

ANNUAL REPORT 2006

QCDD-Oriented

World-Class Seat System Creator



PROFILE



Since the founding of the Tachi-S Group, we have consistently made every possible effort to develop and produce superior car seats that win the confidence and satisfaction of our customers. Today, we are one of the top seat system manufacturers in Japan and a favored supplier of many overseas customers.

Based on our new corporate philosophy of “contributing to society by supplying products that fill our customers around the world with confidence and inspiration through the development of technologies,” we are aiming to become a global top-level seat system creator. Drawing on the technological development capabilities we have developed over the years, we are working to “give our customers maximum enjoyment” and are boldly continuing to take up the challenges of being a player in global markets.

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Vision 2010 D Long-Term

Achieve world-class QCDD and strengthen

Deliver

1. Qualitative Objectives: Achieve world-class QCDD

Q (Quality): Continuously rank among J.D. Power's top three

C (Cost): Become No. 1 in cost-competitiveness

D (Development): Develop the No. 1 products in the industry and the methods for their manufacture

D (Delivery): Construct a flexible global production system

2. Quantitative Objectives:

Global 5: (a minimum 5% share of the global car seat market)

Consistent annual net sales of at least ¥250 billion

Consistent annual ROE of at least 10%

lity

Our Strategy

To achieve our Vision 2010 management plan, we are creating a system that supports the globalization of our business. Overseas, we will improve our management systems by clearly defining overall global Group business management and regional business management. In Japan, we will restructure our business to facilitate a changeover to a higher earnings structure.

Development

High-quality car seats produced by Tachi-S are the result of new mechanisms and processes developed with the aid of advanced technologies. To achieve development capabilities that are truly world-class, we will raise the value-added component of our products and increase their cost-competitiveness.

Strategy: Set Up Development Systems in Each Region

- Establish key development bases (Japan, North America, Europe, and China)
- Introduce more strategic products (i.e., Global Standard Frames) to the world market
- Implement the "50% Up" campaign to increase the number of personnel working in development

Production

Tachi-S is building a production system that integrates every process, from planning to production. In the years ahead, the Company will develop a proprietary production system (standardized production processes and methods, standardized production and quality management, and universal production equipment) that will be deployed around the world to control equipment expenses, flexibly handle production changes, and reduce lead times. This will enable the Company to achieve more cost-competitive production volumes and economies of scale so that it can effectively compete globally.

Strategy: Establish Global Production Bases

- Develop the world's best manufacturing methods (Champion line) and deploy at our global production bases
- Concentrate the production of key components at each regional base and distribute end products to regional customers

Sales

The number of our business partners is increasing throughout the world. Therefore, we are further improving our operational capabilities—from development and production all the way to marketing and sales—at each of our key global bases.

Strategy: Win Global Business

- Expand business at key bases (Japan, North America, Europe, and China)
- Forge alliances with business partners

Development Business Objectives for 2010

our position as a global "seat system creator"

Strategic Products

The World's Lightest Weight Car Seats



The World's Top Level of Safety Performance



Standardized Seats for International Markets

MESSAGE FROM THE MANAGEMENT

Review

As the Japanese vehicle market has matured, domestic manufacturers have accelerated the shift in their business focus to overseas markets, and the momentum of overseas production now exceeds that of domestic manufacturing. Companies in industries linked to the automobile industry are also now searching for ways to expand business globally.

In response to this change, the Tachi-S Group is moving toward the goal of its Vision 2010 management plan to become a “truly global player” in the car seat industry by fiscal 2010. Accordingly, the Company has made a commitment to putting quality first, strengthening its earnings power by increasing the added value of its products, focusing on developing differentiated products that could become industry standards as well as new manufacturing methods, and increasing customer orders through aggressive sales activities.

As a result of these initiatives, orders for seats for installation in new model vehicles in Japan held firm and our subsidiary in Canada made its first full-year contribution to consolidated revenues. On the strength of these favorable developments, net sales climbed 14.8% year on year, to ¥210.8 billion, exceeding the ¥200 billion mark for the first time. However, the combination of higher development costs, investments for the future development of our global operations, and weakness in car sales in the United States led to a decline of 51.5% in net income, to ¥1.9 billion.

In line with our policy of maintaining stable dividends, Tachi-S sustained its ordinary cash dividend for the fiscal year at ¥10 per share. Going forward, we are committed to returning a portion of our earnings to our shareholders, giving full consideration to the future development of our operations, our dividend payout ratio, and other factors.

Vision 2010

Under its long-term strategy, Vision 2010, the Tachi-S Group is moving aggressively toward becoming a “world-class seat system creator” through the development of comprehensive proposals that cover the entire cycle of production design and development through production while attaining world-class technological capabilities and QCDD.

The issue we must address immediately—as the recent trends toward declining automobile production in Japan, intensification of cost competition, and globalization become more pronounced—is the need to establish a strong position backed by technological development capabilities and cost-competitiveness. To become a truly global player, we have set the following objectives:

1. Establish operations that are fully integrated, from development through production, in major international automotive production centers
2. Build a top-class reputation in the industry for technological development capabilities
3. Attain a superior scale of operations in international markets
4. Develop capabilities for responding globally

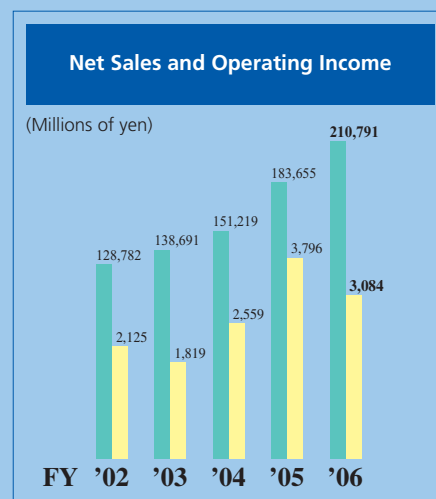
In other words, we must create self-contained operating systems in key regions, namely Japan, North America, Europe, and China. Then, based on our strong technological development capabilities, we must attain a 5% share of the global market. We are dealing proactively and aggressively with the challenges of making the leap from being a local company in Asia to becoming a world-class enterprise.

A key aspect of making this transition will be the completion of our global operating centers. In line with our medium-term



Kiyoshi Saito

Kiyoshi Saito,
Chairman and
Chief Executive Officer



management plan, we are working to have seven centers fully operational by the end of fiscal 2007, thus creating a foundation ready for the further global development of our activities.

In addition, for the Tachi-S Group to enhance its global competitiveness and realize a high return on its investment of capital, it must implement thoroughgoing cost-reduction measures. Accordingly, we are committed to moving forward steadily with the implementation of our medium-term management plan to attain our goals of consolidated net sales of at least ¥250 billion and consolidated ROE of 10%.

Corporate Governance

To enhance the transparency and efficiency of its operations as well as maximize its corporate value and meet the expectations of its shareholders and other stakeholders, the Tachi-S Group places a strong emphasis on corporate governance. In its activities, the Group works to fulfill its corporate social responsibilities by addressing environmental issues and contributing to society.

The Company has adopted the corporate auditor form of corporate governance and has appointed four corporate auditors, two of whom are outside auditors. Also, to ensure that the members of the Board of Directors conduct their activities fairly and transparently, the Company has appointed nine directors, including two outside directors, all of whom are elected for a term of one year. In addition, in April 2006, the Company combined the the Management Strategy Committee, comprising the president, vice president, and senior executive officers, with the Executive Officer Committee, which is composed of all the executive officers, with the aims of accelerating decision making and promoting the efficient conduct of management meetings.

As part of its Risk Management System, Tachi-S has formed an Ethics Committee as well as a Compliance Committee composed primarily of personnel from outside the Company. Furthermore, the Company has appointed compliance officers and an internal reporting system and is working to strengthen its compliance systems. In addition, based on its Code of Ethics, which provides

regulations for the behavior of management and staff, the Company is striving to prevent fraudulent, illegal, and unethical behavior.

In addition to our compliance systems, to deal with risks in the areas of safety, the natural environment, quality, and other issues, we have established committees covering each of these areas, and our operating divisions manage these risks from a specialist perspective. Going forward, our plans include the establishment of a Risk Management Committee and the preparation of risk management rules and procedures, with the goal of substantially strengthening our risk management systems.

Tachi-S has established "trust" as its core management value and, while pursuing efficiency and soundness in its operations, is continuing to substantially improve its corporate governance systems.

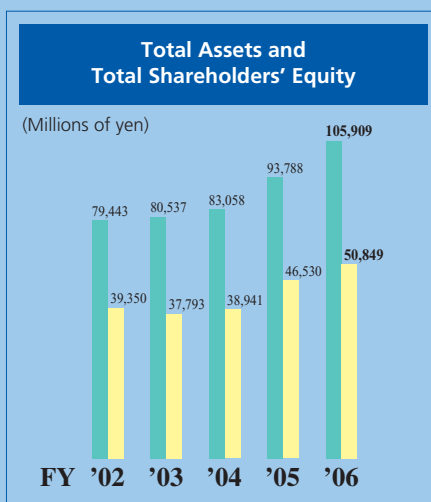
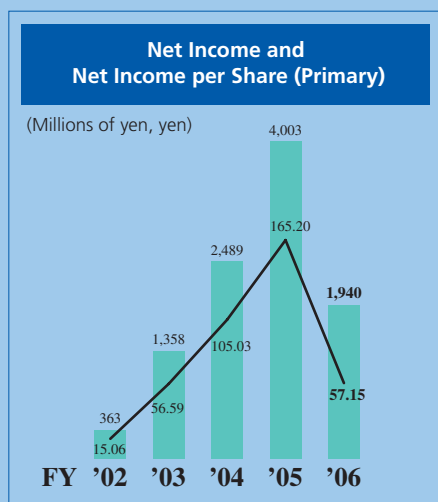
Overview

Economic uncertainty and a harsh business environment are likely to continue. In the automobile industry, although major growth is not expected in the Japanese, North American, and European markets, the markets of emerging countries, as represented by the so-called BRIC countries (Brazil, Russia, India, and China), are expanding rapidly—a development that we believe will accelerate the trend among automobile manufacturers toward the establishment of more broadly based global supply systems.

In light of these developments, to attain the objectives of its Vision 2010 management plan, the Tachi-S Group will continue working to build a solid business base and take the initiative to promote efficiency in its operations with the aims of substantially improving its performance and increasing its corporate value.

As we move ahead with these efforts, we appreciate the continued support of our esteemed shareholders.

June 28, 2006



Kosaku Tarumi

Kosaku Tarumi,
President and Chief
Operating Officer

Milestones

- 1954** Established Tachikawa Spring Co., Ltd.
- 1961** Spun off the Precision Spring Division to form Tachikawa Hatsujou Co., Ltd.
- 1971** Established Nihon Pullmaflex Co., Ltd. (currently Tachi-S Parts Co., Ltd.)
- 1973** Received capital investment from Nissan Motor Co., Ltd., Mitsubishi Motors Corporation, and Hino Motors, Ltd.
- 1976** Established Kinryo Kogyo Co., Ltd., and Tachikawa Kogyo Co., Ltd., and made equity investment in Fujitaka Kogyo Co., Ltd.
- 1986** Changed Company name to Tachi-S Co., Ltd.
Established Tachi-S Engineering U.S.A. Inc. in Michigan, U.S.A.
Established Technotrim, Inc., in Michigan, U.S.A.
Listed on the Second Section of the Tokyo Stock Exchange
- 1987** Established Setex Inc. in Ohio, U.S.A.
- 1991** Established Industria de Asiento Superior, S.A. de C.V. (INSA), in Mexico
- 1995** Established Shanghai Taiye Seat Co., Ltd., in Shanghai, People's Republic of China
- 1999** Capital tie-up with Fuji Kiko Co., Ltd.
Nissan Motor capital investment withdrawn
- 2000** Established Syntec, Inc., in North Carolina, U.S.A.
- 2001** Established joint venture Xi'an Qintai Seat Co., Ltd., in Xian, Shaanxi Province, People's Republic of China
Established Shanghai Office in Shanghai, People's Republic of China
Established joint venture Zhengzhou Taixin Interia Co., Ltd., in Zhengzhou, People's Republic of China
Entered alliance with Araco Corporation
Established Europe Office in Düsseldorf, Germany
- 2002** Mitsubishi Motors capital investment withdrawn
- 2003** Established Tachi-S Taicang Co., Ltd., in Taicang, Jiangsu Province, People's Republic of China
Listed on the First Section of the Tokyo Stock Exchange
Sold equity in Shanghai Taiye Seat Co., Ltd., to a partner company and others
- 2004** Established Fuji Autotech U.S.A. LLC in Kentucky, U.S.A., as a joint venture with Fuji Kiko of USA Corporation
Established Tachi-S Canada Ltd. in Nova Scotia, Canada
Established a joint company, Setex Canada GP, in Ontario, Canada
Established Tachi-S Engineering Europe S.A.R.L. in Velizy Villacoublay, France
Established a joint company, TACLE Guangzhou Automotive Seat Co., Ltd., in Guangzhou, People's Republic of China
- 2005** Established a joint company, Fuji Autotech Guangzhou Co., Ltd., in Guangzhou, People's Republic of China
Established Tachi-S Trim Guangzhou Co., Ltd., in Guangzhou, People's Republic of China
Established TACLE Seating U.K. Limited in Sunderland, U.K.
Established TACLE Seating U.S.A. LLC in Tennessee, U.S.A.
- 2006** Nui Tec Corporation began operations

Establishment of TACLE Seating U.S.A. LLC

As part of the Company's global strategy, TACLE Seating U.S.A. was established in Smyrna, Tennessee, in November 2005 as a manufacturing and marketing company for automobile seats and seat components. During the fiscal year, construction work on the company's plant proceeded smoothly, with a target date for completion in October 2006. This company was established jointly by wholly owned subsidiary Tachi-S Engineering U.S.A. Inc. (headquartered in Michigan) and Lear Operations Corporation, Inc. (headquartered in Michigan). Scheduled to begin operations in May 2007, the company will focus on the manufacturing of automobile seats for Nissan's manufacturing companies in the United States.

Production at Tachi-S Trim Guangzhou Co., Ltd., to Begin

Tachi-S Trim Guangzhou, which was set up in July 2005 as a wholly owned company to manufacture and sell automobile seat trim, is scheduled to begin full-scale operations in November 2006. Plans call for expanding the scope of operations of this company as the automobile market in China grows and orders for automobile seats increase. Going forward, Tachi-S Trim Guangzhou is expected not only to serve the Chinese domestic market but also act as a base in the Tachi-S global manufacturing system. The company's products are scheduled to be marketed through manufacturing subsidiary TACLE Guangzhou Automotive Seat Co., Ltd.



Tachi-S Trim Guangzhou Co., Ltd.

Group Sewing Company Nui Tec Corporation Begins Operations

To respond to the accelerated pace of globalization in the automobile industry, Tachi-S initiated operations at Nui Tec Corporation in July 2006 as a new organization to manage and operate the Tachi-S Group's manufacturing activities for sewn products.

The objective of creating Nui Tec is to concentrate the Group's sewing technology and other related management resources with the aim of increasing management efficiency by having them under a single organization. Nui Tec will enable the Group to offer competitive products based on standardized production methods and will work to become a core unit in the Group's strategic components business.

Nui Tec will begin operations by becoming the holding company for the Group's two domestic companies (Tachikawa Kogyo Co., Ltd., and Fujitaka Kogyo Co., Ltd.) that specialize in sewn product manufacturing. In future, the Company's sewn product companies will be managed by Nui Tec and this company will work to raise the overall global competitiveness of the Group's sewing operations.



Nui Tec Corporation

Initiatives to Preserve the Environment

Along with the manufacture of top-quality products, the Tachi-S Group positions the preservation of the natural environment as an important activity. Based on screenings for ISO 14001 international environmental standards, the Head Office, the R&D center (in Ome, Japan), and all of the Group's seven domestic plants have met requirements and obtained certifications. Therefore, the Company engages in business activities that reflect concern for environmental preservation.

Looking ahead, based on the Group's fundamental philosophy of "being a company that cares for people and the environment," all management and staff are committed to taking initiatives to preserve the environment and contributing to creating an affluent society in which human beings live in symbiotic harmony with nature.



Voluntary cleanup activities

ANNUAL REVIEW

The Company's business performance in fiscal 2006, broken down by geographic segment, is as below.

»»»Japan

Thanks to firm sales from contracts for new vehicle models and changes in the composition of vehicles, sales in Japan amounted to ¥124.1 billion, an increase of 8.3% from the previous fiscal year, and operating income rose 50.5%, to ¥2,391 million.



Tachi-S Co., Ltd., Head Office

»»»United States

Brisk sales of automobile seats to Japanese automakers based in the United States and higher production of school bus seats, combined with favorable trends in foreign currency rates, led to a 6.7% rise in sales, to ¥42,289 million. Operating income, however, declined 66.9%, to ¥356 million, because of the impact of investments for the development of new production bases.



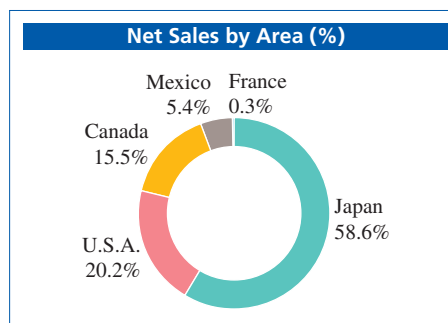
Tachi-S Engineering U.S.A. Inc.

»»»Canada

The sales of the Company's Canadian subsidiary were included in the consolidated accounts beginning in the latter half of the previous fiscal year. Although a comparison of sales in the latter half of the fiscal year under review and the same period of the previous fiscal year shows a decline, sales for the full fiscal year climbed 55.2%, to ¥32,633 million. Operating income was down 63.3%, to ¥426 million, because of the impact of adverse movements in foreign currency rates and other factors.



Setex Canada GP



»»»Mexico

Strong sales of existing vehicle models along with favorable trends in foreign currency rates resulted in an increase in sales of 36.7%, to ¥11,582 million. Operating income amounted to ¥23 million, compared with an operating loss of ¥33 million in the previous fiscal year.



Industria de Asiento Superior, S.A. de C.V., Aguascalientes Plant (Head Office)

»»»France

Beginning with the fiscal year under review, the Company's regional management company, Tachi-S Engineering Europe S.A.R.L., which is in charge of development for the European region, was included within the scope of consolidation. Sales amounted to ¥206 million and contributed to a recovery of a portion of development costs. However, as result of investments in future development and the burden of fixed costs, this segment reported an operating loss of ¥104 million.



Tach-S Engineering Europe S.A.R.L.

FINANCIAL HIGHLIGHTS

Tachi-S Co., Ltd. and consolidated subsidiaries Years ended March 31

Consolidated Financial Highlights

	Millions of yen					Thousands of U.S. dollars (Note)
	2002	2003	2004	2005	2006	2006
FOR THE YEAR						
Net sales	¥128,782	¥138,691	¥151,219	¥183,655	¥210,791	\$1,794,424
Operating income	2,125	1,819	2,559	3,796	3,084	26,253
Net income	363	1,358	2,489	4,003	1,940	16,514
Net income per share: primary (yen)	¥ 15.06	¥ 56.59	¥ 105.03	¥ 165.20	¥ 57.15	\$ 0.487
AT YEAR-END						
Total shareholders' equity.....	¥ 39,350	¥ 37,793	¥ 38,941	¥ 46,530	¥ 50,849	\$ 432,868
Total assets	79,443	80,537	83,058	93,788	105,909	901,583

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥117.47=US\$1, the rate of exchange on March 31, 2006.

Non-Consolidated Financial Highlights (Unaudited)

	Millions of yen					Thousands of U.S. dollars (Note)
	2002	2003	2004	2005	2006	2006
FOR THE YEAR						
Net sales	¥82,623	¥93,853	¥103,696	¥113,819	¥123,686	\$1,052,915
Operating income	564	1,814	1,841	1,304	2,138	18,200
Net income	691	568	1,342	1,155	1,611	13,714
Net income per share: primary (yen)	¥ 28.69	¥ 22.15	¥ 54.27	¥ 45.45	¥ 46.18	\$ 0.393
AT YEAR-END						
Total shareholders' equity.....	¥27,432	¥27,611	¥ 29,324	¥ 33,827	¥ 35,604	\$ 303,090
Total assets	55,687	56,706	62,330	64,795	71,679	610,189

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥117.47=US\$1, the rate of exchange on March 31, 2006.

The Company gives its highest priority to quality and works to strengthen its earnings power through improving added value as well as developing differentiated, industry standard setting products and manufacturing methods. The Company also markets its products aggressively through efforts to expand new orders and other such activities. As a result, during the fiscal year under review, orders for new vehicle models remained robust, the Company's Canadian subsidiary made its first full-year contribution to consolidated performance, and net sales climbed 14.8%, to ¥210,791 million. However, the increase in development costs and unfavorable impact of foreign currency movements led to an 18.8% decline in operating income, to ¥3,084 million, while net income posted a decline of 51.5%, to ¥1,940 million.

Cash Flows

Cash and cash equivalents at the end of the fiscal year under review increased ¥2,117 million, or 13.2%, to ¥18,191 million.

The principal factors accounting for this increase were (1) a rise in net cash provided by operating activities, to ¥7,602 million, owing mainly to an improvement in equity in earnings of affiliates and continued strong cash flow from income before income taxes and minority interests and depreciation and amortization and (2) a decrease in net cash used in investing activities, to ¥5,473 million, despite the Company's investment in a new company in China, because of lower payments for purchases of investments in securities and investments in new consolidated subsidiaries. This improvement in free cash flow (net cash provided by operating activities plus net cash used in investing activities), to ¥2,129 million, was partially offset by cash used in financing activities of ¥783 million. After taking account the ¥765 million in effect of exchange rate changes and ¥6 million owing to the increase in the scope of consolidation, the net increase in cash and cash equivalents was ¥2,111 million.

CONSOLIDATED BALANCE SHEETS

Tachi-S Co., Ltd. and consolidated subsidiaries As of March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2006	2006
ASSETS			
Current assets:			
Cash, time deposits and other cash equivalents (Note 12)	¥16,075	¥ 18,191	\$154,857
Marketable securities (Notes 4 and 12)	1,026	347	2,954
Accounts and notes receivable:			
Trade	27,178	30,577	260,296
Unconsolidated subsidiaries and affiliates	74	166	1,413
Other	459	666	5,670
	27,711	31,409	267,379
Less: allowance for bad debts	(59)	(56)	(477)
	27,652	31,353	266,902
Inventories (Note 6)	4,492	5,433	46,250
Advance payments	403	494	4,205
Deferred income taxes (Note 11)	693	1,136	9,670
Other current assets	763	377	3,209
Total current assets	51,104	57,331	488,047
Investments and advances:			
Investments in securities (Note 4)	4,054	6,058	51,571
Investments in unconsolidated subsidiaries and affiliates (Note 4)	9,235	11,367	96,765
Deferred income taxes (Note 11)	124	280	2,384
Long-term loans and other investments	1,164	978	8,326
	14,577	18,683	159,046
Property, plant and equipment (Note 7):			
Land	5,731	5,537	47,135
Buildings and structures	18,981	20,596	175,330
Machinery and equipment	30,090	32,357	275,449
Construction in progress	496	1,707	14,531
	55,298	60,197	512,445
Less: accumulated depreciation	(29,259)	(32,558)	(277,160)
Net property, plant and equipment	26,039	27,639	235,285
Intangible assets	2,068	2,256	19,205
Total assets	¥93,788	¥105,909	\$901,583

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2006	2006
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts and notes payable:			
Trade	¥24,971	¥ 29,314	\$249,545
Unconsolidated subsidiaries and affiliates	4,480	2,749	23,402
Construction and acquisition of properties	840	763	6,495
Other	302	2,755	23,453
	30,593	35,581	302,895
Income taxes payable	1,461	1,668	14,199
Reserve for directors' bonuses (Note 2 (14))	—	30	255
Other current liabilities	4,462	5,999	51,068
Total current liabilities	36,516	43,278	368,417
Reserve for retirement benefits (Note 9)	1,331	1,354	11,526
Deferred income taxes (Note 11)	738	1,018	8,666
Excess of investment cost over equity in net assets of consolidated subsidiaries	74	50	426
Other non-current liabilities	4,459	3,873	32,970
Minority interests in consolidated subsidiaries	4,140	5,487	46,710
Shareholders' equity:			
Common stock:			
Authorized: 140,000,000 shares			
Issued: 35,022,846 shares	8,146	8,146	69,345
Additional paid-in capital	7,698	7,731	65,813
Retained earnings	29,608	30,998	263,880
Net unrealized gain on securities (Note 4)	1,471	2,559	21,784
Foreign currency translation adjustments	145	2,308	19,648
Treasury stock (Note 2 (21))	(538)	(893)	(7,602)
Total shareholders' equity	46,530	50,849	432,868
Contingent liabilities (Note 10)			
Total liabilities and shareholders' equity	¥93,788	¥105,909	\$901,583

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Tachi-S Co., Ltd. and consolidated subsidiaries Years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2005	2006	2006
Net sales (Notes 14 and 16)	¥151,219	¥183,655	¥210,791	\$1,794,424
Operating costs and expenses:				
Cost of sales (Notes 14 and 16)	140,225	171,181	197,500	1,681,281
Selling, general and administrative expenses (Note 14)	8,435	8,678	10,207	86,890
Operating income	2,559	3,796	3,084	26,253
Other income (expenses):				
Interest and dividend income	177	199	323	2,750
Interest expenses	(56)	(81)	(66)	(562)
Stock issue costs	—	(34)	—	—
Loss on sale/disposal of property, net	(440)	(340)	(100)	(851)
Impairment loss on fixed assets (Notes 2 (11) and 7)	—	—	(80)	(681)
Gain on sales of securities (Note 4)	273	22	—	—
Gain on sales of subsidiaries' investments	96	—	—	—
Evaluation loss on securities	—	(69)	—	—
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	32	32	23	—
Equity in earnings of unconsolidated subsidiaries and affiliates	1,660	2,689	709	6,035
Loss on devaluation of golf memberships	(3)	(5)	—	—
Early retirement benefits	(133)	—	—	—
Exchange gain	—	—	253	2,154
Other, net	20	195	150	1,277
	1,626	2,608	1,212	10,318
Income before income taxes and minority interests	4,185	6,404	4,296	36,571
Income taxes (Note 11):				
Current	1,407	1,994	2,008	17,094
Deferred	4	(371)	(607)	(5,167)
	1,411	1,623	1,401	11,927
Minority interests in net income of consolidated subsidiaries	(285)	(778)	(955)	(8,130)
Net income	2,489	4,003	1,940	16,514
Retained earnings:				
Balance at beginning of year	24,011	26,120	29,608	252,047
Appropriations:				
Cash dividends	(241)	(265)	(310)	(2,638)
Directors' bonuses	(35)	(35)	(30)	(255)
Decrease arising from the adoption of inflation accounting by a consolidated subsidiary in Mexico	(104)	(215)	(128)	(1,090)
Decrease arising from the increasing amount of consolidated subsidiary	—	—	(54)	(460)
Other*	—	—	(28)	(238)
Balance at end of year	¥ 26,120	¥ 29,608	¥ 30,998	\$ 263,880

*"Other" includes the minimum pension liability adjustment for a foreign affiliate based on the Statement of Financial Accounting Standards No. 87.

	Yen			U.S. dollars (Note 3)
Net income and dividends per share (Note 2 (19)):				
Net income: primary	¥105.03	¥165.20	¥57.15	\$0.487
Cash dividends	10.00	10.00	10.00	0.085

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tachi-S Co., Ltd. and consolidated subsidiaries Years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2005	2006	2006
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 4,185	¥ 6,404	¥ 4,296	\$ 36,571
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	3,787	4,176	4,132	35,175
Impairment loss on fixed assets	—	—	80	681
Loss on sale/disposal of properties, net	440	340	100	851
Loss on devaluation of golf memberships	3	5	—	—
Increase in allowance for bad debt	14	38	4	34
Equity in earnings of affiliates	(1,660)	(2,689)	(709)	(6,036)
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	(32)	(32)	(23)	(196)
Interest and dividend income	(177)	(199)	(323)	(2,750)
Interest expenses	56	81	66	562
Decrease (increase) in notes and accounts receivable	136	(4,252)	(2,646)	(22,525)
Decrease (increase) in inventories	124	(431)	(636)	(5,414)
(Decrease) increase in notes and accounts payable	(746)	2,638	3,423	29,139
Other	(864)	720	1,147	9,766
Subtotal	5,266	6,799	8,911	75,858
Interest and dividend income received	794	791	930	7,917
Interest paid	(31)	(25)	(5)	(43)
Income taxes paid	(274)	(1,771)	(2,234)	(19,018)
Income taxes refunded	148	160	—	—
Net cash provided by operating activities	5,903	5,954	7,602	64,714
Cash flows from investing activities:				
Decrease in short-term investments	8	114	—	—
Proceeds from sale of property, plant and equipment	189	17	506	4,307
Payments for purchase of property, plant and equipment	(6,445)	(2,744)	(4,989)	(42,470)
Proceeds from sale of investments in securities	497	31	924	7,866
Payments for purchase of investments in securities	(17)	(1,614)	(808)	(6,878)
Payments for purchase of investments in new consolidated subsidiaries	—	(2,099)	—	—
Payments for investments in unconsolidated subsidiaries and affiliates	—	(223)	(1,004)	(8,547)
Other	1,159	(270)	(102)	(868)
Net cash used in investing activities	(4,609)	(6,788)	(5,473)	(46,590)
Cash flows from financing activities:				
(Decrease) increase in short-term bank loans, net	(70)	202	(94)	(800)
Repayment of long-term debt	—	(2,300)	—	—
Proceeds from issue of new shares	—	3,632	—	—
Proceeds from sale of treasury stock	—	—	328	2,792
Payments for purchase of treasury stock	—	—	(650)	(5,533)
Proceeds from financial contribution of minority	—	—	254	2,162
Cash dividends paid to minority shareholders	(167)	(188)	(392)	(3,337)
Cash dividends paid	(241)	(265)	(310)	(2,638)
Other	2,928	9	81	689
Net cash provided by (used in) financing activities	2,450	1,090	(783)	(6,665)
Effect of exchange rate changes on cash and cash equivalents	(593)	88	765	6,512
Net increase in cash and cash equivalents	3,151	344	2,111	17,971
Cash and cash equivalents at beginning of year	12,579	15,730	16,074	136,835
Increase in cash and equivalents for increasing amount of consolidated subsidiary	—	—	6	51
Cash and cash equivalents at end of year (Note 12)	¥15,730	¥16,074	¥18,191	\$154,857

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tachi-S Co., Ltd. and consolidated subsidiaries

1. Basis of Presenting the Consolidated Financial Statements

(1) Accounting Principles

The accompanying consolidated financial statements have been prepared from the accounts maintained by TACHI-S CO., LTD. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The accompanying consolidated financial statements of the Company and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

(2) Significant Shareholder

Fuji Kiko Co., Ltd. owned 3,838 thousand shares of common stock of the Company, which represented 10.96% of the shares outstanding, at March 31, 2006. The Company owned 12,979 thousand shares of common stock of its affiliate Fuji Kiko Co., Ltd., which represents 24.6% of the ownership, at March 31, 2006.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 18 and 20 majority-owned subsidiaries as of March 31, 2005 and 2006, respectively. The consolidated financial statements include the accounts of the Company and 10 subsidiaries for the year ended March 31, 2005. The consolidated financial statements include the accounts of the Company and 12 subsidiaries for the year ended March 31, 2006.

The 12 subsidiaries which have been consolidated with the Company for the year ended March 31, 2006 are listed below:

	Equity ownership percentage
Tachikawa Kogyo Co., Ltd.	100.0%
Fujitaka Kogyo Co., Ltd.	87.7%
Tachi-S Parts Co., Ltd.	100.0%
Tachikawa Hatsujou Co., Ltd.	77.7%
Tachi-S Engineering U.S.A. Inc.	100.0%
Setex Inc.	51.0%
Syntec, Inc.	100.0%
TACLE Seating U.S.A. LLC	51.0%
Tachi-S Canada Ltd.	100.0%
Setex Canada GP	51.0%
Industria de Asiento Superior, S.A. de C.V.	100.0%
Tachi-S Engineering Europe S.A.R.L.	100.0%

The Company and its consolidated subsidiaries are hereinafter referred to as the "Companies."

Generally, companies that are more than 50% owned fall under the category of subsidiaries, while companies that are 20% to 50% owned fall under the category of affiliates. In accordance with prevailing accounting practices in Japan, companies that are 40% to 50% owned may also fall into the category of subsidiaries and companies that are 15% to 20% owned may also fall into the category of affiliates if the Company substantially controls the management of such companies or has a significant influence over or relationship with them.

The above-shown consolidated subsidiaries (except for Industria de Asiento Superior, S.A. de C.V. and TACLE Seating U.S.A. LLC) have fiscal years ending on March 31 of each year, the same as that of the Company. Industria de Asiento Superior, S.A. de C.V. and TACLE Seating U.S.A. LLC have fiscal years ending on December 31 of each year.

The remaining unconsolidated subsidiaries, whose combined assets, net sales, net income and retained earnings which the Company holds are not significant compared with those of the consolidated financial statements of the Companies and, therefore, have been excluded from consolidation.

(2) Elimination of Inter-Company Accounts

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been entirely eliminated, and the portion attributable to minority interests is charged/credited to "Minority interests in consolidated subsidiaries."

Any difference between the cost of investments in the common stock of consolidated subsidiaries and the underlying equity in net assets of such subsidiaries is deferred and amortized over a five-year period on a straight-line basis.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

The Company had eight unconsolidated subsidiaries and seven affiliates at March 31, 2005 and eight unconsolidated subsidiaries and eight affiliates at March 31, 2006. The equity method has been applied to the investments in five affiliates, Technotrim, Inc., Kinryo Kogyo Co., Ltd., Fuji Kiko Co., Ltd., Fuji Autotech U.S.A. LLC and TACLE Seating U.K. Ltd. The equity method has been applied since the year ended March 31, 1997 because the investments in the remaining unconsolidated subsidiaries and affiliates do not have any material effect on consolidated net income in the consolidated financial statements. The investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost or less.

(4) Translation of Foreign Currency Financial Statements (Accounts of Overseas Subsidiaries)

Assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates. Shareholders' equity at the beginning of the year is translated into Japanese yen at historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average rate during the year. Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustments" in the shareholders' equity account.

(5) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(6) Inventories

Inventories are valued according to the category of inventory and method as follows:

Finished products, work-in-process (mass-production items) and raw materials..... at cost determined principally by the average method

Non-mass-production finished products and work-in-process at cost determined principally by the individual cost method

Supplies at cost determined principally by the last purchase price method

(7) Valuation of Securities

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity account at a net-of-tax amount. Other securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

(8) Derivatives

All derivatives are stated at fair value with changes in fair value being included in the net income of the year in which they arise.

(9) Property, Plant and Equipment

Depreciation is mainly computed by the declining-balance method at rates based on the estimated useful lives of assets which are prescribed by the Japanese income tax laws. Depreciation of buildings newly acquired after April 1, 1998 has been provided based on the straight-line method in conformity with the Japanese tax laws. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 12 years for machinery and equipment.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(10) Amortization

Amortization of intangible assets is computed by the straight-line method.

Expenditure relating to computer software developed for internal use is charged to income as incurred, except if it contributes to the generation of income or to future cost savings. Such expenditure is capitalized as an asset and amortized using the straight-line method over its estimated useful life, which is in the range of five years.

The Company applies the provisions of the Statement of Financial Accounting Standards No. 142, "Goodwill and other intangible assets," to the goodwill acquired by a consolidated subsidiary in Canada.

(11) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6, "Application Guidance on Accounting Standards for Impairment of Fixed Assets." These standards are effective from the fiscal years beginning April 1, 2005.

The Company and its domestic subsidiaries adopted these standards from the fiscal year ended March 31, 2006. As a result, property, plant and equipment as of March 31, 2006 decreased by ¥80 million (\$681 thousand), and income before income taxes and minority interest for the year ended March 31, 2006 decreased by the same amount, as compared with the amount which would have been reported if the previous standards had been applied consistently. In addition, the accumulated impairment loss is deducted from the net book value of each asset.

(12) Stock Issue Costs

Stock issued costs related to common stock are charged to income as incurred.

(13) Allowance for Bad Debts

The allowance for bad debts is calculated on the basis of the actual bad debt rate for general accounts receivable and the assessed recoverability of individual bad debts.

(14) Reserve for Directors' Bonuses

Until the year ended March 31, 2005, the Company had added up directors' bonuses as decrease of retained earnings.

Effective from the year ended March 31, 2006, the Company applied Financial Accounting Standards Implementation Guidance No. 13, issued by the Accounting Standards Board of Japan- "Immediate treatment about accounting procedure of directors' bonuses." Therefore, the Company adds up directors' bonuses as cost when they are generated. As a result, operating income, and income before taxes and minority interests, decreased by ¥30 million (\$255 thousand), as compared with the amount which would have been reported if the previous standards had been applied consistently.

(15) Reserve for Retirement Benefits

The Companies provided a "Reserve for retirement benefits" for employees, directors and statutory auditors.

The Companies have an unfunded retirement benefit plan for its employees and a funded employees' pension plan.

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, except that the unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the year following that in which they arise.

Until the year ended March 31, 2002, the Company had established a tax-qualified pension plan only for those of retirement age. Effective from the year ended March 31, 2003, the Company completely shifted to a tax-qualified pension plan. As a result, past service liabilities have occurred. The past service liabilities are amortized on a straight-line basis over the period of 10 years from the year in which they arise.

With respect to directors and statutory auditors, the Company and its domestic subsidiaries provide for lump-sum severance benefits. While the Company and its domestic subsidiaries have no legal obligation, it is a customary practice in Japan to make lump-sum payments to a director or statutory auditor upon retirement following approval by the shareholders at a general meeting. Annual provisions are made in the accounts for the estimated costs of this termination plan, which is not funded.

(16) Accounting for Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local taxes and enterprise taxes.

The Companies adopted deferred tax accounting. Deferred taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized with respect to temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. Three of the Company's overseas subsidiaries, Tachi-S Engineering U.S.A. Inc., Setex Inc. and Syntec, Inc., adopted accounting in accordance with the provisions of the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

(17) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases which do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles generally accepted in Japan.

(18) Inflation Accounting Employed by Industria de Asiento Superior, S.A. de C.V.

One of the consolidated subsidiaries of the Company, Industria de Asiento Superior, S.A. de C.V., which is incorporated in Mexico, has adjusted its financial statements for the effects of inflation in Mexico in conformity with generally accepted accounting principles in Mexico.

Under the method, adjustments on account balances for purchase costs, accumulated depreciation of permanent establishments (e.g. fixed assets, investments and deferred charges) and shareholders' equity were made based on the National Consumer Price Index. The purchasing power gain or loss arising from the monetary position for the year is credited or charged to income for the respective year.

(19) Net Income and Dividends per Share

Net income per common share is based upon the weighted average number of common shares outstanding during each year.

Cash dividends per share shown for each year in the consolidated statements of income and retained earnings represent dividends declared as applicable to the respective year.

(20) Accounting for Consumption Tax

The Japanese Consumption Tax Law imposes a consumption tax at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). Consumption tax withheld upon sale is not included in the amount of "Net sales" in the accompanying consolidated statements of income and retained earnings but is recorded as a liability. Consumption tax which is paid by the Company and domestic subsidiaries on the purchases of goods and services is not included in costs or expenses in the consolidated statements of income and retained earnings but is offset against the balance withheld, and the net balance is included in "Other current liabilities" in the consolidated balance sheets.

(21) Treasury Stock

The amount of treasury stock, which is held by the Company and an affiliate which applied the equity method, is 1,241,997 of common stock.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.47=US\$1, the rate of exchange on March 31, 2006, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. Marketable Securities, Investments in Securities and Investments in Unconsolidated Subsidiaries and Affiliates

(a) Other securities with available market quotations:

	Millions of yen						Thousands of U.S. dollars		
	2005			2006			2006		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Securities with unrealized gains:									
Equity securities	¥1,378	¥3,548	¥2,170	¥2,202	¥5,718	¥3,516	\$18,745	\$48,676	\$29,931
Bonds and debentures:									
Bonds	—	—	—	—	—	—	—	—	—
Other	1	1	0	250	258	8	2,128	2,196	68
Other securities	11	14	3	11	23	12	94	196	102
	¥1,390	¥3,563	¥2,173	¥2,463	¥5,999	¥3,536	\$20,967	\$51,068	\$30,101
Securities with unrealized losses:									
Equity securities	¥ 42	¥ 42	¥ —	¥ 7	¥ 7	¥ —	\$ 59	\$ 59	\$ —
Bonds and debentures:									
Bonds	201	200	(1)						
Other	250	223	(27)	200	197	(3)	1,703	1,677	(26)
Other securities	1,016	1,016	(0)	150	150	—	1,277	1,277	—
	¥1,509	¥1,481	¥ (28)	¥ 357	¥ 354	¥ (3)	\$ 3,039	\$ 3,013	\$ (26)
Total	¥2,899	¥5,044	¥2,145	¥2,820	¥6,353	¥3,533	\$24,006	\$54,081	\$30,075

(b) Realized gains and losses on sales of "other securities":

	Millions of yen									Thousands of U.S. dollars		
	2004			2005			2006			2006		
	Sales value	Profit on sales	Loss on sales	Sales value	Profit on sales	Loss on sales	Sales value	Profit on sales	Loss on sales	Sales value	Profit on sales	Loss on sales
	¥493	¥273	¥—	¥31	¥22	¥—	¥—	¥—	¥—	\$—	\$—	\$—

(c) Carrying amounts of other securities with no available fair value:

	Millions of yen						Thousands of U.S. dollars		
	2005		2006		2006		2006		
	Carrying amounts	Carrying amounts	Carrying amounts	Carrying amounts	Carrying amounts	Carrying amounts	Carrying amounts	Carrying amounts	
Other securities:									
Unlisted shares (except over-the-counter stock)	¥27		¥52			\$443			

(d) Redemption schedules for maturity of held-to-maturity securities:

	Millions of yen						Thousands of U.S. dollars	
	2005		2006		2006		2006	
	Due within one year	Due after one year, within five years	Due within one year	Due after one year, within five years	Due within one year	Due after one year, within five years	Due within one year	Due after one year, within five years
Bonds and debentures:								
Government bonds and debentures	¥—	¥—	¥ —	¥—	\$ —	\$—		
Bonds	—	—	—	—	—	—		
Other	11	—	196	—	1,669	—		
Total	¥11	¥—	¥196	¥—	\$1,669	\$—		

5. Derivatives

The table below lists contract amounts and fair values of derivatives as at March 31, 2006 by transactions and type of instrument.

Instruments	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
	Contract amounts	Fair values	Gains	Contract amounts	Fair values	Gains
Forward exchange contracts	¥3,076	¥3,124	¥48	\$26,185	\$26,594	\$409
Total gains from forward exchange contracts	—	—	48	—	—	409

6. Inventories

Inventories at March 31, 2005 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Finished products	¥ 974	¥ 927	\$ 7,891
Work-in-process	402	602	5,125
Raw materials and supplies	3,116	3,904	33,234
	¥4,492	¥5,433	\$46,250

7. Impairment Loss on Fixed Assets

The Company and its domestic subsidiaries have recognized an impairment loss of ¥80 million (\$681 thousand) for the following group of assets as of March 31, 2006.

Location	Use	Category	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Ome, Tokyo, etc.	Idle	Land	¥80	\$681

The Company and its domestic subsidiaries assessed the impairment of each group of assets, which are grouped on the basis used in managerial accounting and investment decision-making purposes.

Due to the significant decline in real estate values, the Company and its domestic subsidiaries have decided to mark the assets down to the recoverable value and accrued an impairment loss of ¥80 million (\$681 thousand).

The recoverable value is determined as the net selling value. The net selling value is based on the value according to the appraisal value provided by professional real estate assessors.

8. Short-Term Debt

The annual average interest rate applicable to short-term debt at March 31, 2006 was 0.03%.

Short-term debt at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Short-term debt, of which the annual average interest rate is 0.03%	¥100	¥100	\$851

At March 31, 2005 and 2006, assets pledged as collateral for contingent liabilities or other long-term debt, including the current portion of other long-term debt, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Land	¥ 15	¥ 15	\$ 127
Buildings and structures	3,159	2,934	24,977
	¥3,174	¥2,949	\$25,104

9. Reserve for Retirement Benefits

The Company has unfunded retirement benefit plans for its employees and a funded employees' pension plan.

The reserve for retirement benefits as of March 31, 2005 and 2006 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligations	¥(7,045)	¥(7,201)	\$(61,301)
Plan assets	4,481	5,351	45,552
	(2,564)	(1,850)	(15,749)
Unrecognized actuarial differences	1,209	476	4,052
Past service liabilities	424	370	3,150
Reserve for retirement benefits	¥ (931)	¥(1,004)	\$ (8,547)

Net pension expense related to the retirement benefits for the years ended March 31, 2004, 2005 and 2006 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Service cost	¥370	¥313	¥354	\$3,014
Interest cost	121	124	129	1,098
Expected return on plan assets	(67)	(79)	(84)	(715)
Amortization of unrecognized actuarial differences	212	173	178	1,515
Amortization of past service liabilities	55	55	55	468
Net pension expense	¥691	¥586	¥632	\$5,380

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

	2005	2006
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 unrecognized actuarial differences	10 years	10 years
Amortization of past service liabilities	10 years	10 years

The reserve for retirement benefits in the accompanying consolidated balance sheets at March 31, 2005 and 2006 included provisions related to directors and statutory auditors in the amounts of ¥400 million and ¥350 million (\$2,979 thousand), respectively.

10. Contingent Liabilities

The Companies were contingently liable for guarantees of loans at March 31, 2005 and 2006 as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Loans borrowed by:			
Tachi-S Engineering Europe S.A.R.L.	¥ 9	¥ —	\$ —
Tachi-S Service Co., Ltd.	3	3	26
Fuji Autotech U.S.A. LLC	—	80	681
TACLE Guangzhou Automotive Seat Co., Ltd.	—	37	315
Fuji Autotech Guangzhou Co., Ltd.	—	100	851
Employees.....	3	3	26
	¥15	¥223	\$1,899

11. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2004 was 41.9% and the rate as of March 31, 2005 and 2006 was 40.5%.

At March 31, 2004, 2005 and 2006, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

	2004	2005	2006
Statutory tax rate	41.9%	40.5%	40.5%
Dividend income	5.1	3.5	4.6
Equity in earnings of affiliates	(14.1)	(14.8)	(9.5)
Operating loss carryforwards	5.1	—	—
Special deduction of research and development costs.....	(3.1)	(1.7)	(5.0)
Adjustment to gain on sale of securities of consolidated subsidiary.....	(2.4)	—	—
Other	1.2	(2.1)	2.0
Effective tax rate	33.7%	25.4%	32.6%

At March 31, 2005 and 2006, the significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Reserve for retirement benefits.....	¥ 535	¥ 542	\$ 4,614
Accrued expenses	597	978	8,326
Eliminated unrealized profits	57	59	502
Operating loss carryforwards.....	720	949	8,079
Refundable capital tax in Mexico	151	95	809
Other	622	851	7,244
Total gross deferred tax assets.....	2,682	3,474	29,574
Less: valuation allowance	(466)	(643)	(5,474)
Total deferred tax assets.....	2,216	2,831	24,100
Set-off: deferred tax liabilities	(1,399)	(1,415)	(12,046)
Net deferred tax assets	¥ 817	¥ 1,416	\$12,054
Current	¥ 693	¥ 1,136	\$ 9,670
Non-current	124	280	2,384
Deferred tax liabilities:			
Tax deductible reserve	¥ (132)	¥ (69)	\$ (587)
Undistributed earnings of foreign subsidiaries and affiliates.....	(339)	(324)	(2,758)
Net unrealized gain or loss on securities	(869)	(1,434)	(12,207)
Depreciation expense	(401)	(227)	(1,933)
Reserve for retirement benefits.....	(82)	—	—
Other	(315)	(380)	(3,235)
Total gross deferred tax liabilities	(2,138)	(2,434)	(20,720)
Set-off: deferred tax assets.....	1,399	1,415	12,046
Net deferred tax liabilities	¥ (739)	¥(1,019)	\$ (8,674)
Current.....	¥ (1)	¥ (1)	\$ (8)
Non-current	(738)	(1,018)	(8,666)

In assessing the realizability of deferred tax assets, the management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization is not assured, management has considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances, as of March 31, 2005 and 2006, respectively.

12. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Cash, time deposits and other cash equivalents	¥15,327	¥16,075	¥18,191	\$154,857
Marketable securities	1,528	1,026	347	2,954
	16,855	17,101	18,538	157,811
Time deposits with deposit terms of over three months.....	(3)	(1)	—	—
Short-term investments with maturity terms of over three months	(1,122)	(1,026)	(347)	(2,954)
Cash and cash equivalents at end of year.....	¥15,730	¥16,074	¥18,191	\$154,857

13. Subsequent Event

(Year ended March 31, 2005)

On May 23, 2005, upon resolution and approval of the Board of Directors on January 11, 2005, the Company made a stock split in the ratio 1 to 1.3 to the shareholders on record as of March 31, 2005 and 8,082,195 shares of common stock were increased.

Given that this stock split was made on April 1, 2003 and 2004, the basic net income per share for the years ended March 31, 2004 and 2005, would have been changed to ¥80.79 and ¥127.07, respectively.

(Year ended March 31, 2006)

(1) The appropriations of the Company's retained earnings with respect to the year ended March 31, 2006, as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 28, 2005, were as follows:

Appropriations	Millions of yen		Thousands of U.S. dollars
Cash dividends (¥5.0 per share)	¥	174	\$1,481
Transfer to voluntary reserves		1,000	8,513
Total appropriations.....		¥1,174	\$9,994

(2) At the meeting of the Board of Directors of the Company, held on April 10, 2006, the Directors made the decision to issue warrants for the purchase of new shares (hereinafter, "warrants") to Shinko Securities Co., Ltd. (Shinko Securities) and to conclude an equity commitment line contract (hereinafter, "commitment line contract") with Shinko Securities. April 26, 2006 was set as the date for the issuance of these warrants and the signing of the commitment line contract.

- ① Name to be given to the warrants to purchase new shares: First Issue of Warrants for the Purchase of New Shares of TACHI-S CO., LTD.
- ② Content of commitment line contract: Under the commitment line contract, the Company has the right to specify the number of warrants for the purchase of new shares to be exercised by Shinko Securities and request that Shinko Securities exercise the warrants. Thereupon, Shinko Securities will exercise the number of warrants requested by the Company within the specified period. However, when the number of warrants that the Company requests to be exercised is 10 or more, the exercise of warrants exceeding 10 will be at the discretion of Shinko Securities.
- ③ Total number of warrants to be issued: 250
- ④ Issue price of the warrants: ¥40,000 per warrant
- ⑤ Total value of the warrants at the issue price: ¥10,000,000
- ⑥ Date of offering the warrants: April 26, 2006
- ⑦ Method of subscription of the warrants: Third party placement (with all to be allotted to Shinko Securities)
- ⑧ Type and number of shares to be purchased on the exercise of the warrants: The type of shares to be purchased with the warrants will be the Company's common shares. The number of shares to be issued on the exercise of the warrants will be computed by multiplying the number of warrants that the Company requests to be exercised by ¥10,000,000 and then dividing by (a) the exercise price (initially to be set at ¥1,469) or (b) the adjusted exercise price (computed using the formula shown immediately below).

Adjusted exercise price =

$$\text{Unadjusted exercise price} \times \frac{\text{Number of shares already issued} + \frac{A \times B}{\text{Market price}}}{\text{Number of shares already issued} + A}$$

Where:

A = Number of shares to be issued or sold

B = Per share price of shares to be issued or sold

- ⑨ Amount of exercise price to be entered in capital when shares are newly issued through the exercise of the warrants: The issue price multiplied by 0.5
- ⑩ Use of the funds to be raised: The approximate amount of proceeds to be received at the time of the exercise of the warrants will be ¥2,484 million. This amount is scheduled to be used primarily for investments and other purposes.

Please note that on June 2, 2006, Shinko Securities filed a Report of Major Holdings containing the information stated above.

14. Segment Information

(1) Industry Segment Information

The Companies operate in one industry segment: the production and sale of automotive seats and seat components.

(2) Geographical Segment Information

Sales of the Companies for the years ended March 31, 2004, 2005 and 2006, classified by geographical segment (divided into sales within Japan and outside Japan), are summarized as follows:

	Millions of yen						Consolidated total
	2004						
	Japan	U.S.A.	Mexico	China*	Total	Elimination	
Net sales to:							
Outside customers	¥104,521	¥38,985	¥7,377	¥336	¥151,219	¥ —	¥151,219
Inter-segment sales/transfers	761	809	1,517	—	3,087	(3,087)	—
	105,282	39,794	8,894	336	154,306	(3,087)	151,219
Operating expenses	103,477	39,105	8,808	429	151,819	(3,159)	148,660
Operating income (loss)	¥ 1,805	¥ 689	¥ 86	¥ (93)	¥ 2,487	¥ 72	¥ 2,559
Assets	¥ 60,260	¥19,045	¥4,199	¥ —	¥ 83,504	¥ (446)	¥ 83,058

* Shanghai Taiye Seat Co., Ltd. is included only for the first half of the fiscal year due to the sale of its equity share.

	Millions of yen						Consolidated total
	2005						
	Japan	U.S.A.	Canada	Mexico	Total	Elimination	
Net sales to:							
Outside customers	¥114,539	¥39,623	¥21,020	¥ 8,473	¥183,655	¥ —	¥183,655
Inter-segment sales/transfers	1,085	1,289	2	1,643	4,020	(4,020)	—
	115,624	40,912	21,022	10,116	187,675	(4,020)	183,655
Operating expenses	114,035	39,836	19,859	10,149	183,879	(4,020)	179,859
Operating income (loss)	¥ 1,589	¥ 1,076	¥ 1,163	¥ (33)	¥ 3,795	¥ 1	¥ 3,796
Assets	¥ 62,520	¥18,914	¥ 8,775	¥ 5,185	¥ 95,394	¥(1,606)	¥ 93,788

	Millions of yen							Thousands of U.S. dollars	
	2006							2006	
	Japan	U.S.A.	Canada	Mexico	France	Total	Elimination	Consolidated total	Consolidated total
Net sales to:									
Outside customers	¥124,081	¥42,289	¥32,633	¥11,582	¥ 206	¥210,791	¥ —	¥210,791	\$ 1,794,424
Inter-segment sales/transfers	1,549	2,115	9	1,880	—	5,553	(5,553)	—	—
	125,630	44,404	32,642	13,462	206	216,344	(5,553)	210,791	1,794,424
Operating expenses	123,239	44,048	32,216	13,439	310	213,253	(5,546)	207,707	1,768,171
Operating income (loss)	¥ 2,391	¥ 356	¥ 426	¥ 23	¥(104)	¥ 3,091	¥ (7)	¥ 3,084	\$ 26,253
Assets	¥ 65,882	¥24,495	¥10,502	¥ 8,317	¥ 314	¥109,512	¥(3,603)	¥105,909	\$ 901,583

(3) Export Sales Information

	Millions of yen							Thousands of U.S. dollars	
	2004	2005	2006				Total	2006	
			U.S.A.	Canada	Mexico	Other			
Overseas sales	¥ 47,534	¥ 69,966	¥42,580	¥32,632	¥11,292	¥741	¥ 87,245	\$ 742,700	
Consolidated sales	151,219	183,655	—	—	—	—	210,791	1,794,424	
Ratio	31.4%	38.1%	20.2%	15.5%	5.4%	0.3%	41.4%		

Other: China, United Kingdom, Thailand, Malaysia and others

15. Lease Transactions

The acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets at March 31, 2005 and 2006, including the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Acquisition cost.....	¥18	¥17	\$145
Accumulated depreciation.....	(6)	(8)	(68)
Net book value.....	¥12	¥ 9	\$ 77
Depreciation.....	¥15	¥ 2	\$ 17

Lease rental expenses on finance lease contracts without transfer of ownership for the years ended March 31, 2004, 2005 and 2006 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Lease rental expenses for the year	¥54	¥15	¥2	\$17

Outstanding future lease payments due at March 31, 2005 and 2006, including the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Future lease payments:			
Within one year.....	¥ 3	¥2	\$17
Over one year.....	9	7	60
Total	¥12	¥9	\$77

16. Related Party Transactions

The transactions of the Company with its related companies and individuals for the years ended March 31, 2004, 2005 and 2006, other than those with consolidated subsidiaries which are eliminated in the consolidated financial statements, and those which are disclosed elsewhere in these statements, are as follows:

Name of related company	Paid-in capital (Millions of yen)	Principal business	Equity ownership percentage by the Company	Description of transactions	Millions of yen				Thousands of U.S. dollars			
					Transactions			Account	Resulting account balances		Transactions 2006	Resulting account balances 2006
					2004	2005	2006		2005	2006		
Technotrim, Inc.	\$120 (Thousands of dollars)	Manufacture and sale of automotive components	49.0%	Liability for guarantees	¥1,088	¥ —	¥ —	¥—	¥ —	¥ —	\$ —	\$ —
Fuji Kiko Co., Ltd.	¥5,985	Manufacture and sale of automotive parts	24.6%	Purchase of parts	¥8,179	¥8,138	¥8,133	Accounts payable	¥1,935	¥2,242	\$69,235	\$19,085
				Supply of raw materials	267	299	192	Accounts receivable	—	14	1,634	119
				Underwriting of capital increase	—	779	—	—	—	—	—	—
				Purchase of property, plant and equipment	—	—	13	—	—	—	111	—
				Other	—	—	4	—	—	—	34	—
Kinryo Kogyo Co., Ltd.	¥400	Manufacture and sale of automotive components and parts	25.0%	Purchase of parts	¥ —	¥3,065	¥ —	Accounts payable	¥1,203	¥ —	\$ —	\$ —
				Supply of raw materials	—	53	—	—	—	—	—	
				Sales of products	—	81	—	Accounts receivable	8	—	—	—
				Other	—	5	—	Other	1	—	—	—

REPORT OF INDEPENDENT AUDITORS

Report of Independent Auditors

The Board of Directors and Shareholders of
TACHI-S CO., LTD.

We have audited the accompanying consolidated balance sheets of TACHI-S CO., LTD. and its consolidated subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended March 31, 2006, 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 auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 TACHI-S CO., LTD. and its consolidated subsidiaries as of March 31, 2005 and 2006, the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

As described in Note 2 (11), effective for the year ended March 31, 2006, TACHI-S CO., LTD. and its domestic subsidiaries changed their accounting policy for Accounting Standard for Impairment of Fixed Assets.

As described in Note 13, at the meeting of the Board of Directors, held on April 10, 2006, the Directors made the decision to issue warrants for the purchase of new shares to Shinko Securities Co., Ltd. and to conclude an equity commitment line contract with Shinko Securities. April 26, 2006, was set as the date for the issuance of these warrants and the signing of the commitment line contract.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 28, 2006

GLOBAL NETWORK

Investee Companies

- ① Tachi-S Engineering U.S.A. Inc. (Michigan)
- ② Setex Inc. (Ohio)
- ③ Technotrim, Inc. (Head Office) (Michigan)
- ④ Syntec, Inc. (North Carolina)
- ⑤ Fuji Autotech U.S.A. LLC (Kentucky)
- ⑥ Industria de Asiento Superior, S.A. de C.V., Aguascalientes Plant (Head Office) (Mexico)
- ⑦ Industria de Asiento Superior, S.A. de C.V., Guadalajara Plant (Mexico)
- ⑧ Industria de Asiento Superior, S.A. de C.V., Cuernavaca Plant (Mexico)
- ⑨ Technotrim, Inc., Ramos Plant (Mexico)
- ⑩ Technotrim, Inc., Saltillo Plant (Mexico)

- ⑪ Technotrim, Inc., Monclova Plant (Mexico)
- ⑫ Tachi-S Canada Ltd. (Canada)
- ⑬ Setex Canada GP (Canada)
- ⑭ Tachi-S Engineering Europe S.A.R.L. (France)
- ⑮ Tachi-S Taicang Co., Ltd. (China)
- ⑯ Xi'an Qintai Seat Co., Ltd. (China)
- ⑰ Zhengzhou Taixin Interia Co., Ltd. (China)
- ⑱ TACLE Guangzhou Automotive Seat Co., Ltd. (China)
- ⑲ Fuji Autotech Guangzhou Co., Ltd. (China)
- ⑳ Tachi-S Trim Guangzhou Co., Ltd. (China)
- ㉑ TACLE Seating U.K. Limited (U.K.)
- ㉒ TACLE Seating U.S.A. LLC (Tennessee)

Liaison Offices

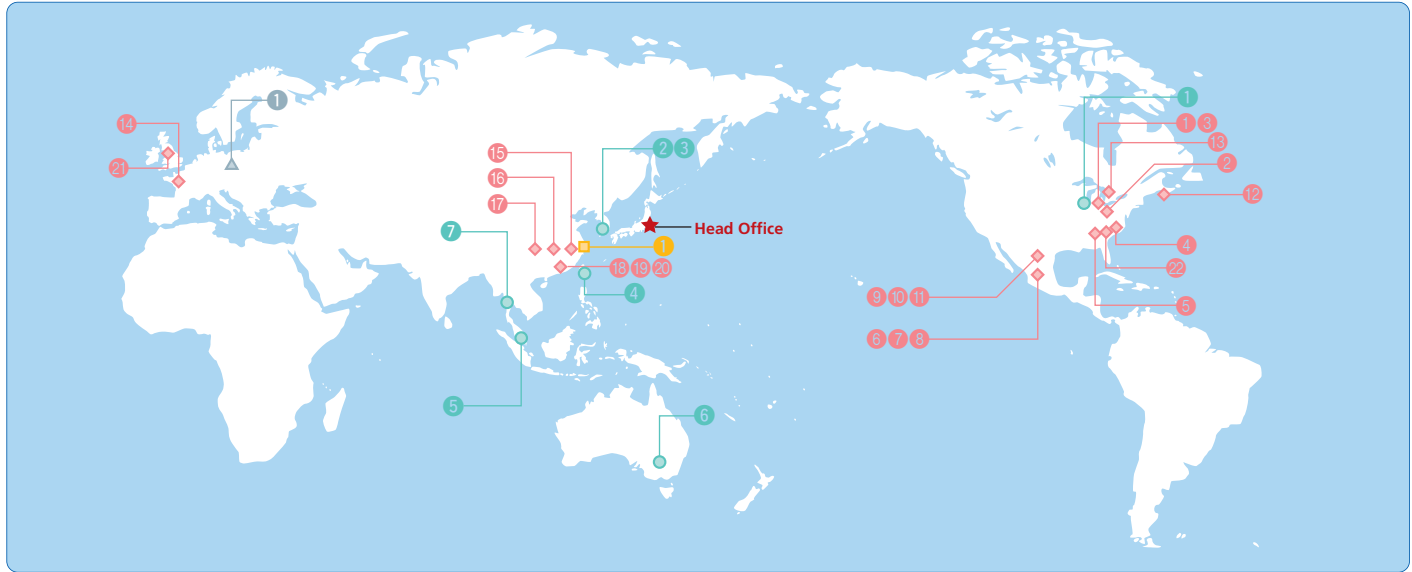
- ① Shanghai Office (China)

Technology Licensees

- ① Johnson Controls, Inc. (Michigan)
- ② Koryo Co., Ltd. (Republic of Korea)
- ③ Hyundai Motor Co., Ltd. (Republic of Korea)
- ④ GSK Corporation (Taiwan)
- ⑤ Auto Parts Manufacturers Co., Sdn. Bhd. (Malaysia)
- ⑥ Henderson's Industries Pty. Ltd. (Australia)
- ⑦ Summit Auto Seats Industry Co., Ltd. (Thailand)

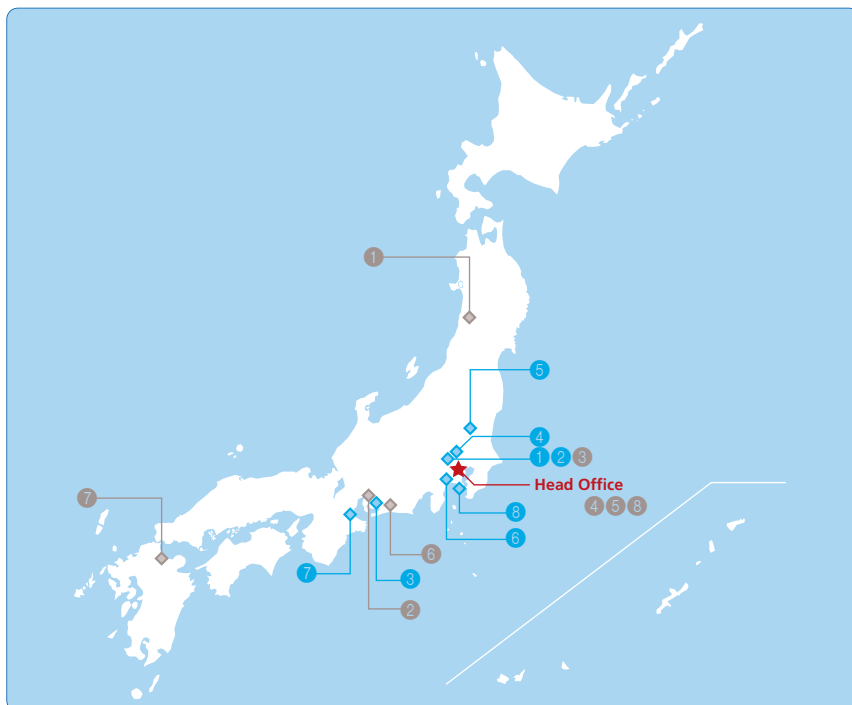
Technology Licensor

- ① Isringhausen GmbH & Co. KG (Germany)



(As of March 31, 2006)

DOMESTIC NETWORK



Offices and Plants

- ① Technical Center
- ② Ome Plant
- ③ Technical Center Aichi and Aichi Plant
- ④ Musashi Plant
- ⑤ Tochigi Plant
- ⑥ Hiratsuka Plant
- ⑦ Suzuka Plant
- ⑧ Oppama Plant

Subsidiaries and Affiliates

- ① Tachikawa Kogyo Co., Ltd.
- ② Fujitaka Kogyo Co., Ltd.
- ③ Tachi-S Parts Co., Ltd.
- ④ Tachi-S Service Co., Ltd.
- ⑤ Tachikawa Hatsujou Co., Ltd.
- ⑥ Fuji Kiko Co., Ltd.
- ⑦ Kinryo Kogyo Co., Ltd.
- ⑧ Nui Tec Corporation

(As of March 31, 2006)

CORPORATE INFORMATION

Head Office

3-3-7, Matsubara-cho, Akishima,
Tokyo 196-8611

Date of Establishment

April 7, 1954

Paid-in Capital

¥8,145,831,916
(As of March 31, 2006)

Stock Exchange Listing

Tokyo Stock Exchange, First Section

Transfer Agent

The Chuo Mitsui Trust
and Banking Co., Ltd.

Domestic Offices and Plants

Technical Center

1-7-8, Suehiro-cho, Ome,
Tokyo 198-0025

Ome Plant

1-2, Suehiro-cho, Ome,
Tokyo 198-0025

Technical Center Aichi and Aichi Plant

125-2, Yanagihara, Toei-cho, Anjo,
Aichi 446-0007

Musashi Plant

108-13, Sayamagahara, Iruma,
Saitama 358-0032

Tochigi Plant

262-26, Shiba, Shimotsuke,
Tochigi 329-0412

Hiratsuka Plant

1-3, Nagatoro, Hiratsuka,
Kanagawa 254-0021

Suzuka Plant

3600-10, Kamata, Misono-cho,
Suzuka, Mie 510-0261

Oppama Plant

5-2931, Uragou-cho, Yokosuka,
Kanagawa 237-0062

Domestic Subsidiaries and Affiliates

Tachikawa Kogyo Co., Ltd.

Yokote, Akita

Fujitaka Kogyo Co., Ltd.

Nagoya, Aichi

Tachi-S Parts Co., Ltd.

Ome, Tokyo

Tachi-S Service Co., Ltd.

Akishima, Tokyo

Tachikawa Hatsujou Co., Ltd.

Akishima, Tokyo

Nui Tec Corporation

Akishima, Tokyo

Fuji Kiko Co., Ltd.

Kosai, Shizuoka

Kinryo Kogyo Co., Ltd.

Miyako-gun, Fukuoka

(As of March 31, 2006)

BOARD OF DIRECTORS AND PRINCIPAL OFFICERS

DIRECTORS

Representative Director and Chairman

Kiyoshi Saito

Representative Director and President

Kosaku Tarumi

Representative Director

Mitsuya Koike

Directors

Hitoshi Kondo
Hiroshi Taguchi
Kazuyoshi Matsushita
Hiroyuki Miki
Kyoichi Kudo
Michihiro Kitsukawa

EXECUTIVE OFFICERS

Chief Executive Officer

Kiyoshi Saito

Chief Operating Officer

Kosaku Tarumi

Executive Vice President

Mitsuya Koike

Senior Executive Officers

Hitoshi Kondo
Hiroshi Taguchi
Kazuyoshi Matsushita
Hiroyuki Miki
Kazuakira Namiki
Toshimitsu Kimura
Hideo Kobayashi
Yoshiyuki Nogami

Executive Officers

Noriyoshi Kujime
Yuzuru Fukuda
Yutaka Yajima
Kiyoji Kawamura
Takashi Nakamura
Noriyasu Itsuki
Yasuaki Ohno
Itsuro Wakatsuki
Shigeru Nishimura

CORPORATE AUDITORS

Tadao Koizumi
Mamoru Kawasaki
Hiroyuki Kawai
Takuya Miyashita

(As of June 28, 2006)

Cautionary Information with Respect to Forward-Looking Statements

Statements contained in this report regarding the plans, strategies, and beliefs of the Tachi-S Group that are not historical fact constitute forward-looking statements about future operational results. As such, they are based on the judgements of Tachi-S's management made in consideration of currently available data. Actions based solely on these statements should be avoided. Potential risk factors that could cause actual results to differ materially from those anticipated include, but are not limited to, general economic conditions, currency exchange rates, sudden technological change, and customer preference.



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URL: **<http://www.tachi-s.co.jp>**