

# Message from the President



**Tetsuro Toyota**  
President

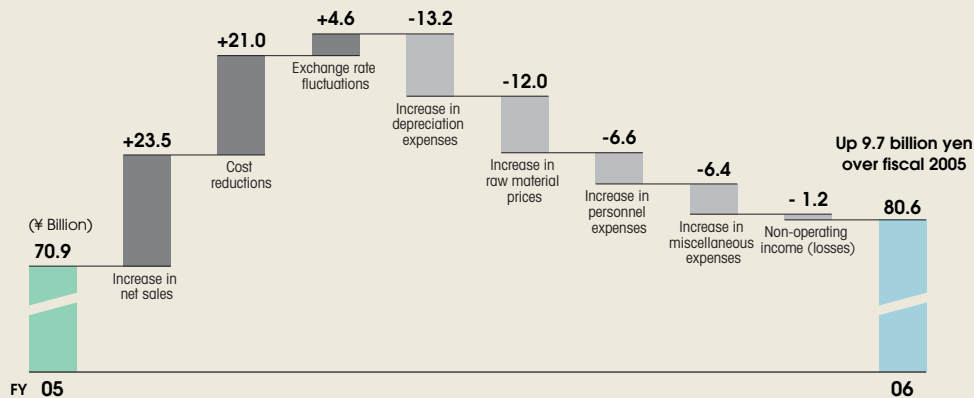
## Celebrating Our 80th Anniversary

In November 2006, Toyota Industries will mark a momentous milestone when it celebrates the 80th anniversary of its founding. Over the past eight decades, Toyota Industries has successfully navigated numerous challenges to steadily expand the scope of its business through sustained innovation and creativity. Our achievements have been made thanks to the loyal patronage of customers, devotion of employees, understanding of local communities and the support of our shareholders, all of whom I wish to express my deepest appreciation. Toyota Industries' management remains committed to ensuring the ongoing growth of its businesses while supporting the livelihood of employees and their families, contributing to society and providing customers with excellent products and services. Above all, we have renewed our resolve to fulfill our crucial responsibility of meeting the expectations of our shareholders.

## Record-Breaking Results for Fiscal 2006

In fiscal 2006, ended March 31, 2006, Toyota Industries achieved record-high consolidated net sales and income amid an expanding global economy. Fueled mainly by increases in the Automobile and Materials Handling Equipment segments, consolidated net sales for the fiscal year jumped 21.3% to ¥1,506.0 billion. Consolidated operating income increased 20.6% to ¥64.0 billion, as the rise in net sales and the success of cost-reduction activities compensated for increased depreciation expenses in the Vehicle and Engine businesses and higher prices for raw materials. Consolidated ordinary income increased 13.7% to ¥80.6 billion and consolidated net income rose 8.6% to ¥47.1 billion.

### Factors for Increase (Decrease) in Consolidated Ordinary Income



## All Business Segments Maintain Generally Solid Performances

During fiscal 2006, all segments once again reported favorable results, as evidenced by across-the-board increases in net sales. Additionally, with the exception of the Automobile Segment, most segments achieved increases in operating income over the previous fiscal year. A summary of business results by segment is as follows.

Note: Segment net sales figures do not include intersegment transactions. However, segment operating income (loss) figures do include operating income (loss) arising from intersegment transactions.

### Automobile Segment

In fiscal 2006, net sales increased 21.2% from the previous fiscal year to ¥746.8 billion, but operating income declined 11.7% to ¥20.1 billion. The increase in net sales was fueled primarily by robust sales in the Vehicle Business of the Vitz (Yaris outside Japan) and the RAV4, both of which underwent a full model change in February and November 2005, respectively. In the Engine Business, factors contributing to higher sales in this segment included the commencement of production of 2.2-liter direct-injection AD diesel engines for the European market in March 2005 and the start of production of 2.5-liter and 3.0-liter direct-injection KD diesel engines for Toyota Motor Corporation's (TMC) Innovative International Multi-Purpose Vehicle (IMV) Project in June

2005. Also contributing to growth in net sales in the Automobile Segment was an increase in overseas unit sales in the Car Air-Conditioning Compressor Business. On the other hand, the decline in operating income resulted from higher depreciation expenses and pre-production costs associated with the introduction of new products and release of model changes in the Vehicle and Engine businesses.

### Materials Handling Equipment Segment

Net sales by the Materials Handling Equipment Segment rose 18.1% from the previous fiscal year to ¥595.2 billion. This rise was underpinned by large increases in sales of the TOYOTA, BT and Raymond brands supported by an expanding global economy in addition to favorable results by Aichi Corporation, which manufactures and sells aerial work platforms. Operating income surged 48.6% to ¥38.8 billion.

### Logistics Segment

The Logistics Segment was newly established in fiscal 2006, separating the logistics-related businesses (logistics solutions and transportation businesses) that were previously part of the Others Segment.

During fiscal 2006, the Logistics Segment achieved net sales of ¥65.1 billion. This increase reflected solid results by Asahi Security Co., Ltd. (Asahi Security), which was acquired by Toyota Industries in March 2005 and provides comprehensive total cash management outsourcing. Other contributing factors were higher sales in the Logistics Solutions Business, which handles all phases of customers' logistics and enhances their overall supply chain management, as well as improved results of the Taikoh Transportation Group, which is involved in cargo transport and other logistics businesses. Operating income of the Logistics Segment was ¥1.6 billion.

### Textile Machinery Segment

Net sales by the Textile Machinery Segment advanced 13.4% to ¥49.8 billion, primarily reflecting higher sales of air-jet looms to our principal markets of China and India, as well as robust sales of ring spinning frames mainly by our production and sales subsidiary in India. This segment posted an operating loss of ¥70 million, an improvement of ¥0.7 billion from the previous fiscal year.

### Others Segment

Because we separated our logistics-related businesses from the Others Segment and established the Logistics Segment, net comparisons with the previous year's results cannot be made. In fiscal 2006, net sales were ¥49.0 billion and operating income amounted to ¥3.7 billion.

## Key Initiatives Undertaken during Fiscal 2006

Underscoring a strong determination to expand current and future businesses, Toyota Industries adopted a number of forward-looking strategic initiatives during the fiscal year under review. Several of the more notable initiatives are as follows.

## Further Deploying Our Engine Business Overseas

In March 2005, production of 2.2-liter direct-injection AD diesel engines for the European market was successively started at the Hekinan Plant in Japan and at Toyota Motor Industries Poland Sp.zo.o. (TMIP)\*, a joint venture in Europe with TMC. Reflecting a rising awareness that diesel engines offer superior environmental performance, the proportion of diesel vehicles in Europe is increasing. This trend makes it imperative for TMC to strengthen its lineup of diesel vehicles for the European market where it is striving to raise its presence. Toyota Industries will work to contribute to TMC's European strategy through the joint development of diesel engines with TMC as well as the production of these engines.

In June 2005, the Higashichita Plant started producing 2.5-liter and 3.0-liter direct-injection KD diesel engines for TMC's IMV Project. While contributing to TMC's overseas strategy, Toyota Industries also continues to press ahead with initiatives for further expanding its own business.

\* Toyota Industries' stake in TMIP is 40%. Toyota Industries is chiefly responsible for production operations at TMIP.



Toyota Motor Industries Poland Sp.zo.o.



2AD diesel engine



Higashichita Plant



2KD diesel engine

## Versatile Approach to Overseas Production of Car Air-Conditioning Compressors

December 2005 marked the start of production at TD Automotive Compressor Georgia, LLC (TACG), established jointly in July 2004 by Toyota Industries and DENSO Corporation (DENSO) as a second North American compressor production base near Atlanta in the U.S. state of Georgia.



TD Automotive Compressor Georgia, LLC



TD Automotive Compressor Kunshan Co., Ltd.

Although fixed-displacement compressors have been the main compressor used in North America, in view of increasing global environmental awareness, we foresee rising demand for variable-displacement compressors, which offer excellent fuel efficiency. TACG is producing variable-displacement compressors to meet this demand.

In May 2005, Toyota Industries established TD Automotive Compressor Kunshan Co., Ltd. (TACK), a joint venture with DENSO, Toyota Tsusho Corporation and others, as its second car air-conditioning compressor production base in China. In April 2006, TACK inaugurated production of variable-displacement compressors, which are being supplied to car makers mainly in the southern part of China.

## Official Launch of Toyota Material Handling Group (TMHG)

In April 2006, Toyota Industries officially launched TMHG as a new organization to integrate the BT Industries Group and TOYOTA Material Handling Company (TMHC). We have so far successfully expanded synergies between the BT Industries Group and TMHC by mutually supplying each other's brand products, sharing sales and production know-how, exchanging personnel and jointly procuring components. Through this strategic reorganization, we aim to create additional synergies as well as further solidify the positioning of this segment as "undisputed No. 1" in the global lift truck market.

## Expanding the Scope of Our Logistics Solutions Business

In its Logistics Solutions Business, Toyota Industries has redefined the concept of "logistics" to encompass the "flow of cash" and the "flow of information" in addition to the traditional "flow of goods." During the course of business activities, the flow of goods is usually accompanied by flows of information and money. By broadening our concept of "logistics" to include this overall flow as well as offering companies optimal logistics by improving this flow, we intend to create new business models and seize new business opportunities. As part of these efforts, in March 2005 we acquired Asahi Security and made this company into a wholly owned subsidiary. Asahi Security offers comprehensive cash management outsourcing services, including cash collection and delivery as well as cash proceeds management for the retail, service and transportation sectors. In January 2006, we further bolstered our Logistics Solutions Business by acquiring an equity stake (41.4% share) in Wanbishi Archives Co., Ltd., which provides comprehensive information management that includes handling collection and distribution of vital documents, magnetic tapes and crucial corporate data.

## Quality-Improvement and Cost-Reduction Activities

Toyota Industries believes that enhancing its ability to offer products and services of unrivalled quality while continually reducing costs are essential for achieving competitive superiority. Acting on this conviction, we continually undertake initiatives directed toward raising quality to ensure that we can offer products and services that satisfy our customers. Toyota Industries is especially aware that in a worst-case scenario, any serious quality-related problem could inevitably threaten a company's foundation that supports its future existence. Accordingly, Toyota Industries has designated "thorough quality assurance" and "maintenance and improvement of quality" as priority management policies, and therefore undertakes quality-improvement activities throughout the Toyota Industries Group. These activities include comprehensive employee quality education such as quality control (QC) methods and the setting of high-quality targets in each division. Each of the division managers (or an in-house company president) overseeing product quality as well as I myself make on-site inspections to check quality-improvement activities and confirm progress in reaching our quality targets.

Toyota Industries is also pushing forward with a diversity of cost-cutting initiatives. As prime



Toyota Industries' top management conducts a quality inspection at a factory

examples, each division undertakes cost-reduction projects through organized and well-planned cost-reduction activities. Besides our unceasing value engineering (VE) and value analysis (VA) activities, these cost-reduction activities also extend to an array of other areas that include consideration of optimized global procurement of materials. These efforts also cover our Head Office, where we are implementing comprehensive activities to trim fixed costs via improved operational efficiency and other such measures.

## Unveiling a New Medium-Term Management Plan

In October 2005, Toyota Industries formulated a new five-year medium-term management plan that was subsequently launched in the fiscal year beginning April 2006.

The new medium-term management plan integrates management and business plans for the next five years while articulating the directions that Toyota Industries will pursue. With the foundation of this plan being the attainment of the spirit of harmony and enhancement of workplace strengths, which includes nurturing employees, we will strive for the highest levels of quality, intend to execute reforms by fortifying our value chain and developing leading-edge technologies as well as achieve growth as a company with dominant businesses. We expect these measures will allow us to attain our targets of consolidated net sales exceeding ¥2,000 billion and ordinary income of ¥140 billion by fiscal 2011, the fiscal year ending March 31, 2011. By business segment, we have set a net sales target of ¥1,000 billion for automobile-related businesses and net sales of ¥1,000 billion in the Logistics and Materials Handling Equipment businesses. To facilitate the attainment of these challenging targets, we expect to make a capital investment of around ¥500 billion during the five-year period (April 2006 - March 2011).

## Business Outlook for Fiscal 2007

In fiscal 2007, ending March 31, 2007, the Japanese economy is anticipated to remain on a recovery track while the economies of the United States, China and other principal countries are expected to attain stable growth. Nevertheless, the outlook for fiscal 2007 precludes optimism as there are concerns regarding risk factors such as a further rise in crude oil prices accompanying political instability in the Middle East as well as possible rapid adjustments in exchange rates.

Amid this economic environment, Toyota Industries expects the Materials Handling Equipment Segment to continue expanding its business results and also anticipates increased sales in the Automobile and Logistics segments. Accordingly, consolidated net sales are forecast to rise 10.9% to ¥1,670.0 billion for fiscal 2007. Despite an increased burden of depreciation expenses in the Automobile Segment, we expect that a rise in net sales coupled with a bolstering of Group-wide cost-reduction activities will enable a 5.4% rise in ordinary income to ¥85.0 billion and a 4.1% increase in net income to ¥49.0 billion.

Note: The financial projections set forth above are based upon a number of assumptions and estimates that, while presented with numerical specificity and considered reasonable by us when taken as a whole, are inherently subject to significant economic, business, competitive, regulatory and operational uncertainties, contingencies and risks, many of which are beyond our control. Financial projections are necessarily speculative in nature, and it can be expected that one or more of the assumptions underlying the projections will prove not to be valid, and unanticipated events and circumstances are likely to occur. Actual results will vary from the financial projections and those variations may be material. Consequently, this report should not be regarded as a representation by us or any other person that the financial projections will be achieved. Current rapidly changing market trends in the global economy make it particularly difficult to predict product demand and other related matters.

## Looking toward the Future

### “United We Grow”

In April 2005, Toyota Industries World Convention 2005 was held in Japan to gather all persons involved with Toyota Industries' Materials Handling Equipment Business under the slogan, “United We Grow.” This slogan represents our aspirations to continually grow with capabilities befitting the world's leading company in materials handling equipment, backed by the solidarity of the BT Industries Group and TMHC under the framework of TMHG. As I have often pointed out, I believe the “United We Grow” slogan also transcends the Materials Handling Equipment Segment and symbolizes the future direction of the entire Toyota Industries Group. Additionally, not only does the slogan express our strong intention to create new value by fostering further collaboration among employees within the Toyota Industries Group and creating synergies through the organic interaction among the Group's business divisions, but it also symbolizes our resolve to promote stronger relationships with shareholders, customers, members of the local community and other stakeholders.

### Aiming to Increase Corporate Value

The management team of Toyota Industries—your company—believes that its most critical mission is to raise our long-term, stable earnings power and create even higher corporate value. To that end, we expect to carry out dynamic and strategic business operations while establishing more efficient company management systems and steadily improving our business results through stable growth of our businesses. Throughout its history, Toyota Industries has diversified its businesses into a broad range of fields. By strategically and organically combining management resources that are the wellspring of its competitive advantage—namely, the know-how, key technologies, human resources and markets cultivated by each business—Toyota Industries is confident it can create new value and realize further growth and development in each business. In this way, we can attain a “conglomerate premium” whereby the worth of Toyota Industries as a whole adds up to more than the sum of individual businesses.

### Cultivating Global-Oriented Personnel to Support *Monozukuri*

We recognize that raising corporate value depends on how we can cultivate our human resources. Although in recent years we have achieved solid growth in our logistics and other non-manufacturing businesses as we steadily diversify our portfolio of businesses, Toyota Industries is still essentially a company that engages in *monozukuri* (literally meaning “creating things” but it implies a philosophy that recognizes the value of the innovative creation of quality products). Unquestionably, the main source of our competitiveness is employees who are well versed in the Toyota Production System (TPS) and filled with passion and a sense of mission. Therefore, strengthening employee education in *monozukuri* will be essential for Toyota Industries to further hone *monozukuri* and ensure its ongoing existence amid intensifying competition. At the same time, we must resolutely promote initiatives to ensure that the specialized knowledge and skills cultivated over the course of our long history are successfully handed down to subsequent generations.

Toyota Industries is also moving ahead quickly with the globalization of its businesses, and non-Japanese employees now account for over half of all staff on a consolidated basis. Centered around the Materials Handling Equipment Segment, which has achieved the most

progress in globalizing its business, Toyota Industries is actively promoting globalization as it accelerates overseas local production in its other businesses as well. Crucial to sustaining this globalization will be the cultivation of global-oriented personnel who have specialized knowledge and technical skills to handle the transfer of production know-how such as TPS—a source of Toyota Industries’ competitiveness—to overseas production bases and who can execute their duties within different cultural environments. In the Materials Handling Equipment Segment, in particular, we aim for the effective utilization of human resources by placing the right people in the right jobs regardless of their nationalities.



Employees strive to perfect their skills at the Technical Training Center

### Earning Greater Trust of Stakeholders

Deeply committed to strengthening our bonds of trust with shareholders and other stakeholders, Toyota Industries is proactively bolstering its corporate governance to firmly establish a structure that facilitates efficient and highly transparent management. As part of these efforts, to respond quickly and flexibly to changes in the management environment and accelerate future-oriented reforms, we recently adopted our unique Managing Officer System. In addition to a streamlined Board of Directors for quicker decision-making, managing officers assume greater responsibility for business operations, thereby contributing to the realization of a more efficient management structure that enables the further enhancement of operational-based management. At the same time, we are also implementing thorough compliance measures. Moreover, as a good corporate citizen, we will work to earn the further trust of society by earnestly undertaking environmental and social contribution activities.

### Sustained Innovation and Creativity

As I mentioned at the outset of my message, in November 2006 Toyota Industries will commemorate its 80th anniversary. Toyota Industries’ founder, Sakichi Toyoda, aspired to be an inventor who would contribute to society, and subsequently established Toyota Industries to commercialize automatic looms, which he invented after numerous trials and errors. His founding spirit—sustained innovation and creativity, a venture spirit as well as a belief in contributing to society—hasn’t lost its luster even after 80 years. Toyota Industries continues to carry on this spirit to write a new history through sustained innovation and creativity.

In closing, I ask our shareholders for your continued understanding and support.

August 2006

**Tetsuro Toyoda**  
President