Management's Discussion and Analysis

Income Analysis

The market environment for the fiscal year, which ended 31 March 1999, was favorable in both the U.S. and European markets. This was in strong contrast to Japan, our core market, where the economy remained sluggish in a long-term downturn, and to the Southeast Asian market, where economic recovery has been slow. Such market conditions severely affected our overall business.

Despite such severe market conditions, our company actively pursued the development and introduction of new products into our markets, in order to maintain the superiority of each business unit in its market. In the U.S. and Europe, where sales of forklifts and car air-conditioning compressors have been steadily growing, we aggressively implemented a promotional campaign to expand our sales.

As a result, sales on a consolidated basis for the fiscal year ended March 1999, were ¥558,876 million, down 2.4% compared to the previous year, despite steady growth in overseas sales. This decline was attributable to a decrease in the number of automobiles assembled, due to the sluggish domestic demand for automobiles as well as to a market deterioration in the sales of textile machines in Southeast Asia, the division's major market.

Operating income, on a consolidated basis for the fiscal year, was down by 24.2% to ¥24,814 million compared to the previous year. This was in spite of cost reduction measures totaling as much as ¥6,000 million, taken to offset various downward pressures on profits, such as a decline in sales and an increase in depreciation expense (up 23.0% compared to the previous year, to ¥34,379 million).

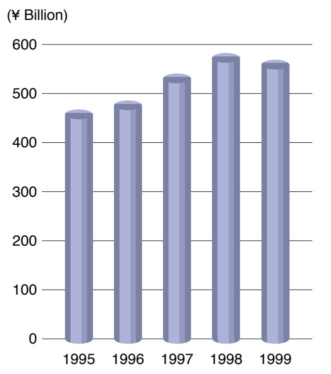
The increase in depreciation expense represented a large-scale investment, to the amount of ¥122,400 million, made to expand business in each division over a 2-year period starting from the previous year. This investment covered expenses for production facilities for our new products such as "Vitz" ("Yaris") and "GENEO" (7 series), and those for renovation and expansion of production lines for engines and car air-conditioning compressors. This has laid an ample foundation for further growth in each business unit.

Accordingly, depreciation expense is expected to decline, after hitting its peak, in the coming fiscal year. At the same time, the benefit of capital expenditures is expected to emerge next year, thus contributing greatly to the growth in sales and profits, from the next fiscal year. SG&A expenses declined 8.1% compared to the previous year, ¥38,273 million.

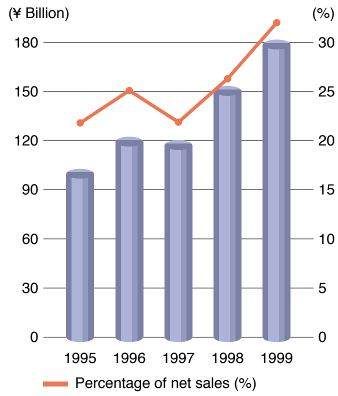
As for non-operating profit and loss, we recorded a loss of ¥1,505 million from the securities revaluation account, due to a downturn of the domestic equity market. For revaluation of investment securities, we are adopting the lower-of-cost-or-market method to maintain prudent financial operations. By disposing of part of our equity holdings we recorded a realized loss, on securities sold, of ¥1,242 million. It is notable that an investment loss attributable to start-up costs incurred in our new LCD business, ¥3,861 million, was recorded under the equity method.

These factors above gave us a consolidated net income of ¥10,391 million, with ROE at 3.4% and ROA at 1.7%.

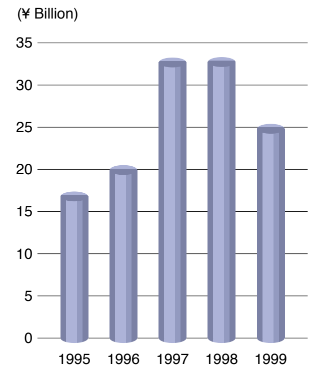
Net Sales



Overseas Sales



Operating Income



Segment Analysis

Automobiles segment

The consolidated sales to outside customers in the Automobiles segment for fiscal 1999 were ¥364,269 million. The Automobiles segment, the largest one in terms of ratio in consolidated sales and accounting for 65.2%, consists of the following business: Automobile assembly and manufacturing of Engines, Car air-conditioning compressors, Cast engine parts and Electronic car components.

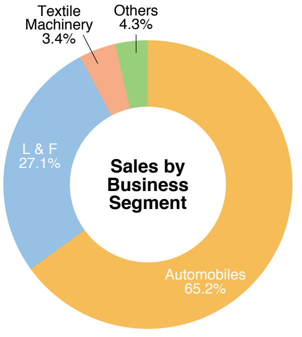
The Automobile assembly business, the largest in this segment, recorded 199,557 in unit sales, down 24.3% from the previous year, with sales of ¥152,433 million. This decline was mainly due to a decrease in the number of new cars for the domestic market, coupled with the staged production cut of the "Starlet". The "Starlet", one of our major products to date, was terminated in July 1999. However, our new car "Vitz" ("Yaris") launched as the successor of the "Starlet" and in the market since January 1999, has enjoyed far more orders than expected, and recorded unit sales of 34,349 during the first 3 months of production. It is expected that the "Vitz" will continue to enjoy popularity, as well as further growth, in orders.

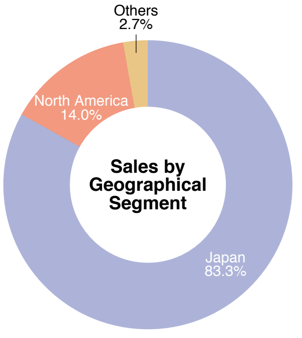
The Engines business, also one of the driving forces of this segment, saw unit sales increase by 12.9% from the previous year to 383,635, with sales amounting to ¥95,474 million. This resulted in a higher ratio, 17.1%, in proportion to total consolidated sales. This increase was due to an overwhelming increase of 90.1% compared with the previous year level in the production of gasoline engines to 175,680 for fiscal 1999, offsetting a 15.9% drop in the production of diesel engines to 207,955. The most important contributing factor was the increased production of S-type gasoline engines, the production of which started in January 1998. The production reached 95,471 units for fiscal 1999, a dramatic increase from just 6,435 units for the previous year. In June 1999, we launched the new product, direct injection type diesel engines, at first in the European market, aiming to boost sales, and to initiate more efficient production of multiple types of gasoline engines of medium volume, in our Flexible Production Line.

On the other hand, in the Car air-conditioning compressor business, both unit sales and dollar sales reached, once again, record highs, standing at 9,785 thousand units, up 8.6% from the previous year level, with sales totaling ¥107,223 million. This raises the ratio in total consolidated sales to 19.2%. We estimate that unit sales account for approximately 28% of the global market, the largest share in the world.

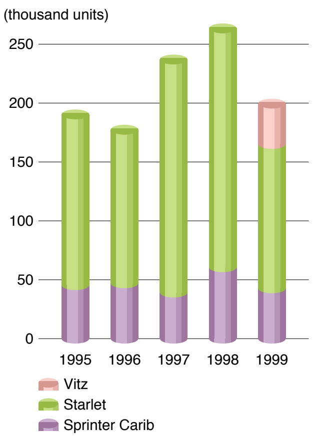
The most notable trend in car air-conditioning compressor demand is the continued expansion of the European market, where unit sales grew sharply by 34.5% to 2,314 thousand units.

Although currently all car air-conditioning compressors for the European market are exported from Japan, we have recently started construction of a production plant in Germany, in accordance with the growth in demand. Once completed, and following the start-of-production in April 2000, our "3 point network" for production of compressors will be in place, with production bases in Japan, U.S.A. and Germany. Our excellent technologies are well recognized, especially by German luxury car manufacturers such as Mercedes-Benz, BMW and Audi. With this advantage as leverage, we plan to further promote sales throughout the European market by focusing on the production of a series of variable displacement compressors, the development of smaller-sized compressors, and on aggressive entries into the passenger car market.





Automobile Sales



In North America, we have expanded our sales to Japanese local production factories such as TOYOTA and Honda, as well as Chrysler. In addition, we have started the shipment of our compressors to General Motors and, accordingly, we plan to further increase our production during fiscal 2000.

In summary, the Automobiles segment, as a whole, had the operating income of ¥17,397 million, down 7.3% from fiscal 1998. This decline was due primarily a 23.5% increase in depreciation, attributable to a high level of capital investment, amounting to ¥26,518 million, aimed at increasing production, in line with our future business expansion plan, as well as the manufacturing of new products. We plan to recover these capital investment costs as quickly as possible.

Logistics & Forklifts segment

The second largest segment in terms of dollar sales is the Logistics & Forklifts segment.

Consolidated sales to outside customers stood at ¥151,370 million, down by 5.5% from the previous year level. The most important factor was the prolonged economic sluggishness in Japan, as was the case with the Automobiles segment. Unit sales of industrial vehicles in Japan were 26,179, down by 23.4% from the previous year. Global unit sales were 67,444, being negatively affected by the still stagnant demand in Asian countries as well as in Japan. On the other hand, however, unit sales in both the North American and European markets demonstrated remarkable growth, with 22,220 units sold in North America and 11,239 in Europe, up 36.0% and 28.3% respectively, from the previous year. These were both new highs in the history of the Company.

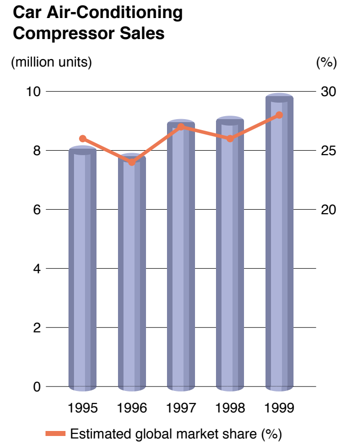
During fiscal 1999 we launched the "GENEO", the innovative new forklifts, in September 1998 in the domestic market. The "GENEO" is the new generation engine-powered forklift with a load capacity from 1.0 to 5.0 tons, developed with a computer operated, safety control system called "SAS"-System of Active Safety - the first such safety system in the world. Thanks to this launching, we were able to hold the No.1 share (38%) in the domestic market, despite the weakened demand in the market. We are now aiming to secure a share of more than 40% in the domestic market by launching other innovative, battery-powered forklifts. In addition, we plan to start sales of the "GENEO" in both the North American and European markets during fiscal 2000. Our aim is to raise the global market share of TOYOTA forklifts from the current 14% to 25% by the end of 2005, by developing larger account customers and launching battery-operated forklifts for indoor use in the North American market, and through promotion of sales of battery-powered forklifts for indoor use in the European market.

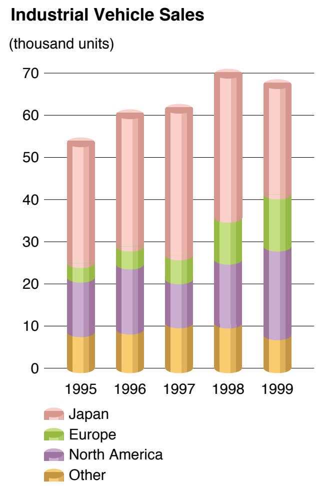
Sales in the Logistics business increased by 22.9% from the previous year to ¥8,374 million.

For the L & F segment as a whole, operating income dropped by 33.6% to ¥8,452 million. This decline was mainly attributable to a 22.0% increase to ¥5,548 million from the previous year in depreciation, mostly associated with the large capital investment in the production facilities for the "GENEO" and other new products, in addition to a decrease in sales. We are expecting our sales and profits to increase sharply during the next fiscal year and even well beyond, in view of an anticipated recovery on both the Japanese and Asian markets combined with the efficacy of the introduction of our new products.

Textile machinery segment

The Textile machinery segment has been included in "Other" in the previous years. However, this segment will have its own, independent report from fiscal 1999, since its importance has been growing. This segment's consolidated sales were ¥18,947 million with an operating loss of ¥3,455 million. This result is, we believe, attributable to the continued sluggishness of





the Southeast Asian countries, which is one of our major markets. Although this segment ended up with unfavorable results, we expect to restore it to our previous solid performance, given that our new product: "water jet loom" acquired from Nissan Texsys Co. Ltd. under the business transfer agreement entered in April 1999, has been added, creating thus almost full line-up of products in fiscal 2000.

With about ¥4,000 million invested in the water jet loom business acquisition cost, we hope our global market share will fairly expand.

For fiscal 2000, we plan to enhance profitability by improving productivity, reducing costs, ensuring more sharing of parts and components and integrating suppliers.

Financial Condition

The Company's financial condition for the fiscal year 1999, ended March 31, 1999 is as follows.

In Assets, current assets decreased by 12.7% from the previous year to ¥155,765 million. This was mainly due to a high-level capital investment of ¥60,468 million, as was seen during fiscal 1998. This capital investment was funded by cash (and cash equivalents, such as deposits) and newly issued bonds, and mainly used to obtain production facilities for new products such as the "Vitz" and the "GENEO", and to expand production capacities.

According to our plan, capital investment reached its peak in fiscal 1998 and 1999, follow by a gradual decline from fiscal 2000. On the other hand, inventories increased ¥5,350 million, largely resulting from inclusion of 17 newly consolidated subsidiaries, including MACI (Michigan Automotive Compressor, Inc.) and Toyoda -Sulzer Mfg., Ltd.

As a result of this capital investment, property, plant and equipment increased by 17.7% to ¥258,896 million. The difference between this balance and the capital investment was accounted for as an actual depreciation of ¥34,380 million.

In Liabilities, current liabilities decreased by 16.7% to ¥127,131 million, due primarily to a decrease of ¥17,586 million in the "payables-other" (including for the purchase of manufacturing tools, equipment and buildings). The long-term liabilities jumped 31.1% to ¥169,993 million, as a result of the Company's subsequent issue of the 4th and the 5th bonds without collateral, totaling ¥40,000 million in proceeds, to help finance the huge amount of capital investment. Minority interests also increased by ¥12,807 million for fiscal 1999, as a result of an increase in the number of consolidated subsidiaries.

Shareholders' equity decreased by 1.0% to ¥301,158 million as a result of buy-back activities.

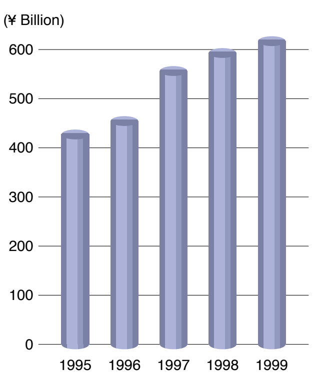
The total assets increased by 4.1% from the previous year end level to ¥617,071 million, with the ratio of shareholders' equity to total assets dropping to 48.8% from 51.3% as of the end of the previous year.

Appraisal Profits in Holding Securities (Non-Consolidated)

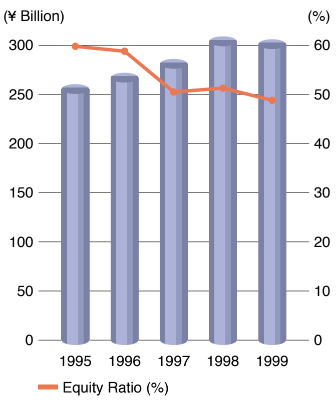
(¥ Billion)

1997			1998			1999		
Book Value	Market Value	Appraisal Profits	Book Value	Market Value	Appraisal Profits	Book Value	Market Value	Appraisal Profits
141.7	893.4	751.7	143.0	955.2	812.2	155.1	918.7	763.6

Total Assets



Total Shareholders' Equity



Cash Flow Analysis

Management aims to maintain a sufficient amount of liquidity in order to meet the needs of ad hoc business development, as well as to have funds readily available for adaptation to the ever changing business environment.

During fiscal 1999, the Company's cash and cash equivalent decreased by ¥27,565 million, as compared to the beginning of the year, to ¥58,201 million. On the whole, cash needed for manufacturing facilities for new products such as the "Vitz" and the "GENEO" as well as production capacity enhancement of car air-conditioning compressors and engines, was partly financed by cash from operating activities as well as from financing activities, with the rest coming from cash and cash equivalents.

Cash flow from operating activities resulted in an inflow of ¥26,427 million, representing a decrease of ¥53,881 million from ¥80,308 million the previous year. Though operating income before depreciation declined slightly, this decrease in cash flow from operating activities was mainly attributable to an increase in payments resulting from the purchase of equipment during the previous year, as well as a considerable decline in the amount of payables.

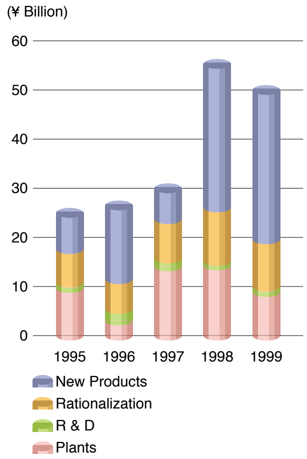
Cash from investing activities resulted in an outflow to the amount of ¥82,266 million, mainly caused by payments amounting to ¥60,468 million, for the new production facilities as indicated above.

Finally, cash flow from financing activities resulted in an inflow of ¥24,733 million, mainly from the issuance of straight bonds equivalent to ¥40,300 million.

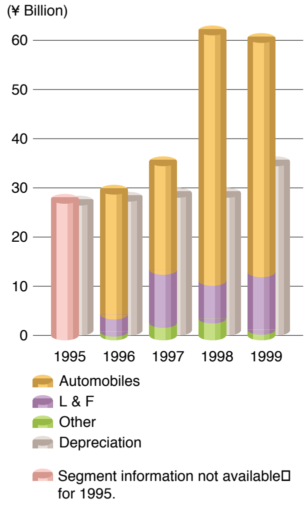
Computer Year 2000 Problem

We view the Year 2000 Problem as an important managerial matter, in terms of maintenance of continuity in business and of relationships with customers and counterparts in various transactions. Currently, preparatory measures are under way throughout the Company, including those for our company-wide information systems, facilities, and products. Facing this problem, we first began to address this problem in 1996 with studies and deliberations focussing on the Information Systems Department. In order to deal with the problem from a company-wide perspective, we established a committee called "Task-Force Committee for Year 2000 Problem" in January 1999. The Committee plans the schedule of countermeasures ensures the progress of the schedule as measures are executed, and regularly makes reports to the Company's Board of Directors. The committee works to monitor the progress of overall countermeasures that include not only our subsidiaries and affiliates but also our counterparts such as customers and suppliers. At this point in time, according to the countermeasure schedule for our in-house information systems, 90% of program modifications and testing was completed by the end of March 1999 and the rest will be completed by October 1999. We also plan a series of thorough tests with our major counterparts, to make a more detailed assessment of our status. For facilities and products, we are continuously studying and taking appropriate countermeasures based on the studies in accordance with the schedule. For the in-house information systems, it is impossible to clearly identify the exact amount spent so far on these countermeasures since we have been making necessary modifications during any system redevelopment or improvements. However, we estimate the amount we have paid to outside contractors to be about ¥300 million, of which ¥200 million was debited by the end of fiscal 1999. There are additional countermeasure expenses that have been incurred in other areas, but we do not believe that even with these expenses, the total cost for countermeasures against the Year 2000 Problem will have significant impact on our business operations or financial performance. We are working hard to make the countermeasures as thorough as possible. However, we are also working on planning for alternative countermeasures to deal with any emergencies that

Capital Investment by Purpose
(Non-Consolidated)



Capital Investment by Segment and Depreciation



may occur, and on a structural organization to cope with the possible problems.

Environment Management

We consider protection of the Earth, our environment, one of the important areas of corporate activities, and are tackling it in an organized way. We obtained the ISO 14001 certificate – an international standard for environment management – in each of the major factories of the Company by the end of fiscal 1999, and plan to obtain it in all the factories by the end of fiscal 2000. We plan to obtain this certificate in each of our subsidiaries and affiliates during the next few years. We are actively working on the reduction of CO_2, for the purpose of the waste reduction and the prevention of global warming. Towards the reduction of CO_2, our efforts consist of installation of co-generation systems in each factory and company-wide activities for saving energy. These have already produced visible effects. We are also actively working to develop new products designed with environmental considerations, such as direct injection type engines and car air conditioning compressors with less burdens on engines. In this way we will push forward environment considerations, in which the environment friendly concept is sought not only in the process from development to production of new products, but also in the whole life cycle of products. In addition, we will enhance our understanding of the results of these activities through adoption of a new accounting method for handling environment-related problems.

Pension Problem

Problem of Pension handling of the reserve account for retirement and severance benefits is explained in the Financial Section. A tentative computation of the company benefit obligations based on the IAS accounting for Retirement Benefit Costs reveals a shortage of about ¥20,000 million in the reserve as of the end of December 1998. This shortage consists of ¥10,000 million, which is the unfunded portion of the prior service costs in the retirement pension plan and the amount attributed to the difference (the loss from interest margin) between the return on investment of the plan (5.5%) and the actual yield, and a shortage of ¥10,000 million in the reserve for the retirement severance plan. We will work out the best solution to these shortages making sure there will not be a significant impact on our financial performance or cash flow by taking into consideration the following measures: investment in marketable securities owned by the Company (realization of the gain, sales, and contribution to trusts, etc.), amendment/modification of the retirement pension plan, such as adoption of a defined contribution plan (Japanese version of 401(k)), and investment returns by reviewing the investing practices of the pension asset (selection of investment managers, portfolio management, etc.).