Management's Discussion and Analysis

The following Management's Discussion and Analysis is based on current information known to management as of June 29, 2000.

FINANCE

Toyoda's financial policy is to secure adequate financing and liquidity for its operations and to maintain healthy balance sheets.

Toyoda's basic financial policy is that retained earnings and long-term debt should meet long-term fund requirements such as capital expenditures. Toyoda uses short-term bank loans to fund a portion of its working capital requirements. However, working capital requirements, which are necessary on an ongoing basis, are raised by long-term debt. Bonds, including convertible bonds, are the main source of long-term debt, and during the fiscal year ended March 31, 2000, the sixth and seventh issuances of bonds without collateral provided ¥15,000 million respectively, totaling ¥30,000 million. In addition, loans from Toyoda meet most of the fund requirements of its subsidiaries and affiliates mainly to reduce their interest expenses and ensure the efficient use of funds.

Toyoda's financial condition remained sound. Cash and cash equivalents, other liquid assets such as short-term investments, free cash flows and fund raising from financial institutions provide adequate funds for the working capital required to expand existing businesses and develop new projects as well as for future capital expenditures.

ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

Total assets at the end of fiscal 2000 increased by ¥68,843 million, or 11.2 percent from the previous year, to ¥685,914 million. This mainly reflected increases in cash and cash equivalents, investment securities and receivables – trade, and newly accounted deferred tax assets.

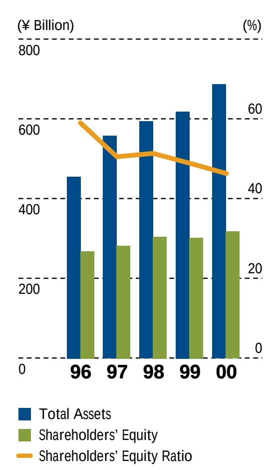
Current assets increased by ¥39,524 million, or 25.4 percent from the previous year, to ¥195,289 million. This was mainly due to increases in cash and cash equivalents which accrued from the issuances of bonds without collateral and in receivables – trade. Short-term investments decreased due to a shift from time deposits to negotiable certificates of deposit. Receivables – trade increased by ¥9,966 million, or 17.6 percent, to ¥66,459 million, mainly reflecting an increase in sales in the Automobile Segment. Inventories increased by ¥2,955 million, or 10.8 percent, to ¥30,215 million and the inventory turnover period reached 16.8 days compared to 16.1 days in the previous year.

Investments and other assets increased by ¥23,580 million, or 11.9 percent from the previous year, to ¥221,226 million. This was attributable to purchases of additional shares in the Toyota Group companies, purchases of bonds and an increase in loans made for ST Liquid Crystal Display Corp. (ST-LCD) and to newly accounted deferred tax assets.

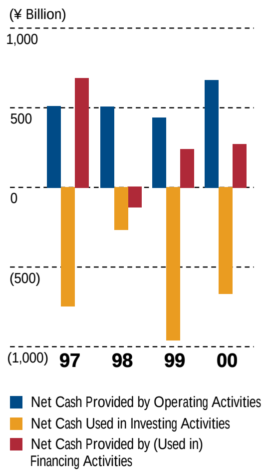
Property, plant and equipment decreased by ¥190 million, or 0.1 percent from the previous year, to ¥258,706 million. This reflected that depreciation, along with capital expenditures, exceeded ¥60,000 million in fiscal 1998 and fiscal 1999 respectively, and capital expenditures during fiscal 2000 were held at almost the same level.

Total Assets, Shareholders' Equity and Shareholders' Equity Ratio

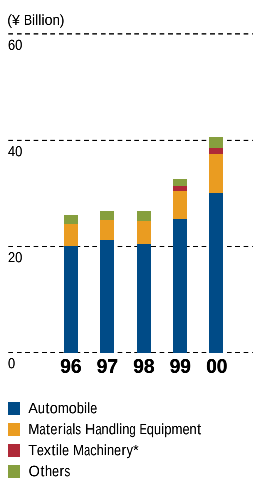
(Years ended March 31)



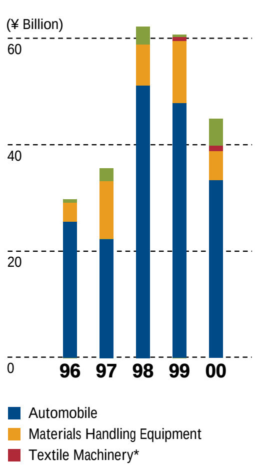
Cash Flows
(Years ended March 31)



Depreciation and Amortization of Intangibles
(Years ended March 31)



Capital Expenditures
(Years ended March 31)



*Note: From fiscal 1999 the Textile Machinery Segment was separated from the "Others" Segment.

The total of current liabilities and long-term liabilities at the end of the year increased by ¥52,178 million, or 17.6 percent from the previous year, to ¥349,302 million. This was due to increases in long-term debt, payables – trade, and short-term bank loans, and to newly accounted deferred tax liabilities.

In current liabilities, an increase in payables – trade was attributable to an increase in the purchase amount of raw materials, supplies and subcontractors' expenses in March 2000. An increase in short-term bank loans was due to additions of newly consolidated subsidiaries. In addition, a decrease in payables – other was due to a reduction in the purchase amount of plant and equipment.

In long-term liabilities, long-term debt at the end of the year increased by ¥32,454 million, or 21.8 percent from the previous year, to ¥181,072 million, mainly due to the sixth and seventh issuances of bonds without collateral of ¥15,000 million respectively, totaling ¥30,000 million. Shareholders' equity increased by ¥15,135 million, or 5.0 percent, to ¥316,293 million reflecting an increase in retained earnings accompanying appropriation of income during the year. Shareholders' equity per share based on the number of shares outstanding at the end of the year stood at ¥1,162.62, compared to ¥1,063.05 for the previous year.

CASH FLOWS

During the fiscal year ended March 31, 2000, net cash provided by operating activities was ¥68,058 million, an increase of ¥23,920 million, or 54.2 percent compared to the previous year. Net cash used in investing activities was ¥67,187 million, a decrease of ¥29,040 million, or 30.2 percent. Net cash provided by financing activities increased by ¥3,132 million, or 12.9 percent, to ¥27,500 million. Despite the adverse effects of translation difference, cash and cash equivalents at end of year increased by ¥27,377 million, or 54.8 percent compared to the previous year, to ¥77,332 million.

The increase in net cash provided by operating activities during the year principally reflected increases in income before income taxes, payables – trade, and depreciation and amortization of intangibles exceeding increases in receivables – trade and inventories. The increases in receivables – trade, inventories and payables – trade were mainly due to sales increases in the Automobile Segment, backed by the strong performance of the Vitz (Yaris) and car air-conditioning compressors. Depreciation and amortization of intangibles during the year increased by ¥8,372 million, or 24.4 percent from the previous year, to ¥42,752 million, affected by capital expenditures exceeding ¥60,000 million in fiscal 1998 and fiscal 1999, respectively.

In net cash used in investing activities during the year, payments for purchases of property, plant and equipment decreased by ¥25,625 million, or 33.0 percent from the previous year, to ¥52,082 million. Capital expenditures decreased by ¥15,722 million, or 26.0 percent, to ¥44,746 million. The breakdown of capital expenditures during the year were ¥33,058 million, a decrease of ¥14,577 million, or 30.6 percent, in the Automobile Segment, with most of the sum invested in production equipment for car air-conditioning compressors; ¥5,426 million, a decrease of ¥6,265 million, or 53.6 percent, in the Materials Handling Equipment Segment; and ¥1,042 million, an increase of ¥379 million, or 57.2 percent, in the Textile Machinery Segment. Payments for purchases of investment securities decreased by ¥10,661 million, or 39.8 percent, to ¥16,101 million, consisting mainly of additional purchases of shares in the Toyota Group companies, such as DENSO Corporation, accounting for approximately 60 percent, and purchases of bonds approximately 25 percent. Payments for loans made during the year increased by ¥4,523 million, or 75.6 percent, to ¥10,503 million, of which loans to ST-LCD accounted for approximately 60 percent. Payments for acquisition of business for water jet looms from Nissan Texsys Co., Ltd. of ¥1,498 million were also accounted for during the year.

Net cash provided by financing activities during the year included a decrease in proceeds from issuances of bonds by ¥10,242 million, or 25.5 percent from the previous year, to ¥29,849 million. Retirements of shares, which totaled ¥9,999 million in fiscal 1998 and ¥9,225 million in fiscal 1999, was not accounted for in fiscal 2000. Toyoda paid cash dividends of ¥4,863 million during the year.

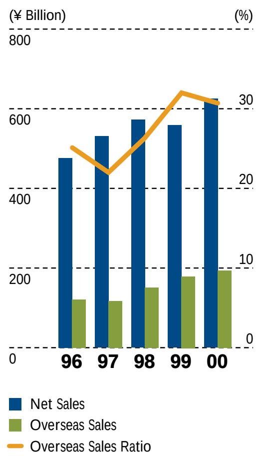
OVERVIEW OF PERFORMANCE

Foreign Exchange Fluctuations and Basic Countermeasures

The average exchange rate of the yen to the U.S. dollar (TTB) during the fiscal year ended March 31, 2000 was ¥111.62, an appreciation of ¥16.63, or 13.0 percent over the previous year.

Overseas sales during the year increased by ¥13,255 million, or 7.4 percent from the previous year, to ¥191,992 million. The ratio to total sales was 30.7 percent; both the amount and the ratio of overseas sales are increasing due to the rapid development of globalization. Toyoda therefore plans to minimize adverse effects of foreign exchange fluctuations on its financial results by establishing exchange forward contracts and foreign currency option contracts in order to hedge fluctuation risk related to the export and import of materials, parts and products. Toyoda also seeks to localize materials and parts procurement as well as to move production closer to overseas markets in order to reduce inventories and costs.

Net Sales, Overseas Sales and Overseas Sales Ratio
(Years ended March 31)



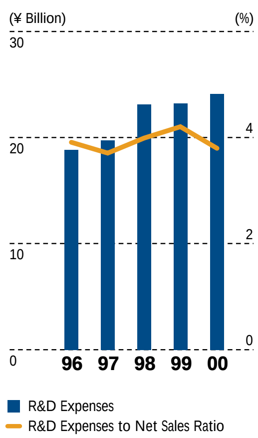
Operating Performance

The Japanese economy began to recover slowly in the latter half of the fiscal year, with industrial production activities and capital expenditures improving despite restrained personal consumption in the difficult employment conditions. Overseas economies generally held steady, sustained by continuing strength in the U.S. economy and the recovery of domestic demand in the European economy.

Against this background, Toyoda has met customers' expectations, remained committed to quality as a top priority, developed various attractive products, aggressively conducted sales promotions, and reduced costs throughout Toyoda, thus developing its strength.

As a result, net sales during the year increased by 12.0 percent from the previous year, and operating income increased 16.3 percent. The increase in net sales was attributable mainly to increases in the production of the Vitz (Yaris) and car air-conditioning compressors. The increase in operating income was accomplished by cost reduction and improved productivity, in addition to the increase in net sales, despite the increase in depreciation and the impact of foreign exchange fluctuations.

R&D Expenses and R&D Expenses to Net Sales Ratio
(Years ended March 31)



Net Sales

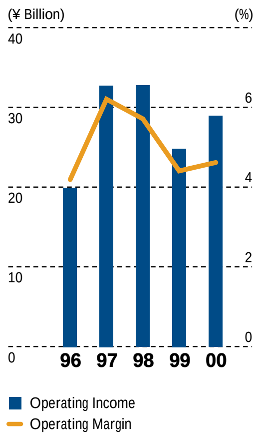
Reflecting the aforementioned factors, net sales during the year increased by ¥66,897 million, or 12.0 percent from the previous year, to ¥625,773 million.

Cost of Sales, and Selling, General and Administrative Expenses

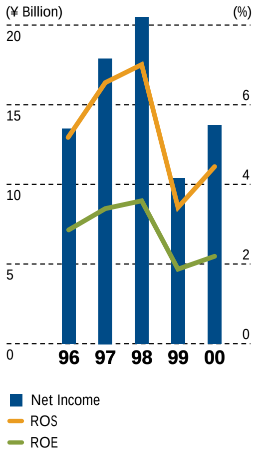
Cost of sales increased by ¥61,765 million, or 12.5 percent, to ¥557,554 million from the previous year, principally reflecting increases in manufacturing costs along with rises in production to meet strong demand for products in the Automobile Segment. In addition, the ratio of cost of sales to net sales

Management's Discussion and Analysis

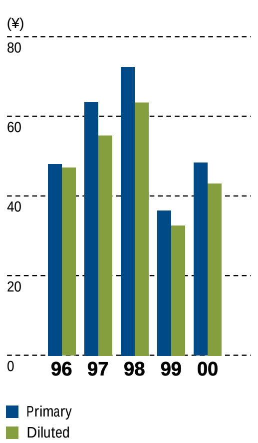
Operating Income and Operating Margin
(Years ended March 31)



Net Income, ROS and ROE
(Years ended March 31)



Net Income per Share
(Years ended March 31)



slightly increased from 88.7 percent during the previous year to 89.1 percent. Selling, general and administrative expenses increased by ¥1,079 million from the previous year, to ¥39,352 million; the ratio to net sales slightly decreased from 6.8 percent to 6.3 percent. Research and development expenses during the year totaled ¥24,062 million, an increase of ¥831 million, or 3.6 percent compared to the previous year, with the ratio to net sales standing at 3.8 percent. These expenses consisted mainly of ¥14,949 million for the Automobile Segment, ¥7,238 million for the Materials Handling Equipment Segment and ¥656 million for the Textile Machinery Segment.

Operating Income

Operating income during the year increased by ¥4,053 million, or 16.3 percent from the previous year, to ¥28,867 million, reflecting the aforementioned factors. The operating margin slightly increased from 4.4 percent during the previous year to 4.6 percent.

Other Income and Expenses

Other expenses, net, totaled ¥1,705 million, compared to ¥1,642 million for the previous year. This was principally due to increases in income from sales of securities, despite increases in loss from disposal of property, plant and equipment and equity in net loss of affiliates. Equity in net loss of affiliates increased from ¥3,763 million in fiscal 1999 to ¥5,036 million in fiscal 2000, reflecting sharp increases in depreciation of ST-LCD associated with the start of commercial operations.

Income before Income Taxes

Income before income taxes increased by ¥3,990 million, or 17.2 percent from the previous year, to ¥27,162 million.

Income Taxes and Deferred Tax Benefit

Net of income taxes and deferred tax benefit increased by ¥679 million, or 5.7 percent from the previous year, to ¥12,583 million. The ratio of income taxes to income before income taxes (the effective rate of income taxes) decreased from 51.4 percent during the previous year to 46.3 percent, mainly due to the reduction in the rate of income taxes in Japan and to the adoption of tax effect accounting.

Net Income

Net income increased by ¥3,295 million, or 31.7 percent from the previous year, to ¥13,686 million, partly influenced by tax effect accounting, which became applicable during the year. The ratio of net income to net sales, return on sales (ROS), increased from 1.86 percent to 2.19 percent. The ratio of net income to shareholders' equity (using the average of such amounts at fiscal 1999 end and fiscal 2000 end), return on equity (ROE), increased from 3.43 percent to 4.43 percent. Primary net income per share (EPS) and diluted net income per share increased from ¥36.30 and ¥32.62 in fiscal 1999 to ¥48.32 and ¥43.18 in fiscal 2000, respectively.

DIVIDEND POLICY

Based on remaining competitive, increasing corporate value and maintaining stable dividends, Toyoda will continue to meet its shareholders' expectations when considering factors such as performance and dividend payout ratio. Toyoda will utilize retained earnings for research, development and investment to ensure growth, strength and the aggressive promotion of business in order to secure returns to shareholders.

In accordance with the resolution at the General Meeting of Shareholders held on June 29, 2000, Toyoda determined that cash dividends payable for shareholders as of the end of the year would be ¥8 per share. Since another ¥8 per share has already been paid as semi-annual dividends, annual dividends will be ¥16 per share, for a dividend payout ratio of 26.4 percent.

THE YEAR 2000 (Y2K) PROBLEM

Since 1996, Toyoda has recognized the year 2000 (Y2K) problem as an important managerial issue in terms of maintaining continuity of operations and relations with its customers and suppliers. Toyoda took broad measures to ensure the Y2K compliance of its internal information systems, equipment and products. After the new year, Toyoda has continued to monitor the latest developments in relation to the Y2K problem through its channels for customers and internal communications network. Fortunately, no problem has occurred which could seriously affect its customers, operations, or consolidated financial condition.

EMPLOYEE PENSION PLAN

Starting in the fiscal year ending March 31, 2001, a new method of accounting for retirement benefits, which will employ an approach similar to that of IAS, will be applied to Toyoda. In accordance with the new method, Toyoda has calculated the present value of its projected benefit obligations (including lump-sum severance payment obligations) as of April 1, 2000 to be ¥62.0 billion. The aggregate market value of Toyoda's pension assets as of that date was ¥23.0 billion, and the amount of accrued severance benefit reserved on the same date was ¥19.6 billion. As a result, Toyoda's aggregate funding shortfall as of that date was ¥19.4 billion.

At present, Toyoda plans to amortize the entire amount of the funding shortfall in the first six months of fiscal 2001. Also, prior to September 30, 2000, Toyoda plans to contribute certain of its investment securities that have valuation profit into an employee retirement benefit trust, to be accounted for as pension assets. It is not possible at this time to ascertain the exact amount of those investment securities, because of fluctuations in stock prices. Toyoda will recognize amortization expenses for the first six months of fiscal 2001 in an amount equal to the entire funding shortfall as of April 1, 2000, but will, for the same period, realize gain on disposition of investment securities that are contributed as pension assets. Toyoda currently estimates that it will recognize an extraordinary loss of ¥4.5 billion after taking into account the aforementioned gain for the first six months of fiscal 2001.

Toyoda plans to continue the present employee pension plan, but it recognizes the amendment or modification of the plan, such as adoption of a defined contribution plan (Japanese version of 401(k)), as a theme which it should examine.