Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Toyoda Automatic Loom Works, Ltd. (the "Company"), and its consolidated subsidiaries (together, hereinafter referred to as the "Companies") in accordance with generally accepted accounting principles in Japan. Furthermore, these consolidated financial statements have been prepared based on the consolidated financial statements prepared in accordance with the Japanese Regulations Concerning the Terminology, Forms and Preparation Methods of the Consolidated Financial Statements (the "Regulations"). Certain reclassifications of the accounts in the basic financial statements disclosed in Japan have been made for presentation in a form which is more familiar to readers outside Japan. These reclassifications do not affect the values of total assets, shareholders' equity, net sales or net income.

The accompanying financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. Solely for the convenience of readers outside Japan, yen amounts as of and for the six months ended September 30, 2000, have been translated into U.S. dollars at the rate of ¥108.00 to U.S.$1, the exchange rate prevailing in Tokyo on September 30, 2000. These translations should not be construed as representations that yen amounts have been, could have been or could be converted into U.S. dollars.

2. Summary of Significant Accounting Policies

(a) Consolidation

The Company had 91 and 29 consolidated subsidiaries as of September 30, 2000 and 1999, respectively. The number of consolidated subsidiaries increased by 62 companies, including 59 in the BT Industries Group, which the Company acquired in June 2000. Since these companies became newly consolidated subsidiaries during the six months ended September 30, 2000, and the Company considered their semiannual closing date as the beginning date of control, they were consolidated only in the balance sheets.

As of September 30, 2000, the Company had four (three for September 30, 1999) unconsolidated subsidiaries and 19 (10 for September 30, 1999) affiliates. The equity method is applied to the investments in two unconsolidated subsidiaries and 12 affiliates. Both of the above-mentioned unconsolidated subsidiaries and 10 companies of the above-mentioned 12 affiliates belong to the BT Industries Group.

(b) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates, in accordance with the Regulations.

(c) Securities

Until the fiscal year ended March 31, 2000, securities that were quoted on stock exchanges had been stated mainly at the lower of cost, as determined by the moving-average method, or market value. Other securities had been stated at cost, as determined by the moving-average method.

From the six months ended September 30, 2000, mark-to-market accounting has been adopted due to the application of the new accounting standards for financial instruments. Securities have been classified as trading securities, held-to-maturity debt securities, equity investments in subsidiaries and affiliates, and "other securities." Neither trading securities nor held-to-maturity debt securities were owned by the Companies as of September 30, 2000. Equity investments in subsidiaries and affiliates have been stated at cost. Other securities have been measured by using the current method based on such factors as market price as of the end of the period. The Companies have adopted a method in which the accumulated difference between the market value and the historical cost has been recorded as "unrealized gains on securities" under shareholders' equity at the net of taxes amount. Securities without market prices have been stated at cost, as determined by the moving-average method.

Due to this change, investment securities increased by ¥949,396 million ($8,790,708 thousand), and unrealized gains on securities of ¥558,226 million ($5,168,761 thousand) were stated.

(d) Inventories

Inventories are stated mainly at cost determined by the moving-average method.

(e) Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment for the Company and its domestic subsidiaries and affiliates is computed mainly by the declining-balance method and, for its overseas subsidiaries and affiliates, is computed mainly by the straight-line method based on the estimated useful lives of the assets.

(f) Allowances for doubtful accounts

Until the fiscal year ended March 31, 2000, allowances for doubtful accounts had been provided mainly at the maximum amount deductible under the tax laws of Japan.

From the six months ended September 30, 2000, they have been provided at the uncollectible amounts that are estimated by such means as using the percentage of credit losses for ordinary claims and by examining the feasibility of collection individually for special claims that seem to be uncollectible.

(g) Provision for retirement and severance benefits

Until the fiscal year ended March 31, 2000, provision for retirement and severance benefits had been calculated to state liability at the present value, based on the amount which would be required if all employees voluntarily terminated their employment at the end of the period, less amounts compensated by the qualified retirement pension plan, which covered 50 percent of the amount of the benefits of the retired employees after 20 years of employment.

From the six months ended September 30, 2000, the new accounting standards for retirement benefits have been applied to the Companies. Provision for retirement and severance benefits has been calculated as the amount, accepted as being incurred at the end of the period, based upon the Companies' projected retirement benefit obligations and pension assets at the fiscal year-end.

According to this change, for the six months ended September 30, 2000, “cumulative effect of change in accounting standards for retirement benefits” of ¥19,057 million ($176,455 thousand) was charged to income and recorded as a special loss. For this period, “gain on securities contribution to employee retirement benefit trust” of ¥15,080 million ($139,630 thousand) was recorded as a special gain.

(h) Lease transactions
Finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are mainly accounted for by a method similar to that applicable to ordinary operating leases.

(i) Translation
Accounts of overseas consolidated subsidiaries and affiliates accounted for under the equity method have been translated into Japanese yen as follows:

1. Assets and liabilities have been translated at the prevailing rate of exchange at the end of the period.
2. Shareholders’ equity has been translated at the rate prevailing when equity was acquired or when a change in equity occurred.
3. Revenue and expenses have been translated at the prevailing periodical average rate, although the rate at the end of the period had been used until the six months ended September 30, 1999. See Note 3(a).

The amended accounting standards for foreign currency transactions have been applied from the six months ended September 30, 2000. No losses resulted from this change.

From the six months ended September 30, 2000, translation adjustment, which had been listed under assets in the consolidated balance sheets until the fiscal year ended March 31, 2000, has been shifted under shareholders’ equity and included in minority interests in consolidated subsidiaries due to the amendment of the Regulations.

(j) Consumption tax
Principally, the consumption tax under the Japanese Consumption Tax Law withheld by the Companies on sales of goods is not included in the amount of net sales in the accompanying consolidated statements of income. The consumption tax borne by the Companies under the law on purchases of goods and services, and expenses are not included in the related amount.

(k) Appropriation of retained earnings
In the accompanying consolidated statements of shareholders’ equity, the approved amount during the relevant period is reflected for the appropriation of retained earnings of consolidated subsidiaries.

(l) Amounts per share
Net income per share is computed based on the average number of outstanding shares of common stock during the period.

(m) Derivative transactions
Until the fiscal year ended March 31, 2000, the Companies had not engaged in derivative transactions.

However, from the six months ended September 30, 2000, the Companies have hedged the foreign currency exchange fluctuation risk for receivables relating to their exports, principally by forward exchange contracts.

3. Change in Accounting
(a) From the fiscal year ended March 31, 2000, revenue and expenses accounts of overseas consolidated subsidiaries, which had been translated into Japanese yen at rates of the end of the period until the six months ended September 30, 1999, have been translated at fiscal average rates. This change was made to present the operating results more precisely as the significance of the overseas consolidated subsidiaries had been increasing and their revenue and expenses were incurred throughout the periods.

(b) The Company’s retirement and severance benefits for directors and corporate auditors had been previously calculated as expenses at the time they were awarded. However, to rationalize the loss for the period, these have been changed to payables at the end of the period, as per internal rules, from the six months ended September 30, 2000. Further, “prior years’ addition to provision for retirement and severance benefits for directors and corporate auditors” was charged to income and recorded as a special loss.

4. Additional Information
Until the six months ended September 30, 1999, consolidated statements of cash flows had been prepared in conformity with the accounting principles prescribed by the Company and accepted by the independent public accountants. However, from the fiscal year ended March 31, 2000, they have to be prepared in accordance with newly prescribed rules in the amended Regulations. Pursuant to the amendment, the consolidated statements of cash flows for the six months ended September 30, 1999 were restated to make the figures comparable with those of the six months ended September 30, 2000.

According to this change, deposits and securities (stocks had been stated as marketable securities separately) with original maturities of over three months have been classified as short-term investments from the fiscal year ended March 31, 2000.

5. Assets Pledged as Collateral
Investment securities, land, buildings and structures at a book value of ¥34,228 million ($316,927 thousand) were pledged as collateral for bank loans or employees’ savings deposits or other liabilities as of September 30, 2000.

6. Contingent Liabilities
Contingent liabilities amounted to ¥17,199 million ($159,251 thousand) as of September 30, 2000.

7. Subsequent Events
(a) On October 11, 2000, the Company issued 30 million shares of new common stock by resolutions of the Board of Directors held on September 5 and 19, 2000. As a result, common stock and capital surplus both increased by ¥27,840 million ($257,778 thousand).

(b) On November 9, 2000, the Board of Directors of the Company resolved the payment of an interim cash dividend to shareholders of record as of September 30, 2000, of ¥8.00 ($0.074) per share, or a total of ¥2,266 million ($20,985 thousand).

8. Segment Information

(a) Business segments

	Millions of yen		Thousands of U.S. dollars (Note 1)
	For the six months ended September 30		For the six months ended September 30
	2000	1999	2000
Sales:			
Automobile			
Outside customer sales	¥228,789	¥197,356	$2,118,413
Inter-segment transactions	1,912	1,346	17,705
	230,701	198,702	2,136,118
Materials Handling Equipment			
Outside customer sales	82,273	72,785	761,784
Inter-segment transactions	–	–	–
	82,273	72,785	761,784
Textile Machinery			
Outside customer sales	14,399	9,238	133,329
Inter-segment transactions	–	–	–
	14,399	9,238	133,329
Others			
Outside customer sales	18,769	11,808	173,787
Inter-segment transactions	2,104	1,529	19,485
	20,873	13,337	193,272
Subtotal	348,246	294,062	3,224,503
Elimination of inter-segment transactions	(4,016)	(2,875)	(37,190)
Total	¥344,230	¥291,187	$3,187,313
Operating Income (Loss):			
Automobile	¥14,023	¥11,059	$129,838
Materials Handling Equipment	6,003	2,952	55,586
Textile Machinery	(266)	(2,268)	(2,459)
Others	1,881	(240)	17,415
Elimination of inter-segment transactions	(156)	209	(1,448)
Total	¥21,485	¥11,712	$198,932

(b) Geographical segments

	Millions of yen		Thousands of U.S. dollars (Note 1)
	For the six months ended September 30		For the six months ended September 30
	2000	1999	2000
Sales:			
Japan			
Outside customer sales	¥287,313	¥241,049	$2,660,301
Inter-segment transactions	13,624	9,201	126,152
	300,937	250,250	2,786,453
North America			
Outside customer sales	47,260	42,989	437,593
Inter-segment transactions	–	–	–
	47,260	42,989	437,593
Others			
Outside customer sales	9,657	7,149	89,419
Inter-segment transactions	286	293	2,649
	9,943	7,442	92,068
Subtotal	358,140	300,681	3,316,114
Elimination of inter-segment transactions	(13,910)	(9,494)	(128,801)
Total	¥344,230	¥291,187	$3,187,313
Operating Income:			
Japan	¥19,253	¥ 8,152	$178,270
North America	2,133	3,138	19,746
Others	330	195	3,057
Elimination of inter-segment transactions	(231)	227	(2,141)
Total	¥21,485	¥11,712	$198,932