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, 2001. 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

For the six months ended September 30, 2001 (the "term"), consolidated net sales of Toyota Industries Corporation and its consolidated subsidiaries ("Toyota Industries") totaled ¥479.0 billion, an increase of ¥134.7 billion (39.1%) over the six months ended September 30, 2000 (the "previous term"). This increase was due mainly to the consolidation of the accounts of BT Industries AB ("BT Industries") and the integration of the Industrial Equipment Sales Division of Toyota Motor Corporation ("TMC") into Toyota Industries' Materials Handling Equipment operations. During the term, TMC started charging Toyota Industries' Vehicle Business for engines and other parts which had previously been supplied free of charge, and Toyota Industries increased its prices for vehicles to TMC. Below are Toyota Industries' sales for the term by geographic segment, before elimination of intersegment transactions.

■ Japan

Sales totaled ¥353.8 billion, an increase of ¥52.9 billion (17.6%) over the previous term. This was due mainly to increased sales by the Automobile and Materials Handling Equipment Segments.

■ North America

Sales totaled ¥95.3 billion, an increase of ¥48.0 billion (101.5%) over the previous term. This was due mainly to the consolidation of BT Industries and the integration of TMC's Industrial Equipment Sales Division.

■ Europe

Sales totaled ¥60.6 billion, an increase of ¥51.7 billion (583.1%) over the previous term. This reflects the consolidation of BT Industries and TMC's Industrial Equipment Sales Division, and increased sales of car air-conditioning compressors.

■ Others

Sales totaled ¥1.9 billion, an increase of ¥0.8 billion (77.2%) over the previous term. The increase reflects the consolidation of BT Industries.

** 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 ¥402.6 billion, an increase of ¥99.8 billion (32.9%) over the previous term. This increase was due mainly to the consolidation of BT Industries and TMC's Industrial Equipment Sales Division. TMC's charging the Automobile Segment for parts which had previously been supplied free of charge accounted for ¥29.7 billion.

Selling, general and administrative expenses totaled ¥51.9 billion, an increase of ¥32.0 billion (161.0%) over the previous term. Selling expenses of the Materials Handling Equipment Segment increased as a result of the consolidation of BT Industries and TMC's Industrial Equipment Sales Division.

Non-Operating Income and Expenses

Interest and dividend income was ¥8.5 billion, an increase of ¥4.4 billion (107.2%) over the previous term. This increase was largely the result of ¥3.9 billion in interest income arising from the consolidation of BT Industries.

Interest expenses were ¥5.5 billion, an increase of ¥4.0 billion (277.7%) over the previous term. This increase was due mainly to interest payment of ¥3.6 billion arising from the consolidation of BT Industries.

Other non-operating income was ¥3.4 billion and other non-operating expenses were ¥4.1 billion. Other non-operating net loss decreased ¥3.2 billion, reflecting mainly an increase of ¥1.9 billion in equity in earnings of affiliates.

Extraordinary Gains and Losses

Extraordinary gains decreased ¥15.1 billion from the previous term. This was because there was an extraordinary gain of ¥15.1 billion in the previous term due to a contribution of certain investment securities held by the then Toyoda Automatic Loom Works, Ltd. to an employee retirement benefit trust.

Extraordinary losses decreased ¥21.4 billion from the previous term. This was due to the effect in the previous term of a change in the accounting standards for retirement benefits in an accrued amount of ¥19.1 billion and the provision of ¥2.3 billion in retirement and severance benefits for directors and corporate auditors.

Income Taxes

Net of current and deferred income taxes, income taxes for the term totaled ¥10.8 billion, an increase of ¥5.3 billion (97.2%) over the previous term. The effective income tax rate increased from 39.6% to 40.5%.

Minority interest in consolidated subsidiaries increased by ¥0.4 billion to ¥0.7 billion, reflecting the increase in net income of consolidated subsidiaries.

Net Income

Net income for the term was ¥15.1 billion, an increase of ¥7.2 billion (90.3%) over the previous term. Net income per share (EPS) was ¥48.35, compared with ¥28.07 for the previous term, and diluted net income per share was ¥43.55, compared with ¥25.29 for the previous term.

Financial Position

Total assets at the end of the term stood at ¥1,613.3 billion, a decrease of ¥256.3 billion (13.7%) from the prior fiscal year ended March 31, 2001 (the "prior year"). This was due largely to a decrease of ¥299.2 billion in investments in securities.

Current assets were ¥301.2 billion, a decrease of ¥0.1 billion from the prior year. Increases in trade notes and accounts receivable, up ¥10.1 billion, and in inventories, up ¥14.3 billion, related to the consolidation of TMC's Industrial Equipment Sales Division, were offset by decreases in cash and cash equivalents, down ¥17.0 billion, and in short-term investments, down ¥9.1 billion.

Net property, plant and equipment was ¥323.9 billion, an increase of ¥29.2 billion (9.9%) over the prior year. This increase was due to an expansion of car air-conditioning compressor production facilities and the consolidation of TMC's Industrial Equipment Sales Division.

Investments and other assets stood at ¥900.1 billion, a decrease of ¥285.5 billion (24.1%) from the prior year. This reflected a decrease in investments in securities in an amount of ¥299.2 billion. However, this does not affect the statements of income significantly, as most of the decrease will be adjusted for in net unrealized gains on other securities.

Current liabilities stood at ¥234.8 billion, an increase of ¥21.2 billion (9.9%) over the prior year. This was due mainly to an increase in short-term bank loans of ¥15.5 billion that accompanied the consolidation of TMC's Industrial Equipment Sales Division, and an increase in accrued expenses of ¥4.9 billion.

Long-term liabilities were ¥577.2 billion, a decrease of ¥109.4 billion (15.9%) from the prior year. Deferred tax liabilities decreased ¥125.0 billion as a result of the decrease in the market value of investment securities.

Shareholders' equity stood at ¥784.5 billion, a decrease of ¥166.8 billion (17.5%) from the prior year. Net unrealized gains on other securities decreased ¥177.6 billion, outweighing an increase in retained earnings of ¥12.1 billion. The ratio of shareholders' equity to total assets decreased from 50.9% to 48.6%.

Cash Flows

Net cash provided by operating activities was ¥31.6 billion, a decrease of ¥4.5 billion (12.6%) from the previous term. Increases in income before income taxes and depreciation and amortization were offset by a decrease in payables and an increase in income taxes paid.

Net cash used in investing activities was ¥57.3 billion, a decrease of ¥40.1 billion (41.1%) from the previous term. This was because the figure for the previous term included an amount for the acquisition of BT Industries, while TMC's Industrial Equipment Sales Division was acquired during the term.

Net cash provided by financing activities was ¥8.6 billion, a decrease of ¥48.1 billion (84.8%) from the previous term. This was because the previous term's figure included proceeds from issuance of commercial paper in an amount of ¥80.0 billion, redemption of commercial paper in an amount of ¥60.0 billion and ¥39.8 billion from issuance of bonds. During the term, Toyota Industries purchased treasury stock in an amount of ¥1.4 billion for its stock option plan.

Cash and cash equivalents at the end of the term stood at ¥78.3 billion, a decrease of ¥17.0 billion (17.9%) from the end of the prior year.

Dividend Policy

Toyota Industries Corporation's dividend policy is based on the underlying goals of strengthening competitiveness, augmenting corporate value and maintaining stable dividends. Toyota Industries Corporation gives full consideration to business performance, its dividend payout ratio and other factors as it makes every effort to meet the expectations of shareholders. Toyota Industries Corporation views retained earnings as an important resource for securing future profits for its shareholders, and it intends to strategically invest portions of those earnings in research and development and future growth, and to aggressively pursue business expansion and strengthen its corporate constitution.

On November 7, 2001, the Board of Directors of Toyota Industries Corporation voted to distribute an interim cash dividend of ¥9.0 per share to shareholders of record as of September 30, 2001. The interim cash dividend was payable on November 26, 2001.

Change in Share Trading Unit

To broaden the range of investors in Toyota Industries Corporation's stock and to promote the trading of its shares, effective August 1, 2001, Toyota Industries Corporation lowered the minimum trading unit of its shares from 1,000 to 100. This change was made in accordance with a partial revision of Toyota Industries Corporation's Articles of Incorporation approved at the Ordinary General Meeting of Shareholders held on June 28, 2001. Toyota Industries Corporation's shares listed on the Tokyo Stock Exchange, Nagoya Stock Exchange and Osaka Securities Exchange have been traded in units of 100 shares.