# To Our Shareholders

**Akira Yokoi**
*Chairman*

**Tadashi Ishikawa**
*President*

In November 2001, Toyota Industries Corporation ("Toyota Industries") celebrated its 75th anniversary. Looking back, we feel both gratitude and pride. Gratitude for the support we have received over the years from our shareholders, customers, local communities and employees. Pride in our evolution from a specialized manufacturer of automatic looms into an enterprise with a wide and varied business universe. To reflect this diversification and make the width of our activities more clearly recognizable, in August 2001 we changed the name of the Company from Toyoda Automatic Loom Works to Toyota Industries Corporation. Looking forward, our corporate vision is as clear as our new name is apt.

# Excellent Performance Despite Adverse Environment

For fiscal 2002, ended March 31, 2002, Toyota Industries posted consolidated net income of ¥27.3 billion (US$205.0 million) on consolidated net sales of ¥980.2 billion (US$7,355.8 million), up 20.6% and 27.7%, respectively, over fiscal 2001. Both these figures marked record highs for a second consecutive year. However, consolidated operating income decreased by 2.1% to ¥46.3 billion (US$347.7 million).

## Slowdown of the World Economy

Our results were all the more remarkable given the adverse business environment prevailing in the fiscal year. The growth of the Japanese economy was anemic, with further signs of deflation, and the government restricted in its policy options due to its huge fiscal deficit. Expectations of radical economic structural and fiscal reforms by the government were raised but not met. The U.S. economy, which had been robust for almost a decade, slowed consequent to the bursting of the information technology (IT) "bubble" and the terrorist attacks on New York and Washington. Economic growth in Europe and Asia also slowed as a result of the downturn in the IT industry.

Despite the unfavorable business environment, we were able to improve on the consolidated results of fiscal 2001 because we succeeded in implementing a clearly defined strategy that exploited our competitive strengths in each segment and in making further significant cost reductions. The consolidation of the financial results of BT Industries AB ("BT Industries") for the full year and a weakening of the yen also worked to our advantage.

*Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥133.25=US$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 29, 2002.*

## All Segments in Good Shape

Although the performance of Toyota Industries' business segments varied, most increased their net sales over fiscal 2001 and maintained their operating incomes at the fiscal 2001 level.

*Note: Segment net sales figures do not include intersegment transactions. However, segment operating income figures do include operating income arising from intersegment transactions.*

### Automobile Segment

Net sales totaled ¥563.6 billion (US$4,229.6 million), up 23.2% over fiscal 2001 and accounting for 57.5% of total net sales. The increase was due mainly to a rise in sales of car air-conditioning compressors and the fact that Toyota Motor Corporation ("TMC") changed its purchasing policy and started charging for engines and other parts for automobiles we assemble that had previously been supplied free. Operating income was ¥29.0 billion (US$217.3 million), up 1.5%.

### Materials Handling Equipment Segment

Net sales totaled ¥353.0 billion (US$2,649.5 million), an increase of 49.3% over fiscal 2001. Operating income was ¥13.4 billion (US$100.3 million), down 8.1%, due mainly to a one-time amortization of goodwill following the transfer of TMC's Industrial Equipment Sales Division to Toyota Industries in April 2001. The increase in sales reflected two major changes. In June 2000, Toyota Industries acquired BT Industries, a leading warehouse truck manufacturer.

BT Industries' sales were consolidated in Toyota Industries' results for the full fiscal year, whereas they were consolidated only for the second half of fiscal 2001. The second was the integration of TMC's Industrial Equipment Sales Division in April 2001, which increased net sales by approximately ¥27 billion (US$202 million).

### Textile Machinery Segment

Net sales totaled ¥30.7 billion (US$230.4 million), a decrease of 7.6% from fiscal 2001. While the Spinning Machinery Business achieved better year-on-year results because a sales increase in Bangladesh outweighed decreased exports to Uzbekistan, the Weaving Machinery Business suffered from decreases in sales of air-jet looms in South Korea, Taiwan, Indonesia and China. The overall result was an operating loss of ¥0.4 billion (US$2.9 million). In a very encouraging sign for fiscal 2003, approximately 70 textile manufacturers in Wujiang, Jiangsu Province, China, had placed orders for a total of more than 3,900 air-jet looms by the end of March 2002. These sales will be included in fiscal 2003.

### Others Segment

Net sales totaled ¥32.8 billion (US$246.3 million), down 18.0% from fiscal 2001. The global IT slump led to a decrease in the sales of our subsidiary, TIBC Corporation ("TIBC"). Sales of press dies and production equipment also dipped. Operating income was ¥4.5 billion (US$33.6 million), an increase of 2.7%. Improved profitability in businesses other than the Electronics Business in this segment made up for decreased sales by TIBC. Meanwhile, ST Liquid Crystal Display Corp. ("ST-LCD"), which is our affiliate and not consolidated but is accounted for by the equity method in Toyota Industries' consolidated financial results, was also directly hit by the high-tech sector collapse, but maintained its sales and profitability at the same level as fiscal 2001.

## Achievements in Fiscal 2002

### Business Integration

A key motivation for the absorption of TMC's Industrial Equipment Sales Division was a strong will to strengthen the global competitiveness of our Materials Handling Equipment Segment, one of our core businesses. Toyota Industries now has full responsibility for the development, manufacture, sales and marketing of all TOYOTA-brand industrial equipment, centered on forklift trucks. The integration of development and manufacturing expertise with strong sales and marketing capabilities should make for more flexible management and faster decision-making in response to changes in the market.

In May 2001, Toyota Industries and DENSO Corporation ("DENSO") agreed to integrate their production of car air-conditioning compressors. Toyota Industries is taking over production of car air-conditioning compressors at DENSO's Toyohashi Plant in Japan. Overseas, production will be shared between the two companies on a country-by-country basis. All our car air-conditioning compressors will continue to be supplied to DENSO for marketing to major automakers worldwide.

### Cost Reduction Activities

Toyota Industries embarked on an ambitious three-year cost reduction program to be implemented throughout the Company starting April 2001. We achieved most of the objectives in the first year, i.e. fiscal 2002. We established a special project team in each business division to ensure that our cost reduction activities were systematic and thorough. As well as enhancing our ongoing VE (Value Engineering) and VA (Value Analysis) activities, we reduced general expenses and head office fixed costs, and sought to optimize our procurement of materials and components globally. Some more difficult tasks remain, and tackling them will be a priority for the second year of the program.

## *Exploiting IT*

The exploitation of the latest advances in IT is one of our important strategic objectives. We believe that the potential impact of IT on competitiveness will be significant. Using IT, we are overhauling our traditional way of doing business to accelerate management processes, reduce costs and improve productivity.

We installed three-dimensional CAD (Computer Aided Design) systems throughout the Company with a view to shortening lead-times and further improving productivity in our development and production departments. Thanks to the introduction of V-Comm (Virtual & Visual Communication System), the lead-time of the bB Open Deck, marketed in June 2001, was reduced by 30%. We are pushing ahead with the introduction of ERP (Enterprise Resource Planning) systems to facilitate improvements in overall management and to allow swifter decision-making through universal access to a unified management database. We are gradually harnessing ERP to upgrade our accounting, procurement, personnel and production management.

## *Partial Adoption of In-House Company System*

Taking advantage of TMC's transfer of its Industrial Equipment Sales Division to Toyota Industries in April 2001, we created TOYOTA Material Handling Company ("TMHC") as a uniquely independent corporate entity within Toyota Industries. The purpose of this move is to achieve swifter decision-making in the Materials Handling Equipment Segment so that it can better cope with ever-changing market trends and survive escalating global mega-competition. TMHC, though not legally incorporated, has its own highly autonomous management and will be evaluated on such criteria as return on assets and cash flows, as well as by levels of sales and operating income. The effects of the business integration and the introduction of the in-house company system are manifest in our achievement of a 40.6% share of the Japanese forklift truck market in calendar 2001, a record high and marking a third successive year of market shares above 40%.

## *Reorganization of the Headquarters*

In January 2002, we embarked on a reorganization of the headquarters with the aim of strengthening its roles in acting as the springboard for corporate growth, and in creating new values through an organic combination of technologies and markets generated by our diverse business universe.

Based on its key functions, the headquarters was divided into the Corporate Center, which is responsible for the strategy and administration of the whole company, and the Business Support Center, which provides support and services to divisions and departments. This partition clarified the roles of the headquarters, and we believe it led to improved business efficiency and faster decision-making. We also established specialized departments such as the Business Planning Department, which is in charge of generating ideas for the creation of new products and services that may develop into future business pillars, and the Technical Planning Department, which unifies and administers our diverse technologies. We also strengthened those functions where the headquarters had not previously played an adequate role, such as the management of technologies and the development of personnel specialized in the Toyota Production System.

To coincide with the reorganization, we set out to change the mind-set of our employees, and laid down five key values as an action guide for them. These values are detailed on page 14.

# To Our Shareholders

## *Entering the Aftermarket for Car Air-Conditioning Compressors*

In July 2001, Toyota Industries established ACTIS Manufacturing, Ltd. LLC ("ACTIS") in Grapevine, Texas, as a joint venture with DENSO and Toyota Tsusho Corporation. ACTIS, a remanufacturer of car air-conditioning compressors for the North American market, started production in March 2002. The company was created to cope with the rising demand for remanufactured compressors, itself a response to social and environmental needs for more efficient utilization of automotive part resources. Armed with our long-accumulated know-how in production technologies and quality control, ACTIS intends to reinforce its competitiveness in the remanufactured compressor aftermarket. In February 2002, TD Deutsche Klimakompressor GmbH ("TDDK"), our European base for car air-conditioning compressors, also commenced the remanufacture of car air-conditioning compressors.

With respect to the value chain, Toyota Industries will expand its car air-conditioning compressor operations by strengthening the aftermarket business and related services, and providing higher customer satisfaction.

## *New Products*

Toyota Industries is committed to developing new products that accurately reflect market needs and satisfy customers. During fiscal 2002, we continued to develop, manufacture and market new products that are fully in tune with the needs of our customers. Some of the following may become mainstays of Toyota Industries' future lineup.

In June 2001, TMHC marketed the Rail-Less Partner Rack, a "rail-less" addition to the Mobile Rack lineup launched in July 2000. Capitalizing on the unique technology developed for automatic guided vehicle systems, the product uses electromagnetic guidance, rather than rails, to move shelves around warehouse

**Tadashi Ishikawa**
*President*

facilities. Another new product in the Materials Handling Equipment Segment is a new version of the High-Pick Lift, an electric order picking truck for loads of 0.5 to 1.5 tons, introduced in October 2001. The new model complements our warehouse equipment lineup, allowing us to provide materials handling solutions fine-tuned to the diverse needs of customers. Both the Rail-Less Partner Rack and the High-Pick Lift are available in Japan only.

During the fiscal year under review, BT Industries also launched several new products, including warehouse trucks, in the European and North American markets.

In April 2001, our Vehicle Division began production of the TOYOTA RAV4, a compact SUV. Our output is exported to North America and Europe. In June 2001, we began production of the TOYOTA bB Open Deck. With such distinctive features as a rear open deck, the bB Open Deck appeals to those who favor an outdoor, active lifestyle. It is available in Japan only.

The Compressor Division launched the 5SE12, a compact, lightweight compressor with one-way swash plate and continuous variable displacement. The 5SE12 delivers excellent fuel efficiency and acceleration by controlling displacement via sensors that monitor the operating environment.

In June 2001, our Technology Development Center developed and launched the 1.5kW DC-AC inverter for the TOYOTA Estima Hybrid. This product increases the recreational- and business-use features of a hybrid vehicle.

Together with Applied Materials Inc., headquartered in the U.S., our Compressor Division jointly developed a next-generation dry vacuum pump for application in semiconductor processing equipment, and started marketing the product in October 2001. The pump is distinguished by its reliability, compactness, light weight, high throughput, quiet operation, clean vacuum and energy efficiency.

## *Capital and Business Collaboration*

In May 2002, following the conclusion of a comprehensive agreement on capital and business collaboration between Toyota Industries and Aichi Corporation ("Aichi"), Aichi made an allocation of new shares to Toyota Industries. As a result, Toyota Industries now holds 34% of Aichi's outstanding shares. We also obtained a warrant, an option that if exercised in May 2003 will raise our holding to 51%. In the future, we intend to include Aichi in our network of subsidiaries once we hold a majority of its shares. Although currently suffering from poor business performance due to the deteriorating market environment, Aichi is a leading manufacturer of aerial lift equipment, with a market share of more than 70% in Japan. Toyota Industries will provide Aichi with capital, production technology and production control know-how. In time, we plan to transfer TMHC's manufacturing operations for special-purpose vehicles, including aerial lift equipment, to Aichi, and make it into a specialized manufacturer of these vehicles. TMHC will in turn concentrate on the manufacture of materials handling equipment such as forklift trucks and warehouse equipment. Through efficient allocation of management resources, we will work to turn around Aichi's performance as well as expand our shareholder value.

## *Medium-Term Management Vision for a Prosperous Future*

Toyota Industries has strategies for both the short and medium term. In May 2001, we unveiled our medium-term vision for growth, which targets consolidated net sales of more than ¥1 trillion and consolidated ordinary income of ¥80 billion by fiscal 2006. To make this a reality, we intend to allocate significant management resources to the Materials Handling Equipment Segment and Car Air-Conditioning Compressor Business in order to further reinforce their already high competitive advantage. We will also promote new technologies and business areas that will form the core of our future operations, including the Electronics Business. We will take actions to secure our global prominence, maintain a high standard of quality control, engage in cost reduction activities, revolutionize business procedures through utilization of IT, and focus on the development of personnel with specialized knowledge of the Toyota Production System, which is a source of our competitive edge.

## *Business Outlook for Fiscal 2003*

The future course of the world economy is even more unpredictable than ever. The slowdown in the IT field and the aftermath of the terrorist attacks on the U.S. in September 2001 have created great uncertainty. We expect that in fiscal 2003, ending March 31, 2003, Toyota Industries will face increasingly challenging economic conditions. Though showing signs of recovery, our electronics-related businesses will be challenged to fully counter the influences of the global

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IT collapse. We are also concerned that our Materials Handling Equipment Segment will suffer especially from its vulnerability to lower demand in the North American market. The Vehicle Business will face difficult times ahead as production of the Vitz (Yaris in Europe), our mainstay vehicle, is likely to decrease as a result of intensifying competition in the domestic compact car market and TMC's full-fledged local production of Yaris in France. Although demand for car air-conditioning compressors is expected to increase in the European market, automakers are clamoring ever louder for reduced prices.

In these circumstances, we will seek to ensure that our products and services are attuned to customer needs. We will also continue with our cost reduction activities. A wider use of IT in improving management efficiency and a continued review of our organizational structure will be on the agenda, too.

For fiscal 2003, we forecast consolidated net sales of ¥990 billion (US$7,429.6 million), up 1.0% over fiscal 2002, ordinary income of ¥48 billion (US$360.2 million), up 0.3%, and net income of ¥23.5 billion (US$176.4 million), down 14.0%.

*Note: The financial projections set forth above are based upon a number of assumptions and estimates that, while presented with numerical specificity and considered reasonable by us when taken as a whole, are inherently subject to significant economic, business, competitive, regulatory and operational uncertainties, contingencies and risks, many of which are beyond our control. Financial projections are necessarily speculative in nature, and it can be expected that one or more of the assumptions underlying the projections will prove not to be valid, and unanticipated events and circumstances are likely to occur. Actual results will vary from the financial projections and those variations may be material. Consequently, this report should not be regarded as a representation by us or any other person that the financial projections will be achieved. Current negative market trends in the global economy make it particularly difficult at present to predict product demand and other related matters.*

## Crouching Before Leaping

The most important aspect of our corporate mission is to increase shareholder value. We consistently aim to improve profitability, increase shareholder value and achieve stable corporate growth through implementation of ambitious strategies with specific goals in each business area, and by streamlining management. Concurrently, as a responsible corporate citizen, we emphasize activities to protect the natural environment and fulfill our other social responsibilities. We thank all of our stakeholders, including shareholders, customers, suppliers, local communities and employees, for their support.

Toyota Industries has achieved double-digit growth for the past three years. Though we expect the growth to slow down in fiscal 2003, we believe that will be just temporary. Just as high-jumpers momentarily crouch before starting their run-up to the bar for the maximum muscular effect, so corporations need time to gather strength before stepping forward to further growth. We believe fiscal 2003 will be such a year for us. In this annual report, we include as much information as available at the time of publication to describe the direction in which the management team is trying to lead Toyota Industries. We sincerely hope this report will help all stakeholders to understand where we have come from, where we are now, and where we are going. As we look to secure further growth in shareholder value, we respectfully request a continuation of the support we have enjoyed to date.

July 1, 2002

**Akira Yokoi**
*Chairman*

**Tadashi Ishikawa**
*President*