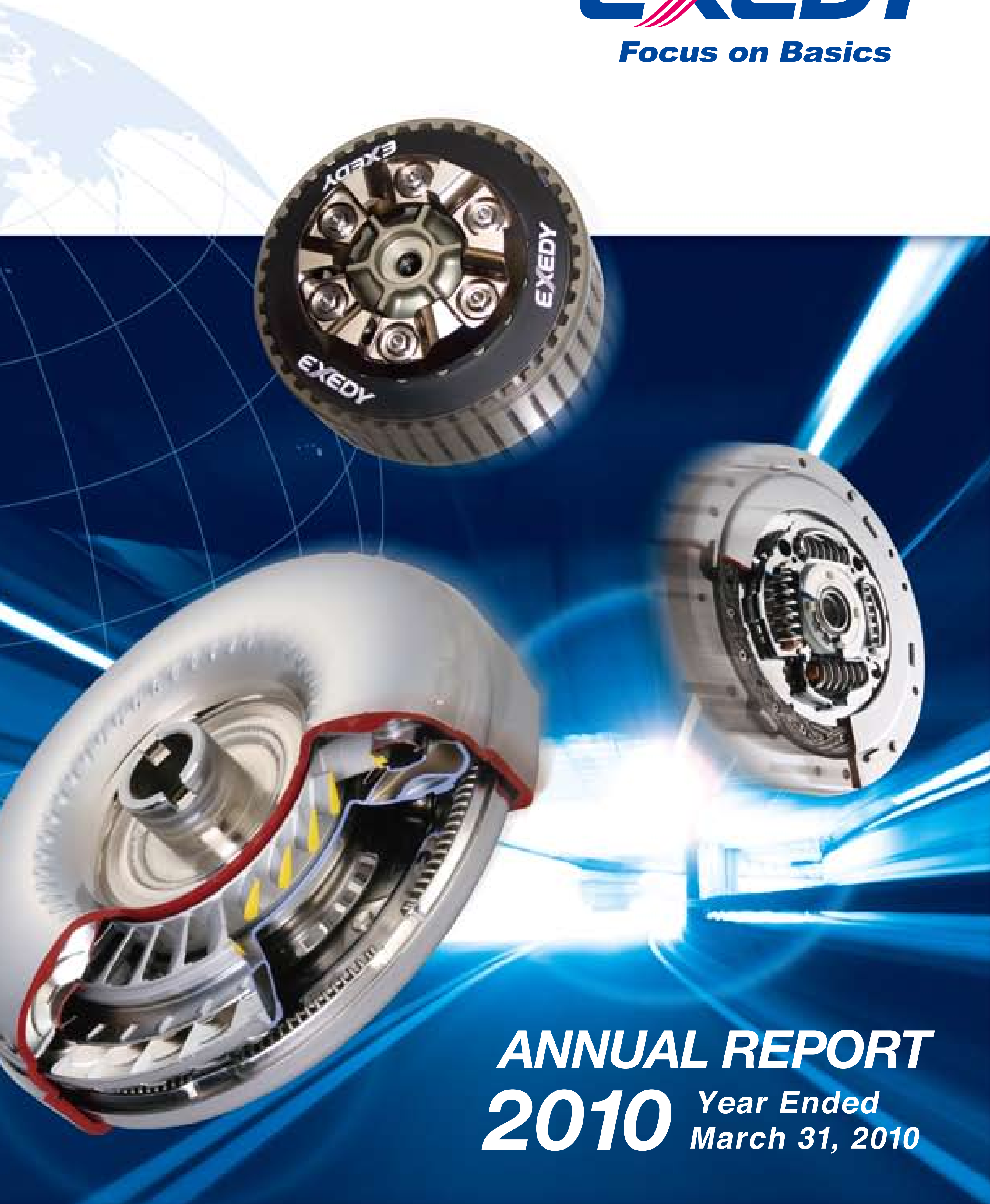
EXEDY

Focus on Basics



ANNUAL REPORT 2010

Year Ended March 31, 2010

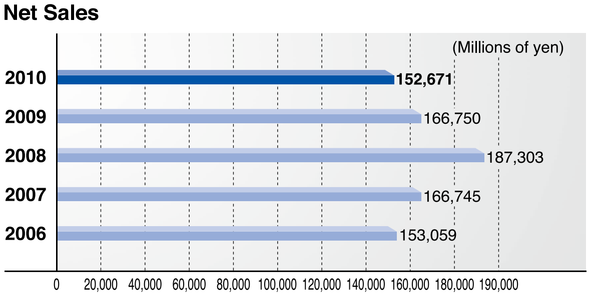
Consolidated Financial Highlights

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2009 and 2010

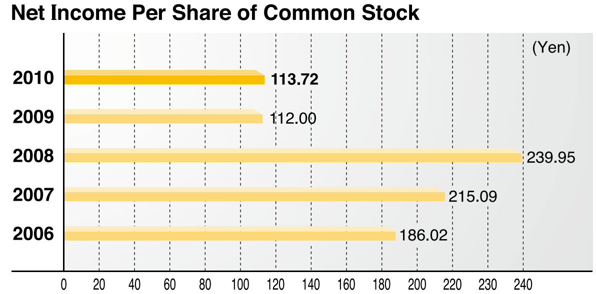
	Japanese yen (millions)		U.S. dollars (thousands)	% Change
	2009	**2010**	**2010**	2009/2010
For the year:				
Net sales	¥166,750	¥152,671	$1,640,918	−8.4%
Net income	5,441	5,524	59,372	+1.5%
At year-end:				
Total assets	¥136,907	¥153,426	$1,649,033	+12.1%
Net assets	103,249	109,096	1,172,571	+5.7%
Per share data:	Japanese yen		U.S. dollars	
Net income	¥ 112.00	¥ 113.72	$ 1.22	+1.5%
Net assets	1,999.38	2,115.38	22.74	+5.8%
Cash dividends	35.00	35.00	0.38	—

Note: Dollar figures are translated, for convenience only, at the rate of ¥93.04 to U.S. $1.00.

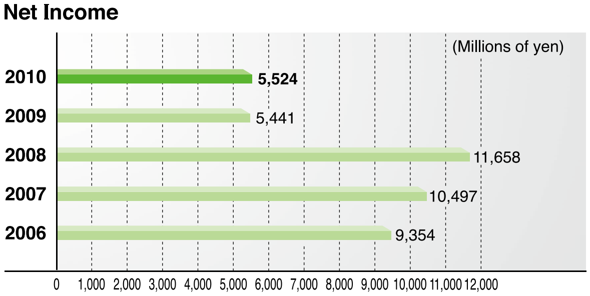
Net Sales



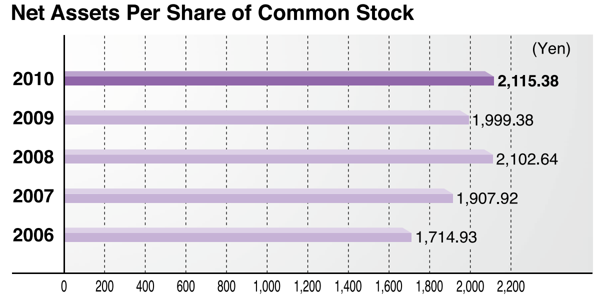
Net Income Per Share of Common Stock



Net Income



Net Assets Per Share of Common Stock



Business Operations

Review of Fiscal Year 2009

The number of vehicles produced worldwide, which had plunged as a result of the global economic slowdown, began a sharp recovery in the third quarter of the fiscal year ended March 31, 2010. This was due primarily to a variety of policy measures implemented by countries around the world, including tax reductions and subsidies for eco-friendly cars, and the increasing domestic demand of China, where a high growth rate is expected to continue. While the EXEDY Group benefited from the recovery in orders, particularly for AT products, net sales for the full fiscal year fell from the previous fiscal year. For earnings, successful cost-cutting measures implemented from the beginning of the year under the review in response to reduced production resulted in an increase in profit over the previous fiscal year.

For the consolidated results of the fiscal year under review, net sales fell to ¥152.6 billion (a decrease of 8.4% from the previous fiscal year), operating income increased to ¥10.8 billion (an increase of 6.2% from the previous fiscal year), ordinary income climbed to ¥10.6 billion (an increase of 20.5% from the previous fiscal year), and net income edged to ¥5.5 billion (an increase of 1.5% from the previous fiscal year).

Outlook for Fiscal Year 2010

We expect orders, primarily centering around AT products, to hold steady until the end of the second quarter of the fiscal year ending March 31, 2011. However, from the third quarter, when the eco-friendly car subsidy system is withdrawn, the trend for orders is still unclear.

In this severe business climate, the EXEDY Group will continue its concerted efforts to cut costs in all our business activities, particularly in the production sector, and strive to maintain profitability.

As a consequence of the foregoing factors, for the consolidated results of fiscal 2010, we forecast a net sales of ¥170.0 billion (an increase of 11.4% from the previous fiscal year), an operating income of ¥13.5 billion (an increase of 24.4% from the previous fiscal year), an ordinary income of 13.5 billion (an increase of 27.2% from the previous fiscal year), and a net income of ¥8.0 billion (an increase of 44.8% from the previous fiscal year).

July 2010

Haruo Shimizu
President and Chief Executive Officer

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

Focus on Basics

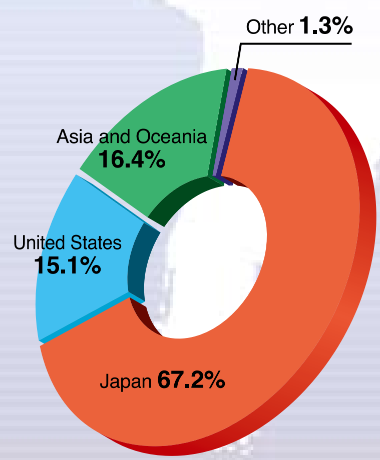
Locations of Plants, Sales Offices and Affiliated Companies

Net Sales by Location

	Japanese yen (millions) 2009	Japanese yen (millions) 2010	U.S. dollars (thousands) 2010
Japan	¥121,492	**¥117,348**	**$1,261,264**
United States	31,071	**23,222**	**249,592**
Asia and Oceania	33,897	**29,337**	**315,316**
Other	2,659	**2,078**	**22,334**
Eliminations (inter-segment net sales)	(22,369)	**(19,314)**	**(207,588)**
Total	¥166,750	**¥152,671**	**$1,640,918**

$1=¥93.04

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



Topics of the Year

Manufacturing

EXEDY Chongqing

In an effort to expand its production base in China, EXEDY Chongqing Co., Ltd. increased its annual clutch production capacity from two million to three million sets.

EXEDY Shanghai

EXEDY Shanghai Co., Ltd. opened a new engineering center in April 2010.

Technology

EXEDY received the 2009 Jatco Supplier Award.
(Awarded March 10, 2010)

EXEDY recognized for development of torque converters that decrease size, reduce weight, and improve fuel efficiency in continuously variable transmissions (CVTs).

Quality

EXEDY received the Daihatsu Special Quality Award for the 10th consecutive year.
(Awarded April 8, 2010)

EXEDY received the Hyundai / Kia Motors Supplier of the Year Award of 2009 recognizing outstanding performance as an overseas supplier.
(Awarded January 8, 2010)

Consolidated Five-Year Summary

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	Japanese yen (millions)					U.S. dollars (thousands)
	2006	2007	2008	2009	**2010**	**2010**
For the year:						
Net sales	¥ 153,059	¥ 166,745	¥ 187,303	¥166,750	**¥ 152,671**	**$1,640,918**
Net income	9,354	10,497	11,658	5,441	**5,524**	**59,372**
At year-end:						
Total assets	¥ 133,440	¥ 144,073	¥ 158,147	¥136,907	**¥ 153,426**	**$1,649,033**
Current assets	66,433	70,265	82,000	59,871	**81,478**	**875,731**
Property, plant and equipment	57,240	65,011	68,220	70,140	**64,986**	**698,474**
Current liabilities	30,667	32,932	37,207	24,115	**32,911**	**353,729**
Long-term debt	2,726	2,727	2,966	2,627	**3,099**	**33,308**
Net assets	90,259	99,847	110,033	103,249	**109,096**	**1,172,571**
Net assets / Total assets	67.6%	64.3%	64.6%	70.9%	**67.0%**	**67.0%**
Retained earnings	69,050	75,049	84,934	87,588	**92,140**	**990,327**
Per share data:	Japanese yen					U.S. dollars
Net income	¥ 186.02	¥ 215.09	¥ 239.95	¥ 112.00	**¥ 113.72**	**$1.22**
Net income – diluted	—	—	—	—	**—**	**—**
Net assets	1,714.93	1,907.92	2,102.64	1,999.38	**2,115.38**	**22.74**

Notes: 1. Dollar figures are translated, for convenience only, at the rate of ¥93.04 to U.S. $1.00.
2. From fiscal year 2007, net assets were stated under “Accounting standard for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5 issued on December 9, 2005)” and “Implementation guidance for Accounting standard for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8 issued on December 9, 2005). This standard applied retroactively to the net assets for fiscal year 2006.

Financial Section

Consolidated Balance Sheets

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2009 and 2010

	Japanese yen (millions)		U.S. dollars (thousands)
ASSETS	2009	**2010**	**2010**
Current Assets:			
Cash and cash equivalents [Notes 1(q) and 10]	¥ 16,335	**¥ 25,597**	**$ 275,118**
Time deposits	68	**645**	**6,933**
Notes and accounts receivable (Notes 4 and 10) –			
Trade	23,369	**33,394**	**358,921**
Non-consolidated subsidiaries and affiliates	463	**13**	**140**
Allowance for doubtful accounts	(104)	**(87)**	**(935)**
Inventories (Note 2)	13,665	**16,455**	**176,859**
Deferred tax assets (Note 14)	2,017	**2,417**	**25,978**
Short-term loans	644	**638**	**6,857**
Other current assets	3,414	**2,406**	**25,860**
Total current assets	59,871	**81,478**	**875,731**
Property, Plant and Equipment (Note 3):			
Land	8,009	**8,275**	**88,940**
Buildings and structures	39,338	**41,732**	**448,538**
Machinery and vehicles	99,220	**106,877**	**1,148,721**
Tools and furniture	33,960	**37,263**	**400,505**
Construction in progress	8,956	**2,052**	**22,056**
	189,483	**196,199**	**2,108,760**
Less–accumulated depreciation	(119,343)	**(131,213)**	**(1,410,286)**
Total property, plant and equipment	70,140	**64,986**	**698,474**
Investments and Other Assets:			
Investments in securities (Notes 10 and 11)	804	**1,137**	**12,221**
Investments in and loans to non-consolidated subsidiaries and affiliates	688	**639**	**6,868**
Long-term loans	140	**124**	**1,333**
Deferred tax assets (Note 14)	2,744	**2,793**	**30,019**
Other assets	2,520	**2,269**	**24,387**
Total investments and other assets	6,896	**6,962**	**74,828**
Total Assets	¥136,907	**¥153,426**	**$1,649,033**

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

LIABILITIES AND NET ASSETS	Japanese yen (millions) 2009	2010	U.S. dollars (thousands) 2010
Current Liabilities:			
Short-term borrowings including			
current portion of long-term debt (Notes 3, 10 and 19)	¥ 4,483	**¥ 4,722**	**$ 50,752**
Notes and accounts payable (Note 10) –			
Trade	11,289	**16,496**	**177,300**
Construction	2,214	**724**	**7,782**
Non-consolidated subsidiaries and affiliates	25	**25**	**269**
Accrued expenses (Note 10)	5,166	**6,098**	**65,542**
Accrued income taxes	464	**3,902**	**41,939**
Other current liabilities	474	**944**	**10,146**
Total current liabilities	24,115	**32,911**	**353,730**
Long-term Liabilities:			
Long-term debt (Notes 3, 10 and 19)	2,627	**3,099**	**33,308**
Deferred tax liabilities (Note 14)	561	**1,069**	**11,490**
Employees' severance and retirement benefits (Note 13)	5,561	**6,106**	**65,628**
Retirement benefits for directors and corporate auditors	549	**156**	**1,677**
Other long-term liabilities	245	**989**	**10,629**
Total long-term liabilities	9,543	**11,419**	**122,732**
Contingent Liabilities (Note 4)			
Net Assets			
Shareholders' Equity (Note 15):			
Common stock			
Authorized–168,000 thousand shares in 2009 and 2010			
Issued–48,594 thousand shares in 2009 and 2010	8,284	**8,284**	**89,037**
Capital surplus	7,541	**7,541**	**81,051**
Retained earnings	87,588	**92,140**	**990,327**
Treasury stock			
12 thousand shares in 2009 and 12 thousand shares in 2010	(38)	**(39)**	**(419)**
Total shareholders' equity	103,375	**107,926**	**1,159,996**
Valuation and Translation Adjustments:			
Net unrealized holding gains on other securities	127	**319**	**3,428**
Foreign currency translation adjustments [Note 1(c)]	(6,368)	**(5,477)**	**(58,867)**
Total valuation and translation adjustments	(6,241)	**(5,158)**	**(55,439)**
Minority Interests	6,115	**6,328**	**68,014**
Total net assets	103,249	**109,096**	**1,172,571**
Total Liabilities and Net Assets	¥136,907	**¥153,426**	**$1,649,033**

Consolidated Statements of Income

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2009 and 2010

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Net Sales	¥166,750	**¥152,671**	**$1,640,918**
Cost of Sales	134,732	**122,375**	**1,315,295**
Gross profit	32,018	**30,296**	**325,623**
Selling, General and Administrative Expenses (Note 5)	21,801	**19,445**	**208,996**
Operating income	10,217	**10,851**	**116,627**
Other Income (Expenses):			
Interest and dividend income	200	**77**	**828**
Interest expense	(295)	**(334)**	**(3,590)**
Losses on sale or disposal of property, plant and equipment	(700)	**(612)**	**(6,578)**
Equity in gains (losses) of non-consolidated subsidiaries and affiliates	(1)	**20**	**215**
Foreign exchange gains (losses), net	(973)	**101**	**1,086**
Gains on reversal of allowance for doubtful accounts	—	**28**	**301**
Gains on reversal of reserve for warranty	—	**106**	**1,139**
Losses on devaluation of investment securities	(174)	**—**	**—**
Impairment losses on property, plant and equipment (Note 6)	(137)	**(571)**	**(6,137)**
Other, net	357	**510**	**5,481**
	(1,723)	**(675)**	**(7,255)**
Income before income taxes and minority interests	8,494	**10,176**	**109,372**
Income Taxes (Note 14)			
Current	2,445	**4,498**	**48,345**
Deferred	37	**(35)**	**(376)**
Minority Interests in Net Income of Consolidated Subsidiaries	571	**189**	**2,031**
Net Income	¥ 5,441	**¥ 5,524**	**$ 59,372**

	Japanese yen		U.S. dollars
Per Share Data (Note 18):			
Net income	¥ 112.00	**¥ 113.72**	**$ 1.22**
Net income–diluted	—	**—**	**—**
Cash dividends	35.00	**35.00**	**0.38**

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

Consolidated Statements of Changes in Net Assets

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2009 and 2010

	Japanese yen (millions)								
	Shareholders' equity					Valuation and translation adjustments			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2008	¥8,284	¥7,541	¥84,934	¥(36)	¥100,723	436	¥ 995	¥7,879	¥110,033
Increase for unification of accounting policies applied to foreign subsidiaries	—	—	31	—	31	—	—	—	31
Net income	—	—	5,441	—	5,441	—	—	—	5,441
Purchase of treasury stock	—	—	—	(2)	(2)	—	—	—	(2)
Cash dividends paid	—	—	(2,818)	—	(2,818)	—	—	—	(2,818)
Other, net	—	—	—	—	—	(309)	(7,363)	(1,764)	(9,436)
Balance as of March 31, 2009	¥8,284	¥7,541	¥87,588	¥(38)	¥103,375	¥127	¥(6,368)	¥6,115	¥103,249
Net income	**—**	**—**	**5,524**	**—**	**5,524**	**—**	**—**	**—**	**5,524**
Purchase of treasury stock	**—**	**—**	**—**	**(1)**	**(1)**	**—**	**—**	**—**	**(1)**
Cash dividends paid	**—**	**—**	**(972)**	**—**	**(972)**	**—**	**—**	**—**	**(972)**
Other, net	**—**	**—**	**—**	**—**	**—**	**192**	**891**	**213**	**1,296**
Balance as of March 31, 2010	**¥8,284**	**¥7,541**	**¥92,140**	**¥(39)**	**¥107,926**	**¥319**	**¥(5,477)**	**¥6,328**	**¥109,096**

	U.S. dollars (thousands)								
	Shareholders' equity					Valuation and translation adjustments			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2009	$89,037	$81,051	$941,402	$(409)	$1,111,081	$1,365	$(68,444)	$65,725	$1,109,727
Net income	**—**	**—**	**59,372**	**—**	**59,372**	**—**	**—**	**—**	**59,372**
Purchase of treasury stock	**—**	**—**	**—**	**(10)**	**(10)**	**—**	**—**	**—**	**(10)**
Cash dividends paid	**—**	**—**	**(10,447)**	**—**	**(10,447)**	**—**	**—**	**—**	**(10,447)**
Other, net	**—**	**—**	**—**	**—**	**—**	**2,063**	**9,577**	**2,289**	**13,929**
Balance as of March 31, 2010	**$89,037**	**$81,051**	**$990,327**	**$(419)**	**$1,159,996**	**$3,428**	**$(58,867)**	**$68,014**	**$1,172,571**

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

Consolidated Statements of Cash Flows

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2009 and 2010

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 8,494	**¥10,176**	**$109,372**
Adjustments for:			
Depreciation and amortization	12,312	**11,994**	**128,912**
Losses on sale or disposal of property, plant and equipment	680	**604**	**6,492**
Impairment losses on property, plant and equipment	137	**571**	**6,137**
Decrease in allowance for doubtful accounts	(79)	**(16)**	**(172)**
Increase (decrease) in employees' severance and retirement benefits	(157)	**545**	**5,858**
Interest and dividend income	(200)	**(77)**	**(828)**
Interest expense	295	**334**	**3,590**
Decrease (increase) in notes and accounts receivables	11,491	**(8,588)**	**(92,304)**
Increase in inventories	(246)	**(1,716)**	**(18,444)**
Increase (decrease) in notes and accounts payables	(3,696)	**3,145**	**33,803**
Other, net	(1,685)	**2,190**	**23,538**
Subtotal	27,346	**19,162**	**205,954**
Interest and dividend income received	246	**128**	**1,376**
Interest paid	(310)	**(323)**	**(3,471)**
Income taxes paid	(7,212)	**547**	**5,879**
Net cash provided by operating activities	20,070	**19,514**	**209,738**
Cash Flows from Investing Activities:			
Increase in time deposits	(48)	**(290)**	**(3,117)**
Decrease in time deposits	700	**16**	**172**
Payments for purchases of property, plant and equipment	(21,418)	**(7,565)**	**(81,309)**
Proceeds from sale of property, plant and equipment	241	**52**	**559**
Payments for acquisitions of intangible assets	(519)	**(262)**	**(2,816)**
Payments for purchases of investment in securities	(12)	**(10)**	**(107)**
Payments for additional portions of consolidated subsidiaries	—	**(42)**	**(451)**
Payments for acquisitions of consolidated subsidiaries (Note 8)	—	**(448)**	**(4,815)**
Additions to loans receivable	(45)	**(28)**	**(301)**
Collection of loans receivable	53	**65**	**699**
Other, net	(21)	**(82)**	**(883)**
Net cash used in investing activities	(21,069)	**(8,594)**	**(92,369)**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings, net	(888)	**(403)**	**(4,331)**
Proceeds from long-term loans payable	1,926	**913**	**9,813**
Repayments of long-term loans payable	(1,045)	**(955)**	**(10,264)**
Payments for acquisitions of treasury stock	(2)	**(1)**	**(10)**
Cash dividends paid	(2,817)	**(972)**	**(10,447)**
Cash dividends paid to minority shareholders	(485)	**(434)**	**(4,665)**
Other, net	12	**(11)**	**(120)**
Net cash used in financing activities	(3,299)	**(1,863)**	**(20,024)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,789)	**205**	**2,203**
Net Increase in Cash and Cash Equivalents	(6,087)	**9,262**	**99,548**
Cash and Cash Equivalents at Beginning of Year	22,422	**16,335**	**175,570**
Cash and Cash Equivalents at End of Year	¥16,335	**¥25,597**	**$275,118**

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

Notes to Consolidated Financial Statements

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Summary of Significant Accounting and Reporting Policies

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

The accounts of the Company's overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with consolidation adjustments for the specified six items, which are described in "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements ("PITF No.18")", as applicable. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law in Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 to U.S. $1.00. The convenience translation should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain conditions evidencing control by the Company. The consolidated financial statements include the accounts of the Company and its 28 significant majority owned subsidiaries.

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for using the equity method. Investments in 4 non-consolidated subsidiaries and 1 affiliate are accounted for using the equity method.

In the elimination of investments in consolidated subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are valued using the fair value at the time the Company acquired control of the respective subsidiary. Material intercompany balances, transactions and profits have been eliminated in consolidation. All the overseas subsidiaries except for 1 consolidated subsidiary, are consolidated using a fiscal period ending December 31. Significant transactions occurring from January 1 to December 31, the Company's fiscal year-end, are adjusted for in the consolidated financial statements.

(c) Translation of foreign currencies
Monetary assets and liabilities denominated in foreign currency are translated into Japanese yen at current rates at each balance sheet date and the resulting translation gains or losses are charged to income for the current period.

The balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for shareholders' equity accounts, which are translated at historical rates. Income statements of consolidated overseas subsidiaries are translated at the average rates during the year. Translation adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of net income but are reported as "Foreign currency translation adjustments" in a component of net assets and minority interests.

(d) Securities
Securities consist principally of marketable and nonmarketable equity securities.

Other securities with available fair market value are stated at fair market value. Net unrealized holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets.

Realized gains and losses on the sale of such securities are computed using the moving average cost method.

Other securities with no available fair market value are stated at moving average cost, net of the amount considered uncollectible.

If the fair market value of other securities declines significantly, such securities are stated at fair market value and the difference between the fair market value and the carrying amount is recognized as a loss in the period of decline. If the net asset value of other securities with no available fair market value declines significantly, such securities should be written down to the net asset value by charging to income.

(e) Derivatives
All derivatives are stated at fair value.

(f) Inventories
Inventories possessed for selling except for supplies are mainly stated at the lower of cost (first-in, first-out) or net realizable value at March 31, 2010. Supplies are mainly stated at cost determined by the last purchase cost method.

(g) Property, plant and equipment
The Company and its domestic consolidated subsidiaries compute the depreciation of property, plant and equipment by using the declining-balance method and its overseas consolidated subsidiaries mainly by using the straight-line method. The depreciation of buildings acquired by the Company and its domestic consolidated subsidiaries on and after April 1, 1998 is computed by using the straight-line method.
Estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	3–50 years
Machinery and vehicles	2–15 years
Tools and furniture	2–20 years

Maintenance and repairs including minor renewals and betterments are charged to income as incurred.

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

(i) Leases
Finance leases, except for certain immaterial leases, are capitalized and depreciated over lease terms, as applicable. However, as permitted, the Company and consolidated domestic subsidiaries account for finance leases commencing prior to April 1, 2008 which do not transfer ownership of the leased property to the lessee as operating lease with disclosure of certain “as if capitalized” information in Note 9.

(j) Income taxes
The Company and its consolidated subsidiaries recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.
The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(k) Allowance for doubtful accounts
The Company and its consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period plus the estimated uncollectible amount based on the analysis of individual accounts.

(l) Employees’ severance and retirement benefits
The Company and its consolidated subsidiaries provide for employees’ severance and retirement benefits at the end of the fiscal year based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

Actuarial differences are fully amortized in the year following the year in which the actuarial differences are recognized. Prior service costs are recognized in expenses in the year in which they are incurred.

(Changes in accounting policies)
Effective from the fiscal year ended March 31, 2010, the Company and consolidated domestic subsidiaries adopted the “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (ASBJ Statement No.19 issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no material impact on the consolidated financial statements for the year ended March 31, 2010.

(m) Retirement benefits for directors and corporate auditors
Domestic consolidated subsidiaries have unfunded retirement allowance plans for directors and corporate auditors. The amounts required under the plans have been fully accrued.

(Additional information)
The Company abolished the practice of providing for retirement benefits for directors and corporate auditors based on the resolution for the abolishment of the institution for retirement benefits for directors and corporate auditors at the ordinary general meeting of the shareholders on June 24, 2009. As a result of this resolution, the estimated future payment of ¥401 million ($4,313 thousand) was transferred from retirement benefits for directors and corporate auditors to other long-term liabilities.

(n) Accounting for consumption taxes
Consumption taxes withheld upon sale and consumption taxes paid by the Companies on their purchases of goods and services are not included in the amounts of respective revenue or cost or expense items in the accompanying consolidated statements of income.

(o) Per share data
The computation of net income per share is based on the weighted average number of shares outstanding during each year, excluding the Company’s treasury stock, and based on net income attributed to ordinary shareholders, excluding bonuses to directors and corporate auditors, etc. The computation of net income–diluted per share assumes the full exercise of outstanding warrants and full conversion of convertible bonds at the beginning of the year (or at the time of issuance if this is after the beginning of the year) with an applicable adjustment for related net-of-tax interest expense.
The computation of net assets per share is based on the number of shares of common stock outstanding at the year-end, excluding the Company’s treasury stock, and based on net assets attributed to ordinary shareholders, excluding minority interests.
Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(p) Goodwill
Goodwill, except for minor goodwill, is amortized by the straight-line method over five years. Minor goodwill is expensed as incurred.

(q) Cash and cash equivalents
Cash and cash equivalents include cash on hand, demand deposits and short-term investments which have maturities of three months or less when purchased, are easily convertible into cash and have few risks of fluctuation in value.

(r) Reclassification
Certain comparative figures have been reclassified to conform to the current year’s presentation.

2. Inventories

Inventories as of March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Finished goods	¥ 5,687	**¥ 7,312**	**$ 78,590**
Work-in process	2,666	**3,458**	**37,166**
Raw materials	4,287	**4,605**	**49,495**
Supplies	1,025	**1,080**	**11,608**
	¥13,665	**¥16,455**	**$176,859**

The ending inventory balance represents after write-down of book value when their carrying amounts become unrecoverable, and the write-down recognized at cost of sales were ¥569 million and ¥203 million ($2,182 thousand) as of March 31, 2009 and March 31, 2010, respectively.

3. Assets Pledged as Collateral

The following assets were pledged as collateral for ¥129 million and ¥107 million ($1,150 thousand) of secured long-term loans from government-sponsored agencies as of March 31, 2009 and March 31, 2010, respectively:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Land	¥62	**¥62**	**$ 666**
Buildings and structures, net	37	**35**	**376**
	¥99	**¥97**	**$1,042**

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given at the request of the bank under certain circumstances, and that any collateral so furnished will be applicable to all indebtedness to that bank. To date, the Company and its consolidated subsidiaries have not received any such requests from their banks.

4. Contingent Liabilities

Contingent liabilities as of March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Trade notes receivable discounted	¥6	**¥64**	**$688**

5. Research and Development Expenses

Research and development expenses are charged to income as incurred. Research and development expenses charged to income for the years ended March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Research and development expenses	¥4,947	**¥4,370**	**$46,969**

6. Impairment of Fixed Assets

The Company and its consolidated subsidiaries evaluated the profitability in each business category, which is Manual automotive drivetrain operations, Automatic automotive drivetrain operations, Industrial drivetrain operations and Other (Plants and other facilities). Accounting for impairment of fixed assets shall be applied only when the investment may not be recoverable in the business.

In the year ended March 31, 2009, the result indicates each business can recover the investment through the future. However, the Company and its consolidated subsidiaries has some assets which belong to Automatic automotive drivetrain category and there is no prospect for use. Therefore, the Company and its consolidated subsidiaries recognized impairment losses on those assets where the recoverable value was less than the net book value. The recoverable value of assets was based on net selling price. Impairment losses were recognized for the excess of the net book value over the recoverable value.

Impairment losses on fixed assets for the year ended March 31, 2009 were as follows:

March 31, 2009 Asset Group	Asset Type	Usage	Japanese yen (millions)
AT	Machinery	Idle	¥114
AT	Tools and furniture	Idle	23
			¥137

In the year ended March 31, 2010, the result indicates impairment in industrial machine drivetrain business due to deterioration of business environment and can not recover the investment through the future. Therefore the Company and its consolidated subsidiaries recognized impairment losses on those assets where the recoverable value was less than the net book value. The recoverable value of assets was based on value in use. Impairment losses were recognized for the excess of the net book value over the recoverable value. Moreover, the Company and its consolidated subsidiaries has some assets which belong to Manual automotive drivetrain category and there is no prospect for use. Therefore the Company and its consolidated subsidiaries recognized impairment losses on those assets where the recoverable value was less than the net book value. The recoverable value of assets was based on net selling price. Impairment losses were recognized for the excess of the net book value over the recoverable value.

Impairment losses on fixed assets for the year ended March 31, 2010 were as follows:

March 31, 2010 Asset Group	Asset Type	Usage	Japanese yen (millions)	U.S. dollars (thousands)
Industrial machine drivetrain	Buildings and structures	Production	¥ 89	$ 957
	Machinery and vehicles		357	3,837
	Tools and furniture		70	752
	Construction in progress		44	473
	Intangible assets		2	21
MT	Machinery and vehicles	Idle	9	97
			¥571	$6,137

7. Changes in Net Assets

(a) Shares issued / Treasury stock

March 31, 2009	Number of shares as of March 31, 2008	Increase	Decrease	Number of shares as of March 31, 2009
Shares issued:				
Common stock (thousands)	48,594	—	—	48,594
	48,594	—	—	48,594
Treasury stock:				
Common stock (thousands)	10	2	—	12
	10	2	—	12

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

March 31, 2010	Number of shares as of March 31, 2009	Increase	Decrease	Number of shares as of March 31, 2010
Shares issued:				
Common stock (thousands)	48,594	—	—	48,594
	48,594	—	—	48,594
Treasury stock:				
Common stock (thousands)	12	0	—	12
	12	0	—	12

(Note) The increase of treasury stock — common stock 0 thousand is due to purchase of the stocks less than standard unit 8 hundred.

(b) Dividends

(1) Dividends

March 31, 2009

Resolution	Type of shares	Cash dividends paid Japanese yen (millions)	Dividends per share (Japanese yen)	Cut-off date	Effective date
Ordinary general meeting of the shareholders on June 26, 2008	Common stock	¥ 1,603	¥33.0	March 31, 2008	June 27, 2008
Board of Directors' meeting on October 30, 2008	Common stock	¥ 1,215	¥25.0	September 30, 2008	November 28, 2008

March 31, 2010

Resolution	Type of shares	Cash dividends paid Japanese yen (millions) U.S. dollars (thousands)	Dividends per share (Japanese yen) (U.S. dollars)	Cut-off date	Effective date
Ordinary general meeting of the shareholders on June 24, 2009	Common stock	¥ 486 $ 5,224	¥10.0 $0.11	March 31, 2009	June 25, 2009
Board of Directors' meeting on October 29, 2009	Common stock	¥ 486 $ 5,224	¥10.0 $0.11	September 30, 2009	November 27, 2009

(2) Dividends, of which cut-off date was in the year ended March 31, 2010, and effective date of which will be in the year ending March 31, 2011

Resolution	Type of shares	Cash dividends paid Japanese yen (millions) U.S. dollars (thousands)	Source of dividends	Dividends per share (Japanese yen) (U.S. dollars)	Cut-off date	Effective date
Ordinary general meeting of the shareholders on June 24, 2010	Common stock	¥ 1,215 $13,059	Retained earnings	¥25.0 $0.27	March 31, 2010	June 25, 2010

8. Cash Flows

Acquisition of newly consolidated subsidiaries

In the year ended March 31, 2010, the Company acquired a part of shares of Ceekay Daikin Limited. The assets and liabilities of Ceekay Daikin Limited. acquired by the Company and the reconciliation between the acquisition cost and net cash used for the acquisition were as follows:

	Japanese yen (millions)	U.S. dollars (thousands)
Current assets	**¥2,000**	**$21,496**
Non-current assets	**1,187**	**12,758**
Goodwill	**404**	**4,342**
Current liabilities	**(1,838)**	**(19,755)**
Non-current liabilities	**(886)**	**(9,523)**
Foreign currency translation adjustments	**207**	**2,225**
Minority interests	**(231)**	**(2,483)**
Transferred from investment in securities	**(201)**	**(2,160)**
Acquisition cost	**642**	**6,900**
Cash and cash equivalents of newly consolidated subsidiary	**(194)**	**(2,085)**
Net acquisition cost	**¥ 448**	**$ 4,815**

9. Leases

(a) Finance leases

As discussed in Note 1 (i), finance leases commenced prior to April 1, 2008 which do not transfer ownership of leased assets to lessees are accounted for as operating leases.

Information relating to finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, is described below.

Pro forma information regarding leased property such as acquisition cost, accumulated depreciation, accumulated losses on impairment and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee for the years ended March 31, 2009 and 2010 was as follows:

	Japanese yen (millions)			
March 31, 2009	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance
Machinery and vehicles	¥266	¥197	¥ —	¥ 69
Tools and furniture	142	56	—	86
	¥408	¥253	¥ —	¥155

	Japanese yen (millions)				U.S. dollars (thousands)			
March 31, 2010	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance	Acquisition cost	Accumulated depreciation	Accumulated losses on impairment	Balance
Machinery and vehicles	**¥141**	**¥ 96**	**¥ —**	**¥ 45**	**$1,515**	**$1,032**	**$ —**	**$ 483**
Tools and furniture	**115**	**50**	**—**	**65**	**1,236**	**537**	**—**	**699**
	¥256	**¥146**	**¥ —**	**¥110**	**$2,751**	**$1,569**	**$ —**	**$1,182**

The scheduled maturities of future lease payments, on such lease contracts for the years ended March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Due within one year	¥ 46	**¥ 38**	**$ 408**
Due over one year	109	**72**	**774**
	¥155	**¥110**	**$1,182**
Lease payments for the year	¥ 62	**¥ 50**	**$ 537**

The amounts of acquisition costs and future minimum lease payments under finance leases included the interest expense portions.

Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, calculated by the straight-line method, would have been ¥62 million and ¥50 million ($ 537thousand) for the years ended March 31, 2009 and 2010, respectively.

The Company had no leased assets on which impairment should have been recognized for the years ended March 31, 2009 and 2010.

(b) Operating leases

The scheduled maturities of future lease payments under non-cancelable operating leases as of March 31, 2009 and 2010, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Due within one year	¥ 3	**¥ 6**	**$ 64**
Due over one year	7	**16**	**172**
	¥10	**¥22**	**$236**

10. Financial Instruments

Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan Statement No.10 issued on March 10, 2008) and "Guidance on Disclosing Fair Value of Financial Instruments" (Accounting Standards Board of Japan Guidance No.19 issued on March 10, 2008).

The Company and its consolidated subsidiaries manage funds only in short-term deposits, raise funds by bonds or loans and engage in derivative transactions for the purpose of avoiding the risk of foreign exchange rate fluctuation and ensuring steady cash flow, not for trading or speculative purposes. Hedging accounting through derivative transactions was not applied as the necessary conditions were not met. Notes and accounts receivable have exposure to the credit risk of customers. The Company and its consolidated subsidiaries are managing such a risk by controlling the due date and balance of receivables from customers and watching their credit risk conditions in accordance with the Group credit regulations. Furthermore, to avoid the risk and ensure steady cash flow of accounts receivable in foreign currency, the Company and its consolidated subsidiaries engage in derivative transactions (forward currency exchange contracts). Certain securities include exposure to market risk. The Company and its consolidated subsidiaries have such securities for the purpose of maintaining relationships with customers or suppliers, not for trading purposes. The fair values of the securities are periodically reported to the Board of Directors at the board meeting of the Company. Due dates of notes and accounts payable are mainly within one year. Short-term borrowings are mainly for the purpose of working capital and long-term debt is mainly for the purpose of payment for investment in equipment. Derivative transactions are entered and controlled by the financial department with approval of the financial manager under the rules of each company, which provide the details such as the department in charge and the maximum transaction amount. To reduce credit risk, transaction counterparties are limited to major financial institutions. Notes and accounts payable and borrowings have exposure to liquidity risk. The Company and its consolidated subsidiaries are controlling such risk by planning monthly budgets of payment.

The book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2010 were as follows.

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2010	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and time deposit	**¥26,242**	**¥26,242**	**¥—**	**$282,051**	**$282,051**	**—**
Notes and accounts receivable	**33,405**	**33,405**	**—**	**359,039**	**359,039**	**—**
Investments in securities						
Other securities	**1,069**	**1,069**	**—**	**11,490**	**11,490**	**—**
Notes and accounts payable	**(14,634)**	**(14,634)**	**—**	**(157,287)**	**(157,287)**	**—**
Short-term borrowings	**(3,371)**	**(3,371)**	**—**	**(36,232)**	**(36,232)**	**—**
Accrued expenses	**(5,186)**	**(5,186)**	**—**	**(55,739)**	**(55,739)**	**—**
Long-term debt	**(4,450)**	**(4,462)**	**(12)**	**(47,829)**	**(47,958)**	**(129)**
Derivative transactions	**(27)**	**(27)**	**—**	**(290)**	**(290)**	**—**

(Notes) 1. The methods used to determine the fair value of financial instruments and derivative transactions are as follows:
Cash and time deposit, notes and accounts receivable, notes and accounts payable, short-term borrowings and accrued expenses are settled in the short term and the fair values are considered to be equal to book values. Therefore, fair values are stated at book values. Investments in securities (Other securities) are stated at fair market value. Information regarding investments in securities classified by the purposes for which they are held is noted in the relevant section of this report.
Long-term debt is stated at fair value based on the method in which total amount of principal and interest is discounted at the interest rate that would be applied if each company borrowed the same, but new, principal amount.
Derivative information is noted in the relevant section of this report.

2. Financial instruments for which the fair value is considered difficult to determine
Non-listed equity securities and investments in nonconsolidated subsidiaries and affiliates (book value ¥707 million ($7,599 thousand)) have no market price available and are considered to be financial instruments for which the fair market value is difficult to determine. Therefore, these instruments are not included in "Investment in securities (Other securities)" in the table above.

3. Refund schedule for current credit after consolidated date

	Japanese yen (millions)				U.S. dollars (thousands)			
	2011	2012 to 2015	2016 to 2020	2021 and thereafter	2011	2012 to 2015	2016 to 2020	2021 and thereafter
Cash and time deposit	**¥26,242**	**¥ —**	**¥ —**	**¥ —**	**$282,051**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable	**33,405**	**—**	**—**	**—**	**359,039**	**—**	**—**	**—**
	59,647	**¥ —**	**¥ —**	**¥ —**	**$641,090**	**$ —**	**$ —**	**$ —**

4. Payment schedule for long-term debt after consolidated date

	Japanese yen (millions)				U.S. dollars (thousands)			
	2011	2012 to 2015	2016 to 2020	2021 and thereafter	2011	2012 to 2015	2016 to 2020	2021 and thereafter
Long-term debt	**¥ 1,351**	**¥2,630**	**¥469**	**¥ —**	**$14,521**	**$28,267**	**$5,041**	**$ —**

11. Securities

Other securities with book values (fair values) exceeding acquisition costs as of March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		
March 31, 2009	Acquisition cost	Book value	Difference
Equity securities	¥249	¥542	¥293
Interest-bearing securities	—	—	—
Others	—	—	—
	¥249	¥542	¥293

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2010	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥334**	**¥910**	**¥576**	**$3,590**	**$9,781**	**$6,191**
Interest-bearing securities	**—**	**—**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**	**—**	**—**
	¥334	**¥910**	**¥576**	**$3,590**	**$9,781**	**$6,191**

Other securities with book values (fair values) not exceeding acquisition costs as of March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		
March 31, 2009	Acquisition cost	Book value	Difference
Equity securities	¥271	¥195	¥(76)
Interest-bearing securities	—	—	—
Others	—	—	—
	¥271	¥195	¥(76)

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2010	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥197**	**¥159**	**¥(38)**	**$2,117**	**$1,709**	**$(408)**
Interest-bearing securities	**—**	**—**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**	**—**	**—**
	¥197	**¥159**	**¥(38)**	**$2,117**	**$1,709**	**$(408)**

The book value of securities with no available fair values as of March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Other securities with no fair value			
Non-listed equity securities	¥67	**¥68**	**$731**

12. Derivatives

The following table provides information on derivative instruments as of March 31, 2009 and 2010.

	Japanese yen (millions)		
March 31, 2009	Contract amount	Fair value	Gain (loss)
Forward exchange contracts:			
To sell U.S. dollars	¥824	¥848	¥(24)
To sell Euro	9	10	(1)
To sell Japanese Yen	100	125	(25)
To buy Japanese Yen	120	117	3
To buy U.S. dollars	1	1	0
Currency swaps:			
Payment Rupiah			
Receipt U.S. dollars	**21**	**3**	**3**
	¥ —	**¥ —**	**¥(44)**

	Japanese yen (millions)			U.S. dollars (thousands)		
March 31, 2010	Contract amount	Fair value	Gain (loss)	Contract amount	Fair value	Gain (loss)
Forward exchange contracts:						
To sell U.S. dollars	¥1,070	¥(22)	¥(22)	$11,501	$(237)	$(237)
To sell Euro	24	(1)	(1)	258	(11)	(11)
To sell Japanese Yen	90	0	0	967	0	0
To buy U.S. dollars	91	(2)	(2)	978	(21)	(21)
To buy Thai bahts	55	(2)	(2)	591	(21)	(21)
To buy Japanese Yen	13	(0)	(0)	140	(0)	(0)
	¥1,343	¥(27)	¥(27)	$14,435	$(290)	$(290)

13. Employees' Severance and Retirement Benefits

The Company and its domestic consolidated subsidiaries have adopted defined benefit retirement plans: cash balance plans and lump-sum payment plans, as well as defined contribution pension plans.

The liability for employees' severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2009 and 2010 consisted of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Projected benefit obligation	¥(11,781)	**¥(11,601)**	**$(124,688)**
Fair value of plan assets	5,080	**5,968**	**64,144**
	(6,701)	**(5,633)**	**(60,544)**
Unrecognized actuarial differences	1,140	**(473)**	**(5,084)**
Liability for employees' severance and retirement benefits	¥ (5,561)	**¥ (6,106)**	**$ (65,628)**

Included in the consolidated statements of income for the years ended March 31, 2009 and 2010 were employees' severance and retirement benefit expenses comprised of the following:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	**2010**	**2010**
Service costs	¥ 496	**¥ 527**	**$ 5,664**
Interest costs	234	**235**	**2,527**
Expected return on plan assets	(110)	**(101)**	**(1,086)**
Amortization of actuarial differences	527	**1,134**	**12,188**
Employees' severance and retirement benefit expenses	1,147	**1,795**	**19,293**
Others	183	**192**	**2,064**
	¥1,330	**¥1,987**	**$21,357**

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

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

	2009	**2010**
Method of attributing the projected benefits to periods of service	Straight-line basis	**Straight-line basis**
Discount rate	2.0%	**2.0%**
Expected rate of return on plan assets	2.0%	**2.0%**
Amortization of prior service costs	1 year	**1 year**
Amortization of actuarial differences	1 year	**1 year**

14. Income Taxes

Significant components of the Company and consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	2010	2010
Deferred tax assets:			
Employees' severance and retirement benefits	¥2,245	¥2,466	$26,505
Net operating losses carried forward	1,723	1,797	19,314
Accrued bonuses to employees	726	892	9,587
Impairment losses on property, plant and equipment	488	703	7,556
Losses on devaluation of inventories	441	424	4,557
Unrealized gains (inventories)	374	379	4,074
Accrued warranty costs	240	343	3,687
Accrued enterprise tax	—	262	2,816
Unrealized gains (fixed assets)	225	220	2,365
Retirement benefits for directors and corporate auditors	222	—	—
Accounts payable	—	162	1,741
Depreciation	112	122	1,311
Losses on disposal of machinery	93	—	—
Other	839	971	10,436
Total deferred tax assets	7,728	8,741	93,949
Valuation allowance	(1,622)	(2,014)	(21,647)
Deferred tax assets	6,106	6,727	72,302
Deferred tax liabilities:			
Property, plant and equipment	(833)	(1,144)	(12,296)
Retained earnings of overseas subsidiaries	(469)	(795)	(8,545)
Reserve for advanced depreciation	(330)	(326)	(3,504)
Net unrealized holding gains on other securities	(92)	(220)	(2,365)
Other	(182)	(101)	(1,085)
Total deferred tax liabilities	(1,906)	(2,586)	(27,795)
Valuation allowance	—	—	—
Deferred tax liabilities	(1,906)	(2,586)	(27,795)
Net deferred tax assets	¥4,200	¥4,141	$44,507

The Company and its consolidated subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 40.4% for the years ended March 31, 2009 and 2010.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2009 and 2010:

	2009	2010
Statutory tax rate	40.4%	40.4%
Adjustments for:		
Non-deductible expenses	1.0	0.6
Per capita inhabitants tax	0.3	0.2
Tax credit for research and development expenses	(3.0)	(2.7)
Different tax rates applied to overseas subsidiaries	(6.6)	(3.8)
Increase(decrease) of retained earnings of overseas subsidiaries	(12.3)	3.2
Dividend	4.4	1.3
Increase in valuation allowance	6.3	3.9
Other	(1.3)	0.7
Effective tax rate	29.2%	43.8%

15. Shareholders' Equity

Net assets section comprises three subsections, which are shareholders' equity, valuation and translation adjustments and minority interests.

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

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

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit and could be capitalized by a resolution of the shareholders' meeting.

Under the Law, additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, by a resolution of the shareholders' meeting, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

16. Segment Information

The Company and its consolidated subsidiaries operate in three business segments, Manual automotive drivetrain operations, Automatic automotive drivetrain operations and Other. The Manual automotive drivetrain segment manufactures and sells clutch discs, clutch covers, flywheels and other manual transmissions. The Automatic automotive drivetrain segment is engaged in the manufacture and sale of torque converters and wet friction clutch plates. The Other segment consists of industrial machine drivetrain operations, that is, the manufacture and sale of powershift transmissions, and other operations including the sale and manufacture of clutches for motorcycle, plants and other facilities.

Business segment information for the years ended 31, 2009 and 2010 was as follows:

		Japanese yen (millions)		U.S. dollars (thousands)
		2009	2010	2010
Sales:	Manual automotive drivetrain operations	¥ 54,632	¥ 45,733	$ 491,541
	Automatic automotive drivetrain operations	93,678	95,651	1,028,063
	Other operations	25,730	17,883	192,208
	Eliminations (inter-segment net sales)	(7,290)	(6,596)	(70,894)
		¥ 166,750	¥152,671	$1,640,918
Operating Costs and Expenses:	Manual automotive drivetrain operations	¥ 47,370	¥ 39,837	$ 428,171
	Automatic automotive drivetrain operations	90,504	90,434	971,991
	Other operations	25,041	17,579	188,940
	Non-allocated operating expenses and eliminations	(6,382)	(6,030)	(64,811)
		¥156,533	¥141,820	$1,524,291
Operating Income:	Manual automotive drivetrain operations	¥ 7,262	¥ 5,896	$ 63,370
	Automatic automotive drivetrain operations	3,173	5,217	56,072
	Other operations	690	304	3,268
	Non-allocated operating expenses and eliminations	(908)	(566)	(6,083)
		¥ 10,217	¥ 10,851	$ 116,627
Assets:	Manual automotive drivetrain operations	¥ 37,585	¥ 41,524	$ 446,303
	Automatic automotive drivetrain operations	71,076	73,995	795,303
	Other operations	16,355	17,396	186,973
	Corporate and eliminations	11,891	20,511	220,454
		¥136,907	¥153,426	$1,649,033
Depreciation and Amortization:	Manual automotive drivetrain operations	¥ 2,964	¥ 3,032	$ 32,588
	Automatic automotive drivetrain operations	8,191	7,937	85,307
	Other operations	1,275	1,142	12,275
	Corporate and eliminations	(118)	(117)	(1,258)
		¥ 12,312	¥ 11,994	$ 128,912
Capital Expenditures:	Manual automotive drivetrain operations	¥ 5,700	¥ 1,527	$ 16,412
	Automatic automotive drivetrain operations	13,531	3,270	35,146
	Other operations	3,276	1,597	17,165
	Corporate and eliminations	(83)	(103)	(1,107)
		¥ 22,424	¥ 6,291	$ 67,616

(Note) Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries changed estimated useful lives on depreciation of machinery based on an amendment in the Corporation Tax Law. As compared with the previous method, operating costs and expenses increased by ¥79 million in the Manual automotive drivetrain operations, ¥308 million in the Automatic automotive drivetrain operations and 29 million in the Other operations, and operating income for each segment decreased by the same amount.

Geographic area segment information for the years ended March 31, 2009 and 2010 was as follows:

		Japanese yen (millions)		U.S. dollars (thousands)
		2009	2010	2010
Sales:	Japan	¥121,492	¥117,348	$1,261,264
	America	31,071	23,222	249,592
	Asia-Oceania	33,897	29,337	315,316
	Other	2,659	2,079	22,345
	Eliminations (inter-segment net sales)	(22,369)	(19,315)	(207,599)
		¥166,750	¥152,671	$1,640,918
Operating Costs and Expenses:	Japan	¥116,895	¥110,282	$1,185,318
	America	30,364	22,791	244,959
	Asia-Oceania	29,503	26,293	282,599
	Other	2,222	1,916	20,594
	Non-allocated operating expenses and eliminations	(22,451)	(19,462)	(209,179)
		¥156,533	¥141,820	$1,524,291
Operating Income:	Japan	¥ 4,597	¥ 7,066	$ 75,946
	America	708	431	4,633
	Asia-Oceania	4,395	3,044	32,717
	Other	436	163	1,751
	Non-allocated operating expenses and eliminations	81	147	1,580
		¥ 10,217	¥ 10,851	$ 116,627
Assets:	Japan	¥ 79,509	¥ 81,648	$ 877,558
	America	19,207	18,983	204,031
	Asia-Oceania	30,709	36,106	388,070
	Other	1,695	1,859	19,980
	Corporate and eliminations	5,787	14,830	159,394
		¥136,907	¥153,426	$1,649,033

(Notes) 1. The Company's operations are classified into geographical areas as follows: Japan, America, Asia-Oceania (Thailand, Malaysia, China, Indonesia, Vietnam, Australia, United Arab Emirates, New Zealand and India) and Other (Europe).

2. Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries changed estimated useful lives on depreciation of machinery based on an amendment in the Corporation Tax Law. As compared with the previous method, operating costs and expenses increased by ¥416 million in Japan segment and operating income for each segment decreased by the same amount.

Net sales outside Japan for the years ended March 31, 2009 and 2010 were as follows:

	Japanese yen (millions) 2009	Japanese yen (millions) 2010	U.S. dollars (thousands) 2010
America	¥31,165	**¥23,492**	**$252,494**
Asia-Oceania	33,247	**35,788**	**384,652**
Other	7,308	**5,366**	**57,673**
	¥71,720	**¥64,646**	**$694,819**

17. Related Party Transactions

For the years ended March 31, 2009 and 2010, the Company and its consolidated subsidiaries had operational transactions with Aisin AW Co., Ltd and Aisin Holdings of America, Inc., which are subsidiaries of Aisin Seiki Co., Ltd. which holds 33.4% of the Company's voting rights.

A summary of the significant transactions between the Company and its consolidated subsidiaries and such companies for the years ended March 31, 2009 and 2010 were as follows:

March 31, 2009

Subjects	Categories	Name	Address	Capital Japanese yen (millions)	Operation	Voting rights (%)	Relationship: Business relationship	Trade	Amount Japanese yen (millions)	Accounts	Balance Japanese yen (millions)
The Company	Other related company's subsidiary	Aisin AW Co., Ltd.	Anjo City Aichi Pref.	¥ 26,480	Manufacturing automotive parts	—	Sale of products	Sale of products Concurrently serving as directors	¥ 3,973	Accounts receivable Advanced received	¥ 503 ¥ 1
Dynax Corporation	Other related company's subsidiary	Aisin AW Co., Ltd.	Anjo City Aichi Pref.	¥ 26,480	Manufacturing automotive parts	—	Sale of products	Sale of products	¥ 2,374	Accounts receivable	¥ 216
Exedy America Corporation	Other related company's subsidiary	Aisin Holdings of America, Inc.	Indiana U.S.A.	$282,290	Administration of overall North American operations	40% (directly held)	Debt	Interest expense	¥ 86	Long-term debt	¥ 1,529

March 31, 2010

Subjects	Categories	Name	Address	Capital Japanese yen (millions) U.S. dollars (thousands)	Operation	Voting rights (%)	Relationship: Business relationship	Trade	Amount Japanese yen (millions) U.S. dollars (thousands)	Accounts	Balance Japanese yen (millions) U.S. dollars (thousands)
The Company	Other related company's subsidiary	Aisin AW Co., Ltd.	Anjo City Aichi Pref.	¥ 26,480 $284,609	Manufacturing automotive parts	—	Sale of products	Sale of products Concurrently serving as directors	¥ 4,059 $43,626	Accounts receivable Advanced received	¥ 1,021 $10,974 ¥ 5 $ 54
Dynax Corporation	Other related company's subsidiary	Aisin AW Co., Ltd.	Anjo City Aichi Pref.	¥ 26,480 $284,609	Manufacturing automotive parts	—	Sale of products	Sale of products	¥ 2,192 $23,560	Accounts receivable	¥ 537 $ 5,772
Exedy America Corporation	Other related company's subsidiary	Aisin Holdings of America, Inc.	Indiana U.S.A.	$282,290	Administration of overall North American operations	40% (directly held)	Debt	Interest expense	¥ 37 $ 398	Long-term debt	¥ 1,547 $16,627

(Transaction terms and policy determination thereof)
With regard to sale of products and debt, prices and other transaction terms are determined by negotiation in consideration of market situations.

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

18. Per Share Data

Per share data for the years ended March 31, 2009 and 2010 were as follows:

	Japanese yen		U.S. dollars
	2009	2010	2010
Net income	¥ 112.00	¥ 113.72	$ 1.22
Net income – diluted	—	—	—
Net assets	1,999.38	2,115.38	22.74

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

The information on which per share data was calculated for the years ended March 31, 2009 and 2010 was as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2009	2010	2010
Net income per share of common stock			
Net income	¥ 5,441	¥ 5,524	$59,372
Amounts not attributed to ordinary shareholders	—	—	—
Net income attributed to ordinary shareholders	¥ 5,441	¥ 5,524	$59,372
The weighted average number of shares (thousands)	48,583	48,582	

19. Short-term Borrowings and Long-term Debt

Short-term borrowings and long-term debt as of March 31, 2009 and 2010 were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	Weighted average interest rates	Year due
	2009	2010	2010		
Short-term borrowings	¥3,681	¥3,371	$36,232	3.7%	
Current portion of long-term debt	802	1,351	14,520	6.2	
Current portion of lease obligation	5	16	172	—	
Long-term debt	2,627	3,099	33,308	2.6	2011–2019
Lease obligations	15	28	301	—	2011–2015
Other interest bearing debt	79	58	623	0.5	
	¥7,209	¥7,923	$85,156		

Annual maturities of long-term debt and lease obligations as of March 31, 2010 were as follows:

Long-term debt Years ending March 31	Japanese yen (millions)	U.S. dollars (thousands)
2012	¥1,908	$20,507
2013	636	6,836
2014	86	924
2015 and thereafter	469	5,041
	¥3,099	$33,308

Lease obligation Years ending March 31	Japanese yen (millions)	U.S. dollars (thousands)
2012	¥13	$140
2013	8	86
2014	6	64
2015 and thereafter	1	11
	¥28	$301

Independent Auditors' Report

EXEDY CORPORATION AND CONSOLIDATED SUBSIDIARIES

To the Shareholders and Board of Directors of EXEDY Corporation:

We have audited the accompanying consolidated balance sheets of EXEDY Corporation and consolidated subsidiaries as of March 31, 2010 and 2009 and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EXEDY Corporation and its consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 25, 2010

Corporate Data

BOARD OF DIRECTORS AND CORPORATE AUDITORS

As of June 30, 2010

President and Chief Executive Officer:
Haruo Shimizu

Director:
Etsuji Terada
Hisayasu Masaoka
Masayuki Matsuda
Katsumi Shintou
Hidehito Hisakawa
Hideki Miura
Mikio Natsume

Auditors:
Naoaki Sawada
Kanshirou Toyoda
Koji Okada
Takenori Yamasaki

EXECUTIVE OFFICERS

As of June 30, 2010

Senior Executive Managing Officer:
Etsuji Terada
Hisayasu Masaoka
Masayuki Matsuda

Executive Managing Officer:
Katsumi Shintou
Hidehito Hisakawa
Hideki Miura
Yoshitsugu Sakamoto
Shougo Okamura

Senior Executive Officer:
Koji Akita
Akira Hirai

Executive Officer:
Yoshio Katayama
Masahito Baba
Tadashi Nakahara
Mitsugu Yamaguchi
Tetsuya Yoshinaga
Makoto Ichikawa
Keizo Nishigaki
Hiroshi Toyohara
Kenji Matsuda

OUTLINE OF COMPANY

As of March 31, 2010

Name:
EXEDY Corporation

Established:
July 1, 1950

Paid-in Capital:
¥8,284 million

Number of Employees:
2,388

Number of Authorized Shares:
168,000 thousand shares

Number of Issued Shares:
48,594 thousand shares

Number of Shareholders:
6,081

Average number of shares held by one Shareholder:
7,991 shares

Listed on First Sections, Tokyo/Osaka Stock Exchange

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Mission Statement

The Shape of Our Future: "Creation of Fulfillment"

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

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

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

EXEDY

Focus on Basics

EXEDY Corporation

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