Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is based on information known to management as of November 30, 2003. It includes forward-looking statements concerning the expected future performance of Toyota Industries Corporation. Please refer to "Cautionary Statement with Respect to Forward-Looking Statements" at the beginning of this semiannual report, which pertains to the report as a whole.

Results of Operations

Net Sales

In the six months ended September 30, 2003 (the "term"), the Japanese economy showed signs of recovery, with exports picking up, private sector capital investment increasing, and consumer spending rising. Overseas, although the U.S. economy stayed on a path to recovery, the European economy remained weak.

Against this background, Toyota Industries' total consolidated net sales amounted to ¥569.6 billion, up ¥49.1 billion, or 9.4%, compared with the six months ended September 30, 2002 (the "previous term").

Operating Performance by Business Segment

Net sales for each business segment do not include intersegment transactions. However, segment operating income figures do include operating income arising from intersegment transactions.

Automobile Segment

This segment consists of vehicle (automobile assembly), engine, car air-conditioning compressor, and other businesses (including foundry parts and electronics components for automobiles).

Net sales were ¥296.2 billion for the term, up 1.7% over the previous term, and accounted for 52.0% of Toyota Industries' total net sales for the term. Although sales of vehicles and engines decreased, sales of car air-conditioning compressors increased. Operating income was ¥14.7 billion for the term, down 3.7% from the previous term.

Vehicle Business (Automobile Assembly Business)

During the term, we assembled three models under consignment from Toyota Motor Corporation ("TMC"): Vitz (Yaris in Europe), RAV4 compact sport utility vehicle, and Corolla Sedan for North America. Sales of the Vitz (Yaris), our mainstay vehicle, decreased as a result of intensified competition in the domestic small car market, while the bB Open Deck and the Sprinter Carib (Corolla Wagon overseas) were discontinued in March 2003 and July 2002, respectively. However, the start of production of the Corolla Sedan for North America in January 2003 contributed to an increase in unit sales of the business. Total Vehicle Business unit production for the term was 114,300, an increase of 4,800 over the previous term.

Net sales of the Vehicle Business amounted to ¥135.5 billion for the term, down 0.6% from the previous term, due mainly to a decreased production ratio of a more expensive model.

Engine Business

We mainly produce gasoline and diesel engines for TMC vehicles and for our own line of forklift trucks. Engines for forklift trucks are supplied to TOYOTA Material Handling Company ("TMHC"), our in-house company, and are thus recorded as intersegment transactions.

For the term, gasoline engine production totaled 94,800 units, an increase of 8,400 units over the previous term. Production of the 2AZ gasoline engine, which started in August 2002, made up for a decrease in production of the 5E and 1FZ gasoline engines.

Production of diesel engines for the term totaled 85,500, a decrease of 21,700 units from the previous term. As a result of TMC's commencement in Europe of assembling and installing the 1CD 2000cc direct injection turbo diesel engine with common rail fuel system directly into their vehicles, a certain volume of engine units is now shipped as parts, thus decreasing the overall production of the engine as a complete product.

Total engine production amounted to 180,300 units for the term, a decrease of 13,300 units from the previous term.

Excluding intersegment sales (i.e., engines for forklift trucks supplied to TMHC), sales of gasoline engines totaled 81,400 units for the term, an increase of 9,200 units over the previous term, and sales of diesel engines totaled 75,300 units for the term, a decrease of 22,700 units from the previous term. On the same basis, total engine sales amounted to 156,700 units for the term, a decrease of 13,500 units from the previous term.

Net sales excluding intersegment sales totaled ¥52.3 billion for the term, down 10.6% from the previous term.

Car Air-Conditioning Compressor Business

Car air-conditioning compressors developed and manufactured by Toyota Industries are marketed to leading auto manufacturers worldwide through DENSO Corporation ("DENSO").

In Japan, we sold 2.7 million units in the term, a slight increase over the previous term. Overseas, we sold 6.1 million units in the term, an increase of 1.0 million units over the previous term. Sales of cars installed with our car air-conditioning compressors were strong in the U.S., while vigorous sales activities in Europe resulted in expanded sales there. Total unit sales amounted to 8.8 million units for the term, an increase of 1.0 million units over the previous term.

Net sales totaled ¥100.8 billion for the term, up 14.8% over the previous term.

Materials Handling Equipment Segment

Our Materials Handling Equipment Segment manufactures and sells forklift trucks, warehouse trucks, automated storage and retrieval systems, automatic guided vehicle systems, and special-purpose vehicles.

Net sales for the term totaled ¥216.3 billion, up 19.5% over the previous term. Operating income was ¥8.9 billion for the term, up 16.8% over the previous term.

TMHC's aggressive sales promotion activities for major customers in and outside Japan as well as strong sales of the GENEO-E (7FBE overseas), a three-wheel electric counterbalanced forklift truck introduced into the Japanese, U.S., European, and other markets, significantly contributed to an increase in sales for this segment on a consolidated basis.

BT Industries' sales in Europe for the term (January to June 2003) remained at approximately the same level as for the previous term (January to June 2002). However, as a result of an appreciation of the Swedish krona against the U.S. dollar, sales in North America registered a 9% decrease when sales of their U.S. subsidiaries were translated into the Swedish krona (disregarding the currency effect, sales increased 6%). This led total sales of BT Industries to decrease 3% from the previous term (disregarding the currency effect, sales increased 4%). The Swedish krona also strengthened against the yen, increasing sales of the Material Handling Equipment Segment on a consolidated basis.

In May 2003, we incorporated Aichi Corporation ("Aichi") into our network of subsidiaries, which also contributed to an increase in sales of this segment.

Textile Machinery Segment

Our Textile Machinery Segment manufactures and sells spinning-related machinery, including ring spinning frames, and weaving-related machinery such as air-jet looms. Toyota Industries is a world leader in the air-jet loom and spinning machinery fields.

Net sales of the Textile Machinery Segment amounted to ¥23.8 billion for the term, up 4.5% over the previous term. Operating income was ¥0.4 billion for the term, down 42.5% from the previous term. This decrease was due largely to a rise in the purchase prices of some parts and a decrease in sales of more profitable machinery, notably roving frames.

Sales of air-jet looms, our mainstay product, continued strong, especially in China, totaling more than 4,500 units, just about the same level as for the previous term. On the other hand, sales of water-jet looms totaled 750 units, a decrease of 100 units from the previous term. Sales of ring spinning frames totaled 222,000 spindles, an increase of 78,000 spindles. Although sales decreased in Pakistan and Thailand, they increased in Vietnam. An increase in local sales by our subsidiary in India also contributed.

Others Segment

The Others Segment comprises businesses that we entered comparatively recently. Although our operations in these fields are still relatively limited, this segment contains some of our strategic businesses with good growth potential. A core business in this segment is TIBC Corporation ("TIBC"), a joint venture with Ibiden Co., Ltd. established in 1998. TIBC manufactures ball grid array (BGA) plastic package substrates and flexible printed circuit (FPC) substrates. This segment also includes the Logistics Solutions Business, the manufacture and sales of press dies and production equipment, and other smaller businesses.

Net sales of the Others Segment totaled ¥33.2 billion for the term, up 30.6% over the previous term, due mainly to strong sales of high-performance package substrates manufactured by TIBC. Operating income totaled ¥3.1 billion for the term, up 96.7% over the previous term.

ST Liquid Crystal Display Corp. ("ST-LCD") is not consolidated but accounted for by the equity method in Toyota Industries' consolidated financial results. Consequently, its operating income (loss) is not included in the operating income (loss) for this segment. However, ST-LCD, a joint venture that we established with Sony Corporation in 1997, is considered as another core business within this segment. Sales of ST-LCD for the term significantly increased, due largely to strong sales of its low-temperature polysilicon TFT-LCDs for incorporation in digital still cameras and domestic-use mobile phones.

Sales by Geographical Segment

Net sales for each geographical segment do not include intersegment transactions.

Japan

Net sales totaled ¥383.5 billion for the term, up ¥26.9 billion, or 7.5%, over the previous term. This increase was due mainly to increased sales of our products in the Materials Handling Equipment Segment and the consolidation of Aichi.

North America

Net sales totaled ¥100.3 billion for the term, up ¥5.6 billion, or 5.9%, over the previous term, due mainly to an increase in unit sales of the Materials Handling Equipment Segment.

Europe

Net sales totaled ¥81.5 billion for the term, up ¥13.8 billion, or 20.4%, over the previous term. This increase reflected increases in sales of our products in the Materials Handling Equipment Segment and car air-conditioning compressors.

Others

Net sales totaled ¥4.3 billion for the term, up ¥2.9 billion, or 208.4%, over the previous term. This increase was due largely to the consolidation of sales of an Australian subsidiary, which commenced operations in July 2003.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for the term totaled ¥478.6 billion, up ¥41.8 billion, or 9.6%, over the previous term.

Selling, general and administrative (SGA) expenses totaled ¥64.0 billion for the term, up ¥5.5 billion, or 9.4%, over the previous term. This increase was due to the consolidation of Aichi and an increase in unit sales of materials handling equipment.

Research and development expenses, included in SGA and manufacturing costs, totaled ¥14.8 billion for the term, up ¥0.2 billion. By principal segment, research and development expenses were ¥7.6 billion for the Automobile Segment, ¥5.2 billion for the Materials Handling Equipment Segment, and ¥0.6 billion for the Textile Machinery Segment.

Operating Income

Operating income for the term was ¥27.0 billion, up ¥1.8 billion over the previous term. However, operating income margin decreased from 4.8% to 4.7%.

Non-Operating Income and Expenses

Interest and dividend income was ¥9.8 billion for the term, up ¥0.7 billion, or 7.5%, over the previous term. Interest expenses were ¥5.0 billion for the term, down ¥0.3 billion, or 5.6%.

The net of non-operating income less non-operating expenses was net income of ¥3.1 billion for the term, an increase of ¥1.5 billion, reflecting mainly improved profits of affiliates.

Ordinary Income

Ordinary income for the term was ¥30.2 billion, up ¥3.3 billion over the previous term. Ordinary income margin increased from 5.2% to 5.3%.

Extraordinary Gains and Losses

An extraordinary gain of ¥0.6 billion was posted for the term as a gain on transfer to a defined contribution pension plan. An extraordinary loss of ¥1.9 billion was recognized as a result of provision for retirement and severance benefits for directors and corporate auditors.

Income before Income Taxes

Due to the factors summarized above, income before income taxes for the term was ¥28.9 billion, up ¥3.6 billion over the previous term.

Income Taxes

Current and deferred income taxes, net for the term totaled ¥10.2 billion, down ¥1.0 billion, or 8.6%, from the previous term.

Minority interest in consolidated subsidiaries increased ¥1.0 billion to ¥1.7 billion.

Net Income

Net income for the term was ¥17.1 billion, up ¥3.5 billion, or 25.6%, over the previous term. Net income per share was ¥58.12, compared with ¥43.57 for the previous term, and diluted net income per share was ¥51.65, compared with ¥39.27 for the previous term.

Financial Position

Cash and cash equivalents at the end of the term stood at ¥72.9 billion, down ¥64.0 billion from cash and cash equivalents as of March 31, 2003 (end of the previous fiscal year). This decrease was due largely to a decrease of ¥56.7 billion for the temporary payments to convertible bond redemption funds in preparation for the redemption of the second series of unsecured convertible bonds.

Trade notes and accounts receivable and inventories increased ¥19.6 billion and ¥8.9 billion, respectively, due largely to the consolidation of Aichi.

Other current assets increased ¥63.3 billion, due mainly to the payments to convertible bond redemption funds mentioned above.

Net property, plant and equipment was ¥381.9 billion at the end of the term, up ¥19.7 billion over the previous fiscal year. The consolidation of Aichi and an increase in capital investment were partly offset by depreciation.

Intangible assets stood at ¥101.4 billion at the end of the term, up ¥4.6 billion over the previous fiscal year. An increase in goodwill was affected by mergers and acquisitions, and a depreciation of the yen against European currencies.

Investments and other assets stood at ¥1,022.7 billion at the end of the term, up ¥203.1 billion over the previous fiscal year, due mainly to an increase in the carrying amount of investment securities of TMC and DENSO that we hold. The accounting standards in Japan stipulate that net unrealized gains on other securities be recognized after tax adjustment as a separate component of shareholders' equity instead of posted to income.

Trade notes and accounts payable increased ¥7.3 billion for the term, due mainly to the consolidation of Aichi.

Total borrowings and loans stood at ¥360.1 billion at the end of the term, down ¥50.5 billion from the end of the previous fiscal year. Short-term loans were ¥124.6 billion, up

¥46.5 billion, due primarily to issuance of commercial paper in an amount of ¥30.0 billion. Long-term loans were ¥235.5 billion at the end of the term, down ¥97.1 billion from the end of the previous fiscal year, as a result of the arrival of due dates for unsecured corporate bonds and unsecured convertible bonds in amounts of ¥20.0 billion and ¥75.7 billion, respectively.

Long-term liabilities stood at ¥575.1 billion, an increase of ¥80.9 billion over the end of the previous fiscal year, due mainly to an increase of ¥76.6 billion in deferred tax liabilities as a result of tax adjustment for net unrealized gains on other securities.

Minority interest in consolidated subsidiaries increased ¥9.7 billion to ¥33.7 billion at the end of the term, due mainly to the consolidation of Aichi.

Shareholders' equity was ¥939.9 billion at the end of the term, up ¥201.0 billion over the end of the previous fiscal year.

Common stock was ¥80.5 billion, up ¥12.4 billion, as a result of issuance of 12,516,189 new shares following a conversion of convertible bonds into stock. The number of shares issued at the end of the term was 325,840,640.

Net unrealized gains on other securities increased ¥115.5 billion, due largely to an increase in the carrying amount of investment securities of TMC and DENSO that we hold.

Treasury stock at cost is excluded from shareholders' equity. Due to a conversion of convertible bonds into stock, our treasury stock decreased 20,040,784 shares. As a result, the amount of treasury stock was ¥0.9 billion, down ¥35.6 billion. The ratio of shareholders' equity to total assets increased from 44.8% to 49.4%.

Cash Flows

Net cash provided by operating activities amounted to ¥32.3 billion during the term, due mainly to ¥28.9 billion of income before income taxes. Net cash provided by operating activities decreased ¥10.0 billion from the previous term. Net cash used in investing activities amounted to ¥36.4 billion, down ¥6.4 billion from the previous term. Payment for acquisition of property, plant and equipment was ¥29.8 billion. Net cash used in financing activities during the term was ¥56.8 billion, or decreased ¥64.5 billion from ¥7.7 billion in net cash provided by financing activities in the previous term. Proceeds from issuance of commercial paper in an amount of ¥30.0 billion were offset by payments for redemption of corporate bonds and payments to the convertible bond redemption fund in amounts of ¥31.7 billion and ¥56.7 billion, respectively.

After translation adjustments, cash and cash equivalents as of September 30, 2003 stood at ¥72.9 billion, down ¥64.0 billion, or 46.8%, from the end of the previous fiscal year.

Basic Policy on the Distribution of Profits

Toyota Industries Corporation's dividend policy is based on maintaining stable dividends while giving full consideration to business performance, the dividend payout ratio and other factors as it makes every effort to meet the expectations of shareholders.

Toyota Industries Corporation will use reserves to improve the competitiveness of its products, and augment production capacity in Japan and overseas, as well as to expand into new fields of business and strengthen its corporate constitution in securing future profits for its shareholders. It will also use reserves to repurchase its own shares.

The Board of Directors of Toyota Industries Corporation voted to distribute an interim cash dividend of ¥12.0 per common share, an increase of ¥2.0 over the previous term.

Forecast for the Fiscal Year Ending March 31, 2004

Toyota Industries expects the Japanese economy to continue recovering. However, uncertainties persist about the fluctuations in exchange rates.

For fiscal 2004, ending March 31, 2004, Toyota Industries forecasts consolidated net sales of ¥1,150.0 billion and ordinary income of ¥58.0 billion. We are determined to develop new products that are of high quality and accommodate customer needs, as well as enhance sales, service and cost-reduction activities group-wide. Our projections are based on an exchange rate of ¥112.0=US$1.