Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements, balance sheets, statements of income, shareholders' equity and cash flows, have been prepared from accounts and records maintained by Toyoda Automatic Loom Works, Ltd. (the "Company"), and its domestic and overseas subsidiaries (together, hereinafter referred to as the "Companies") in accordance with generally accepted accounting principles in Japan and, for overseas consolidated subsidiaries, in conformity with accounting principles of the countries of their domicile. Furthermore, these consolidated financial statements have been prepared based on the consolidated financial statements prepared in accordance with "Regulations Concerning the Terminology, Forms and Preparation Methods of the Consolidated Financial Statements" of Japan. Relevant notes have been added and 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.

These financial statements presented herein are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates, and solely for the convenience of readers outside Japan, they have been translated into U.S. dollars at the rate of ¥120.55 to U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 1999. These translations should not be construed as representations that all the yen amounts have been or could be converted into U.S. dollars.

2. Summary of Significant Accounting Policies

(a) Consolidation

The Company had 30, 26 and 25 majority-owned subsidiaries as of March 31, 1999, 1998 and 1997, respectively. The accompanying consolidated financial statements include the accounts of the Company and 27, 10 and 9 of its major subsidiaries as of March 31, 1999, 1998 and 1997, respectively. The 27 consolidated subsidiaries are listed on page 34.

The remaining 3 (16 for 1998 and 16 for 1997) non-consolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Companies, have not been consolidated with the Company.

The fiscal years of the subsidiaries are not necessarily the same as the Company's. Accounts of those subsidiaries which have different fiscal periods have been adjusted for significant transactions to properly reflect their financial positions as of March 31, 1999, 1998 and 1997, respectively.

For the purpose of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion attributable to minority interest has been credited/charged against it.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries at acquisition are presented as "consolidation difference" and are amortized on a straight-line basis over five years.

(b) Investments in non-consolidated subsidiaries and affiliates

The Company had 3 (16 for 1998 and 16 for 1997) non-consolidated subsidiaries and 11 (13 for 1998 and 12 for 1997) affiliates (meaning 20% to 50% ownership of company's equity interest). The equity method is applied to the investments in 2 major affiliates since investments in the remaining non-consolidated subsidiaries and affiliates are not material for the consolidated financial statements.

The major affiliates accounted for by the equity method are listed on page 34.

(c) Cash and cash equivalents

Cash and cash equivalents include all highly liquid debt instruments.

(d) Marketable and Investment Securities

Securities that are quoted on stock exchanges are stated mainly at the lower of cost, as determined by the moving average method, or market value. Other securities are stated at cost, as determined by the moving average method, or less.

(e) Inventories

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

(f) Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment, for the Company and domestic subsidiaries and affiliates, is computed mainly by the declining-balance method with provisions of “Japanese Tax Laws” and, for overseas subsidiaries and affiliates, is computed mainly by the straight-line method based on the estimated useful lives of the assets.

Due to the amendment of “Japanese Tax Laws” in fiscal 1999, depreciation of buildings (excluding appendices to them) has been computed at rates based on new estimated useful lives those are shorter than in the previous year.

If this change of the depreciation period was not made, depreciation is ¥33,932 million ($281,477 thousand), operating income is ¥25,262 million ($209,552 thousand), income before income taxes is ¥23,620 million ($195,936 thousand).

The effect on the segment information is listed on page 29 (Note 9. Segment Information).

(g) Bond issue expenses

Bond issue expenses is charged to income as incurred.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided mainly at the maximum amount deductible under “Japanese Tax Laws”.

(i) Retirement and severance benefits

The annual provision for retirement and severance benefits is calculated to state liability at the present value, based on the amount which would be required if all employees voluntarily terminated their employment at each balance sheet date, less amounts compensated by the retirement pension plan which cover a 50% portion of the benefits of the retired employees.

(j) Lease transaction

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

(k) Ttranslation adjustments

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

1. Assets and liabilities have been translated at the prevailing fiscal year-end rate.
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 fiscal year-end rate.

In fiscal 1997, the Company adopted the amended “Accounting Standard for Foreign Currency Translations, etc.”, however, it gave no effects on income before income taxes.

(l) Consumption tax

Principally, the consumption tax withheld by the Companies on sales of goods is not included in the amount of “net sales” in the accompanying consolidated statements of income. And the consumption tax borne by the Companies on purchases of goods and services, and expenses is not included in the related amount, either.

(m) Appropriation of retained earnings

In the accompanying consolidated statements of shareholders' equity, approved amount during the relevant fiscal year is reflected for the appropriations of retained earnings of the consolidated subsidiaries.

(n) Income taxes

Income taxes are principally provided in amounts currently payable for each year. Deferred income taxes arising from timing differences between reporting for accounting purposes and for tax purposes are not required under Japanese accounting principles and therefore have not been recorded by the Company and its domestic subsidiaries and affiliates.

However, for overseas subsidiaries and affiliates, deferred income taxes have been recorded and reflected in the consolidated financial statements.

For your information, “Tax Effect Accounting” is to be adopted in Japan from the fiscal year ending March 31, 2000.

(o) Amounts per share

Net income per share is computed based on the average number of outstanding common shares during the fiscal year.

3. Change in Accounting

Until fiscal 1997, the Companies traditionally have included the sum of the sales of materials or semi-finished goods, which were sold to suppliers for processing, in “net sales” and the cost of repurchasing the processed goods in “cost of sales”. From fiscal 1998, the Companies have excluded the sum of sales of such goods from “net sales” and the identical amount from “cost of sales”, and for 1997, “net sales” and “cost of sales” were recalculated in accordance with the accounting policy after change, and those amounts are reflected on the consolidated financial statements. Due to this change, both “net sales” and “cost of sales” decreased by ¥31,006 million ($257,203 thousand), ¥33,430 million and ¥26,938 million for 1999, 1998 and 1997, respectively, compared with the old method. However, it gives no effects on operating income, income before income taxes or net income. Also, the receivable amount of such goods for suppliers, which had been entered in “receivables-trade” on the balance sheets was entered in “other current assets” from fiscal 1998, and the receivable amounts of such goods as of March 31, 1999 and 1998 were ¥6,115 million ($50,723 thousand) and ¥5,991 million, respectively.

4. Additional Information

From fiscal 1999, the Companies have presented consolidated financial statements in conformity with the amended “Regulations Concerning the Terminology, Forms and Preparation Methods of the Consolidated Financial Statements”. In preparing these consolidated financial statements, following adjustments have been made to conform to the consolidated financial statements issued for 1999.

In the consolidated balance sheets, “legal reserve” and “retained earnings” have been combined and shown as “retained earnings”. And, “consolidation difference” which had been placed between liabilities section and shareholders’ equity section until the previous year has been presented into “long-term liabilities” from 1999.

In the consolidated statements of income, “enterprise taxes” (¥2,088 million ($17,321 thousand) for 1999) were included in “selling, general and administrative expenses” in the previous year. However, they have been included and presented in “income taxes” from 1999. “Amortization of consolidation difference” (¥120 million ($999 thousand) for 1999) which was classified as a deductible item from income before income taxes in the previous year has been included and presented in “selling, general and administrative expenses”. “Equity in earnings of affiliates” (¥(3,763) million ($(31,217) thousand) for 1999) which was added to income before income taxes in the previous year, has been included and presented in “other, net” of “other income or expenses”. And, these adjustments have not been applied to financial statements presented prior to 1999 retroactively.

In the case of presenting based on the same method used in the previous year, operating income and income before income taxes for 1999 are ¥22,846 million ($189,516 thousand) and ¥24,968 million ($207,117 thousand).

5. Inventories

Inventories as of March 31, 1999 and 1998 were as follows :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Finished goods	**¥ 2,223**	¥ 1,973	**$ 18,438**
Raw materials	**3,421**	1,375	**28,379**
Work in process	**18,062**	16,531	**149,828**
Supplies	**3,554**	2,031	**29,482**
	¥ 27,260	¥ 21,910	**$ 226,127**

6. Long-term Debt

Long-term debts as of March31, 1999 and 1998 were as follows :

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Parent company:			
0.35% convertible bonds due 2003 without collateral	**¥ 75,748**	¥ 75,838	**$ 628,353**
2.7% bonds due 2008 without collateral	**30,000**	30,000	**248,860**
1.5% bonds due 2003 without collateral	**20,000**	-	**165,906**
2.15% bonds due 2008 without collateral	**20,000**	-	**165,906**
Consolidated subsidiaries:			
5.7% bonds due 1998	**-**	300	**-**
1.8% bonds due 2005	**300**	-	**2,489**
Long-term bank loans	**3,444**	3,515	**28,564**
Less: current portion of long-term debt	**(874)**	(351)	**(7,247)**
	¥148,618	¥109,302	**$1,232,831**

7. Assets Pledged as Collateral

Investments in securities and term deposits at the book value of ¥12,824 million ($106,379 thousand) were pledged for bank loans or employees' saving deposits or other liabilities as of March 31, 1999.

8. Contingent Liabilities

Contingent liabilities for guarantees of loan of 2 companies and bond issue of 1 village in Michigan, U.S.A. amount to ¥3,109 million ($25,793 thousand) as of March 31, 1999.

9. Segment Information

(a)Business segments

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Sales				
Automobiles				
Outside customer sales	**¥364,269**	¥366,387	¥358,127	**$ 3,021,727**
Inter-segment transactions	**2,431**	4,021	3,106	**20,161**
	366,700	370,408	361,233	**3,041,888**
Logistics & Forklifts				
Outside customer sales	**151,370**	160,117	136,086	**1,255,658**
Inter-segment transactions	**-**	-	-	**-**
	151,370	160,117	136,086	**1,255,658**
Textile machinery				
Outside customer sales	**18,947**	-	-	**157,172**
Inter-segment transactions	**0**	-	-	**3**
	18,947	-	-	**157,175**
Other				
Outside customer sales	**24,290**	46,194	36,639	**201,493**
Inter-segment transactions	**2,974**	1,060	105	**24,671**
	27,264	47,254	36,744	**226,164**
Sub-total	**564,281**	577,779	534,063	**4,680,885**
Elimination of inter-segment transactions	**(5,405)**	(5,081)	(3,211)	**(44,836)**
Total	**¥558,876**	¥572,698	¥530,852	**$ 4,636,049**
Operating Costs and Expenses				
Automobiles	**¥349,302**	¥351,635	¥336,819	**$ 2,897,570**
Logistics & Forklifts	**142,918**	147,386	127,731	**1,185,548**
Textile machinery	**22,402**	-	-	**185,833**
Other	**25,064**	45,895	36,838	**207,915**
Elimination of inter-segment transactions	**(5,624)**	(4,947)	(3,211)	**(46,656)**
Total	**¥534,062**	¥539,969	¥498,177	**$ 4,430,210**
Operating Income				
Automobiles	**¥ 17,397**	¥ 18,773	¥ 24,414	**$ 144,318**
Logistics & Forklifts	**8,452**	12,731	8,355	**70,109**
Textile machinery	**(3,455)**	-	-	**(28,658)**
Other	**2,200**	1,359	(94)	**18,250**
Elimination of inter-segment transactions	**220**	(134)	-	**1,820**
Total	**¥ 24,814**	¥ 32,729	¥ 32,675	**$ 205,839**
Assets				
Automobiles	**¥254,087**	¥204,216	¥185,408	**$ 2,107,729**
Logistics & Forklifts	**78,518**	69,730	64,585	**651,330**
Textile machinery	**22,224**	-	-	**184,354**
Other	**20,729**	43,877	34,634	**171,952**
Corporate	**241,513**	275,181	271,664	**2,003,428**
Total	**¥617,071**	¥593,004	¥556,291	**$ 5,118,793**
Depreciation				
Automobiles	**¥ 26,518**	¥ 21,473	¥ 22,384	**$ 219,972**
Logistics & Forklifts	**5,548**	4,549	3,874	**46,025**
Textile machinery	**1,024**	-	-	**8,492**
Other	**1,404**	1,959	1,785	**11,647**
Corporate or elimination of inter-segment transactions	**(114)**	(23)	-	**(945)**
Total	**¥ 34,380**	¥ 27,958	¥ 28,043	**$ 285,191**
Capital Investment				
Automobiles	**¥ 47,635**	¥ 50,918	¥ 22,078	**$ 395,143**
Logistics & Forklifts	**11,691**	7,660	10,794	**96,979**
Textile machinery	**663**	-	-	**5,502**
Other	**875**	3,586	2,536	**7,265**
Corporate or elimination of inter-segment transactions	**(396)**	(157)	-	**(3,285)**
Total	**¥ 60,468**	¥ 62,007	¥ 35,408	**$ 501,604**

(b)Geographical segments

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Sales				
Japan				
Outside customer sales	**¥ 465,444**	-	-	**$ 3,861,001**
Inter-segment transactions	**18,860**	-	-	**156,455**
	484,304	-	-	**4,017,456**
North America				
Outside customer sales	**78,264**	-	-	**649,221**
Inter-segment transactions	**-**	-	-	**-**
	78,264	-	-	**649,221**
Other				
Outside customer sales	**15,168**	-	-	**125,827**
Inter-segment transactions	**551**	-	-	**4,568**
	15,719	-	-	**130,395**
Sub-total	**578,287**	-	-	**4,797,072**
Elimination of inter-segment transactions	**(19,411)**	-	-	**(161,023)**
Total	**¥ 558,876**	¥ 572,698	¥ 530,851	**$ 4,636,049**
Operating Costs and Expenses				
Japan	**¥ 465,139**	-	-	**$ 3,858,473**
North America	**73,342**	-	-	**608,395**
Other	**15,100**	-	-	**125,258**
Elimination of inter-segment transactions	**(19,519)**	-	-	**(161,916)**
Total	**¥ 534,062**	¥ 539,969	¥ 498,177	**$ 4,430,210**
Operating Income				
Japan	**¥ 19,166**	-	-	**$ 158,984**
North America	**4,922**	-	-	**40,826**
Other	**619**	-	-	**5,137**
Elimination of inter-segment transactions	**107**	-	-	**892**
Total	**¥ 24,814**	¥ 32,729	¥ 32,675	**$ 205,839**
Assets				
Japan	**¥ 349,787**	-	-	**$ 2,901,596**
North America	**39,113**	-	-	**324,452**
Other	**15,846**	-	-	**131,445**
Corporate	**212,325**	-	-	**1,761,300**
Total	**¥ 617,071**	¥ 593,004	¥ 556,291	**$ 5,118,793**

Notes:

(a) 1. Amounts of Textile machinery business were included in "Other" in the previous year. However, from fiscal 1999, these amounts have been separated from "Other" and presented as "Textile machinery" business because these have become more material than in the previous year.

2. Main products of each segment:
   - Automobiles ....Automobiles, Engines, Car air-conditioning compressors
   - Logistics & Forklifts........Forklifts, Shovel loaders, Automatic guided vehicles
   - Textile machinery ....Looms, Spinning machines
   - Other ....Casting machines, etc.

3. Due to the amendment of "Japanese Tax Laws" in fiscal 1999, depreciation of buildings has been computed at rates based on new estimated useful lives which are shorter than in the previous year. Also, due to the amendment of "Regulations Concerning the Terminology, Forms and Preparation Methods of the Consolidated Financial Statements", "enterprise taxes" and "amortization of consolidation difference" have been reclassified in the consolidated statements of income.
   If presentations of fiscal 1999 are made in conformity with the methods in the previous year, the figures for operating income, assets and depreciation are recalculated as follows:

	Millions of yen	Thousands of U.S. dollars
Automobiles		
Operating income	¥ 16,563	$ 137,392
Assets	254,378	2,110,142
Depreciation	26,227	217,559
Logistics & Forklifts		
Operating income	¥ 7,970	$ 66,112
Assets	78,629	652,250
Depreciation	5,437	45,105
Textile machinery		
Operating income	¥ (3,478)	$ (28,849)
Assets	22,243	184,515
Depreciation	1,004	8,331
Other		
Operating income	¥ 1,976	$ 16,392
Assets	20,755	172,171
Depreciation	1,378	11,428
Total (including corporate or elimination of inter-segment transactions)		
Operating income	¥ 23,294	$ 193,230
Assets	617,518	5,122,507
Depreciation	33,932	281,477

(b) For 1998 and 1997, both the amounts of the transactions within Japan and the assets belong to Japan are more than 90% of the total amounts of all segments. Therefore, geographical segments information was omitted.

Report of Independent Public Accountants

To the Board of Directors of
Toyoda Automatic Loom Works, Ltd.

We have examined the consolidated balance sheets of Toyoda Automatic Loom Works, Ltd. and its consolidated subsidiaries as of March 31, 1999 and 1998, and the consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 1999, expressed in Japanese yen. Our examinations were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Toyoda Automatic Loom Works, Ltd. and its consolidated subsidiaries as of March 31, 1999 and 1998, and results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles in Japan consistently applied on a consistent basis, except in regard to the changes in accounting procedures, with which we concur, described in Note 3 to the consolidated financial statements.

Our examinations also covered the translation of Japanese yen amounts into the United States dollar amounts included in the consolidated financial statements and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

ITOH AUDIT CORPORATION

June 29, 1999
Nagoya Japan

Itoh Audit Corporation