Management's Discussion and Analysis

Business at Toyoda Gosei (the "Company") centers on developing, manufacturing, and marketing automotive parts and light-emitting diodes (LEDs). The Company has also built a successful line of business in developing and supplying plastic components for cell phones, for air conditioners, and for other applications.

Affiliation

Toyota Motor Corporation owned 43.5% of the Company's equity at March 31, 2004, and business with Toyota accounted for 35.0% of the Company's sales in the fiscal year ended on that date. The Company also conducts business with most of the world's other large automakers.

Income and Expenses

The Company posted a 15.1% increase in net sales in the fiscal year ended March 31, 2004, to ¥397.0 billion ($3,756 million). That sales volume was the largest ever for the Company. The increase in sales comprised gains of 15.0% in automotive parts, to ¥352.5 billion ($3,335 million), and 16.5% in nonautomotive parts, to ¥44.5 billion ($421 million). The sales figures for business segments are net of intersegment transactions.

As described elsewhere in this report, the Company's business in automotive parts spans trim and other interior and exterior parts; weatherstrip and other body sealing products; functional parts for power train, chassis drive train, and fuel supply systems; and airbag-equipped steering wheels and other kinds of airbags. The Company supplies its principal products in this segment to automakers worldwide, mainly from local plants. It ranks among the world's leading suppliers in its core product lines, and management is committed to expanding the Company's market share further in priority product sectors.

All of the products that the Company supplies for automobiles are subject to intense price competition. Maintaining viable profit margins depends on achieving continual cost reductions and continual increases in economies of scale. The Company has been consistently successful in fulfilling these conditions, and management is confident of achieving continual progress in lowering costs and in expanding sales volume.

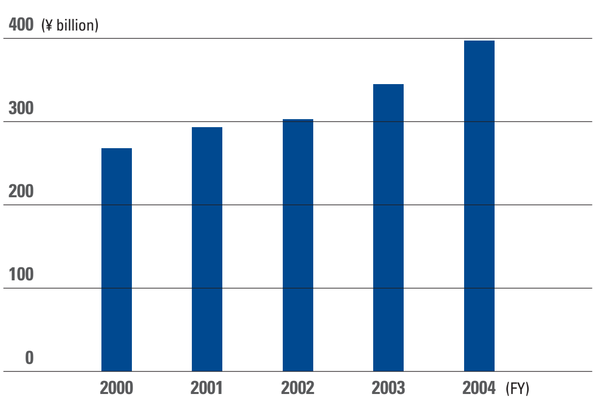
Sales by industry segment

(percent of net sales)

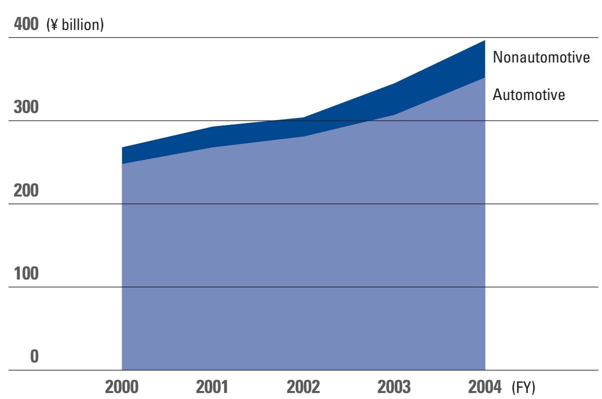
FY	**2004**	2003
Automotive parts	**88.8**	88.9
Nonautomotive parts	**11.2**	11.1
	100.0	100.0

LEDs account for most of the Company's business in nonautomotive parts. The Company has pioneered important advances in LEDs—most notably blue LEDs, the commercialization of which completed the red-green-blue spectrum. It has subsequently developed high-output white LEDs. These and other developments have enabled the Company to secure a large share of the global market for LEDs, especially in cell phones. LEDs, like other electronic components, are subject to sharp fluctuations in demand and to sharp downward trends in prices. Management is confident of maintaining the Company in the vanguard of product and production technologies and of coping with escalating price competition.

Net Sales



Sales by Business Segment



The Company's other line of business in nonautomotive parts consists of developing and supplying components—mainly of plastic—for cell phones, for air conditioners, and for other applications. The Company designs and develops the components on behalf of original equipment manufacturers and produces the components through outsourcing arrangements. This business enables the Company to commercialize its well-established strengths in materials technologies in new markets.

In sales by geographic segment (by company location), business grew 11.5% in Japan, to ¥284.7 billion ($2,694 million), 16.3% in North America, to ¥78.5 billion ($742 million), and 52.8% in other regions, to ¥33.8 billion ($320 million). Like the sales figures for business segments, these figures are net of intersegment transactions.

The sales gain in Japan reflected continuing growth in the unit production of vehicles, led by export demand. The sales increase in North America reflected continuing growth in unit production by Japanese-owned vehicle plants there and progress by the Company in winning business with non-Japanese automakers in North America. The sales growth in other regions mainly reflected surging demand in Southeast Asia and in China. The Company also recorded sales growth in Europe. The Company's business in LEDs and in other nonautomotive products centers on Japan, though it also markets LEDs in Asian nations besides Japan, in North America, and in Europe.

Sales by geographic segment

(by company location; percent of net sales)

FY	**2004**	2003
Japan	**71.7**	74.0
North America	**19.8**	19.6
Other	**8.5**	6.4
	100.0	100.0

Cost of sales increased 15.5% in the fiscal year under review, to ¥345.1 billion ($3,265 million), and the gross profit margin declined to 13.1%, from 13.4% in the previous year. The principal reasons for the decline in gross profitability were escalating price competition in automotive components, rising prices for raw materials, and start-up expenses at new manufacturing ventures.

Gross profit margin

(percent)

FY	**2004**	2003	2002	2001	2000
	13.1	13.4	12.0	15.2	15.3

Selling, general and administrative expenses increased 9.3%, to ¥27.7 billion ($262 million). The increase in selling, general and administrative expenses resulted from the continuing growth in the Company's business and in its production network. Successful efforts to streamline operations and to reduce costs kept the increase in this item below the increase in net sales. The Company's accounts for fiscal 2004 encompass 34 subsidiaries, compared with 28 in fiscal 2003 and 24 in fiscal 2002. Employees numbered 15,483 at fiscal year-end, up 14.8% over the previous fiscal year-end.

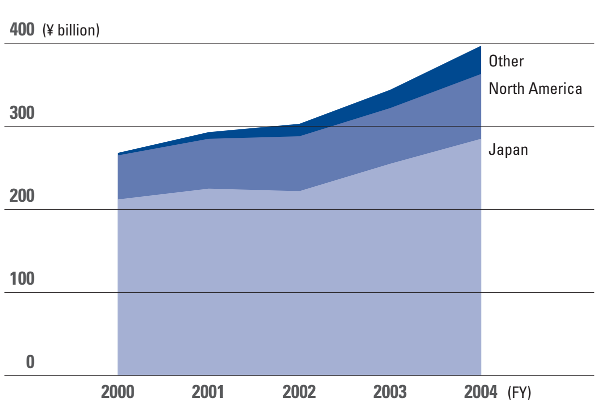
Selling, general and administrative expenses

(percent of net sales)

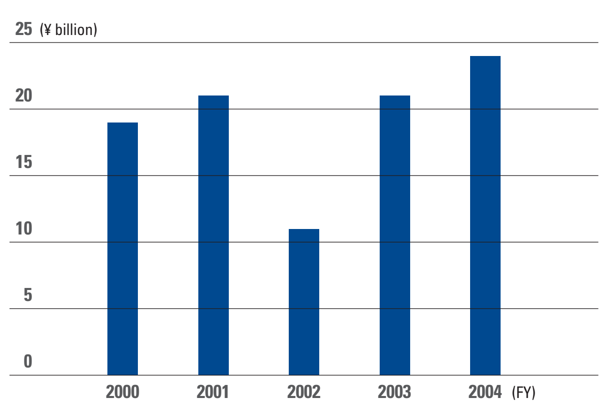
FY	**2004**	2003	2002	2001	2000
	7.0	7.3	8.5	8.1	8.2

Continuing advances in pertinent technologies are the Company's chief means of differentiating its automotive and nonautomotive products advantageously. The Company thus maintains a vigorous commitment to research and development programs. Expenditures

Sales by Geographic Segment



Operating Income



on research and development increased 12.1% in the past fiscal year, to ¥22.7 billion ($215 million).

Research and development expenditures

(percent of net sales)

FY	**2004**	2003	2002	2001	2000
	5.7	5.9	6.2	6.0	6.0

Operating income increased 16.6%, to ¥24.2 billion ($229 million)—its highest level ever—and the operating profit margin rose to 6.1%, from 6.0% in the previous year. The improvement in operating profitability reflects economies of scale generated by increased business volume and progress in streamlining operations and in trimming costs.

Operating profit margin

(percent)

FY	**2004**	2003	2002	2001	2000
	6.1	6.0	3.5	7.1	7.1

Net interest expense remained low in comparison with operating income and in comparison with operating cash flow. It totaled ¥603 million ($6 million), compared with ¥357 million in the previous year. The table below presents cash flow as a multiple of gross interest payments.

Cash flow interest coverage

(net cash provided by operating activities divided by interest paid; times)

FY	**2004**	2003	2002	2001	2000
	43.7	34.9	37.8	54.1	119.0

Depreciation expense increased 11.4%, to ¥26.1 billion ($247 million). The increase in depreciation expense reflects the continuing expansion of the Company's global production network.

Income before income taxes and minority interests declined 26.9%, to ¥21.9 billion ($207 million). That decline reflected an extraordinary gain of ¥10.0 billion in the previous year on the return of the substitutional portion of the Company's and its subsidiaries' Employees' Pension Funds (see note 6 of the notes to the consolidated financial statements). Net income declined 26.5%, to ¥12.7 billion ($120 million).

Net return on sales

(percent)

FY	**2004**	2003	2002	2001	2000
	3.2	5.0	1.3	4.0	4.3

Net return on shareholders' equity

(percent)

FY	**2004**	2003	2002	2001	2000
	8.3	12.5	3.2	9.8	11.2

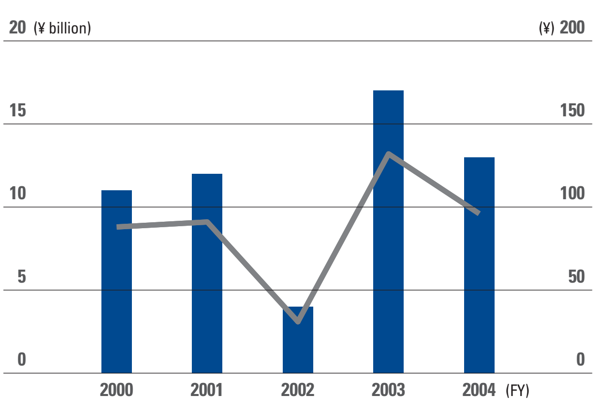
Net return on total assets

(percent)

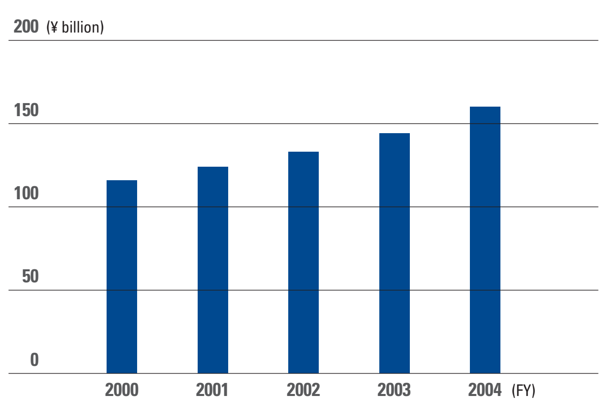
FY	**2004**	2003	2002	2001	2000
	4.2	6.4	1.7	5.2	5.6

Diluted net income per share of common stock declined 27.1%, to ¥96.1 ($0.91). The Company raised the aggregate annual dividends per share of common stock ¥3 ($0.03), to ¥16.0 ($0.15).

Net Income (left scale) **and Diluted Net Income per Share**



Shareholders' Equity



Financial Position

The Company maintains a strong financial position, and it continued to strengthen that position in the fiscal year under review. Shareholders' equity increased 10.6%, to ¥159.8 billion ($1,512 million) at fiscal year-end, and the debt-to-equity ratio was 0.27, compared with 0.30 at the previous year-end. Interest-bearing debt was essentially unchanged, at ¥43.3 billion ($411 million).

Debt-to-equity ratio

(times)

FY	**2004**	2003	2002	2001	2000
	0.27	0.30	0.23	0.16	0.15

Net cash provided by operating activities increased 58.3%, to ¥42.4 billion ($401 million), reflecting the growth in operating income, as adjusted for depreciation and amortization and other noncash items. Cash and cash equivalents at fiscal year-end increased 16.5%, to ¥36.0 billion ($341 million).

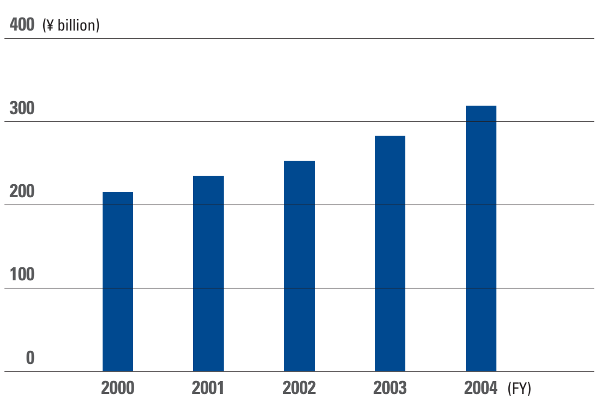
Outlook

Management believes that net income will resume growing in the fiscal year to March 31, 2005, supported by growth in sales volume. They project that net income will increase about 26%, to approximately ¥16 billion, on growth of about 6% in net sales, to approximately ¥420 billion.

Forward-Looking Statements

The preceding descriptions of projections and plans are forward-looking statements, which involve known and unknown risks and uncertainties in regard to such factors as product liability, currency exchange rates, raw material costs, labor-management relations, and political stability. Those and other variables could cause the Company's actual performance and results to differ from management's projections and plans.

Total Assets



Cash Flow and Capital Expenditures