million yen to 9,930 million yen. In conjunction with this, the ratio of operating income to sales rose to 7.0% from 6.7% in the previous year.

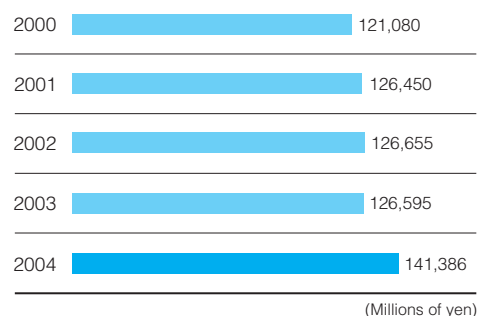
Net Income

In fiscal 2003, our fourth year since introducing new accounting standards for retirement benefits, we declared another loss of 2,541 million yen, based on our policy of amortizing the 12,732 million yen difference that arose from changing accounting standards over five years. Nevertheless, our second record high in operating income since fiscal 2002 helped net income hit 4,590 million yen. With net sales, operating income and net income all posting new record highs, Akebono was able to recover from its large fiscal 2002 net loss, caused mainly by real estate write-offs for former consolidated subsidiary Akebono Kosan Co., Ltd.

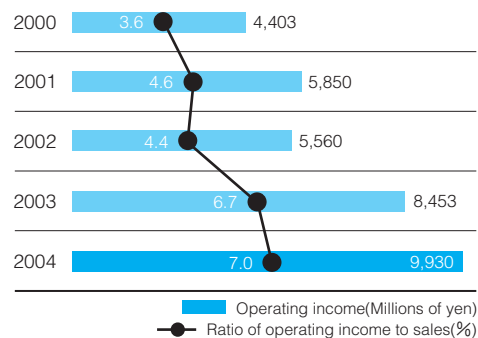
Trends in domestic automotive production



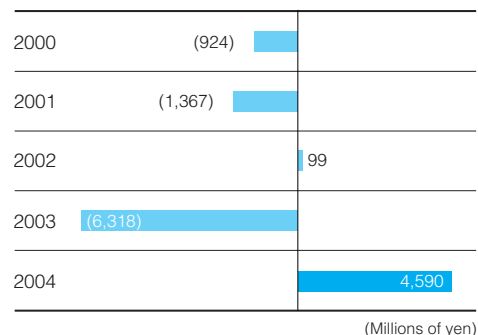
Net sales



Operating income / Ratio of operating income to sales



Net income



FINANCIAL SECTION

Trends by Segment

Trends by Product

Sales of one of Akebono's flagship products, disc brakes, totaled 40,424 million yen, up 5,770 million yen from the previous year, owing to increased orders for pick-up trucks in North America.

Sales of disc brake pads also rose by 4,155 million yen from the previous year to 42,262 million yen. This was primarily attributable to increased North American orders in conjunction with the aforementioned rise in disc brake orders, and sales promotions to launch the aftermarket parts business on a global scale.

Furthermore, sales of sensors grew along with increased orders for our combined sensor, which is used for vehicle control. In fiscal 2003, the sensor business grew to a level surpassing sales for rolling stock and became profitable on a single-year basis.

Sales by product (Millions of yen)	2003	2004	Change
Disc brakes	34,654	40,424	+5,770
Drum brakes	17,956	19,671	+1,715
Disc brake pads	38,107	42,262	+4,155
Other auto parts	18,358	18,534	+176
Industrial machinery	5,643	5,791	+148
Rolling stock	3,489	2,624	-865
Sensors	1,617	2,916	+1,299
Other	6,771	9,164	+2,393
Total	126,595	141,386	+14,791

Trends by Geographical Location

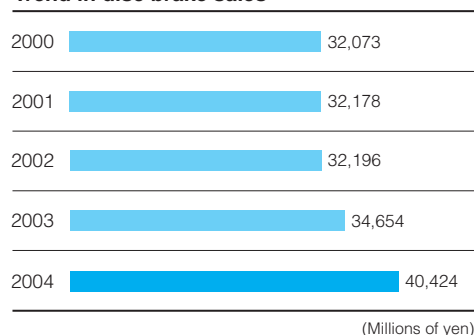
In Japan, sales amounted to 100,934 million yen, up 1,750 million yen from the previous year, mainly owing to the impact of special demand for trucks following the enactment of emission regulations and growth of sensor sales. Operating income was 7,542 million yen, up 444 million yen from the previous year, due to factors such as increased orders and cost reductions through the "Cost Revolution" program at the core of the "Forward 30" medium-term management plan.

In North America, solid orders helped produce a 13,132 million yen rise in sales from the previous year to 39,784 million yen, but operating income was impacted by an increase in sales costs for broad-scale sales promotions, growing by just 807 million yen to 2,712 million yen.

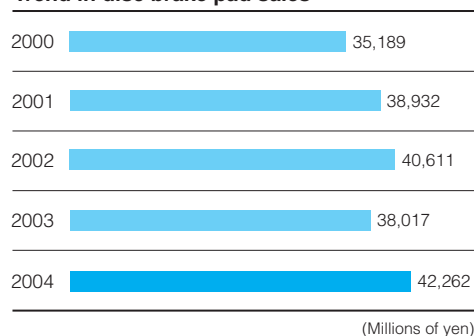
European operations posted sales of 668 million yen, down 90 million yen from the previous year, and an operating loss of 503 million yen. However, growth in local inquiries, potentially leading to future orders, is one indicator of Akebono's rising reputation in the local market, and the entire group will from here on continue focusing on promoting European sales activities and establishing a European business base.

Net sales and operating income by region (Millions of yen)		Japan	North America	Europe	Adjustments	Consolidated total
2003	Sales to customers	99,185	26,652	758		126,595
	Transfer between geographic areas	3,776	616	2,077	(6,469)	—
	Total revenue	102,961	27,268	2,835	(6,469)	126,595
	Operating income	7,098	1,905	(503)	(47)	8,453
2004	Sales to customers	100,934	39,784	668		141,386
	Transfer between geographic areas	4,519	274	2,151	(6,944)	—
	Total revenue	105,453	40,058	2,819	(6,944)	141,386
	Operating income	7,542	2,712	(477)	153	9,930

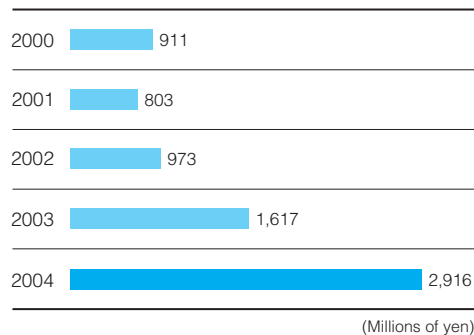
Trend in disc brake sales



Trend in disc brake pad sales



Trend in sensor sales



Financing and Liquidity

Repayment of interest-bearing liabilities from free cash flow, a measure implemented under "Forward 30", is progressing well. Along with reducing interest-bearing liabilities in order to strengthen our financial constitution, in fiscal 2003 we set commitment lines with financial institutions that enable us to, at any time, obtain a total of up to 7,000 million yen in financing at predetermined interest rates. These commitment lines were set for the purpose of improving our financial efficiency by cutting funds in hand, securing stable financing and obtaining liquidity.

Financial Status

Total assets as of March 31, 2004 dropped by 16,585 million yen year-on-year, to 126,641 million yen.

Current assets amounted to 41,780 million yen, down 8,248 million yen from the previous year, mainly due to a drop in inventories, which in turn arose from drastic efforts to cut inventories and reduced levels of notes receivable and accounts receivable as liquidation of receivables progressed.

In conjunction with the liquidation of former consolidated subsidiary Akebono Kosan Co., Ltd., plant, property and equipment decreased by 10,160 million yen year-on-year to 63,740 million yen.

In the liabilities section, current liabilities amounted to 45,262 million yen, down 19,345 million yen from the previous year. This was mainly attributable to lower short-term bank loans and provisions for subsidiary liquidation losses in conjunction with the liquidation of Akebono Kosan Co., Ltd.

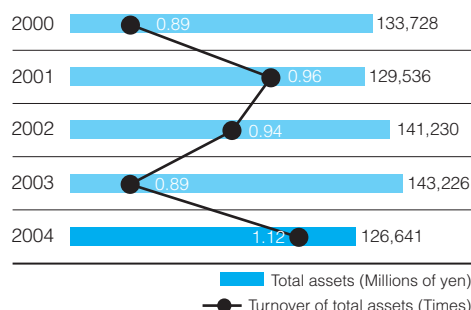
Long-term liabilities totaled 58,360 million yen, a decline of 4,068 million yen year-on-year, brought about by a drop in long-term borrowings that offset a 3,993 million yen increase in retirement benefit provisions.

As a result of the aforementioned decline of current liabilities on the back of a dramatic cutback on short-term bank loans, the current ratio improved to 92.3% from 77.4% at the previous year-end.

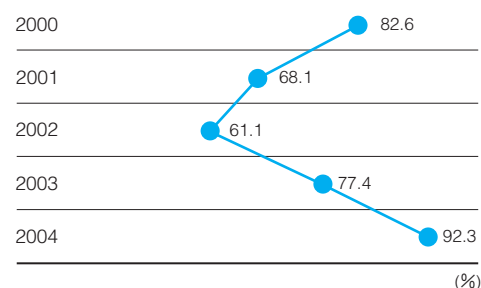
The balance of interest-bearing liabilities for fiscal 2003 amounted to 51,428 million yen, down by 12,427 million yen from the previous closing balance of 63,855 million yen. In fiscal 2004, the final year of the medium-term management plan "Forward 30", Akebono plans to make another round of interest-bearing liability cuts to 43,100 million yen, thereby strengthening its financial constitution.

Shareholders' equity rose by 6,547 million yen from the previous year to 21,049 million yen, primarily owing to fiscal 2003's record high of 4,590 million yen in net income and 2,563 million yen in accumulated earnings that arose in conjunction with completion of the liquidation of Akebono Kosan Co., Ltd. As a result, the shareholders' equity ratio in fiscal 2004 rose by a large margin to 16.6%, up from 10.1% in the previous year. Furthermore, solid operating cash flow contributed to a significant improvement in the amortization schedule from 7.9 years to 2.9 years.

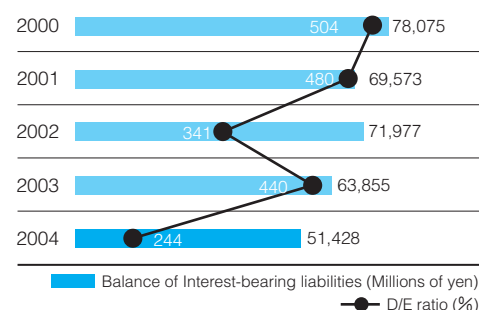
Total assets / Turnover of total assets



Current ratio



Balance of Interest-bearing liabilities / D/E ratio



FINANCIAL SECTION

Cash Flows

Continuing on from the previous year, in fiscal 2003 Akebono endeavored to generate funds not only by reducing inventory but also by slashing plant and equipment investment. As a result, the closing balance of cash and cash equivalents rose by 149 million yen year-on-year to 6,542 million yen. Free cash flow in the fiscal year was 13,455 million yen, which helped pay back interest-bearing liabilities, increase our investment capacity and improve our balance sheet.

Cash Flows from Operating Activities

Net cash provided by operating activities was 17,820 million yen, up 9,800 million yen year-on-year owing to Akebono's declaration of net income to the amount of 4,590 million yen, depreciation and amortization to the amount of 6,433 million yen and the contribution of an improvement in working capital resulting from inventory cuts. The main factors driving the increase in net cash from operating activities were Akebono's solid financial performance and a decline in expenditures arising from reductions in receivables and inventories.

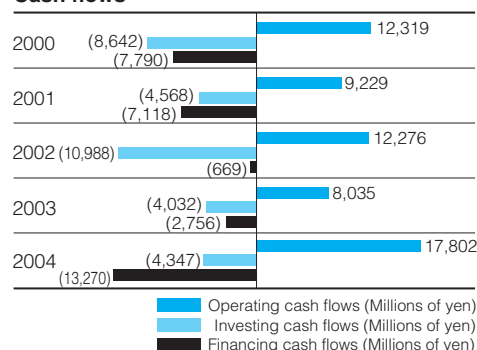
Cash Flows from Investing Activities

In order to achieve repayment of interest-bearing liabilities from free cash flow as stated in the "Forward 30" medium-term management plan, we avoided making any unnecessary, non-urgent investments in favor of maximizing usage of current facilities. As a result, expenditure for acquiring property, plant and equipment dropped from the previous year's level, coming in at 5,238 million yen. In addition, we spent 1,108 million yen on acquiring intangible assets associated with information technology investment, but received 1,524 million yen in proceeds from the sale of property, plant and equipment. As the net effect of these factors, cash used in investing activities came to 4,347 million yen.

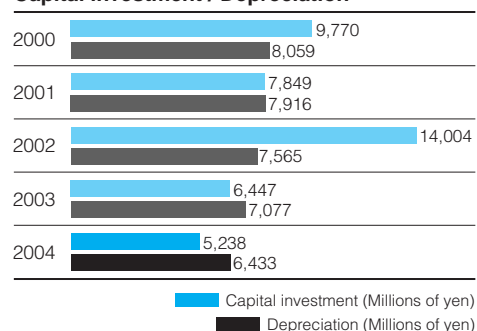
Cash Flows from Financing Activities

Net cash used in financing activities totaled 13,270 million yen. The main factors impacting this figure were repayments of 7,539 million yen in long-term debt against borrowings of 4,950 million yen in long-term debt, plus repayments of short-term borrowings amounting to 9,399 million yen, which worked to considerably improve our aforementioned goal of debt repayment from free cash flow.

Cash flows



Capital investment / Depreciation



Fiscal 2004 Forecast and Risk Information

In fiscal 2003, overseas sales accounted for 46,100 million yen or 32.6% of Akebono's net consolidated sales. Despite hedging against exchange rate risks in expectation of our dependence on overseas markets continuing at the same level, we are unable to completely offset these risks, and our business results are therefore likely to be impacted by future exchange rate fluctuations.

We have also hedged against interest rate changes by swapping or securing approximately 90% of our 51,400 million yen in interest-bearing liabilities as of March 31 2004 at fixed interest rates, but the remaining 10% or so of our interest-bearing liabilities are subject to the impact of interest rate rises.

Fiscal 2004 is the final year of our three year mid-term management plan "Forward 30." Amidst worldwide economic recovery, Japan's economy is expected to continue on its present upswing, but many concerns which give rise to unpredictability also exist, including exchange rate trends, the unemployment rate and terrorism. In anticipation of a peak and subsequent decline in demand for trucks arising from the enactment of emission regulations in Japan, we forecast that Akebono's fiscal 2004 net sales will decline to 135,000 million yen. Nevertheless, we forecast that operating income and net income will reach new record highs, rising to 11,500 million yen and 5,000 million yen respectively. As we move forward, we will continue to face head-on the numerous challenges ahead, such as strengthening our financial constitution, using funds efficiently in a global management setting and coexisting with the Earth's natural environment, while continuing to create new "value" throughout the 21st Century.

Consolidated Balance Sheets

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries As of March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current assets:			
Cash and cash equivalents -----	¥ 6,542	¥ 6,393	\$ 61,717
Time deposits -----	28	27	264
Receivables:			
Notes and accounts receivable, trade -----	18,452	25,016	174,076
Affiliates -----	2,722	2,103	25,679
Other -----	5,082	1,776	47,943
	<u>26,256</u>	<u>28,895</u>	<u>247,698</u>
Less allowance for doubtful accounts -----	(3)	(9)	(28)
	<u>26,253</u>	<u>28,886</u>	<u>247,670</u>
Inventories (Note 3) -----	5,291	8,372	49,915
Deferred income taxes (Note 7) -----	2,780	4,545	26,226
Other current assets -----	886	1,805	8,359
	<u>41,780</u>	<u>50,028</u>	<u>394,151</u>
Property, plant and equipment (Note 5):			
Land -----	21,298	23,473	200,924
Buildings and structures -----	37,149	44,294	350,462
Machinery, equipment and tools -----	103,221	100,510	973,783
Construction in progress -----	1,794	3,283	16,925
	<u>163,462</u>	<u>171,560</u>	<u>1,542,094</u>
Less accumulated depreciation -----	(99,722)	(97,660)	(940,774)
	<u>63,740</u>	<u>73,900</u>	<u>601,320</u>
Investments and other assets:			
Investment securities (Note 4) -----	5,548	4,244	52,340
Investments in and advances to affiliates -----	5,303	4,951	50,028
Research and development costs -----	68	140	642
Deferred income taxes (Note 7) -----	7,185	6,958	67,783
Other -----	3,017	3,005	28,462
	<u>21,121</u>	<u>19,298</u>	<u>199,255</u>
Total assets -----	<u>¥126,641</u>	<u>¥143,226</u>	<u>\$1,194,726</u>

See notes to consolidated financial statements.

FINANCIAL SECTION

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current liabilities:			
Short-term bank loans (Note 5) -----	¥ 9,504	¥ 19,029	\$ 89,660
Current portion of long-term debt (Note 5) -----	11,171	7,486	105,387
Payables:			
Notes and accounts payable, trade -----	14,690	17,086	138,585
Notes payable, construction -----	121	66	1,142
Affiliates -----	1,864	1,717	17,584
Other -----	366	317	3,453
	17,041	19,186	160,764
Accrued expenses	6,178	5,287	58,284
Accrued income taxes (Note 7) -----	483	1,300	4,556
Allowance for loss on liquidation of subsidiaries -----	—	10,717	—
Other current liabilities -----	885	1,602	8,349
	45,262	64,607	427,000
Long-term liabilities:			
Long-term debt (Note 5) -----	30,753	37,340	290,123
Accrued severance benefits (Note 6) -----	19,015	15,022	179,386
Deferred income taxes (Note 7) -----	5,421	5,667	51,141
Other long-term liabilities -----	3,171	4,399	29,916
	58,360	62,428	550,566
Minority interests in consolidated subsidiaries -----	1,970	1,689	18,585
Shareholders' equity (Notes 8 and 9):			
Common stock:			
Authorized - 320,000,000 shares			
Issued - 95,508,175 shares in 2004			
94,019,118 shares in 2003 -----	9,200	9,038	86,792
Additional paid-in capital -----	3,650	7,612	34,434
Retained earnings (deficit) -----	2,349	(8,924)	22,160
Accumulated other comprehensive income -----	5,904	6,799	55,698
	21,103	14,525	199,084
Less common stock held in treasury -----	(54)	(23)	(509)
	21,049	14,502	198,575
Commitments and contingencies (Note 13)			
Total liabilities and shareholders' equity -----	¥126,641	¥143,226	\$1,194,726

Consolidated Statements of Operations

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries For the Years ended March 31, 2004 and 2003

FINANCIAL SECTION

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales -----	¥141,386	¥126,595	\$1,333,830
Costs and expenses:			
Cost of sales -----	113,029	101,641	1,066,311
Selling, general and administrative expenses -----	18,427	16,501	173,840
	131,456	118,142	1,240,151
Operating income -----	9,930	8,453	93,679
Other income (expenses):			
Interest and dividend income -----	86	134	811
Equity in earnings of affiliates -----	1,521	1,217	14,349
Interest expenses -----	(1,230)	(1,385)	(11,603)
Other, net (Note 12) -----	(2,640)	(17,440)	(24,906)
	(2,263)	(18,691)	(21,349)
Income (loss) before income taxes -----	7,667	(9,021)	72,330
Income taxes (Note 7):			
Current -----	1,547	1,771	14,594
Deferred -----	590	(5,133)	5,566
	2,137	(3,362)	20,160
Income (loss) before minority interests -----	5,530	(5,659)	52,170
Minority interests in consolidated subsidiaries -----	(940)	(659)	(8,868)
Net income (loss) -----	¥ 4,590	¥ (6,318)	\$ 43,302

Per share data

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net income (loss) -----	¥ 48.50	¥ (67.25)	\$ 457.55
Cash dividends -----	4.00	1.00	37.74

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries For the Years ended March 31, 2004 and 2003

FINANCIAL SECTION

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Net income (loss) -----	¥ 4,590	¥ (6,318)	\$ 43,302
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization -----	6,433	7,077	60,689
Loss on sale and disposal of property, plant and equipment -----	18	1,646	170
Provision for doubtful accounts -----	(7)	(91)	(66)
Loss (gain) on sale and devaluation of investment securities -----	(325)	1,885	(3,066)
Loss on devaluation and disposal of inventories -----	—	412	—
Net periodic retirement benefit costs -----	3,969	3,162	37,443
Equity in earnings of affiliates -----	(1,521)	(1,217)	(14,349)
Minority interests -----	282	34	2,660
Deferred income taxes -----	1,388	(5,228)	13,094
Loss on liquidation of subsidiaries -----	—	10,467	—
Decrease of allowance for loss on liquidation of subsidiaries -----	(1,115)	—	(10,519)
Changes in assets and liabilities			
Receivables -----	5,987	(2,543)	56,481
Inventories -----	1,432	(439)	13,509
Payables -----	(1,800)	(433)	(16,981)
Accrued expenses -----	(347)	253	(3,273)
Accrued income taxes -----	(821)	(557)	(7,745)
Other -----	(361)	(75)	(3,406)
Net cash provided by operating activities -----	17,802	8,035	167,943
Cash flows from investing activities:			
Additions to property, plant and equipment -----	(5,238)	(6,447)	(49,415)
Proceeds from sale of property, plant and equipment -----	1,524	3,024	14,378
Additions to intangible assets -----	(1,108)	(1,160)	(10,453)
Payment for purchase of investment securities -----	(4)	(79)	(38)
Proceeds from sale of investment securities -----	1,115	469	10,519
Other -----	(636)	161	(6,000)
Net cash used in investing activities -----	(4,347)	(4,032)	(41,009)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt -----	4,950	18,019	46,698
Repayments of long-term debt -----	(7,539)	(10,622)	(71,123)
Decrease in short-term borrowings -----	(9,399)	(11,549)	(88,670)
Increase (decrease) in capital lease obligations -----	(1,157)	1,557	(10,914)
Proceeds from issuance of stocks -----	326	—	3,076
Dividends paid -----	(2)	(191)	(19)
Other -----	(449)	30	(4,236)
Net cash used in financing activities -----	(13,270)	(2,756)	(125,188)
Effect of exchange rate changes on cash -----	(36)	(96)	(340)
Net increase in cash and cash equivalents -----	149	1,151	1,406
Cash and cash equivalents at beginning of year -----	6,393	5,242	60,311
Cash and cash equivalents at end of year -----	¥ 6,542	¥ 6,393	\$ 61,717
Supplemental disclosure of cash flows information:			
Cash paid during the year for			
Interest -----	¥ 1,290	¥ 1,417	\$ 12,170
Income taxes -----	1,990	1,400	18,774

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Akebono Brake Industry Co., Ltd., and Consolidated Subsidiaries For the Years ended March 31, 2004 and 2003

FINANCIAL SECTION

	Millions of yen						
	Number of common stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Treasury stock at cost	Total shareholders' equity
Balance at March 31, 2002	94,019,118	¥9,038	¥7,612	¥(2,424)	¥6,887	¥(2)	¥21,111
Comprehensive income							
Net loss				(6,318)			(6,318)
Other comprehensive income, net of tax							
Revaluation excess of land				6	98		104
Unrealized loss on available-for-sale securities					492		492
Foreign currency translation adjustments					(678)		(678)
Total comprehensive income							(6,400)
Cash dividends				(188)			(188)
Treasury stock purchased, net						(21)	(21)
Balance at March 31, 2003	94,019,118	¥9,038	¥7,612	¥(8,924)	¥6,799	¥(23)	¥14,502
Comprehensive income							
Net income				4,590			4,590
Other comprehensive income, net of tax							
Revaluation excess of land				(7)	(1,398)		(1,405)
Unrealized gain on available-for-sale securities					1,325		1,325
Foreign currency translation adjustments					(822)		(822)
Transfer from additional paid-in capital			(4,127)	4,127			—
Adjustments due to decrease in consolidated subsidiaries				2,563			2,563
Total comprehensive income							6,251
Treasury stock purchased, net						(31)	(31)
Stock issued under stock option plan	1,489,057	162	165				327
Balance at March 31, 2004	95,508,175	¥9,200	¥3,650	¥2,349	¥5,904	¥(54)	¥21,049

	Thousands of U.S. dollars (Note 1)						
	Number of common stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Treasury stock at cost	Total shareholders' equity
Balance at March 31, 2002	94,019,118	\$85,264	\$71,811	\$(22,868)	\$64,972	\$ (19)	\$199,160
Comprehensive income							
Net loss				(59,604)			(59,604)
Other comprehensive income, net of tax							
Revaluation excess of land				57	924		981
Unrealized loss on available-for-sale securities					4,642		4,642
Foreign currency translation adjustments					(6,396)		(6,396)
Total comprehensive income							(60,377)
Cash dividends				(1,774)			(1,774)
Treasury stock purchased, net						(198)	(198)
Balance at March 31, 2003	94,019,118	\$85,264	\$71,811	\$(84,189)	\$64,142	\$(217)	\$136,811
Comprehensive income							
Net income				43,302			43,302
Other comprehensive income, net of tax							
Revaluation excess of land				(66)	(13,189)		(13,255)
Unrealized gain on available-for-sale securities					12,500		12,500
Foreign currency translation adjustments					(7,755)		(7,755)
Transfer from additional paid-in capital			(38,934)	38,934			—
Adjustments due to decrease in consolidated subsidiaries				24,179			24,179
Total comprehensive income							58,971
Treasury stock purchased, net						(292)	(292)
Stock issued under stock option plan	1,489,057	1,528	1,557				3,085
Balance at March 31, 2004	95,508,175	\$86,792	\$34,434	\$22,160	\$55,698	\$(509)	\$198,575

See notes to consolidated financial statements.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with generally accepted accounting principles and practices in Japan. In preparing the consolidated financial statements, certain reclassifications have been made to the financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include

information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information. The United States dollar amounts included herein are given solely for convenience and are stated, as matter of arithmetical computation only, at the rate of ¥106=\$1, the approximate exchange rate at March 31, 2004. The translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars.

2. Summary of significant accounting policies**(a) Consolidation**

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

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

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

(b) Foreign currency translation

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current exchange rates and all income and expense accounts are translated at average rates of exchange during the year. The resulting translation adjustments are accumulated and reported as part of other comprehensive income. Foreign currency receivables and payables of the Companies are translated into yen at the rate in effect at the balance sheet date and the resulting translation gains and losses are credited or charged to income for the year.

(c) Cash and cash equivalents

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

(d) Inventories

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

(e) Investments

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

(f) Property, plant and equipment

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

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

(g) Research and development costs

Research and development costs are charged to income as incurred while such costs incurred before April 1, 1999 were recorded as deferred charges and have been amortized over 5 years.

(h) Retirement and pension plans

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

(i) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

(j) Derivative financial instruments

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

3. Inventories

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods -----	¥3,823	¥5,030	\$36,066
Work in process -----	545	587	5,142
Materials and supplies -----	923	1,270	8,707
Real estate held for development and sale -----	—	1,485	—
	<u>¥5,291</u>	<u>¥8,372</u>	<u>\$49,915</u>

4. Investment securities

The carrying amounts and aggregate fair value of investment securities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Available-for-sale securities:			
Cost -----	¥4,006	¥4,784	\$37,793
Unrealized gains -----	1,528	344	14,415
Unrealized losses -----	(87)	(987)	(821)
Fair value -----	<u>¥5,447</u>	<u>¥4,141</u>	<u>\$51,387</u>

Notes to Consolidated Financial Statements

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

The weighted average annual interest rates applicable to the short-term bank loans at March 31, 2004 and 2003 were 1.4% and 1.3% respectively. Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
1.00% unsecured convertible bonds, convertible into common stock at ¥605.60 per share, due in 2005 -----	¥ 8,631	¥ 8,631	\$ 81,424
2.52% unsecured bonds, due in 2003 -----	—	1,000	—
1.80% unsecured bonds, due in 2004 -----	6,000	6,000	56,604
0.25%-0.59% unsecured bonds, due in 2005 -----	2,404	2,468	22,679
0.38%-0.40% unsecured bonds, due in 2006 -----	2,000	2,000	18,868
0.46%-0.75% unsecured bonds, due in 2007 -----	1,000	1,200	9,434
0.49% unsecured bonds, due in 2008 -----	1,000	1,000	9,434
0.51%-7.78% loans principally from banks, due serially through 2013 ----	20,079	21,627	189,425
2.70% payable to trust company, due serially through 2013 -----	810	900	7,642
	<u>41,924</u>	<u>44,826</u>	<u>395,510</u>
Less current portion -----	11,171	7,486	105,387
	<u>¥30,753</u>	<u>¥37,340</u>	<u>\$290,123</u>

At March 31, 2004 and 2003, property, plant and equipment which has a carrying amount of ¥20,732 million (\$195,585 thousand) and ¥25,542 million, respectively, were pledged as collateral for short-term bank loans, long-term debt and other obligations guaranteed.

6. Retirement and pension plans

Under most circumstances, employees terminating their employment are entitled to lump-sum severance payment based on the rate of pay at termination, years of service and certain other factors. In addition to the aforementioned lump-sum severance payments, most employees are covered by the Company's non-contributory pension plan.

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligations -----	¥62,184	¥56,730	\$586,642
Fair value of plan assets -----	(19,174)	(16,580)	(180,887)
	<u>43,010</u>	<u>40,150</u>	<u>405,755</u>
Unrecognized transitional obligation -----	(2,527)	(5,092)	(23,840)
Unrecognized actuarial loss -----	(21,506)	(20,094)	(202,887)
Unrecognized prior service cost -----	38	58	358
	<u>¥19,015</u>	<u>¥15,022</u>	<u>\$179,386</u>

The components of net periodic benefit costs for the year ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost -----	¥2,241	¥1,581	\$21,142
Interest cost -----	1,400	1,834	13,208
Expected return on plan assets -----	(681)	(894)	(6,425)
Amortization of transitional obligation -----	2,565	2,546	24,198
Recognized actuarial loss -----	1,402	481	13,226
Amortization of prior service cost -----	(19)	(19)	(179)
	<u>¥6,908</u>	<u>¥5,529</u>	<u>\$65,170</u>

Assumption used for the years ended March 31, 2004 and 2003 are set forth as follows:

	2004	2003
Discount rate -----	2.00%	2.50%
Expected rate of return on plan assets -----	3.00%—4.45%	3.50%—4.95%
Recognition period at actuarial gain/loss -----	15years	15years
Amortization period of transitional obligation -----	5years	5years
Amortization period of prior service cost -----	5years	5years

FINANCIAL SECTION

7. Income taxes

Japanese taxes on income applicable to the Companies would normally result in an aggregate tax rate of approximately 40.9% for the years ended March 31, 2004 and 2003.

Deferred tax assets and liabilities are recognized for all temporary differences between the financial statements and income tax basis of

assets and liabilities, operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The differences between the statutory tax rate and effective income tax rate at March 31, 2004 and 2003 were reconciled as follows:

	2004	2003
Statutory tax rate -----	40.9%	40.9%
Increase (decrease) in taxes resulting from:		
Permanently non-deductible expenses -----	1.2	(1.0)
Inter-company profits and dividends eliminated for which no tax effect was recognized -----	8.0	(1.7)
Foreign earnings taxed at different rates -----	—	(0.7)
Subsidiaries' current operating losses without tax benefits -----	(2.5)	1.8
Foreign tax credits -----	(1.5)	(1.2)
Effect of change in statutory tax rate in Japan -----	—	(1.4)
Research & development tax credit -----	(3.2)	—
Prior years taxes refunded -----	—	2.0
Effect of loss on liquidation of subsidiaries -----	(12.6)	—
Other -----	(2.4)	(1.4)
Effective income tax rate -----	<u>27.9%</u>	<u>37.3%</u>

Significant components of the deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Inventories -----	¥ 25	¥ 78	\$ 236
Accrued expenses -----	782	744	7,377
Operating loss carryforwards -----	1,959	413	18,481
Foreign tax credit carryforwards -----	268	—	2,528
Accrued severance benefits -----	7,021	4,974	66,236
Unrealized loss on securities -----	—	259	—
Allowance for loss on liquidation of subsidiaries -----	—	4,150	—
Other -----	(90)	885	(849)
	<u>9,965</u>	<u>11,503</u>	<u>94,009</u>
Deferred tax liabilities:			
Unrealized gain on securities -----	582	—	5,491
Property, plant and equipment, principally due to differences in depreciation and capitalized interest -----	1,089	509	10,273
Land revaluation -----	3,897	4,828	36,764
Other -----	(147)	330	(1,387)
	<u>5,421</u>	<u>5,667</u>	<u>51,141</u>
	<u>¥4,544</u>	<u>¥5,836</u>	<u>\$42,868</u>

Note: Above deferred tax assets and liabilities included in the consolidated balance sheets at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets			
Deferred income taxes -----	¥2,780	¥4,545	\$26,226
Investments and other assets			
Deferred income taxes -----	7,185	6,958	67,783
Long-term liabilities			
Deferred income taxes -----	(5,421)	(5,667)	(51,141)
Net deferred tax assets -----	<u>¥4,544</u>	<u>¥5,836</u>	<u>\$42,868</u>

8. Common stock

Under the Japanese Commercial Code, at least 50% of the issue price of new shares is required to be recorded as a common stock and the remaining net proceeds as additional paid-in capital.

The Code permits companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

Notes to Consolidated Financial Statements

9. Shareholders' equity

Equal to 10% of the aggregate amount of cash dividends and certain other appropriation of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in

capital and legal reserve to the common stock by resolution of the Board of Directors. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, semi-annual dividends may be paid upon resolution of the Board of Directors, subject to limitation imposed by the Japanese Commercial Code. The computation of net income (loss) per share is based on the weighted average number of shares of common stock outstanding during each year.

10. Leasing arrangements

The Companies lease certain machinery, computer equipment and other assets. Total rental expenses for the years ended March 31, 2004 and 2003 were ¥3,723 million (\$35,123 thousand) and ¥4,092 million, respectively, including ¥2,673 million (\$25,217 thousand) and ¥2,279 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense of finance lease that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition cost -----	¥9,840	¥14,251	\$92,830
Accumulated depreciation -----	(4,997)	(6,044)	(47,141)
Net leased property -----	¥4,843	¥ 8,207	\$45,689
Obligations under finance leases:			
Due within one year -----	¥3,079	¥ 3,942	\$29,047
Due after one year -----	2,128	4,597	20,076
Total -----	¥5,207	¥ 8,539	\$49,123
Depreciation expenses under finance leases: -----	¥1,738	¥ 1,829	\$16,396

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

11. Research and development costs

Research and development costs (including cost related to improvements to existing products) charged to income for the years ended March 31, 2004 and 2003 were ¥8,855 million (\$83,538 thousand) and ¥8,691 million, respectively.

12. Other (expenses) income: Other, net

Other (expenses) income: Other, net for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Gain on sale of property, plant and equipment -----	¥ 55	¥ 9	\$ 519
Loss on disposal of property, plant and equipment -----	(73)	(1,655)	(689)
Loss on disposal of inventories -----	(116)	(412)	(1,094)
(Gain) loss on sale and devaluation of investment securities -----	325	(1,936)	3,066
Gain on sale of plant to affiliates -----	65	134	613
Retirement benefits to directors and statutory auditors -----	(4)	(102)	(38)
Amortization of transitional obligation of retirement and pension plan -----	(2,541)	(2,546)	(23,972)
Depreciation of equipment leased to subsidiaries and others -----	(64)	(5)	(604)
Amortization of research and development costs and other assets -----	(122)	(136)	(1,151)
Compensation for assurance of products -----	(313)	(501)	(2,953)
Provision for doubtful accounts -----	(94)	(140)	(887)
Exchange gain -----	(38)	77	(358)
Loss on liquidation of subsidiaries -----	—	(10,467)	—
Other, net -----	280	240	2,642
	¥(2,640)	¥(17,440)	\$(24,906)

13. Commitments and contingencies

Contingent liabilities at March 31, 2004 and 2003 for trade notes discounted with banks and trade notes delivered with endorsements for payments amounted to ¥62 million (\$585 thousand) and ¥57 million, respectively, contingent liabilities at March 31, 2004 and 2003 for guarantees for bank loans and lease obligations amounted to ¥7,942

million (\$74,925 thousand) and ¥9,773 million, respectively. Commitments for capital expenditures outstanding at March 31, 2004 and 2003 were in the approximate amounts of ¥436 million (\$4,113 thousand) and ¥51 million, respectively.

FINANCIAL SECTION

14. Reporting segments

Information about the Companies' operations in different geographic areas for the two years ended March 31, 2004 and 2003 was as follows:

	Millions of yen				
	Japan	North America	Europe	Adjustments	Consolidated total
2004					
Sales to customers -----	¥100,934	¥39,784	¥ 668	¥ —	¥141,386
Transfer between geographic areas -----	4,519	274	2,151	(6,944)	—
Total revenue -----	105,453	40,058	2,819	(6,944)	141,386
Operating income -----	7,542	2,712	(477)	153	9,930
Identifiable assets -----	¥100,422	¥19,135	¥5,829	¥ 1,255	¥126,641
2003					
Sales to customers -----	¥ 99,185	¥26,652	¥ 758	¥ —	¥126,595
Transfer between geographic areas -----	3,776	616	2,077	(6,469)	—
Total revenue -----	102,961	27,268	2,835	(6,469)	126,595
Operating income -----	7,098	1,905	(503)	(47)	8,453
Identifiable assets -----	¥114,895	¥23,558	¥7,334	¥(2,561)	¥143,226
	Thousands of U.S. dollars				
	Japan	North America	Europe	Adjustments	Consolidated total
2004					
Sales to customers -----	\$ 952,208	\$375,321	\$ 6,302	\$ —	\$1,333,830
Transfer between geographic areas -----	42,632	2,585	20,292	(65,509)	—
Total revenue -----	994,840	377,906	26,594	(65,509)	1,333,830
Operating income -----	71,151	25,585	(4,500)	1,443	93,679
Identifiable assets -----	\$ 947,377	\$180,519	\$54,991	\$11,840	\$1,194,726
2003					
Sales to customers -----	\$ 935,708	\$251,434	\$ 7,151	\$ —	\$1,194,292
Transfer between geographic areas -----	35,623	5,811	19,594	(61,028)	—
Total revenue -----	971,330	257,245	26,745	(61,028)	1,194,292
Operating income -----	66,962	17,972	(4,745)	(443)	79,745
Identifiable assets -----	\$1,083,915	\$222,245	\$69,189	\$(24,160)	\$1,351,189

15. Derivatives

The Companies enter into foreign currency forward contracts to hedge exchange risk associated with certain assets and liabilities denominated in foreign currencies. Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2004 and 2003 and such amounts which are assigned to the associated assets and liabilities

and are recorded on the balance sheets March 31, 2004 and 2003, are excluded from disclosure of market value information. The Companies also enter into interest rate swap and rate options contracts to manage its interest rate exposures on certain liabilities. Such contracts outstanding at March 31, 2004 and 2003 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Contract amount	Fair value	Unrealized	Contract amount	Fair value	Unrealized	Contract amount	Fair value	Unrealized
Interest rate swap:									
Receive float / pay fix -----	¥9,810	¥(83)	¥(83)	¥10,245	¥(119)	¥(119)	\$92,547	\$(783)	\$(783)
Interest rate options:									
Rate floors									
Contracts to sell -----	169	(2)	(2)	336	(5)	(5)	1,594	(19)	(19)
	¥9,979	¥(85)	¥(85)	¥10,581	¥(124)	¥(124)	\$94,141	\$(802)	\$(802)

16. Subsequent event

Appropriation of retained earnings on June 18, 2004, Akebono Brake's shareholders authorized the appropriation of retained earnings as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4 per share) -----	¥381	\$3,594
Reserve for retirement benefits to directors and statutory auditors -----	150	1,415

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

We have audited the accompanying consolidated balance sheets of Akebono Brake Industry Co., Ltd., and its consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Akebono Brake Industry Co., Ltd., and its consolidated subsidiaries as of March 31, 2004 and 2003 and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles in Japan.

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



June 18, 2004

Tokyo, Japan

Trade Name

Akebono Brake Industry Co., Ltd.

Address

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TEL: 03-3668-5171
FAX: 03-5695-7391

Ai-City (Headquarters)

5-4-71 Higashi, Hanyu City, Saitama Prefecture, 348-8508, Japan
TEL: 048-560-1500 (Key number)
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Established

January 27, 1929

Paid-in Capital

9,200 million yen

Stock Listing

First Section of Tokyo Stock Exchange

Common Stock

Authorized: 320,000,000 shares
Issued: 95,508,175 shares

Number of Employees (Consolidated)

4,600

Transfer Agent and Registrar

Corporate Agency Department of UFJ Trust Bank Limited
10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

Annual General Meeting of Shareholders

The annual general meeting of shareholders of the company is normally held in June every year.

Principal Shareholders

Toyota Motor Corporation
Robert Bosch Corporation
Japan Trustee Services Bank, Ltd.
Delphi Automotive Systems
Isuzu Motors Limited
Mizuho Corporate Bank, Ltd.
Aisin Seiki Co., Ltd.
Bridgestone Corporation
The Master Trust Bank of Japan, Ltd.
Meiji Yasuda Life Insurance Company

Contact

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(As of March 31, 2004)

AKEBONO

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