

## CATEGORY II BUSINESS

### Business Summary

Business in Category II is composed of 3 business units: Car air-conditioning compressors, Logistics & Forklifts (material handling systems and industrial equipment, referred to together as "L & F") and Textile machinery. We are involved in the whole process from product planning, development, and design to production (and even, in the case of Textile machinery, for after-sales services). Sales from these business units account for approximately 45% of our consolidated sales. This business is a mainstay of the Company, together with Category I Business.

### Car air-conditioning compressors business unit

The Car air-conditioning compressors business unit plans, develops, designs and manufactures compressors for the heart of car air-conditioner. (This business unit is included in the Automobiles segment in the "Business segments" in the Financial Section. However, it is considered a Category II Business in the sense that we are in a position to take the initiative in business strategy.) Our customers include TMC, our largest customer, and other major car manufacturers in the world. With our market share reaching 28%, we are the No.1 supplier of car air-conditioning compressors in the world. We currently supply mainly 4 types: swash plate fixed displacement type, one-way swash plate variable displacement type, vane type and scroll type. In addition we supply a variety of modified types to meet the needs of each car manufacturer. Our Kariya plant (in Kariya City, Aichi Prefecture) is responsible for product development and design while both our Kariya plant and our subsidiary in Michigan, U.S.A. are responsible for manufacturing them. We established a subsidiary near Dresden, Germany for manufacturing car air-conditioning compressors, as the demand for them is expected to rise in the European market, which has seen a substantial increase in cars with air-conditioners. From April 2000 this plant will start production of one-way swash plate variable displacement compressors, which are designed to reduce the burden on the engine, thus helping to reduce the impact on the environment. The compressors are supplied to Denso Corporation, who sells car air-conditioning systems incorporating them.



7SBU16 Compressor

### LOGISTICS & FORKLIFTS

Light-Powered Forklift

Battery-Powered Forklift

### COMPRESSORS

10PA17 COMPRESSOR

7SBU COMPRESSOR

5V07 COMPRESSOR

### TEXTILE MACHINERY

FL100 RY240 JAT600 AIR JET LFW800 WATER JET

**Logistics & Forklifts business unit**

This business unit is composed of the Logistics (material handling systems) and the Forklifts (industrial equipment) departments. The Logistics department supplies automatic guided vehicles, and automated storage and retrieval systems as complete systems in accordance with customers' requirements. The Forklifts department manufactures and supplies forklifts, both engine and battery-powered types, ranging from small load capacity (0.5 tons) to extra large (over 40 tons). They also manufacture a wide variety of industrial vehicles such as shovel loaders, cherry pickers and towing tractors. Our Takahama plant (in Takahama City, Aichi Prefecture) is responsible for development and design of the products of the L & F business unit, and their production facilities are located in our Takahama plant, our subsidiary in Indiana, U.S.A., and also our subsidiary in Ancenis, France. TMC is responsible for sales and services of these products. Our domestic market share of forklifts is about 38%, the largest in Japan. In the global market, we compete with Linde AG (Germany) and NACCO Group (U.S.A.) for the top position. In 1998 the global market share of TOYOTA forklifts was about 14%.



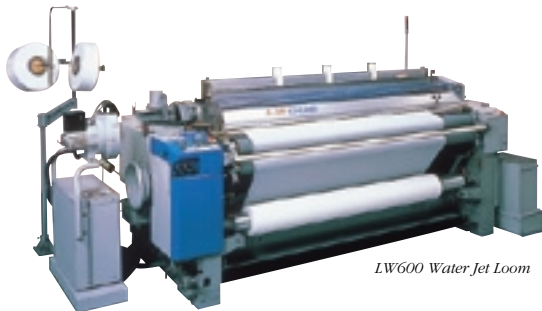
"Mobile Sorter"



Engine-Powered Forklift "GENEO" ("7 Series")

**Textile machinery business unit**

The Textile machinery business unit began with our founder Sakichi Toyoda, who invented automatic looms. Our group produces a wide range of textile machinery, including looms, spinning machines and



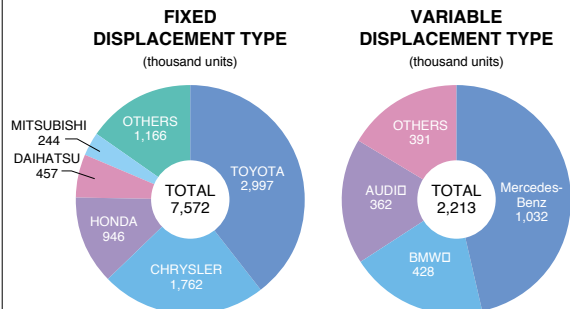
LW600 Water Jet Loom

related devices. More than 90% of the products are exported, mainly to Southeast Asian countries, China and Korea. We manufacture air jet looms, and maintain the largest share for this product in the global market. Also, we have entered the water jet loom business, having bought the business rights from Nissan Texsys Co., Ltd. in April 1999.

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

**Car air-conditioning compressor business unit**

During the fiscal year 1999, ended March 1999, the domestic unit sales in total grew little compared with the previous year level due to sluggish car sales nation-wide. However, the unit sales for compact and small cars increased thanks to the effect of aggressive research and development of new products and expanded sales and marketing activities. In the European market, unit sales for German cars such as Mercedes-Benz, BMW and Audi grew strongly with the rise in ratio of cars with air-conditioners. In North America, the strong local economy has contributed to the volume growth of car air-conditioning compressors for cars manufactured by Chrysler, our major customer, and an increase in the number of Japanese cars such as TOYOTA and Honda also helped boost growth. As a result, the total global unit sales for fiscal 1999 increased to 9,785 thousand, up 777 thousand from 9,008 thousand for the previous year. Our future plan is to further improve customer satisfaction and to expand global sales through aggressive R & D activities with an ultimate goal of attaining a global market share of more than 30%; we plan to expand our sales and marketing efforts in the Southern European market as well as maintaining our existing customer base. Our goal is to achieve a larger market share in Europe where further market expansion is expected. In North America, we plan to expand our sales and marketing efforts to include customers with whom we have had few transactions,



in addition to our existing major customers. In Japan, where demand for cars remains stagnant, we will continue our efforts to increase our market share by concentrating on developing and offering new products for light and compact cars that we expect we will continue to play a central role in the car sales. We will also develop environment friendly products, and focus on the variable displacement type, thereby reducing the burden on the engine. As ever, our baseline is high performance, high quality products and lower costs to meet our customer needs.

#### **Logistics & Forklifts business unit**

In fiscal 1999, the Logistics department suffered a decline in orders, as it was adversely affected by subdued capital investment activities in the domestic market, this department's customer base. However, sales increased to ¥8,374 million, up ¥1,560 million from the previous year level, largely helped by the outstanding backlog carried forward from the previous year, and by sales of clean carrier system to ST-LCD, joint venture with Sony Corporation. Sales for the Forklifts department stood at ¥142,996 million, down ¥10,307 million from the previous year. This was due mainly to weakened demand in the both Asian and domestic markets, our main customer base. However, sales in both North America and Europe have positively increased thanks to our steadily increasing market share. The current tough circumstances are expected to continue during the fiscal year 2000 ending March 2000. A quick recovery in the both Asian and domestic markets is unlikely, and even in North America, where a steady growth has been witnessed, there are signs of a slowdown. To deal with this, we will work hard to introduce more new products, reduce costs, and more aggressively promote sales. Our future plan for the Logistics department is to engage in a more active development of new products that will meet the customer needs, which are becoming increasingly diversified, and to expand our market share. In terms of the product line we plan to increase the sales of equipment for clean rooms, which have been launched very recently, as well as high-speed automatic guided vehicles. The Forklifts department is aiming to get a 25% share in the global forklift market by 2005. In order to achieve this goal we will concentrate our efforts on new product development. For this purpose, first we will introduce the "GENEO"\* (already in the domestic market since September 1998) to both the European and North American markets as the "7 Series" by the end of fiscal 2000. Secondly we will develop and introduce the new type of battery-powered (counter-type) forklifts in addition

to the indoor-type forklifts, for which our market share is still small.

\* GENEO: The next generation engine-powered forklifts with load capacity from 1.0 to 5.0 tons dramatically improved in the operability and safety by using System of Active Safety, one of the most advanced technologies in the world.

#### **Textile machinery business unit**

In fiscal 1999, sales of the Textile machinery business unit dropped by 29.9% to ¥18,947 million from the previous year. This business unit was negatively affected by the sluggish economy in Southeast Asia, our major revenue source, since the currency crisis in 1997. This unfavorable trend is likely to continue into the fiscal year 2000 ending March 2000. To deal with this condition we have continued our efforts in sales and marketing activities in other markets, and have made efforts in cost reduction. We foresee that since the textile machinery industry has reached maturity and consists of a number of competitors worldwide, the competition still remains fierce and extraordinary growth of our business is not likely. However, as we do not believe in the eventual decline of this industry, but rather expect a stable demand over the long run, we believe that we are able to expand our market share and improve profitability as long as we continue offering the products with higher cost-performance. With these circumstances in mind, we plan to set out a full line-up of products by combining water jet looms acquired the business rights from Nissan Texsys Co., Ltd. in April 1999 with our air jet looms that uses highly sophisticated technology, and by developing and producing rapier looms, and thus aim to secure the top position in the global loom market. We also aim to improve profitability. Furthermore, in the spinning machines business we will make efforts to maintain the current stable position in the market by strengthening the advantages in the performance and quality of our existing products.