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, 2006. It includes forward-looking statements concerning the expected future performance of Toyota Industries. 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

During the first half of fiscal 2007 (the six months ended September 30, 2006), the Japanese economy achieved a steady recovery as private-sector capital investment increased amid solid corporate earnings, while consumer spending showed a modest improvement. Overseas economies sustained robust growth, with the U.S. and European economies continuing to expand and the Chinese economy maintaining a high rate of growth.

In this operating environment, Toyota Industries recorded consolidated net sales of ¥913.1 billion, an increase of ¥214.1 billion, or 31%, compared with the first half of fiscal 2006 (the six months ended September 30, 2005).

At the profit level, despite price increases for raw materials and higher depreciation and personnel expenses, Toyota Industries recorded an increase in ordinary income of ¥11.9 billion, or 29%, over the previous term to ¥53.5 billion, due to an increase in net sales in addition to the promotion of Group-wide cost-reduction activities and higher non-operating income. Interim net income totaled ¥30.3 billion, an increase of ¥5.3 billion, or 21%, from the previous term.

The following is a review of operations by geographical segments.

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

Japan

Net sales amounted to ¥579.2 billion, an increase of ¥117.3 billion, or 25%, over the previous term. Operating income amounted to ¥30.1 billion, an increase of ¥5.6 billion, or 23%. The increases in net sales and operating income were due to such factors as higher unit sales of vehicles and engines.

North America

Net sales amounted to ¥154.8 billion, an increase of ¥35.3 billion, or 30%, over the previous term. Operating income totaled ¥4.3 billion, an increase of ¥0.2 billion, or 4%. The increase in net sales was due to higher unit sales of materials handling equipment and a change in the fiscal year-end of the BT Industries Group comprising Toyota Industries subsidiaries.

Europe

Net sales amounted to ¥157.7 billion, an increase of ¥55.6 billion, or 54%, over the previous term. Operating income was ¥4.1 billion, an increase of ¥1.0 billion, or 30%. The increase in net sales was due to such factors as a change in the fiscal year-end of the BT Industries Group.

Others

Net sales totaled ¥21.4 billion, an increase of ¥5.9 billion, or 38%, over the previous term. Operating income amounted to ¥1.4 billion, an increase of ¥0.8 billion, or 137%, over the previous term.

Note: Please refer to "Letter to Shareholders" for results by business segment.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for the term totaled ¥770.5 billion, an increase of ¥183.7 billion, or 31.3%, over the previous term.

Selling, general and administrative expenses totaled ¥102.5 billion, an increase of ¥22.3 billion, or 27.8%, over the previous term.

Non-Operating Income and Expenses

Non-operating income was ¥29.0 billion, an increase of ¥7.2 billion, or 32.7%, over the previous term. This increase was due primarily to an increase in interest income arising from a change in the fiscal year-end of the BT Industries Group, as well as an increase in dividends income received from Toyota Motor Corporation (TMC).

Non-operating expenses increased ¥3.2 billion, or 26.2%, to ¥15.5 billion.

Income Taxes

Net of current and deferred income taxes for the term totaled ¥20.3 billion, an increase of ¥6.3 billion, or 44.9%, over the previous term.

Minority Interests in Consolidated Subsidiaries

Minority interests in consolidated subsidiaries increased ¥0.4 billion, or 13.7%, to ¥2.9 billion, reflecting an increase in net income of consolidated subsidiaries.

Net Income

Net income for the term was ¥30.3 billion, an increase of ¥5.3 billion, or 21.0%, over the previous term. Net income per share (EPS) was ¥96.30, compared with ¥78.41 for the previous term, and diluted net income per share was ¥96.21, compared with ¥78.38 for the previous term.

Financial Position

Total assets at the end of the term stood at ¥3,242.4 billion, a decrease of ¥2.9 billion, or 0.1%, over the previous fiscal year ended March 31, 2006 (fiscal 2006).

Current assets were ¥508.2 billion, a decrease of ¥1.1 billion, or 0.2%, from fiscal 2006, due mainly to a decline in cash and cash equivalents.

Net property, plant and equipment was ¥581.8 billion, an increase of ¥55.6 billion, or 10.6%, over fiscal 2006. Intangible assets increased ¥3.2 billion, or 2.9%, to ¥113.2 billion, due to an increase in goodwill.

Investments and other assets decreased ¥60.7 billion, or 2.9%, to ¥2,039.3 billion. This decrease was mainly the result of a drop in the market prices of shares of Toyota Group companies, including TMC, held by Toyota Industries.

Current liabilities stood at ¥466.9 billion, an increase of ¥20.8 billion, or 4.7%, over fiscal 2006.

Long-term liabilities were ¥1,150.7 billion, an increase of ¥12.0 billion, or 1.0%, over fiscal 2006. Deferred tax liabilities decreased ¥27.1 billion as a result of the fall in market value of investment securities.

Net assets stood at ¥1,624.8 billion, an increase of ¥13.6 billion, or 0.8%, over fiscal 2006. Net unrealized gains on other securities decreased ¥40.9 billion.

The equity ratio was 50.1%.

Cash Flows

Cash flows from operating activities amounted to ¥84.9 billion during the first half of fiscal 2007, due mainly to income before income taxes in an amount of ¥53.5 billion. Net cash provided by operating activities thus increased by ¥26.1 billion from ¥58.8 billion in the first half of fiscal 2006. Cash flows from investing activities resulted in a cash outflow of ¥97.4 billion during the first half of fiscal 2007, due mainly to payments for purchases of property, plant and equipment totaling ¥87.7 billion. Net cash used in investing activities decreased by ¥17.4 billion from ¥114.8 billion in the first half of fiscal 2006. Cash flows from financing activities resulted in a cash outflow of ¥18.4 billion during the first half of fiscal 2007, due mainly to payments for purchase of treasury stock in an amount of ¥35.5 billion. Net cash used in financing activities decreased by ¥48.6 billion compared with net cash provided by financing activities of ¥30.2 billion in the first half of fiscal 2006. After translation adjustments, cash and cash equivalents as of September 30, 2006 amounted to ¥82.7 billion, an increase of ¥8.9 billion, or 12%, from the end of the first half of fiscal 2006.

Dividend Policy

The Company regards the benefits of shareholders as one of its most important management policies. Based on this stance, we will strive to strengthen Toyota Industries' corporate constitution, promote proactive business development and raise its corporate value.

The Company's dividend policy is to meet the expectations of shareholders while giving full consideration to business performance, capital demand, the dividend payout ratio on a consolidated basis and other factors. The Company intends to use retained earnings to improve the competitiveness of its products, augment production capacity in Japan and overseas, as well as expand into new fields of business and strengthen its corporate constitution in securing future profits for its shareholders. It will also use retained earnings to repurchase treasury stock.

The Board of Directors of the Company voted to distribute an interim cash dividend of ¥22.0 per share, an increase of ¥4.0 per share over the first half of fiscal 2006.

Cash Dividends per Share and Consolidated Payout Ratio