

## CATEGORY I BUSINESS

### **Business Summary**

Business in Category I is composed of 3 business units: the Automobile assembly, the Engines and the Foundry. Sales from these business units account for approximately 50% of our consolidated sales. This business category is closely related to production of TOYOTA cars and plays an important role in the entire Toyota Group companies, whose core business is the manufacturing and sales of automobiles.

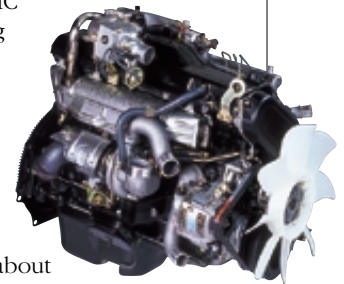
### **Automobile assembly business unit**

The Automobile assembly business unit is responsible for manufacturing TOYOTA compact passenger cars. We currently assemble 2 models, the "Vitz" (exported as the "Yaris")\* and the "Sprinter Carib" (exported as the "Corolla Wagon"). The annual production capacity is over 200,000 vehicles in total. Toyota Motor Corporation (referred to as "TMC") is engaged in the development and design of the base models for each of these cars, in cooperation with our development team. Development of various models derived from a base model and of modified models to meet the variety of customer needs is assigned to us, too. We maintain the highest level of quality and cost effectiveness among the numerous assembly plants of the Toyota Group companies, which in turn contributes greatly to maintaining the superiority of TOYOTA cars in the global market.

\* Production of the "Starlet" was terminated in July 1999, as production of the "Vitz", replacement model of the "Starlet", has started in January 1999.

### **Engines business unit**

The Engines business unit is responsible for development, design and manufacturing of diesel and gasoline engines for TOYOTA cars and industrial vehicles. We currently manufacture more than 10 types of engines: the major types include diesel engines (C-type) and gasoline engines (S-type) for 2000 cc class cars, diesel engines (H-type) and gasoline engines (F-type) for 4000 cc class RVs, as well as diesel and gasoline engines for the 1500 cc to 5000 cc class industrial vehicles. TOYOTA car engines are manufactured by other companies such as Daihatsu Motor Co. Ltd. and TMC itself. We are mainly developing and manufacturing rather small diesel engines. For gasoline engines, we manufacture about 170 thousand units annually in our distinctive Flexible Production Line\*. We are considered a main producer of diesel engines, with a share of about 30% of all those manufactured by



*1HD-FTE Diesel Engine*



Toyota Group companies. To overcome the recent decline in diesel engine demand in the domestic market, we have developed direct injection diesel engines designed to save on fuel consumption and to increase power. These new engines have been on sale since the fiscal year ending March 2000. The first units have already been shipped to Europe.

*\* The Flexible Production Line is a process line designed for simultaneous production of up to 4 different models of engines by simply replacing fixtures.*

### Foundry business unit

The Foundry business unit manufactures mainly cast parts for engines, such as cylinder blocks and heads. This business unit is a basic materials supply center, supplying high-quality low-cost products mainly to our Engine business unit and also to engine plants of TMC. At our Obu plant (in Obu City, Aichi Prefecture) we also manufacture aluminum die cast parts for car air-conditioning compressors (classified as a part of Category II as described below), and we manufacture cast parts for valves of industrial equipment, and also cast parts for textile machinery frames.

### Business Performance for Fiscal 1999 and Future Business Plans

Business as a whole for the fiscal year 1999, ended March 1999, was below the previous year level. This was due to a decrease in sales by the Automobile assembly business unit, influenced by sluggish car demand in the domestic market. However, sales by the Engine business unit increased slightly thanks to the introduction of new models.

### Automobile assembly business unit

The total number of cars sold for fiscal 1999 was 199,557 which is 24.3% less than the previous year, when 263,449 vehicles were sold. Despite such circumstances, sales of the "Vitz" ("Yaris"), a 1-liter class car whose production started in January 1999 grew more than expected both in the domestic and European markets. Orders are expected to continue to increase for the fiscal year ending March 2000. Additionally, 1.3-liter type and 4WD type will be added to the production line in August 1999 so as to expand the variety of this car. This is expected to help further increase sales of this car. We plan in the future to maintain our position as a reliable supplier to TMC, by achieving top level quality and cost effectiveness among the automobile assemblers in the Toyota Group. Our development team will seek to expand the variety of products by planning and developing new versions based on the "Vitz" to satisfy the customers and at the same time to increase car sales.



"Vitz" ("Yaris" for Europe)

### Engines business unit

Production of 2000 cc class S-type gasoline engines reached its full capacity during fiscal 1999, as requested by TMC in January 1998. The total number of engines manufactured by this business unit reached 383,635, increased by 12.9% from the previous year, despite a continuing decline of diesel engine production in recent years. In the fiscal year ending March 2000, the manufacturing of S-type engines will be replaced by the E and Y-types and our production capacity will decline during the replacement period. However, the number of engines to be produced will increase further in the future through utilization of the Flexible Production Line. As for diesel engines we have focused on the development of a direct injection type and intend to expand production with a core product line of 2000 cc class engines whose production started in June 1999.

