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, 2004. 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

In the six months ended September 30, 2004 (the "term"), the Japanese economy achieved a stable recovery, as growth in exports was accompanied by an increase in private-sector capital investment while consumer spending showed a modest upswing. Overseas, an overall economic recovery spread amid continued growth in the U.S. economy and a moderate rebound in the European economy.

Under these conditions, Toyota Industries' consolidated net sales amounted to ¥607.1 billion, up ¥37.5 billion, or 6.6%, over the six months ended September 30, 2003 (the "previous term").

Toyota Industries' net sales for the term by geographical segment are as follows.

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

Japan

Net sales totaled ¥398.5 billion, an increase of ¥15.1 billion, or 3.9%, over the previous term. This increase was due primarily to higher unit sales in the Materials Handling Equipment Segment.

North America

Net sales totaled ¥105.5 billion, an increase of ¥5.2 billion, or 5.2%, over the previous term. This increase was mainly the result of growth in sales volumes by car air-conditioning compressor manufacturing subsidiaries.

Europe

Net sales totaled ¥90.1 billion, an increase of ¥8.5 billion, or 10.5%, over the previous term. This increase primarily reflected higher unit sales of forklift truck manufacturing subsidiaries and car air-conditioning compressor manufacturing subsidiaries.

Others

Net sales totaled ¥13.0 billion, an increase of ¥8.7 billion, or 202.9%, over the previous term.

* 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 ¥505.9 billion, an increase of ¥27.3 billion, or 5.7%, over the previous term.

Selling, general and administrative expenses totaled ¥71.1 billion, an increase of ¥7.1 billion, or 11.0%, over the previous term.

Non-Operating Income and Expenses

Non-operating income was ¥18.9 billion, an increase of ¥2.9 billion, or 18.0%, over the previous term. This increase resulted mainly from an increase in dividends from Toyota Motor Corporation ("TMC") and higher equity in earnings of ST Liquid Crystal Display Corp.

Non-operating expenses decreased ¥2.8 billion, or 21.3%, to ¥10.1 billion.

Extraordinary Losses

Toyota Industries decided to implement an early application of accounting for impairment of fixed assets ahead of schedule for the year ending March 31, 2006. As a result, Toyota Industries recorded impairment loss of fixed assets in the amount of ¥0.4 billion as an extraordinary loss. (see note 2 (8))

Income Taxes

Net of current and deferred income taxes, income taxes for the term totaled ¥12.3 billion, an increase of ¥2.1 billion, or 20.6%, over the previous term.

Minority Interest in Consolidated Subsidiaries

Minority interest in consolidated subsidiaries increased ¥0.6 billion, or 35.3%, to ¥2.3 billion, reflecting an increase in net income of consolidated subsidiaries.

Net Income

Net income for the term was ¥23.9 billion, an increase of ¥6.8 billion, or 40.1%, over the previous term. Net income per share (EPS) was ¥75.31 compared with ¥58.12 for the previous term, and diluted net income per share was ¥75.28 compared with ¥51.65 for the previous term.

Financial Position

Total assets at the end of the term stood at ¥2,173.3 billion, an increase of ¥161.3 billion, or 8.0%, over the previous fiscal year ended March 31, 2004 ("fiscal 2004"). This increase was attributable mainly to an increase in investments and other assets.

Current assets were ¥369.1 billion, an increase of ¥19.2 billion over fiscal 2004, due mainly to increases in trade notes and accounts receivable, up ¥6.0 billion, and in inventories, up ¥9.0 billion.

Property, plant and equipment was ¥410.0 billion, an increase of ¥20.6 billion, or 5.3%, over fiscal 2004. Intangible assets decreased ¥3.9 billion, or 3.9%, to ¥95.9 billion, due to a decrease in goodwill.

Investments and other assets increased ¥125.5 billion, or 10.7%, to ¥1,298.3 billion. This increase was mainly the result of an increase in the market prices of shares of Toyota Group companies, including TMC, held by Toyota Industries.

Current liabilities stood at ¥366.2 billion, an increase of ¥39.9 billion, or 12.2%, over fiscal 2004. Current portion of bonds increased ¥20.3 billion since certain corporate bonds became due to mature within one year.

Long-term liabilities were ¥670.6 billion, an increase of ¥36.7 billion, or 5.8%, over fiscal 2004. Deferred tax liabilities increased ¥42.0 billion as a result of an increase in market value of investment securities.

Minority interest in consolidated subsidiaries increased ¥3.3 billion, or 9.4%, to ¥38.2 billion.

Shareholders' equity stood at ¥1,098.2 billion, an increase of ¥81.5 billion, or 8.0%, over fiscal 2004. Net unrealized gain on other securities increased ¥64.8 billion.

The ratio of shareholders' equity to total assets was 50.5%.

Cash Flows

Cash flows from operating activities increased ¥45.2 billion during the term, due largely to income before income taxes in the amount of ¥38.5 billion. Net cash provided by operating activities increased ¥12.9 billion from ¥32.3 billion during the same period of fiscal 2004. Cash flows from investing activities resulted in a ¥55.0 billion decrease in cash during the term, attributable primarily to payments for purchases of property, plant and equipment amounting to ¥45.9 billion. Net cash used in investing activities increased ¥18.5 billion from ¥36.4 billion during the same period of fiscal 2004. Cash flows from financing activities resulted in a ¥9.4 billion increase in cash during the term, due mainly to proceeds from long-term loans in an amount of ¥7.8 billion. Net cash provided by financing activities increased ¥66.2 billion from ¥56.8 billion in net cash used in financing activities for the same period of fiscal 2004, when repayments of bonds and payments to convertible bond redemption funds were posted.

After translation adjustments, cash and cash equivalents as of September 30, 2004 stood at ¥76.8 billion, a decrease of ¥0.4 billion, or 0.5%, from the end of fiscal 2004.

Dividend Policy

Toyota Industries' 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 will use retained earnings 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 retained earnings to repurchase its own shares.

The Board of Directors of Toyota Industries Corporation voted to distribute an interim cash dividend of ¥13.0 per common share, an increase of ¥1.0 over the previous term.