

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 also develops and supplies cell phone cases, air purifiers, air-conditioner components, and other diversified products.

Affiliation

Toyota Motor Corporation owned 43.2% of the Company's equity at March 31, 2005, and business with Toyota accounted for 36.6% 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 9.7% increase in net sales in the fiscal year ended March 31, 2005, to ¥435.5 billion (\$4,056 million). That sales volume was the largest ever for the Company. The increase in sales comprised a gain of 13.5% in automotive parts, to ¥400.1 billion (\$3,726 million), and a decline of 20.3% in nonautomotive parts, to ¥35.4 billion (\$330 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.

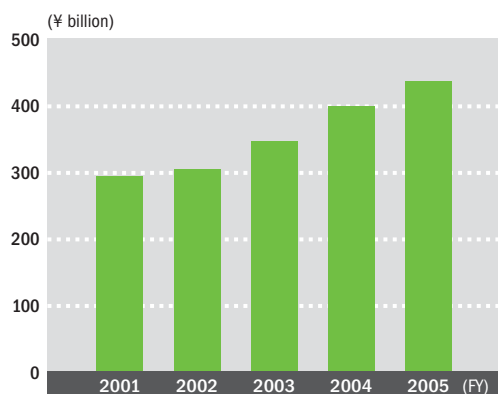
All of the products that the Company supplies for automobiles are subject to intense price competition. Maintaining viable profit margins depends on achieving continual cost reductions and continual increases in economies of scale. The Company has been consistently successful in fulfilling these conditions,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

Sales by industry segment

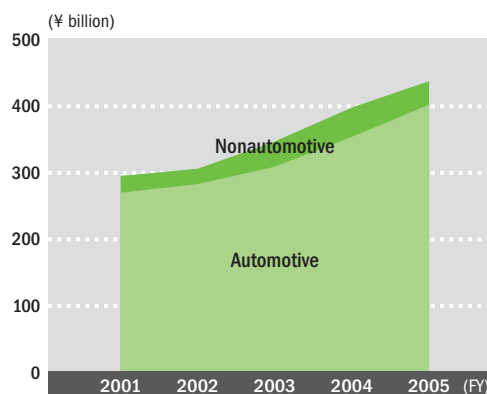
FY	(percent of net sales)	
	2005	2004
Automotive parts	92.0	88.8
Nonautomotive parts	8.0	11.2
	100.0	100.0

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

Net Sales



Sales by Business Segment



in the vanguard of product and production technologies and of coping with escalating price competition.

The Company's other line of business in nonautomotive parts consists of developing and supplying plastic cases for cell phones, air purifiers, and plastic components for air conditioners and for other applications. The Company designs and develops those products 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. The Company is building a Chinese plant to produce cell phone cases—its first plant for producing nonautomotive parts.

In sales by geographic segment (by company location), business grew 2.7% in Japan, to ¥292.4 billion (\$2,723 million), 20.4% in North America, to ¥94.5 billion (\$880 million), and 43.8% in other regions, to ¥48.6 billion (\$453 million). As with the sales figures for business segments, these figures are net of intersegment transactions.

The sales gain in Japan reflected continuing modest 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. 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 the Company 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	2005	2004
Japan	67.1	71.7
North America	21.7	19.8
Other	11.2	8.5
	100.0	100.0

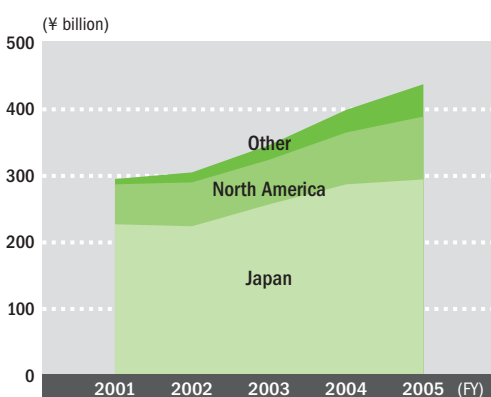
Cost of sales increased 12.1% in the fiscal year under review, to ¥386.9 billion (\$3,603 million), and the gross profit margin declined to 11.2%, from 13.1% in the previous year. The principal reasons for the decline in gross profitability were a sharp decline in market prices for LEDs, escalating price competition in automotive parts, rising prices for raw materials, and start-up expenses at new manufacturing ventures.

Gross profit margin

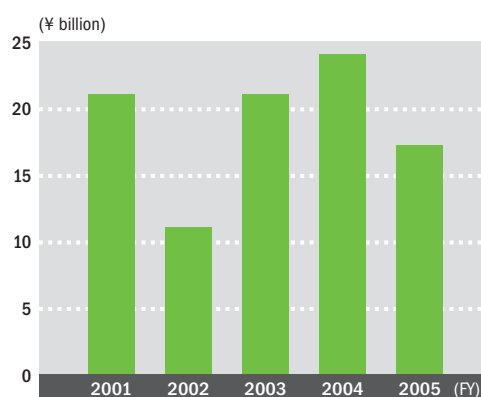
(percent)					
FY	2005	2004	2003	2002	2001
	11.2	13.1	13.4	12.0	15.2

Selling, general and administrative expenses rose 13.6%, to ¥31.4 billion (\$293 million). The rise in selling, general and administrative expenses resulted from the continuing growth in the Company's business and in its production network. The Company's accounts for fiscal 2005 encompass 35 subsidiaries, compared with 34 in fiscal 2004 and 28 in fiscal 2003. Employees numbered 17,279 at fiscal year-end, up 11.6% over the previous fiscal year-end.

Sales by Geographic Segment



Operating Income



Selling, general and administrative expenses

	(percent of net sales)				
FY	2005	2004	2003	2002	2001
	7.2	7.0	7.3	8.5	8.1

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 on research and development increased 8.1% in the past fiscal year, to ¥24.5 billion (\$228 million).

Research and development expenditures

	(percent of net sales)				
FY	2005	2004	2003	2002	2001
	5.6	5.7	5.9	6.2	6.0

Operating income declined 29.1%, to ¥17.2 billion (\$160 million), and the operating profit margin declined to 3.9%, from 6.1% in the previous year. The decline in operating profitability reflects the decline in gross profitability

Operating profit margin

	(percent)				
FY	2005	2004	2003	2002	2001
	3.9	6.1	6.0	3.5	7.1

Net interest expense remained low in comparison with operating income and in comparison with operating cash flow. It totaled ¥438 million (\$4 million), compared with ¥603 million in the previous year. The following table 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	2005	2004	2003	2002	2001
	43.2	43.7	34.9	37.8	54.1

Depreciation expense increased 9.4%, to ¥28.5 billion (\$266 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 20.8%, to ¥17.3 billion (\$161 million). That decline reflected the decline in operating profitability. Net income declined 16.5%, to ¥10.6 billion (\$99 million).

Net return on sales

	(percent)				
FY	2005	2004	2003	2002	2001
	2.4	3.2	5.0	1.3	4.0

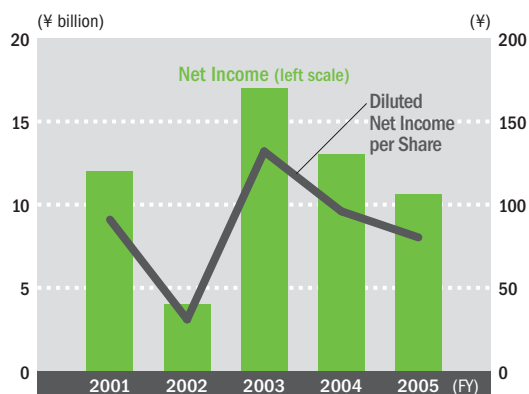
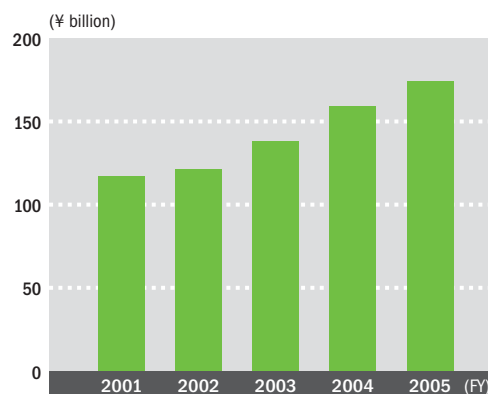
Net return on shareholders' equity

	(percent)				
FY	2005	2004	2003	2002	2001
	6.4	8.3	12.5	3.2	9.8

Net return on total assets

	(percent)				
FY	2005	2004	2003	2002	2001
	3.2	4.2	6.4	1.7	5.2

Diluted net income per share of common stock declined 16.5%, to ¥80.3 (\$0.75). The Company raised the aggregate annual dividends per share of common stock ¥2 (\$0.02), to ¥18.0 (\$0.17).

Net Income 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 5.5%, to ¥168.6 billion (\$1,570 million) at fiscal year-end, and the debt-to-equity ratio was 0.29, compared with 0.27 at the previous year-end. Interest-bearing debt increased to ¥48.4 billion (\$451 million), from ¥43.3 billion at the previous year-end.

Debt-to-equity ratio

	(times)				
FY	2005	2003	2002	2001	2000
	0.29	0.27	0.30	0.23	0.16

Net cash provided by operating activities declined 4.8%, to ¥40.3 billion (\$375 million), reflecting the decline in income before income taxes and minority interests, as adjusted for depreciation and amortization and for other noncash items. Cash and cash equivalents at fiscal year-end declined 18.4%, to ¥29.4 billion (\$274 million).

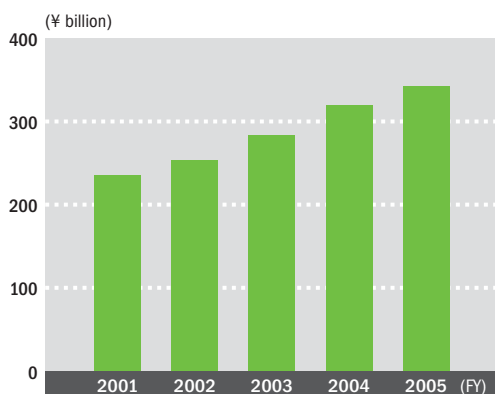
Outlook

Management believes that net income will resume growing in the fiscal year to March 31, 2006, supported by continuing growth in sales volume and by a recovery in profitability in LEDs. They project that net income will increase about 9%, to approximately ¥12 billion, on growth of about 6% in net sales, to approximately ¥460 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

