

*ANNUAL REVIEW 2007*

# *QCDD-Oriented*

*World-Class Seat System Creator*



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## 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.*

## FINANCIAL HIGHLIGHTS

### Consolidated Financial Highlights

	Millions of yen					Thousands of U.S. dollars (Note)
	2003	2004	2005	2006	2007	2007
<b>FOR THE YEAR</b>						
Net sales .....	¥138,691	¥151,219	¥183,655	¥210,791	<b>¥216,858</b>	<b>\$1,837,001</b>
Operating income (loss) .....	1,819	2,559	3,796	3,084	<b>(190)</b>	<b>(1,609)</b>
Net income (loss) .....	1,358	2,489	4,003	1,940	<b>(503)</b>	<b>(4,261)</b>
Net income (loss) per share: primary (yen) .....	¥ 56.59	¥ 105.03	¥ 165.20	¥ 57.15	<b>¥ (15.00)</b>	<b>\$ (0.127)</b>
<b>AT YEAR-END</b>						
Total shareholders' equity .....	¥ 37,793	¥ 38,941	¥ 46,530	¥ 50,849	<b>¥ 51,796</b>	<b>\$ 438,764</b>
Total assets .....	80,537	83,058	93,788	105,909	<b>109,120</b>	<b>924,354</b>

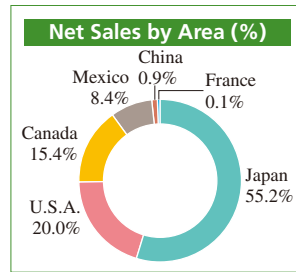
Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥118.05=US\$1, the rate of exchange on March 31, 2007.

### Non-Consolidated Financial Highlights (Unaudited)

	Millions of yen					Thousands of U.S. dollars (Note)
	2003	2004	2005	2006	2007	2007
<b>FOR THE YEAR</b>						
Net sales .....	¥93,853	¥103,696	¥113,819	¥123,686	<b>¥122,890</b>	<b>\$1,041,000</b>
Operating income .....	1,814	1,841	1,304	2,138	<b>612</b>	<b>5,184</b>
Net income .....	568	1,342	1,155	1,611	<b>1,033</b>	<b>8,751</b>
Net income per share: primary (yen) .....	¥ 22.15	¥ 54.27	¥ 45.45	¥ 46.18	<b>¥ 30.02</b>	<b>\$ 0.254</b>
<b>AT YEAR-END</b>						
Total shareholders' equity .....	¥27,611	¥ 29,324	¥ 33,827	¥ 35,604	<b>¥ 32,444</b>	<b>\$ 274,833</b>
Total assets .....	56,706	62,330	64,795	71,679	<b>72,199</b>	<b>611,597</b>

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥118.05=US\$1, the rate of exchange on March 31, 2007.

The Company's business performance in fiscal 2007, broken down by geographic segment, is as below.



## Japan

Sales in Japan decreased 3.6% year on year, to ¥119.643 billion, due to a decline in sales caused by a dry spell for new models and a change in the sales product composition. In addition to the impact of a drop-off in sales, operating income was squeezed by expenses for the start-up of mass production of new models and the effects arising from a change in the sales product composition. As a result, operating income came to ¥1.796 billion.

In the past, all expenses related to the business management division at the parent company were allocated to the Japan segment, but these expenses will be included in the "Eliminations or company-wide" section as non-allocatable operating expenses from this consolidated fiscal year as a result of a change in our allocation method for operating expenses. Compared with the previous allocation method, operating income under the new method was lifted by ¥928 million.

## United States

Sales in the United States in local currency terms were roughly even with the previous year's level but rose 2.5% year on year, to ¥43.332 billion in yen terms, reflecting conversion gains arising from foreign exchange rate trends. Operating income, however, fell 76.4% year on year, to ¥84 million, due to production preparation expenses taken at TACLE Seating U.S.A. LLC, which was set up to supply Nissan Motor Co., Ltd.

## Canada

Sales in Canada rose 2.4% year on year, to ¥33.408 billion in yen terms, reflecting conversion gains arising from foreign exchange rate trends. As a result of expenses for starting mass production of new models and foreign exchange rate effects, however, this segment recorded an operating loss of ¥582 million, compared with operating income of ¥426 million in the prior fiscal year.

## Mexico

Sales in Mexico increased 57.6% year on year, to ¥18.251 billion, on the start of production for several new models, but this segment posted an operating loss of ¥160 million, compared with operating income of ¥23 million in the previous fiscal year, due to the burden of up-front expenses taken in preparation for the start-up of mass production.

## France

Sales in France climbed 50.7% year on year, to ¥309 million, on the partial recovery of development costs, but this growth was not sufficient to offset up-front development costs and the burden of fixed costs. As a result, this segment logged an operating loss of ¥56 million, a ¥48 million improvement compared with the operating loss a year earlier.

## China

From this consolidated fiscal year, TACLE Guangzhou Automotive Seat Co., Ltd. (China) and Tachi-S Trim Guangzhou Co., Ltd. (China) were added to the Group's scope of consolidation. Our earnings performance in this segment was as follows. TACLE Guangzhou Automotive Seat, set up to supply Nissan Motor, commenced production and sales in fiscal 2007, but did not begin sales until the latter half of the fiscal year. As a result of this and other factors, sales amounted to ¥1.914 billion. Due to up-front expenses taken to prepare for the start-up of production, this segment recorded an operating loss of ¥366 million.



# MESSAGE FROM THE MANAGEMENT



Kiyoshi Saito,  
Chairman and  
Chief Executive Officer



Kosaku Tarumi,  
President and  
Chief Operating Officer



## Review

The Japanese vehicle market has clearly matured. This is shown in particular by the fall in annual domestic automobile sales volume to 5.6 million vehicles, a level on par with that of 21 years ago, as well as by the rise in unit sales of mini-vehicles (2.0 million units) to roughly one-third of domestic sales volume.

Meanwhile, the transfer of production to overseas locations by Japanese automakers has accelerated, as shown by the record high of 11.16 million vehicles manufactured overseas in aggregate by Japanese automakers from April 2006 through March 2007. We expect this trend to continue going forward.

We believe global scale is required for companies in the automotive-related sectors to capture the opportunities opened up by these vehicle production trends. Our response at the Tachi-S Group to this changing business environment continues to be to press ahead with aggressive marketing initiatives and management measures that move us closer to the goal of our Vision 2010 management plan of joining the ranks of global corporations in the car seat industry.

As a result, while our domestic sales fell, our consolidated net sales climbed 2.9% year on year, to ¥216.858 billion in fiscal 2007, ended March 31, 2007, thanks to the start-up of production in Mexico and China of new models we are supplying.

Expenses for overseas production preparation and on the start-up of new models both in Japan and overseas dented our earnings performance. As a result of these expenses, coupled with a decline in earnings at equity-method affiliates both in Japan and overseas and the booking of losses for prior-year adjustments at domestic equity-method affiliates, we booked a net loss of ¥503 million in fiscal 2007, compared with net income of ¥1.94 billion a year earlier.

Our policy on profit distributions is to strive to maintain stable dividends while giving full consideration to our earnings performance in each fiscal year, trends in our business development, our consolidated dividend payout ratio, and other factors. Therefore, despite the sharp decrease in our consolidated earnings, we kept our ordinary cash dividend for the fiscal year at ¥10 per share and added a special cash dividend of ¥2 per share to commemorate the 20th anniversary of our listing on the Tokyo Stock Exchange

and entry into the U.S. market. Our aggregate annual cash dividend thus came to ¥12 per share in fiscal 2007.

As exemplified by the payment of special dividends to commemorate key events in our corporate development, we are actively working to return value to our shareholders.

## Vision 2010

Under our 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 process from product design and development through production while attaining world-class technological competencies and Quality Cost Development Delivery (QCDD).

The issue we must address immediately—as the recent trends toward declining automobile production in Japan, fiercer 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 superior operational scale in international markets
4. Develop capabilities to respond globally

In other words, we must create self-contained operating systems in key regions, namely Japan, North America, Europe, and China. Once these are in place, we must leverage our strong technological development capabilities to attain a 5% share of the global market. We are making progress in dealing 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 is the completion of our global operating centers. In line with our medium-term management plan, the work of ensuring that we have seven centers fully operational by the end of fiscal 2008 has moved forward, and our goal of creating a foundation that prepares us for further global development is in site.

In addition, for the Tachi-S Group to enhance our global competitiveness and realize a high return on our investment of capital, we must thoroughly implement cost-cutting 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 a consolidated ROE of 10%.

## Corporate Governance

To enhance the transparency and efficiency of our operations as well as maximize our corporate value and meet the expectations of shareholders and other stakeholders, the Tachi-S Group places a strong emphasis on corporate governance. In our activities, the Group works to fulfill our 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 seven directors, including one outside director, all of whom are elected for a term of one year. In addition, we have combined 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 our 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 established an internal reporting system and is working to strengthen our compliance systems. In addition, based on our Code of Ethics, which provides regulations for the behavior of management and staff, we are 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 our core management value and, while pursuing efficiency and soundness in our operations, we are continuing to substantially improve our corporate governance systems.

## Environment

As a result of a review based on ISO 14001, an international standard for assessing environmental management systems, all Tachi-S Group operating bases finished obtaining certification.

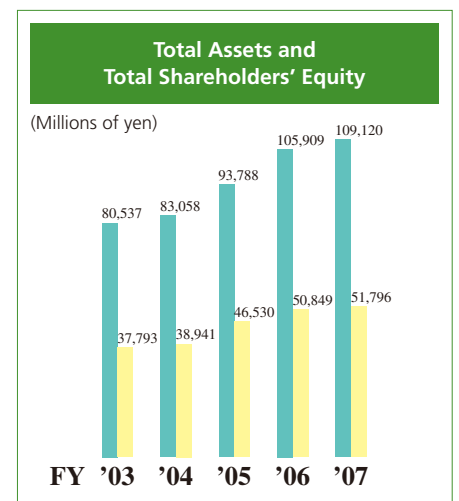
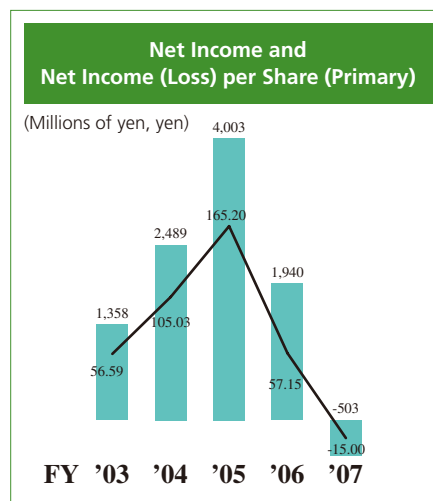
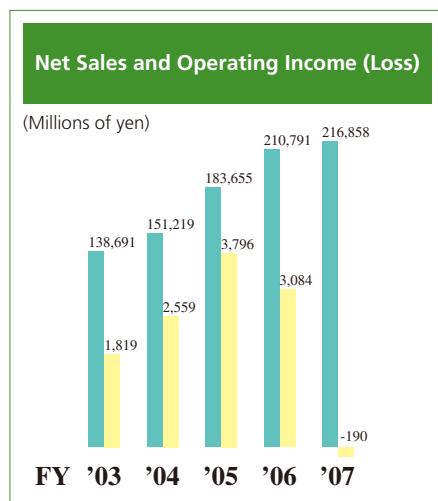
As a company that embraces the basic principle of caring about people and the environment, we will work to promote greater understanding of environmental issues by each of our employees. The Tachi-S Group is also working to contribute to greater social well-being through the conservation of the earth's environment and the promotion of harmonious coexistence between people and nature.

## Overview

The operating environment both in Japan and overseas is likely to remain challenging. In the automobile industry, although major growth is not expected in the Japanese, North American, and European markets, the markets of emerging countries, led 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 our 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 our operations with the aims of substantially improving our performance and increasing our corporate value. As we move ahead with these efforts, we appreciate the continued support of our esteemed shareholders.

June 27, 2007



## 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.
- 1977** Established Aichi Plant in Anjo, Aichi Prefecture
- 1980** Established Musashi Plant in Iruma, Saitama Prefecture
- 1982** Established Tochigi Plant in Shimotsuke, Tochigi Prefecture  
Established Hiratsuka Plant in Hiratsuka, Kanagawa Prefecture
- 1984** Established Suzuka Plant in Suzuka, Mie Prefecture
- 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
- 1993** Opened Tachi-S Technical Center in Ome, Tokyo
- 1999** Capital tie-up with Fuji Kiko Co., Ltd.  
Nissan Motor capital investment withdrawn  
Opened Tachi-S Technical Center Aichi in Anjo, Aichi Prefecture
- 2000** Established Syntec, Inc., in North Carolina, U.S.A.  
Established Oppama Plant in Yokosuka, Kanagawa Prefecture
- 2002** Mitsubishi Motors capital investment withdrawn  
Transferred and changed address of Corporate Headquarters to Akishima, Tokyo
- 2003** Listed on the First Section of the Tokyo Stock Exchange  
Launched real estate leasing business
- 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

## Steady Progress towards

### Key Achievements in First Half of Management Plan

#### "Building Phase" of Vision 2010 FY2005-FY2007

#### Developing Our Network of Core Global Operations

- Expanded a North American technical center at Tachi-S Engineering U.S.A.
- Established a European technical center at Tachi-S Engineering Europe (France)
- Entered Canadian market
- Expanded operations in Mexico
- Expanded operations in China
- Entered the U.K. market
- Expanded operations in the U.S. market

#### Retooling Our Business Structure

- Rebalanced operations to bolster global competitiveness
- Restructured domestic production system to reflect mature market conditions
- Strengthened our arsenal of cutting-edge environmental and safety technologies

#### Bolstering Operational Alliances

- Formed operational alliance with Kasai Kogyo in plastic parts for door interior trim
- Strengthened our relationship with Fuji Kiko in steel processing and parts for seat adjustment rails



Staff members of TACLE Seating U.S.A.



Development and design work in progress in Europe

# Reaching Our Vision 2010 Goals

## "Vision 2010" Medium-Term

### Upgrading Our Core Global Operations

July 2006: Started production at three Guangzhou-based companies (China) for a sedan and minivan (two models) targeted at the Chinese market

Sept. 2006: Started production at INSA (Mexico) for two strategic models—a hatchback compact and a compact sedan—targeted at the North American market

Nov. 2006: Commenced operations TACLE Seating U.K. with production for a crossover SUV targeted at the European market

Mar. 2007: Started production at Tackle Seating U.S.A. for a mid-sized sedan that is a strategic model targeted at the North American market

### Realigning Business Structure

Rebalancing operations to bolster global competitiveness

\* Established Nui Tec Corporation in July 2006 to manage and operate the Tachi-S Group's production of sewn products

Restructuring domestic production system to reflect mature market conditions

\* Revitalization plan for making Tochigi Plant into model factory for multi-product, small-batch production

Strengthening arsenal of cutting-edge environmental and safety technologies

\* Tachi-S plans to build the Ome Testing Center in Tokyo and the Aichi Testing Center, Japan; the testing centers will install advanced testing facilities that anticipate future market needs in reducing environmental impact and increasing safety and is scheduled for completion in spring 2008.

## Key Themes in Second Half of "Vision 2010" Medium-Term Management Plan

### "Finishing Phase" of Vision 2010 FY2008-FY2010

#### Putting Core Global Operations on an Even Keel

Ensuring operations put into place in first half of Vision 2010 proceed smoothly

Further expansion

#### Seeking New Opportunities for Global Expansion

Promote sales to automakers that Tachi-S does not yet supply

Expand into BRICs

#### Building Our Business Foundation

Restructuring our domestic business operations

Ensuring our regional operations around the world are self-sufficient



# GLOBAL NETWORK

## Investee Companies

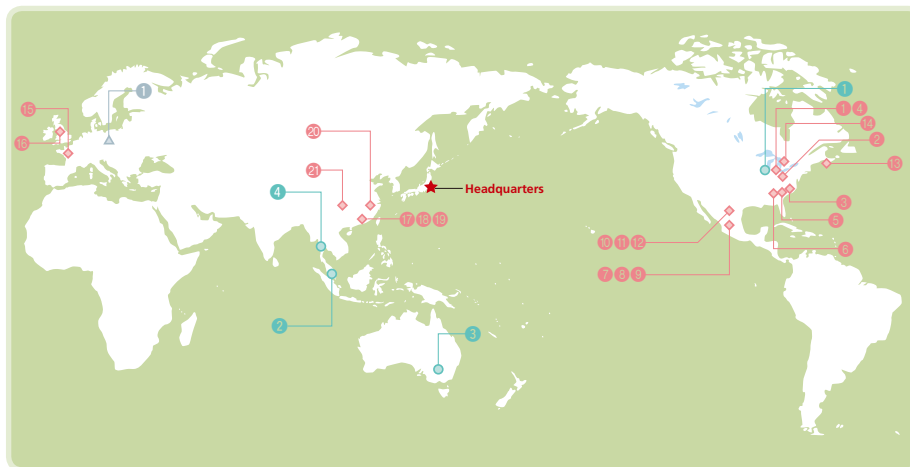
- ① Tachi-S Engineering U.S.A. Inc. (Michigan)
- ② Setex Inc. (Ohio)
- ③ Syntec, Inc. (North Carolina)
- ④ TACLE Seating U.S.A. LLC (Tennessee)
- ⑤ Technotrim, Inc. (Head Office) (Michigan)
- ⑥ Fuji Autotech U.S.A. LLC (Kentucky)
- ⑦ Industria de Asiento Superior, S.A. de C.V., Aguascalientes Plant (Head Office) (Mexico)
- ⑧ Industria de Asiento Superior, S.A. de C.V., Guadalajara Plant (Mexico)
- ⑨ Industria de Asiento Superior, S.A. de C.V., Cuernavaca Plant (Mexico)
- ⑩ Technotrim, Inc., Ramos Plant (Mexico)
- ⑪ Technotrim, Inc., Saltillo Plant (Mexico)
- ⑫ Technotrim, Inc., Monclova Plant (Mexico)
- ⑬ Tachi-S Canada Ltd. (Canada)
- ⑭ Setex Canada GP (Canada)
- ⑮ Tachi-S Engineering Europe S.A.R.L. (France)
- ⑯ TACLE Seating U.K. Limited (U.K.)
- ⑰ TACLE Guangzhou Automotive Seat Co., Ltd. (China)
- ⑱ Tachi-S Trim Guangzhou Co., Ltd. (China)
- ⑲ Fuji Autotech Guangzhou Co., Ltd. (China)
- ⑳ Tachi-S Taicang Co., Ltd. (China)
- ㉑ Zhengzhou Taixin Interia Co., Ltd. (China)

## Technology Licensees

- ① Johnson Controls, Inc. (Michigan)
- ② Auto Parts Manufacturers Co., Sdn. Bhd. (Malaysia)
- ③ Henderson's Industries Pty. Ltd. (Australia)
- ④ Summit Auto Seats Industry Co., Ltd. (Thailand)

## Technology Licensor

- ① Isringhausen GmbH & Co. KG (Germany)



(As of March 31, 2007)

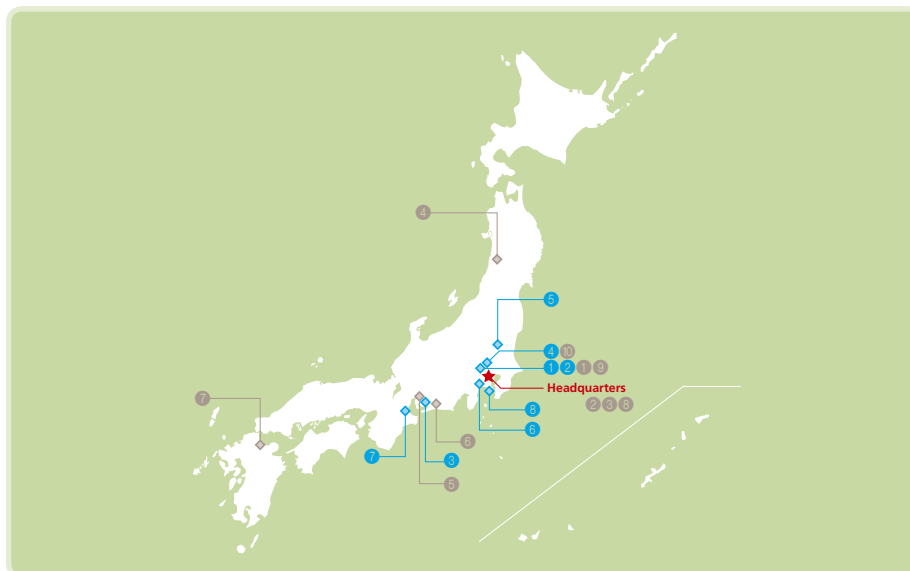
# DOMESTIC NETWORK

## 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 Tachi-S Parts Co., Ltd.
- ② Tachikawa Hatsujou Co., Ltd.
- ③ Nui Tec Corporation (Head Office)
- ④ Nui Tec Corporation (Akita Plant)
- ⑤ Nui Tec Corporation (Nagoya Plant)
- ⑥ Fuji Kiko Co., Ltd.
- ⑦ Kinryo Kogyo Co., Ltd.
- ⑧ Tachi-S Service Co., Ltd.
- ⑨ TS Design Co., Ltd.
- ⑩ Nissin Kogyosho Co., Ltd.



(As of March 31, 2007)

# FINANCIAL SECTION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The global economy in the consolidated fiscal year under review was steady.

Despite concerns about slowing growth, the U.S. economy grew modestly on firm capital expenditures and consumer spending. The European economy rebounded on a pickup in consumer spending and domestic demand, whereas the Asian economy continued to grow sharply, driven by rapid growth in China. Despite slack consumer spending, the domestic economy continued to rebound as improvement in corporate earnings was accompanied by steady capital investment.

In the automobile industry, passenger vehicle demand, especially for compact cars, was firm in the U.S. market, and the market share of Japanese automakers continued to climb. Demand in Europe was flat on the whole, while in Asia, sales grew sharply in China and India.

Automobile sales in Japan fell in response to higher oil prices, but exports of finished automobiles increased, and domestic automobile production volume rose year on year. The overseas production volume of Japanese automakers was also up against the previous year's level.

In this business environment, the Tachi-S Group is pressing ahead with the globalization of its operations to realize the goal of the Vision 2010 management plan of joining the ranks of global corporations in the car seat industry in 2010.

As a result, domestic sales declined due to a fallback in sales stemming from a dry spell for new models and a change in the sales product composition, but consolidated net sales climbed ¥6.067 billion, or 2.9%, year on year, to ¥216.858 billion in fiscal 2007, ended March 31, 2007, thanks to the commencement of sales at a recently established Group company in China and a boost from greater production at the Group's Mexican subsidiaries, along with an increase in yen conversion gains attendant with foreign exchange rate trends.

Earnings were impacted by the decline in domestic sales, the effects of the change in the sales product composition, an increase in up-front development costs to prepare for orders for new models, expenses to prepare for the commencement of operations at recently established Group companies in China and the United States, and the impact of foreign exchange rate trends on the Group's Canadian subsidiaries. As a result, the Company posted a consolidated operating loss of ¥190 million, which is ¥3.275 billion worse than the previous year's operating income level.

Equity-method income fell ¥608 million year on year due to the impact of profit declines at equity-method affiliates in Japan and the United States and expenses for the start-up of operations at a U.K. equity-method affiliate.

Moreover, although we booked gains of ¥203 million on the sale of investment securities and subsidy revenues of ¥213 million, we also recorded losses of ¥352 million for prior-year adjustments attendant with changes to the accounting treatment method for domestic equity-method affiliates as well as losses of ¥190 million on the disposal of fixed assets. As a result, income before income taxes and minority interests came

to ¥326 million. After subtracting taxes and minority interest losses, the Company booked a net loss of ¥503 million, which is ¥2.443 billion lower than the net income reported in the previous year.

Starting from fiscal 2006, we have adopted a new system of segment classification, as introduced below.

### **Automotive Seat Segment**

Sales in this segment were ¥216.244 billion, but in addition to expenses to prepare for the launch of production at joint ventures in China and the United States to supply Nissan Motor Co., Ltd., the segment shouldered expenses for the start-up of the mass production of new models in Japan and overseas. As a result, operating income came to ¥444 million.

### **Real Estate-Related Segment**

For the purpose of using our assets effectively and securing stable profits, we own a real estate leasing business. This segment booked sales of ¥612 million and operating income of ¥292 million.

### **Financial Position**

Total assets at the end of fiscal 2007 increased ¥3.211 billion, or 3.0%, to ¥109.120 billion. Among our assets, tangible fixed assets, in particular, climbed ¥3.045 billion.

Liabilities rose ¥7.749 billion, or 15.6%, to ¥57.324 billion. Of the main factors impacting liabilities, income taxes payable fell ¥1.182 billion, but accounts and notes payable climbed ¥3.334 billion as the fiscal year ended on a Saturday in fiscal 2007. In addition, short-term loans increased ¥2.811 billion and long-term loans advanced ¥2.526 billion.

Net assets increased ¥3.900 billion compared with the prior fiscal year-end. Although the purchase of our own shares drained ¥2.675 billion from this category, the addition of minority interests to reflect revisions to regulations for consolidated financial statement presentation added ¥4.848 billion.

### **Cash Flows**

In fiscal 2007, cash and cash equivalents fell ¥2.698 billion, to ¥15.492 billion.

Cash provided by operating activities came to ¥4.096 billion. The main sources of cash were ¥326 million of income before income taxes and minority interests and ¥3.953 billion of depreciation and amortization expense.

Cash used for investing activities came to ¥7.985 billion. The main uses of cash were capital investment attendant with global business expansion, the acquisition of ¥6.186 billion in tangible fixed assets, and the acquisition of ¥1.550 billion in investments in securities.

Cash provided by financing activities came to ¥373 million. While we made outlays of ¥3.567 billion for the purchase of our own shares, we raised ¥5.262 billion in funds through short- and long-term loans.

# CONSOLIDATED BALANCE SHEETS

Tachi-S Co., Ltd. and consolidated subsidiaries As of March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash, time deposits and other cash equivalents (Note 11) .....	¥ 18,191	¥ 11,095	\$ 93,986
Marketable securities (Notes 4 and 11) .....	347	159	1,347
Accounts and notes receivable:			
Trade .....	30,577	30,894	261,703
Unconsolidated subsidiaries and affiliates .....	166	709	6,006
Other .....	666	670	5,676
	31,409	32,273	273,385
Less: allowance for bad debts .....	(56)	(10)	(85)
	31,353	32,263	273,300
Inventories (Note 6) .....	5,433	5,889	49,876
Advance payments .....	494	434	3,676
Deferred income taxes (Note 10) .....	1,136	887	7,514
Other current assets .....	377	6,411	54,308
Total current assets .....	57,331	57,138	484,017
<b>Investments and advances:</b>			
Investments in securities (Note 4) .....	6,058	7,136	60,449
Investments in unconsolidated subsidiaries and affiliates .....	11,367	10,547	89,343
Deferred income taxes (Note 10) .....	280	378	3,202
Long-term loans and other investments .....	978	1,039	8,801
	18,683	19,100	161,795
<b>Property, plant and equipment (Note 7):</b>			
Land .....	5,537	5,693	48,225
Buildings and structures .....	20,596	22,749	192,706
Machinery and equipment .....	32,357	35,893	304,049
Construction in progress .....	1,707	1,623	13,748
	60,197	65,958	558,728
Less: accumulated depreciation .....	(32,558)	(35,274)	(298,806)
Net property, plant and equipment .....	27,639	30,684	259,922
<b>Intangibles and deferred charges</b> .....	2,256	2,198	18,620
<b>Total assets</b> .....	¥105,909	¥109,120	\$924,354

The accompanying notes are an integral part of these statements. Accounting data for 2007 is unaudited.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
<b>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term bank loans (Note 7).....	¥ —	¥ 2,811	\$ 23,812
Accounts and notes payable:			
Trade.....	29,314	35,385	299,746
Unconsolidated subsidiaries and affiliates.....	2,749	5,276	44,693
Construction and acquisition of properties.....	763	1,417	12,003
Other.....	2,755	845	7,158
	35,581	42,923	363,600
Income taxes payable.....	1,668	485	4,108
Reserve for directors' bonuses (Note 2 (13)).....	30	—	—
Other current liabilities.....	5,999	2,149	18,203
Total current liabilities.....	43,278	48,368	409,723
<b>Fixed liabilities:</b>			
Long-term debt.....	—	2,526	21,398
Reserve for retirement benefits (Note 8).....	1,354	1,833	15,527
Deferred income taxes (Note 10).....	1,018	694	5,879
Excess of investment cost over equity in net assets of consolidated subsidiaries.....	50	39	330
Other non-current liabilities.....	3,873	3,864	32,732
Total fixed liabilities.....	6,295	8,956	75,867
Total liabilities.....	49,573	57,324	485,590
<b>Minority interests in consolidated subsidiaries</b> .....	5,487	—	—
<b>Shareholders' equity:</b>			
Common stock:			
Authorized: 140,000,000 shares			
Issued: 35,022,846 shares.....	8,145	—	—
Additional paid-in capital.....	7,730	—	—
Retained earnings.....	30,998	—	—
Net unrealized gain on securities (Note 4).....	2,558	—	—
Foreign currency translation adjustments.....	2,308	—	—
Treasury stock (Note 2 (20)).....	(893)	—	—
Total shareholders' equity.....	50,849	—	—
<b>Contingent liabilities (Note 9)</b>			
<b>Total liabilities and shareholders' equity</b> .....	¥105,909	—	—
<b>Shareholders' equity:</b>			
Common stock:			
Authorized: 140,000,000 shares			
Issued: 35,022,846 shares.....	—	8,145	68,996
Additional paid-in capital.....	—	7,699	65,218
Retained earnings.....	—	29,682	251,436
Net unrealized gain on securities (Note 4).....	—	1,858	15,739
Foreign currency translation adjustments.....	—	3,130	26,514
Treasury stock (Note 2 (20)).....	—	(3,568)	(30,224)
Total.....	—	46,947	397,688
Minority interest in consolidated subsidiaries.....	—	4,848	41,067
<b>Total shareholders' equity</b> .....	—	51,796	438,764
<b>Total liabilities and shareholders' equity</b> .....	—	¥109,120	\$924,354

# CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Tachi-S Co., Ltd. and consolidated subsidiaries Years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2006	2007	2007
<b>Net sales</b> (Notes 13 and 15) .....	¥183,655	¥210,791	<b>¥216,858</b>	<b>\$1,837,001</b>
<b>Operating costs and expenses:</b>				
Cost of sales (Notes 13 and 15) .....	171,181	197,500	<b>205,155</b>	<b>1,737,865</b>
Selling, general and administrative expenses (Note 13) .....	8,678	10,207	<b>11,893</b>	<b>100,745</b>
Operating income (loss) .....	3,796	3,084	<b>(190)</b>	<b>(1,609)</b>
<b>Other income (expenses):</b>				
Interest and dividend income .....	199	323	<b>614</b>	<b>5,201</b>
Interest expenses .....	(81)	(66)	<b>(62)</b>	<b>(525)</b>
Stock issue costs .....	(34)	—	—	—
Bond issue cost, etc. ....	—	—	<b>(48)</b>	<b>(407)</b>
Loss on sale/disposal of property, net.....	(340)	(100)	<b>(190)</b>	<b>(1,609)</b>
Impairment loss on fixed assets.....	—	(80)	—	—
Gain on sales of securities (Note 4) .....	22	—	<b>203</b>	<b>1,720</b>
Subsidy revenue .....	—	—	<b>213</b>	<b>1,804</b>
Evaluation loss on securities.....	(69)	—	—	—
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries .....	32	23	<b>26</b>	<b>220</b>
Equity in earnings of unconsolidated subsidiaries and affiliates .....	2,689	709	<b>100</b>	<b>847</b>
Loss on devaluation of golf memberships .....	(5)	—	—	—
Loss on sales of affiliates' investments.....	—	—	<b>(39)</b>	<b>(330)</b>
Loss on prior-period adjustment .....	—	—	<b>(352)</b>	<b>(2,982)</b>
Evaluation loss on affiliates' investments.....	—	—	<b>(92)</b>	<b>(779)</b>
Exchange gain or loss .....	—	253	<b>(48)</b>	<b>(407)</b>
Other, net .....	195	150	<b>191</b>	<b>1,618</b>
	2,608	1,212	<b>516</b>	<b>4,371</b>
Income before income taxes and minority interests .....	6,404	4,296	<b>326</b>	<b>2,762</b>
<b>Income taxes</b> (Note 10):				
Current .....	1,994	2,008	<b>896</b>	<b>7,590</b>
Deferred.....	(371)	(607)	<b>16</b>	<b>136</b>
	1,623	1,401	<b>912</b>	<b>7,726</b>
<b>Minority interests in net income of consolidated subsidiaries</b> .....	(778)	(955)	<b>83</b>	<b>703</b>
Net income (loss) .....	4,003	1,940	<b>(503)</b>	<b>(4,261)</b>
<b>Retained earnings:</b>				
Balance at beginning of year .....	26,120	29,608	—	—
Appropriations:				
Cash dividends .....	(265)	(310)	—	—
Directors' bonuses .....	(35)	(30)	—	—
Decrease arising from the adoption of inflation accounting by a consolidated subsidiary in Mexico.....	(215)	(128)	—	—
Decrease arising from the increasing amount of consolidated subsidiary .....	—	(54)	—	—
Other* .....	—	(28)	—	—
Balance at end of year .....	¥ 29,608	¥ 30,998	¥ —	\$ —

\* "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)
	2005	2006	2007	2007
<b>Net income (loss) and dividends per share</b> (Note 2 (18)):				
Net income (loss): primary .....	¥165.20	¥57.15	<b>¥(15.00)</b>	<b>\$(0.127)</b>
Cash dividends .....	10.00	10.00	<b>12.00</b>	<b>0.101</b>

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the fiscal year under review (April 1, 2006, to March 31, 2007)

	Millions of yen										
	Shareholders' equity					Evaluation and conversion differences					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on securities	Foreign currency translation adjustments	Total evaluation and conversion differences	Rights to purchase shares	Minority interest in consolidated subsidiaries	Total net assets
<b>Balance at March 31, 2006</b> ....	¥8,145	¥7,730	¥30,998	¥ (893)	¥459,821	¥2,558	¥2,308	¥4,867	¥—	¥5,487	¥56,335
Changes during the fiscal year under review .....											
Dividends paid from retained earnings .....	—	—	(381)	—	(381)	—	—	—	—	—	(381)
Loss for the period .....	—	—	(503)	—	(503)	—	—	—	—	—	(503)
Treasury stock purchased .....	—	—	—	(3,567)	(3,567)	—	—	—	—	—	(3,567)
Treasury stock disposed of ...	—	0	—	0	0	—	—	—	—	—	0
Increase in consolidated subsidiaries .....	—	—	(58)	—	(58)	—	—	—	—	—	(58)
Decline in surplus owing to purchase of treasury stock by affiliates accounted for under the equity method ...	—	(31)	—	891	859	—	—	—	—	—	859
First issue of rights to purchase new shares .....	—	—	—	—	—	—	—	—	10	—	10
Retirement of first issue of rights to purchase new shares .....	—	—	—	—	—	—	—	—	(10)	—	(10)
Other .....	—	—	(372)	—	(372)	—	—	—	—	—	(372)
Change (net) during the fiscal year in items other than those in shareholders' equity .....	—	—	—	—	—	(700)	822	122	—	—	(515)
Total of changes during the fiscal year .....	—	(31)	(1,315)	(2,675)	(4,022)	(700)	822	122	—	(638)	(4,538)
<b>Balance at March 31, 2007</b> ....	¥8,145	¥7,699	¥29,682	¥(3,568)	¥ 41,958	¥1,858	¥3,130	¥4,989	¥—	¥4,848	¥51,796

	Thousands of U.S. dollars										
	Shareholders' equity					Evaluation and conversion differences					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on securities	Foreign currency translation adjustments	Total evaluation and conversion differences	Rights to purchase shares	Minority interest in consolidated subsidiaries	Total net assets
<b>Balance at March 31, 2006</b> ....	\$68,996	\$65,481	\$262,584	\$ (7,565)	\$3,895,138	\$21,669	\$19,551	\$41,228	\$—	\$46,472	\$477,213
Changes during the fiscal year under review .....											
Dividends paid from retained earnings .....	—	—	(3,227)	—	(3,227)	—	—	—	—	—	(3,227)
Loss for the period .....	—	—	(4,261)	—	(4,261)	—	—	—	—	—	(4,261)
Treasury stock purchased .....	—	—	—	(30,216)	(30,216)	—	—	—	—	—	(30,216)
Treasury stock disposed of ...	—	0	—	0	0	—	—	—	—	—	0
Increase in consolidated subsidiaries .....	—	—	(491)	—	(491)	—	—	—	—	—	(491)
Decline in surplus owing to purchase of treasury stock by affiliates accounted for under the equity method ...	—	(263)	—	7,548	7,277	—	—	—	—	—	7,277
First issue of rights to purchase new shares .....	—	—	—	—	—	—	—	—	85	—	85
Retirement of first issue of rights to purchase new shares .....	—	—	—	—	—	—	—	—	(85)	—	(85)
Other .....	—	—	(3,151)	—	(3,151)	—	—	—	—	—	(3,151)
Change (net) during the fiscal year in items other than those in shareholders' equity .....	—	—	—	—	—	(5,930)	6,963	1,033	—	—	(4,363)
Total of changes during the fiscal year .....	—	(263)	(11,139)	(22,660)	(34,070)	(5,930)	6,963	1,033	—	(5,404)	(38,441)
<b>Balance at March 31, 2007</b> ....	\$68,996	\$65,218	\$251,436	\$(30,224)	\$ 355,426	\$15,739	\$26,514	\$42,262	\$—	\$41,067	\$438,764

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Tachi-S Co., Ltd. and consolidated subsidiaries Years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2006	2007	2007
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests .....	¥ 6,404	¥ 4,296	¥ 326	\$ 2,762
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization .....	4,176	4,132	3,953	33,486
Impairment loss on fixed assets .....	—	80	—	—
Loss on sale/disposal of properties, net .....	340	100	190	1,609
Loss on devaluation of golf memberships .....	5	—	—	—
Loss on prior-period adjustment .....	—	—	352	2,982
Gain on sales of securities .....	—	—	(203)	(1,720)
Increase (decrease) in allowance for bad debt .....	38	4	(70)	(593)
Equity in earnings (loss) of affiliates .....	(2,689)	(709)	(100)	(847)
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries .....	(32)	(23)	(26)	(220)
Interest and dividend income .....	(199)	(323)	(614)	(5,201)
Interest expenses .....	81	66	62	525
Increase in notes and accounts receivable .....	(4,252)	(2,646)	(1,016)	(8,607)
Increase in inventories .....	(431)	(636)	(798)	(6,760)
Increase in notes and accounts payable .....	2,638	3,423	3,584	32,647
Other .....	720	1,147	(1,082)	(9,166)
Subtotal .....	6,799	8,911	4,828	40,897
Interest and dividend income received .....	791	930	1,278	10,826
Interest paid .....	(25)	(5)	(16)	(136)
Income taxes paid .....	(1,771)	(2,234)	(1,994)	(16,891)
Income taxes refunded .....	160	—	—	—
Net cash provided by operating activities .....	5,954	7,602	4,096	34,696
<b>Cash flows from investing activities:</b>				
Decrease in short-term investments .....	114	—	192	1,626
Proceeds from sale of property, plant and equipment .....	17	506	(6,186)	(52,402)
Payments for purchase of property, plant and equipment .....	(2,744)	(4,989)	3	25
Proceeds from sale of investments in securities .....	31	924	256	2,169
Payments for purchase of investments in securities .....	(1,614)	(808)	(1,550)	(13,130)
Payments for purchase of investments in new consolidated subsidiaries .....	(2,099)	—	—	—
Payments for investments in unconsolidated subsidiaries and affiliates .....	(223)	(1,004)	(58)	(491)
Other .....	(270)	(102)	(642)	(5,438)
Net cash used in investing activities .....	(6,788)	(5,473)	(7,985)	(67,641)
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term bank loans, net (Note 7) .....	202	(94)	2,736	23,177
Repayment of long-term debt .....	(2,300)	—	—	—
Proceeds from long-term debt .....	—	—	2,526	21,398
Proceeds from issue of new shares .....	3,632	—	—	—
Proceeds from sale of treasury stock .....	—	328	—	—
Payments for purchase of treasury stock .....	—	(650)	(3,567)	(30,216)
Proceeds from financial contribution of minority .....	—	254	264	2,236
Cash dividends paid to minority shareholders .....	(188)	(392)	(1,204)	(10,199)
Cash dividends paid .....	(265)	(310)	(382)	(3,236)
Other .....	9	81	—	—
Net cash provided by (used in) financing activities .....	1,090	(783)	373	3,160
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>88</b>	<b>765</b>	<b>70</b>	<b>593</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>344</b>	<b>2,111</b>	<b>(3,445)</b>	<b>(29,183)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>15,730</b>	<b>16,074</b>	<b>18,191</b>	<b>154,096</b>
<b>Increase in cash and equivalents for increasing amount of consolidated subsidiary .....</b>	<b>—</b>	<b>6</b>	<b>746</b>	<b>6,319</b>
<b>Cash and cash equivalents at end of year (Note 11) .....</b>	<b>¥16,074</b>	<b>¥18,191</b>	<b>¥15,492</b>	<b>\$131,232</b>

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. Summary of Significant Accounting Policies

### (1) Scope of Consolidation

The Company had 20 and 21 majority-owned subsidiaries as of March 31, 2006 and 2007, respectively. The consolidated financial statements include the accounts of the Company and 12 subsidiaries for the year ended March 31, 2006. The consolidated financial statements include the accounts of the Company and 15 subsidiaries for the year ended March 31, 2007.

The 15 subsidiaries which have been consolidated with the Company for the year ended March 31, 2007 are listed below:

	Equity ownership percentage
Tachikawa Kogyo Co., Ltd. ....	100.0%
Fujitaka Kogyo Co., Ltd. ....	100.0%
Tachi-S Parts Co., Ltd. ....	100.0%
Tachikawa Hatsujou Co., Ltd. ....	77.7%
Nui Tec Corporation ....	100.0%
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%
TACLE Guangzhou Automotive Seat Co., Ltd. ....	51.0%
Tachi-S Trim Guangzhou Co., Ltd. ....	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., TACLE Seating U.S.A. LLC, and TACLE Guangzhou Automotive Seat Co., Ltd.) 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., TACLE Seating U.S.A. LLC, and Tachi-S Trim Guangzhou Co., Ltd. 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 eight affiliates at March 31, 2006 and six unconsolidated subsidiaries and one affiliate at March 31, 2007. The equity method has been applied to the investments in six affiliates, Technotrim, Inc., Kinryo Kogyo Co., Ltd., Fuji Kiko Co., Ltd., Fuji Autotech U.S.A. LLC, TACLE Seating U.K. Limited, and Fuji Autotech Guangzhou Co., 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. Net assets at the beginning of the year are 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 "Total net assets" 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 "Net assets 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) Bond Issuance Costs**

Bond issuance costs are treated as expenses at the time of payment.

(Provisional Accounting Treatment of Deferred Assets)

Beginning with the consolidated fiscal year under review, the Company has applied "Provisional Accounting Treatment of Deferred Assets" (Accounting Standards Application Report No. 19, issued August 11, 2006, by the Accounting Standards Board of Japan). The effect of the application of these standards is not material.

#### **(12) 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.

#### **(13) Reserve for Directors' Bonuses**

To provide for the payment of bonuses to directors, conditional to the approval of the General Meeting of Shareholders, the Company sets aside a reserve equivalent to the amount to be paid.

Please note that, in view of the Company's performance for the consolidated fiscal year under review, no directors' bonuses for the consolidated fiscal year will be paid, and, accordingly, no reserve has been set aside.

#### **(14) 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.

#### **(15) 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."

#### **(16) 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.

#### **(17) 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.

#### **(18) 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.

#### **(19) 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.

#### **(20) Treasury Stock**

The amount of treasury stock, which is held by the Company and an affiliate which applied the equity method, is 3,974,200 of common stock.

#### **(21) Accounting Standards for Presentation of Net Assets on the Consolidated Balance Sheets**

Beginning with the consolidated fiscal year under review, the Company has applied "Accounting Standards for Presentation of Net Assets on the Consolidated Balance Sheets" (Accounting Standards Board of Japan No. 5, issued on December 9, 2005, by the Accounting Standards Board of Japan) and "Guidelines for Application of Accounting Standards, Etc., Regarding Presentation of Net Assets on the Consolidated Balance Sheets" (Guideline for Application of Corporate Accounting Standards No. 8, issued December 9, 2005, by the Accounting Standards Board of Japan).

The application of these standards has no material effect on income. Please note that the amount corresponding to shareholders' equity, which was presented previously, is ¥46,948 million.

As a result of these revisions in the rules for the presentation of consolidated financial statements, the financial statements for the consolidated fiscal year under review have been prepared according to revised rules for the presentation of consolidated financial statements.

#### **(22) Consolidated Adjustment Account**

Beginning with the fiscal year under review, the "Consolidated adjustment account" on the consolidated balance sheets has been presented as "Negative goodwill." In addition, "Amortization of the consolidated adjustment account," previously shown in the consolidated statements of income and the consolidated statements of cash flows has been presented as "Amortization of negative goodwill" beginning with the fiscal year under review.

#### **(23) Loss on Restatement of Income for Prior Years**

This is the amount reported accompanying the adoption of the general treatment approach for certain domestic affiliates accounted for under the equity method. Previously, certain domestic affiliates accounted for under the equity method were accounted for based on the non-consolidated accounts of these companies, but beginning with the fiscal year under review, these companies are accounted for based on their consolidated accounts. As a result, net income prior to current and deferred income taxes was ¥352 million lower than it would have been otherwise.

### **3. U.S. Dollar Amounts**

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥118.05=US\$1, the rate of exchange on March 31, 2007, 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		
	2006			2007			2007		
	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 .....	¥2,202	¥5,718	¥3,516	¥2,188	¥5,440	¥3,252	\$18,535	\$46,082	\$27,547
Bonds and debentures .....	250	258	8	250	268	18	2,118	2,270	152
Other securities.....	11	23	12	10	18	8	85	152	68
	¥2,463	¥5,999	¥3,536	¥2,448	¥5,727	¥3,278	\$20,736	\$48,505	\$27,767
Securities with unrealized losses:									
Equity securities .....	¥ 7	¥ 7	¥ —	¥1,520	¥1,365	¥ (155)	\$12,876	\$11,563	\$ (1,313)
Bonds and debentures .....	200	197	(3)	—	—	—	—	—	—
Other securities.....	150	150	—	160	160	—	1,355	1,355	—
	¥ 357	¥ 354	¥ (3)	¥1,680	¥1,525	¥ (155)	\$14,231	\$12,918	\$ (1,313)
Total.....	¥2,820	¥6,353	¥3,533	¥4,128	¥7,251	¥3,123	\$34,967	\$61,423	\$26,454

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

	Millions of yen						Thousands of U.S. dollars					
	2005			2006			2007					
	Sales value	Profit on sales	Loss on sales	Sales value	Profit on sales	Loss on sales	Sales value	Profit on sales	Loss on sales			
	¥31	¥22	¥—	¥—	¥—	¥—	¥256	¥203	¥—	\$2,169	\$1,720	\$—

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

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Carrying amounts			Carrying amounts			Carrying amounts		
Other securities:									
Unlisted shares (except over-the-counter stock) .....	¥52			¥43			\$364		

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

	Millions of yen				Thousands of U.S. dollars	
	2006		2007		2007	
	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.....	196	—	—	—	—	—
Total.....	¥196	¥—	¥—	¥—	\$—	\$—

#### 5. Derivatives

The table below lists contract amounts and fair values of derivatives as at March 31, 2007 by transactions and type of instrument.

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Contract amounts	Fair values	Gains	Contract amounts	Fair values	Gains
Instruments						
Forward exchange contracts .....	¥7,485	¥7,542	¥57	\$63,405	\$63,888	\$483
Total gains from forward exchange contracts.....	—	—	57	—	—	483

#### 6. Inventories

Inventories at March 31, 2006 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
	Finished products .....	¥ 927	¥2,124
Work-in-process.....	602	593	5,023
Raw materials and supplies.....	3,904	3,171	26,861
	¥5,433	¥5,889	\$49,876

## 7. Short-Term Debt

The annual average interest rate applicable to short-term debt at March 31, 2007 was 5.90%.

Short-term debt at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Short-term debt, of which the annual average interest rate is 5.90% .....	¥100	¥2,836	\$24,023

At March 31, 2006 and 2007, 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
	2006	2007	2007
Land .....	¥ 15	¥1,062	\$ 8,996
Buildings and structures .....	2,934	4,815	40,788
Machinery and equipment.....	—	6	51
	¥2,949	¥5,884	\$49,835

## 8. 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, 2006 and 2007 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Projected benefit obligations .....	¥(7,201)	¥(6,110)	\$(51,758)
Plan assets .....	5,351	5,214	44,168
	(1,850)	(896)	(7,590)
Unrecognized actuarial differences .....	476	119	1,008
Past service liabilities.....	370	(647)	(5,481)
Reserve for retirement benefits.....	¥(1,004)	¥(1,424)	\$(12,063)

Net pension expense related to the retirement benefits for the years ended March 31, 2005, 2006 and 2007 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Service cost .....	¥313	¥354	¥428	\$3,626
Interest cost .....	124	129	133	1,127
Expected return on plan assets .....	(79)	(84)	(153)	(1,296)
Amortization of unrecognized actuarial differences .....	173	178	122	1,033
Amortization of past service liabilities .....	55	55	38	322
One-time payments of extra retirement benefits .....	—	—	0	0
Net pension expense .....	¥586	¥632	¥568	\$4,812

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

	2006	2007
Method of attributing the projected benefits to periods of service .....	Straight-line basis	<b>Straight-line basis</b>
Discount rate.....	2.0%	<b>2.0%</b>
Expected rate of return on plan assets .....	2.0%	<b>3.0%</b>
Amortization of unrecognized actuarial differences.....	10 years	<b>10 years</b>
Amortization of past service liabilities.....	10 years	<b>10 years</b>

The reserve for retirement benefits in the accompanying consolidated balance sheets at March 31, 2006 and 2007 included provisions related to directors and statutory auditors in the amounts of ¥350 million and ¥408 million (\$3,456 thousand), respectively.

## 9. Contingent Liabilities

The Companies were contingently liable for guarantees of loans at March 31, 2006 and 2007 as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Loans borrowed by:			
TACLE Seating U.K. Limited (U.K.) .....	¥ —	¥ 766	\$ 6,488
Tachi-S Service Co., Ltd. ....	3	2	16
Fuji Autotech U.S.A. LLC .....	80	529	4,488
TACLE Guangzhou Automotive Seat Co., Ltd. ....	37	—	—
Fuji Autotech Guangzhou Co., Ltd. ....	100	207	1,753
Employees.....	3	2	16
	¥223	¥1,508	\$12,774

Guarantees provided for leasing contracts of affiliated companies are as follows:

Fuji Autotech U.S.A. LLC: ¥307 million

## 10. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2005 was 40.5% and the rate as of March 31, 2006 and 2007 was 40.5%.

At March 31, 2005, 2006 and 2007, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

	2005	2006	2007
Statutory tax rate	40.5%	40.5%	40.5%
Dividend income	3.5	4.6	124.0
Equity in earnings of affiliates	(14.8)	(9.5)	(9.1)
Special deduction of research and development costs	(1.7)	(5.0)	(17.3)
Difference in tax rate of overseas consolidated subsidiaries	—	—	46.9
Reserves for valuation changes	—	—	94.8
Deduction for foreign taxes	—	—	(28.5)
Deduction for investment tax paid by U.S. subsidiaries	—	—	(10.4)
Loss on restatement of income for prior years	—	—	43.8
Other	(2.1)	2.0	(4.6)
Effective tax rate	25.4%	32.6%	280.1%

At March 31, 2006 and 2007, the significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Reserve for retirement benefits	¥ 542	¥ 736	\$ 6,235
Accrued expenses	978	825	6,989
Eliminated unrealized profits	59	71	601
Operating loss carryforwards	949	918	7,776
Refundable capital tax in Mexico	95	99	839
Other	851	778	6,590
Total gross deferred tax assets	3,474	3,427	29,030
Less: valuation allowance	(643)	(753)	(6,379)
Total deferred tax assets	2,831	2,674	22,651
Set-off: deferred tax liabilities	(1,415)	(1,410)	(11,944)
Net deferred tax assets	¥ 1,416	¥ 1,265	\$ 10,707
Current	¥ 1,136	¥ 887	\$ 7,505
Non-current	280	378	3,202
Deferred tax liabilities:			
Tax deductible reserve	¥ (69)	¥ (68)	\$ (576)
Undistributed earnings of foreign subsidiaries and affiliates	(324)	(356)	(3,016)
Net unrealized gain or loss on securities	(1,434)	(1,266)	(10,724)
Depreciation expense	(227)	(168)	(1,423)
Other	(380)	(248)	(2,101)
Total gross deferred tax liabilities	(2,434)	(2,106)	(17,840)
Set-off: deferred tax assets	1,415	1,410	11,944
Net deferred tax liabilities	¥(1,019)	¥ (696)	\$ (5,896)
Current	¥ (1)	¥ 2	\$ 25
Non-current	(1,018)	694	5,870

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, 2006 and 2007, respectively.

## 11. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Cash, time deposits and other cash equivalents	¥16,075	¥18,191	¥11,095	\$ 93,986
Marketable securities	1,026	347	159	1,347
Other current assets (short-term loans receivable)	—	—	4,397	37,247
	17,101	18,538	15,651	132,579
Time deposits with deposit terms of over three months	(1)	—	—	—
Short-term investments with maturity terms of over three months	(1,026)	(347)	(159)	(1,347)
Cash and cash equivalents at end of year	¥16,074	¥18,191	¥15,492	\$131,232

## 12. Subsequent Event

### (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.

### (Year ended March 31, 2007)

None

## 13. Segment Information

### (1) Industry Segment Information

Industry Segment Information

Beginning with the consolidated fiscal year under review, the real estate related business of the Tachi-S Group no longer meets the conditions for omission from disclosure under the Rules for Presentation of Consolidated Financial Statements No. 1 (Cautionary Note on Presentation No. 14). Accordingly, the accounts of this business have been presented as a separate industry segment, Real Estate, along with the Company's principal business of Automobile Seats and Other.

Financial Indicators by Industry Segment for the Fiscal Year under Review  
(April 1, 2006, to March 31, 2007)

	Millions of yen				
	Automobile Seats and Other	Real Estate	Total	Eliminations or company-wide	Consolidated
Net sales to:					
(1) Outside customers .....	¥216,244	¥ 612	¥216,858	¥ —	¥216,858
(2) Inter-segment sales/transfers .....	—	—	—	—	—
Total .....	216,244	612	216,858	—	216,858
Operating expenses.....	215,799	320	216,120	928	217,048
Operating income .....	¥ 444	¥ 292	¥ 737	¥ (928)	¥ (190)
Assets, depreciation, and capital expenditures:					
Assets .....	¥ 96,897	¥3,208	¥100,105	¥9,014	¥109,120
Depreciation .....	3,693	233	3,927	25	3,952
Capital expenditures .....	6,461	—	6,461	3	6,465

	Thousands of U.S. dollars				
	Automobile Seats and Other	Real Estate	Total	Eliminations or company-wide	Consolidated
Net sales to:					
(1) Outside customers .....	\$1,831,817	\$ 5,184	\$1,837,001	\$ —	\$1,837,001
(2) Inter-segment sales/transfers .....	—	—	—	—	—
Total .....	1,831,817	5,184	1,837,001	—	1,837,001
Operating expenses.....	1,828,038	2,711	1,830,749	7,861	1,838,610
Operating income .....	\$ 3,779	\$ 2,473	\$ 6,252	\$ (7,861)	\$ (1,609)
Assets, depreciation, and capital expenditures:					
Assets .....	\$ 820,822	\$27,175	\$ 847,997	\$76,357	\$ 924,354
Depreciation .....	31,290	1,974	33,264	212	33,476
Capital expenditures .....	54,731	0	54,731	25	54,756

Notes: Principal products by segment

1. Automobile Seats and Other: Manufacturing, sale, and development support for automobile seats and related parts. Manufacturing and sale of other products.
2. Real Estate: Real estate rental business

## (2) Geographical Segment Information

Sales of the Companies for the years ended March 31, 2005, 2006 and 2007, classified by geographical segment (divided into sales within Japan and outside Japan), are summarized as follows:

	Millions of yen						
	2005						
	Japan	U.S.A.	Canada	Mexico	Total	Elimination	Consolidated total
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							
	2006							
	Japan	U.S.A.	Canada	Mexico	France	Total	Elimination	Consolidated total
Net sales to:								
Outside customers .....	¥124,081	¥42,289	¥32,633	¥11,582	¥ 206	¥210,791	¥ —	¥210,791
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
Operating expenses.....	123,239	44,048	32,216	13,439	310	213,253	(5,546)	207,707
Operating income (loss).....	¥ 2,391	¥ 356	¥ 426	¥ 23	¥(104)	¥ 3,091	¥ (7)	¥ 3,084
Assets .....	¥ 65,882	¥24,495	¥10,502	¥ 8,317	¥ 314	¥109,512	¥(3,603)	¥105,909

Millions of yen									
2007									
	Japan	U.S.A.	Canada	Mexico	France	China	Total	Eliminations or company- wide	Consolidated total
Outside customers .....	¥119,643	¥43,332	¥33,408	¥18,251	¥309	¥1,914	¥216,857	¥ 0	¥216,858
Inter-segment sales .....	5,394	2,629	3	1,656	—	37	9,719	(9,719)	0
Total .....	125,037	45,961	33,411	19,907	309	1,951	226,576	(9,719)	216,858
Operating expenses .....	123,241	45,877	33,993	20,067	365	2,317	225,860	(8,813)	217,048
Operating income (loss) .....	¥ 1,796	¥ 84	¥ (582)	¥ (160)	¥ (56)	¥ (366)	¥ 716	¥ (906)	¥ (190)
Assets .....	¥ 66,945	¥27,454	¥ 9,468	¥10,886	¥273	¥3,315	¥118,341	¥(9,221)	¥109,120

Thousands of U.S. dollars									
2007									
	Japan	U.S.A.	Canada	Mexico	France	China	Total	Eliminations or company- wide	Consolidated total
Outside customers .....	\$1,013,502	\$367,065	\$282,999	\$154,604	\$2,618	\$16,213	\$1,837,001	\$ 0	\$1,837,001
Inter-segment sales .....	45,693	22,270	25	14,028	—	313	82,330	(82,330)	0
Total .....	1,059,195	389,335	283,024	168,632	2,618	16,526	1,919,330	(82,330)	1,837,001
Operating expenses .....	1,043,982	388,623	287,954	169,987	3,092	19,627	1,913,265	(74,655)	1,838,610
Operating income (loss) .....	\$ 15,213	\$ 712	\$ (4,930)	\$ (1,355)	\$ (474)	\$ (3,101)	\$ 6,065	\$ (7,675)	\$ (1,609)
Assets .....	\$ 567,090	\$232,562	\$ 80,203	\$ 92,215	\$2,313	\$28,081	\$1,002,464	\$(78,110)	\$ 924,354

Note: Beginning with the fiscal year under review, China has been added as a separate geographical segment.

#### Change in Method of Allocation of Operation Expenses and Assets

Previously, the Company allocated the full amount of expenses and assets of the business administration units (administrative and other sections) to the "Japan" geographical segment. However, accompanying the changes in Group management, to make clear the expenses and assets of the Head Office, beginning with the fiscal year under review, the Company has classified these as unallocatable expenses and assets. As a result of this change, operating expenses in the "Japan" geographical segment were ¥928 million lower than under the previous method of allocation, and operating income for the segment declined by the same amount. Assets in this segment also declined by ¥9,014 million.

Note that if the geographical segment data on expenses and assets for the previous fiscal year are allocated by the same method adopted for the fiscal year under review, the consolidated figures by geographical segment are as follows.

#### Financial Indicators by Geographical Segment for the Fiscal Year under Review

Millions of yen									
2006									
	Japan	U.S.A.	Canada	Mexico	France	Total	Elimination	Consolidated total	
Net sales to:									
(1) Outside customers .....	¥124,081	¥42,289	¥32,632	¥11,582	¥ 205	¥210,790	¥ —	¥210,791	
(2) Inter-segment sales/transfers .....	1,549	2,114	9	1,879	—	5,553	(5,553)	—	
Total .....	125,630	44,404	32,641	13,462	205	216,344	(5,553)	210,791	
Operating expenses .....	122,301	44,048	32,215	13,439	310	212,315	(4,608)	207,707	
Operating income (loss) .....	¥ 3,328	¥ 356	¥ 426	¥ 23	¥(104)	¥ 4,028	¥ (944)	¥ 3,084	
Assets .....	¥ 51,049	¥24,495	¥10,502	¥ 8,317	¥ 313	¥ 94,678	¥11,229	¥105,909	

### (3) Export Sales Information

	Millions of yen								Thousands of U.S. dollars
	2005	2006	2007					Total	2007 Total
			U.S.A.	Canada	Mexico	Other	Total		
Overseas sales .....	¥ 69,966	¥ 87,245	¥43,783	¥33,408	¥18,094	¥2,323	¥ 97,609	\$ 826,844	
Consolidated sales .....	183,655	210,791	—	—	—	—	216,858	1,837,001	
Ratio .....	38.1%	41.4%	20.2%	15.4%	8.3%	1.1%	45.0%		

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

## 14. Lease Transactions

The acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets at March 31, 2006 and 2007, including the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Acquisition cost.....	¥17	¥17	\$144
Accumulated depreciation.....	(8)	(11)	(93)
Net book value.....	¥ 9	¥ 6	\$ 51
Depreciation.....	¥ 2	¥ 2	\$ 17

Lease rental expenses on finance lease contracts without transfer of ownership for the years ended March 31, 2005, 2006 and 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Lease rental expenses for the year .....	¥15	¥2	¥2	\$17

Outstanding future lease payments due at March 31, 2006 and 2007, including the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Future lease payments:			
Within one year.....	¥2	¥2	\$17
Over one year.....	7	4	34
Total .....	¥9	¥6	\$51

## 15. Related Party Transactions

The transactions of the Company with its related companies and individuals for the years ended March 31, 2005, 2006 and 2007, 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			Account	Resulting account balances		Thousands of U.S. dollars		
					Transactions				2006		2007		
					2005	2006	2007		2006	2007	2007	2007	
Technotrim, Inc.	\$120 (Thousands of dollars)	Manufacture and sale of automotive components	49.0%	Liability for guarantees	¥ —	¥ —	¥ —	¥—	¥ —	¥ —	\$ —	\$ —	
Fuji Kiko Co., Ltd.	¥5,985	Manufacture and sale of automotive parts	24.6%	Purchase of parts	¥8,138	¥8,133	¥9,208	Accounts payable	¥2,242	¥3,310	\$62,863	\$28,038	
				Supply of raw materials	299	192	169	Accounts receivable	14	3	118	25	
				Underwriting of capital increase	779	—	—	—	—	—	—	—	—
				Purchase of property, plant and equipment	—	13	0	—	—	—	—	—	—
				Other	—	4	—	—	—	—	—	—	—
Kinryo Kogyo Co., Ltd.	¥400	Manufacture and sale of automotive components and parts	25.0%	Purchase of parts	¥3,065	¥ —	¥ —	Accounts payable	¥ —	¥ —	\$ —	\$ —	
				Supply of raw materials	53	—	—	—	—	—	—	—	
				Sales of products	81	—	—	Accounts receivable	—	—	—	—	
				Other	5	—	—	Other	—	—	—	—	

## ***CORPORATE INFORMATION***

### **Headquarters**

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, 2007)

### **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**

#### ***Tachi-S Parts Co., Ltd.***

Ome, 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

#### ***Tachi-S Service Co., Ltd.***

Akishima, Tokyo

#### ***TS Design Co., Ltd.***

Ome, Tokyo

#### ***Nissin Kogyosho Co., Ltd.***

Iruma, Saitama

(As of March 31, 2007)

## ***BOARD OF DIRECTORS AND PRINCIPAL OFFICERS***

### **DIRECTORS**

#### **Representative Director and Chairman**

Kiyoshi Saito

#### **Representative Director and President**

Kosaku Tarumi

#### **Representative Director**

Mitsuya Koike

#### **Directors**

Hiroshi Taguchi  
Kazuyoshi Matsushita  
Yoshiyuki Nogami  
Michihiro Kitsukawa

### **EXECUTIVE OFFICERS**

#### **Chief Executive Officer**

Kiyoshi Saito

#### **Chief Operating Officer**

Kosaku Tarumi

#### **Executive Vice President**

Mitsuya Koike

#### **Senior Executive Officers**

Hiroshi Taguchi  
Kazuyoshi Matsushita  
Yoshiyuki Nogami  
Hiroyuki Miki  
Kazuakira Namiki  
Toshimitsu Kimura  
Hideo Kobayashi  
Kiyoji Kawamura

### **Executive Officers**

Noriyoshi Kujime  
Yuzuru Fukuda  
Yutaka Yajima  
Takashi Nakamura  
Yasuaki Ohno  
Itsuro Wakatsuki  
Shigeru Nishimura  
Hiroshi Harigaya  
Mutsumi Gamou  
Takashi Matsushita  
Takeshi Ishikawa

### **Corporate Auditors**

Tadao Koizumi  
Mamoru Kawasaki  
Hiroyuki Kawai  
Nobutake Ippoushi

(As of June 27, 2007)

### **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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