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, 2002. 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

During the six months ended September 30, 2002 (the "term"), it was anticipated that falling stock prices worldwide would affect the economy. In Japan, private sector capital investment continued to be stagnant. Overseas, prospects for the future remained uncertain.

Against this background, total consolidated net sales of Toyota Industries amounted to ¥520.5 billion for the term, an increase of ¥41.5 billion (8.7%) compared with the six months ended September 30, 2001 (the "previous term"). The increase was due mainly to increased sales of our products in the Automobile and Textile Machinery segments. Below are Toyota Industries' sales for the term by geographic segment, before elimination of intersegment transactions.

■ Japan

Sales totaled ¥395.7 billion for the term, an increase of ¥41.8 billion (11.8%) over the previous term. This increase was due mainly to increased sales of our products in the Automobile and Textile Machinery segments.

■ North America

Sales totaled ¥95.5 billion for the term, an increase of ¥0.2 billion (0.2%) over the previous term. Though sales of the Automobile Segment increased, those of the Materials Handling Equipment Segment decreased.

■ Europe

Sales totaled ¥69.9 billion for the term, an increase of ¥9.3 billion (15.3%) over the previous term. This increase reflected an increase in sales of our products in the Materials Handling Equipment Segment.

■ Others

Sales totaled ¥2.0 billion for the term, an increase of ¥0.1 billion (5.9%) over the previous term.

** Please refer to "To Our Shareholders" for results by business segment.*

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for the term totaled ¥436.8 billion, an increase of ¥34.2 billion (8.5%) over the previous term. This was due mainly to a sales increase by the Automobile and Textile Machinery segments.

Selling, general and administrative expenses totaled ¥58.5 billion for the term, an increase of ¥6.5 billion (12.6%) over the previous term. This increase was due to an increase in selling expenses of the Materials Handling Equipment Segment.

Research and development expenses, included in SGA and manufacturing costs, totaled ¥14.6 billion for the term. By principal segment, research and development expenses were ¥9.2 billion for the Automobile Segment and ¥4.6 billion for the Materials Handling Equipment Segment.

Non-Operating Income and Expenses

Interest and dividend income was ¥9.1 billion for the term, an increase of ¥0.6 billion (7.5%) over the previous term. Interest expenses were ¥5.3 billion for the term, a decrease of ¥0.2 billion (4.1%).

Non-operating income and expenses, net decreased ¥0.5 billion for the term, reflecting mainly a decrease in equity in earnings of affiliates.

Extraordinary Losses

During the first half of fiscal 2003, an extraordinary loss of ¥1.5 billion was posted as a result of loss on disposal of property, plant and equipment that accompanied the relocation of a foundry plant.

Income Taxes

Current and deferred income taxes, net for the term totaled ¥11.1 billion, an increase of ¥0.3 billion (3.0%) over the previous term. The effective income tax rate increased from 40.5% to 43.8%.

Minority interest in consolidated subsidiaries decreased ¥0.7 billion to ¥0.6 billion.

Net Income

Net income for the term was ¥13.6 billion, a decrease of ¥1.5 billion (10.0%) from the previous term. Net income per share was ¥43.57, compared with ¥48.35 for the previous term, and diluted net income per share was ¥39.05, compared with ¥43.55 for the previous term.

Financial Position

Total assets at the end of the term stood at ¥1,692.3 billion, a decrease of ¥78.1 billion (4.4%) from the total as of March 31, 2002 (end of the previous fiscal year). This decrease was due largely to a decrease of ¥110.0 billion (11.2%) in the carrying amount of investment securities.

Current assets were ¥312.8 billion at the end of the term, an increase of ¥17.5 billion (5.9%) over the previous fiscal year. This increase was due largely to increases in trade notes and accounts receivable in an amount of ¥11.7 billion (10.9%) as a result of a sales increase by the Textile Machinery Segment and the consolidation of Taikoh Transportation Group.

Net property, plant and equipment was ¥352.2 billion at the end of the term, an increase of ¥14.6 billion (4.3%) over the previous fiscal year. This increase was due to the construction of Higashiura Plant and "e-Lab," our information technology research laboratory, as well as the consolidation of Taikoh Transportation Group.

Intangible assets stood at ¥94.0 billion at the end of the term, a decrease of ¥0.9 billion (0.9%) from the previous fiscal year. This decrease was because a decrease in goodwill outweighed an increase in software.

Investments and other assets stood at ¥933.2 billion at the end of the term, a decrease of ¥109.3 billion (10.5%) from the previous fiscal year. This reflected an 11.2% decrease in the carrying amount of investment securities of Toyota Motor Corporation ("TMC"), Toyota Group companies and others in a total amount of ¥110.0 billion.

Current liabilities stood at ¥377.2 billion at the end of the term, an increase of ¥140.6 billion (59.4%) over the previous fiscal year. Short-term loans increased ¥133.1 billion since certain long-term loans, corporate bonds and convertible bonds became due to mature within one year.

Long-term liabilities were ¥469.4 billion at the end of the term, a decrease of ¥166.7 billion (26.2%) from the previous fiscal year. ¥133.1 billion of certain long-term loans, corporate bonds and convertible bonds was reclassified to the category of short-term loans. Deferred tax liabilities also decreased by ¥44.9 billion (14.2%), because the carrying amount of investment securities decreased.

Minority interest in consolidated subsidiaries increased ¥3.8 billion (20.4%) to ¥22.7 billion at the end of the term, due mainly to the consolidation of Taikoh Transportation Group.

Shareholders' equity was ¥823.0 billion at the end of the term, a decrease of ¥55.8 billion (6.3%) from the previous fiscal year. Net unrealized gains on other securities decreased ¥63.8 billion (14.0%), outweighing an increase in retained earnings of ¥10.2 billion (4.0%). The ratio of shareholders' equity to total assets decreased from 49.6% to 48.6%.

Cash Flows

Net cash provided by operating activities was ¥42.4 billion for the term, an increase of ¥10.8 billion (34.2%) over the previous term. An increase in receivables was offset by a decrease in inventories, income tax payments and an increase in other liabilities.

Net cash used in investing activities was ¥42.8 billion for the term, a decrease of ¥14.5 billion (25.3%) from the previous term. This decrease was due mainly to the expenditure arising from the acquisition of TMC's Industrial Equipment Sales Division during the previous term.

Net cash provided by financing activities was ¥7.7 billion for the term, a decrease of ¥0.9 billion (10.5%) from the previous term. Payments for purchase of treasury stocks were ¥1.9 billion, an increase of ¥0.5 billion. During the term, Toyota Industries paid ¥3.1 billion in cash dividends, an increase of ¥0.3 billion over the previous term.

Including translation adjustments, cash and cash equivalents for the term increased ¥6.2 billion, compared with a decrease of ¥17.0 billion for the previous term. As a result, cash and cash equivalents as of September 30, 2002 stood at ¥77.3 billion.

Basic Policy on the Distribution of Profits

Toyota Industries Corporation's dividend policy is based on maintaining stable dividends while giving proper 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 retained earnings to aggressively pursue business expansion and strengthen its corporate constitution in order to secure future profits for its shareholders. It will also use retained earnings to purchase treasury stock.

On October 28, 2002, the Board of Directors of Toyota Industries Corporation voted to distribute an interim cash dividend of ¥10.0 per common share, an increase of ¥1.0 over the previous term. The interim cash dividend was payable on November 26, 2002.

Stock Repurchase Program

On June 27, 2002, the Ordinary General Meeting of Shareholders resolved to authorize the Board of Directors of Toyota Industries Corporation to repurchase up to 20 million of the Company's common shares at a total purchase price not exceeding ¥50 billion. This allows the Company to implement flexible capital policies in accordance with the current business environment.

Accordingly, Toyota Industries Corporation purchased 1 million of its common shares at a total purchase cost of ¥1.9 billion during the term.

Stock Option Incentive Plan

In June 2002, the Ordinary General Meeting of Shareholders of Toyota Industries Corporation approved a grant of share acquisition rights as a stock option incentive plan to board members and designated key employees.

The purpose of this plan is to further motivate senior management in enhancing shareholder value.

In accordance with the resolution of the shareholders' meeting, a total of 728,000 shares at a predetermined price was granted in August 2002 to 145 people (30 directors and 115 associate directors and general managers). The number of shares granted per person varies from 2,000 to 20,000 in accordance with the degree of contribution to the Company.

The grant price is the higher of the closing price on the Tokyo Stock Exchange on the date of grant and 1.05 times the average closing price in the full calendar month prior to the month of the grant date. Recipients may not exercise the option within the first two years. Subsequent to the initial period, the option must be exercised or waived within the next four years.