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 July 2004.

This section contains projections and forward-looking statements that involve risks, uncertainties and assumptions. You should be aware that certain risks and uncertainties could cause the actual results of Toyota Industries Corporation and its consolidated subsidiaries to differ materially from any projections or forward-looking statements. These risks and uncertainties include, but are not limited to, those listed under "Risk Information" and elsewhere in this annual report.

The fiscal year ended March 31, 2004 is referred to as fiscal 2004 and other fiscal years are referred to in a corresponding manner. All references to the "Company" herein are to Toyota Industries Corporation; and references to "Toyota Industries" herein are to the Company and its 140 consolidated subsidiaries.

Results of Operations

Operating Performance

During fiscal 2004, the Japanese economy began a steady recovery, as private-sector capital expenditure increased along with an expansion in exports, while consumer spending also emerged from sluggishness. Overseas, the economic situation improved as well, with the U.S. economy recovering and the European economy picking up.

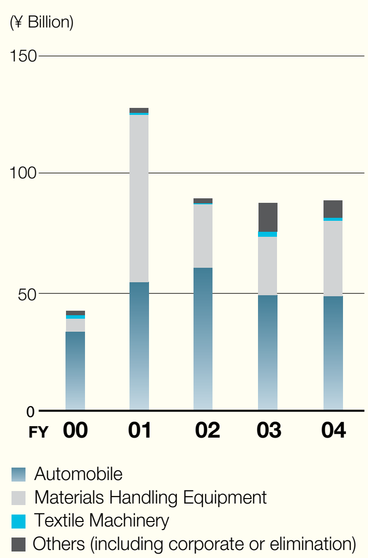
In this operating environment, Toyota Industries made efforts to strengthen its corporate structure by developing new products to raise customer satisfaction, aggressively conducting sales promotions, carrying out a company-wide cost-reduction program and enhancing group-wide management control. As a result, Toyota Industries recorded consolidated net sales of ¥1,164.4 billion, an increase of ¥95.2 billion (8.9%) over fiscal 2003. (For a breakdown in operating results by business segment, refer to Operating Performance Highlights by Business Segment.)

At the profit level, ordinary income amounted to ¥59.0 billion, an increase of ¥7.6 billion (14.8%) over fiscal 2003. This increase reflected growth in income at our domestic and overseas subsidiaries as well as a contribution to profits by ST Liquid Crystal Display Corp. ("ST-LCD"), a joint venture with Sony Corporation ("Sony"). Net income amounted to ¥33.6 billion, an increase of ¥11.7 billion (53.3%) over fiscal 2003.

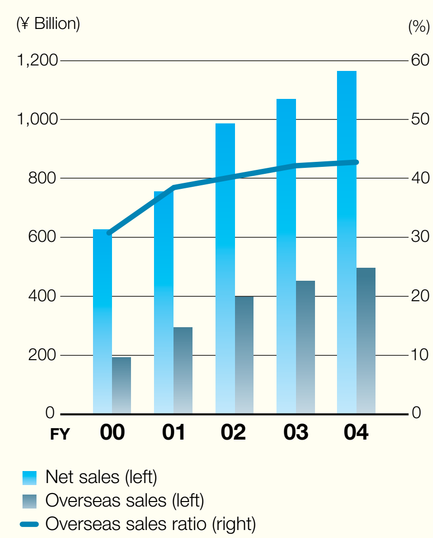
Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for fiscal 2004 increased ¥78.8 billion (8.8%) over fiscal 2003 to ¥978.5 billion, due mainly to an increase in net sales.

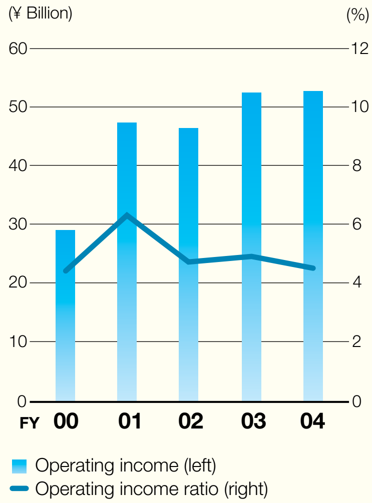
Capital Expenditures



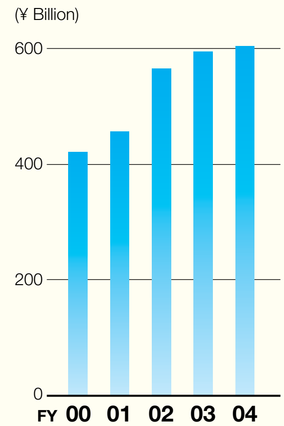
Net Sales, Overseas Sales and Overseas Sales Ratio



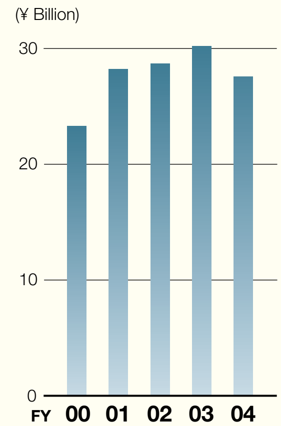
Operating Income and Operating Income Ratio



Net Sales of Automobile Segment



Operating Income of Automobile Segment



Selling, general and administrative expenses increased ¥16.3 billion (13.9%) to ¥133.3 billion. This increase was mainly the result of Aichi Corporation ("Aichi") becoming a consolidated subsidiary of Toyota Industries.

Operating Income

Operating income for fiscal 2004 increased ¥0.2 billion (0.3%) over fiscal 2003 to ¥52.6 billion. Despite a decrease in operating income by the Company, overall operating income increased due primarily to the consolidation of Aichi and favorable results at Toyota Industries' subsidiaries.

Operating Performance Highlights by Business Segment

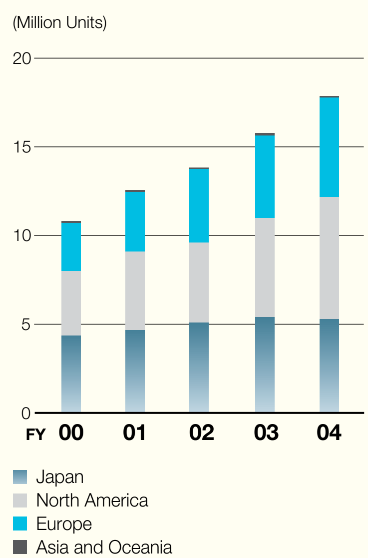
Below are the operating results by business segment. Net sales for each segment do not include intersegment transactions.

Automobile Segment

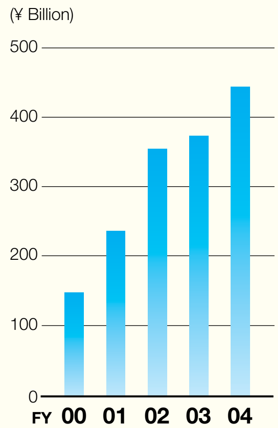
Net sales of the Automobile Segment increased ¥8.4 billion (1.4%) over fiscal 2003 to ¥603.9 billion. However, operating income decreased ¥2.6 billion (8.6%) to ¥27.5 billion.

Sales in the Japanese, European and North American markets were virtually at the same levels as recorded in the previous fiscal year. In the Vehicle Business, sales of the Vitz, our mainstay vehicle, also remained at the same level as for fiscal 2003. While sales of the Corolla Sedan for North America, for which production commenced in January 2003, contributed to overall performance, sales of the RAV4 decreased. In the Engine Business, we recorded higher sales of the AZ-type gasoline engine, which is installed in the Estima. However, we posted lower sales of the UZ-type and FZ-type gasoline engines, which are incorporated into the Land Cruiser. Sales were also adversely affected because a portion of CD-type diesel engines for Europe is now shipped as parts, thus decreasing the overall production of the engine as a complete product. Toyota Motor Industries Poland Sp.zo.o., jointly established with Toyota Motor Corporation ("TMC"), is progressing smoothly with preparations for the commencement of diesel engine production in January 2005. In the Car Air-Conditioning Compressor Business, sales in both domestic and overseas markets increased, due mainly to favorable sales of vehicles fitted with our car air-conditioning compressors and an expanded range of automobiles equipped with our products.

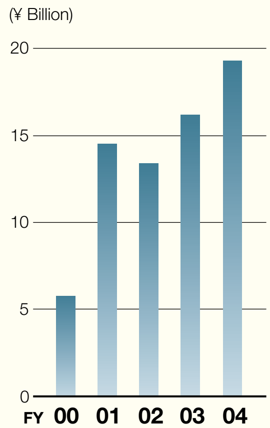
Car Air-Conditioning Compressor Unit Sales



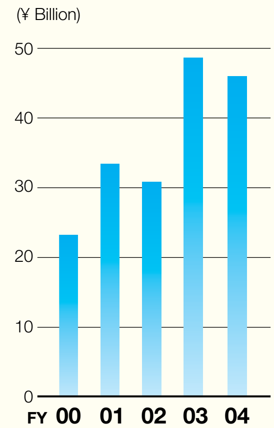
Net Sales of Materials Handling Equipment Segment



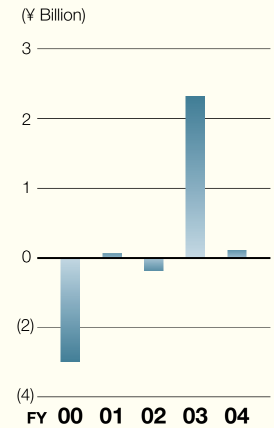
Operating Income of Materials Handling Equipment Segment



Net Sales of Textile Machinery Segment



Operating Income (Loss) of Textile Machinery Segment



Materials Handling Equipment Segment

Net sales of the Materials Handling Equipment Segment increased ¥70.4 billion (18.9%) over fiscal 2003 to ¥443.4 billion. Operating income increased ¥3.2 billion (19.6%) to ¥19.3 billion.

Sales were robust in Japan amid a recovery in private-sector capital expenditure. Sales in Europe and the U.S. also increased over fiscal 2003. During fiscal 2004, we developed new products attuned to customer needs while undertaking aggressive sales promotion activities in close cooperation with our distributors. As a result, we achieved worldwide sales of 82,000 TOYOTA-brand forklift trucks and 59,000 BT-brand forklift trucks, the latter produced by the subsidiary BT Industries AB. In Japan, we attained an all-time high 42.6% share of the forklift truck market in calendar year 2003. Overseas, export sales of forklift trucks for North America and Europe decreased due to the ongoing transferring of production to local subsidiaries, but export sales in Asia and Oceania increased sharply.

In fiscal 2004, we strengthened our sales and production structures globally. In Japan, we made Aichi into one of our subsidiaries in May 2003 and worked closely with Aichi to carry out cost-reduction activities. Supported by these efforts and brisk demand, Aichi's performance is now steadily recovering. In China, Toyota Industry (Kunshan) Co., Ltd. commenced local production of forklift trucks in April 2003, while Toyota Material Handling (Shanghai) Co., Ltd. began sales operations in June 2003. Additionally, we established Toyota Industries Corporation Australia Pty Limited in Sydney in June 2003 and Toyota Industries Mercosur Ltda. in São Paulo, Brazil, in January 2004. These companies have commenced sales operations with the aim of expanding sales in their respective markets.

Textile Machinery Segment

Net sales of the Textile Machinery Segment decreased ¥2.8 billion (5.7%) from fiscal 2003 to ¥46.0 billion. Operating income decreased ¥2.2 billion (95.7%) to ¥0.1 billion.

Although sales of air-jet looms to Pakistan and ring spinning frames to Vietnam increased, sales of air-jet looms to China decreased, as shipments for a large order to Wujiang, Jiangsu province that was received in the previous fiscal year were completed during fiscal 2004. In China, one of our core markets, strong demand for air-jet looms since 2002 began waning at the end of 2003, due mainly to the effects of monetary tightening in response to an overheating economy. Although sales of spinning machinery and weaving machinery showed signs of recovery in India and Pakistan, overall sales in other Asian markets remained sluggish.

Others Segment

Net sales of the Others Segment increased ¥19.1 billion (36.7%) over fiscal 2003 to ¥71.1 billion. Operating income increased ¥1.8 billion (47.0%) to ¥5.8 billion.

Sales by Geographical Segment

Below are Toyota Industries' operating results by geographical segment. Net sales for each geographical segment do not include intersegment transactions.

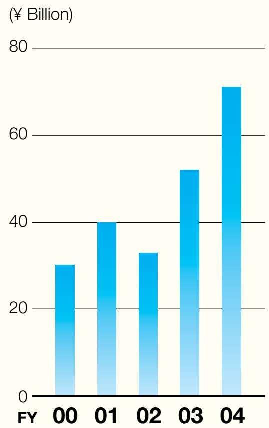
Japan

Net sales totaled ¥785.3 billion, an increase of ¥51.4 billion (7.0%) over fiscal 2003. Operating income amounted to ¥45.8 billion, an increase of ¥0.8 billion (1.7%). The increases mainly resulted from the consolidation of Aichi.

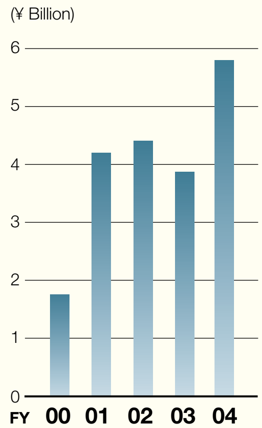
North America

Net sales amounted to ¥198.7 billion, an increase of ¥6.4 billion (3.3%) over fiscal 2003. Operating income totaled ¥6.1 billion, the same level as in fiscal 2003. The increase in net sales was due mainly to an increase in sales volumes by forklift truck

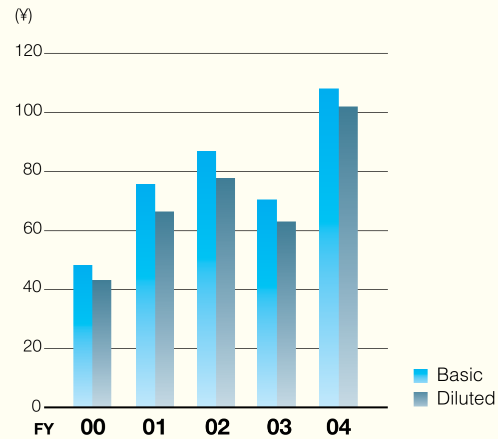
Net Sales of Others Segment



Operating Income of Others Segment
(Including Elimination of Intersegment Transactions)



Net Income per Share



manufacturing subsidiaries and car air-conditioning compressor manufacturing subsidiaries.

Europe

Net sales were ¥167.5 billion, an increase of ¥28.0 billion (20.1%) over fiscal 2003. Operating income amounted to ¥3.1 billion, an increase of ¥1.2 billion (61.7%). These increases resulted chiefly from higher sales volumes by forklift truck manufacturing subsidiaries and car air-conditioning compressor manufacturing subsidiaries.

Others

Net sales totaled ¥12.9 billion, an increase of ¥9.4 billion (272.8%) over fiscal 2003. An operating loss of ¥0.1 billion was recorded, an increase of ¥0.1 billion (73.7%).

Non-Operating Income and Expenses

Non-operating income for fiscal 2004 increased ¥3.9 billion (14.6%) over fiscal 2003 to ¥30.2 billion. This increase resulted mainly from an increase in dividends from TMC and higher equity in earnings of ST-LCD.

Non-operating expenses decreased ¥3.6 billion (13.1%) to ¥23.8 billion, owing primarily to a decrease in equity in net loss of ST-LCD.

Extraordinary Income and Losses

The transition of the benefit plan into a defined contribution pension plan on a portion of pensions assets in the first half of 2003 resulted in an extraordinary gain of ¥0.6 billion. On the other hand, we posted provision for retirement and severance benefits for directors and corporate auditors as an extraordinary loss of ¥1.9 billion.

Income before Income Taxes

Income before income taxes increased ¥14.1 billion (32.2%) over fiscal 2003 to ¥57.7 billion. This increase was due chiefly to an increase in ordinary income as well as decreases in revalued loss of investment securities and loss on disposal of property, plant and equipment, both of which were recorded in fiscal 2003.

Income Taxes

Net of current and deferred income taxes was ¥20.7 billion, virtually the same as in fiscal 2003. This was mainly because an increase in income taxes at subsidiaries was offset by a decrease in taxes at the Company.

Minority Interest in Consolidated Subsidiaries

Minority interest in consolidated subsidiaries increased ¥2.5 billion (266.8%) to ¥3.4 billion. The increase resulted primarily from the consolidation of Aichi and favorable business results of subsidiaries.

Net Income

Net income for fiscal 2004 increased ¥11.7 billion (53.3%) over fiscal 2003 to ¥33.6 billion. Net income per share amounted to ¥108.04, compared with ¥70.19 in fiscal 2003. Diluted net income per share increased from ¥62.90 in fiscal 2003 to ¥101.97.

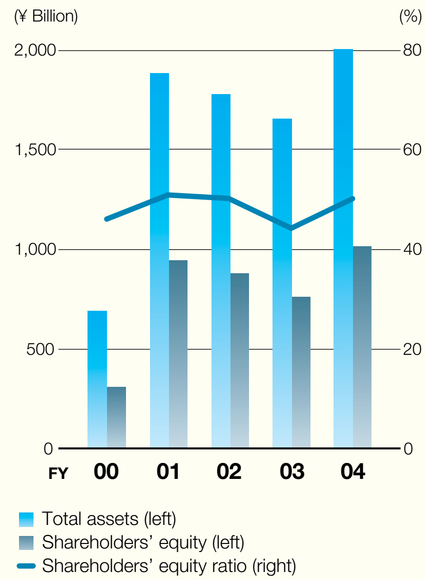
Liquidity and Capital Resources

Toyota Industries' financial policy is to ensure sufficient financing and liquidity for its business activities and to maintain the strength of its balance sheets. Currently, funds for capital investments and other long-term capital needs are provided from retained earnings and long-term debt, and working capital needs are met through short-term loans. Long-term debt financing is carried out mainly through issuance of corporate bonds and loans from financial institutions.

In addition to current assets such as cash and cash equivalents and securities, Toyota Industries maintained a commercial paper issuance capacity of ¥100.0 billion as of March 31, 2004.

Toyota Industries continues to maintain its solid financial condition. Through the use of such current assets as cash and cash equivalents and securities, as well as free cash flows and funds procured from financial institutions, Toyota Industries believes that it will be able to provide sufficient funds for the working capital necessary to expand existing businesses and develop new projects, and for future investments.

Total Assets, Shareholders' Equity and Shareholders' Equity Ratio



Assets, Liabilities and Shareholders' Equity

Total assets at the end of fiscal 2004 amounted to ¥2,012.0 billion, an increase of ¥361.6 billion (21.9%) over the end of fiscal 2003. This increase was attributable mainly to a significant increase in investments and other assets.

Current assets decreased ¥21.9 billion (5.9%) from the previous fiscal year-end to ¥349.9 billion. This decrease primarily reflected a decrease in cash and cash equivalents. Cash and cash equivalents decreased ¥59.7 billion (43.6%) to ¥77.2 billion, due chiefly to repayments of corporate bonds.

Property, plant and equipment increased ¥27.2 billion (7.5%) to ¥389.4 billion, due primarily to the consolidation of Aichi during fiscal 2004.

Intangible assets increased ¥3.1 billion (3.2%) to ¥99.9 billion, due to an increase in software.

Investments and other assets increased ¥353.2 billion (43.1%) to ¥1,172.8 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.

On the liabilities side, current liabilities decreased ¥67.0 billion (17.0%) from the previous fiscal year-end to ¥326.3 billion. This decrease was due mainly to the repayments of corporate bonds and convertible bonds.

Long-term liabilities amounted to ¥634.0 billion, an increase of ¥139.8 billion (28.3%) over the previous fiscal year-end. This was due chiefly to an increase of ¥134.0 billion in deferred tax liabilities as a result of an increase in the market value of investment securities.

Interest-bearing debt, including short-term bank loans, long-term debt due to mature within one year, corporate bonds, convertible bonds and long-term bank loans, amounted to ¥321.0 billion, a decrease of ¥89.7 billion (21.8%) from the end of fiscal 2003.

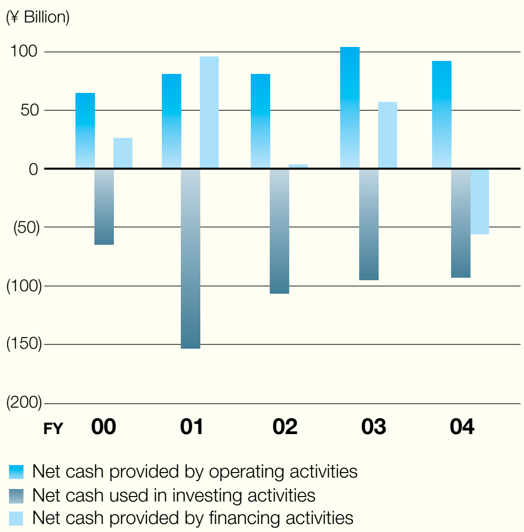
Minority interest in consolidated subsidiaries increased ¥10.9 billion (45.6%) to ¥34.9 billion, primarily because Aichi became a newly consolidated subsidiary.

Shareholders' equity increased ¥277.9 billion (37.6%) to ¥1,016.8 billion. This was mainly because of an increase of ¥202.4 billion in net unrealized gains on other securities in response to an increase in the market value of investment securities. It was also due to an increase of ¥28.8 billion in common stock and capital surplus resulting from the conversion of convertible bonds. The ratio of shareholders' equity to total assets increased to 50.5% from 44.8% at the end of the previous fiscal year, while shareholders' equity per share at year-end increased to ¥3,199.69 from ¥2,522.52.

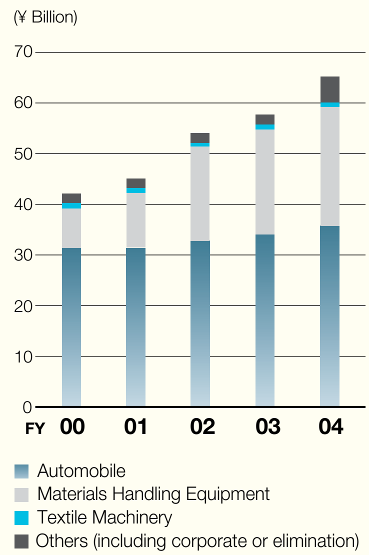
Cash Flows

Net cash and cash equivalents provided by operating activities amounted to ¥92.4 billion, a decrease of ¥10.8 billion (10.4%) from fiscal 2003. Net cash and cash equivalents used in investing activities decreased ¥2.5 billion (2.6%) to ¥92.7 billion. Net cash and cash equivalents used in financing activities amounted to ¥56.0 billion, a difference of ¥113.8 billion from net cash and cash equivalents provided by financing activities in the previous fiscal year. Including translation adjustments and a net

Cash Flows



Depreciation and Amortization



decrease in cash and cash equivalents due to changes in subsidiaries' year-ends, cash and cash equivalents at the end of fiscal 2004 decreased ¥59.7 billion (43.6%) to ¥77.2 billion.

The decrease in net cash provided by operating activities was mainly because increases in receivables and income taxes paid outweighed an increase in depreciation and amortization. Income taxes paid in fiscal 2004 amounted to ¥30.6 billion, an increase of ¥6.7 billion over fiscal 2003.

Net cash used in investing activities decreased in fiscal 2004. Although proceeds from the sales of marketable securities decreased ¥4.6 billion (54.1%) from fiscal 2003 to ¥3.9 billion, payments for purchases of property, plant and equipment decreased ¥8.4 billion (9.7%) to ¥78.3 billion. The amounts used for purchases of property, plant and equipment consisted mainly of ¥48.8 billion in the Automobile Segment, a decrease of ¥0.6 billion (1.2%); ¥1.2 billion in the Textile Machinery Segment, a decrease of ¥1.0 billion (45.5%); and ¥7.7 billion in the Others Segment, a decrease of ¥4.3 billion (35.8%).

Net cash used in financing activities was ¥56.0 billion, compared with ¥57.8 billion in net cash provided by financing activities in fiscal 2003. This mainly reflected the absence of corporate bond issuances during fiscal 2004 and the repayment of corporate bonds in an amount of ¥31.7 billion. In fiscal 2004, Toyota Industries paid ¥7.4 billion in cash dividends, an increase of ¥1.2 billion (19.4%) over fiscal 2003. Toyota Industries also repurchased 7.7 million of its common shares in an amount of ¥17.1 billion.

Strategies and Outlook

Business Strategies

Since its establishment as a specialized textile machinery manufacturer in 1926, Toyota Industries has diversified the scope of its businesses. Drawing strength from this diversification and innovation, we are preparing ourselves for further growth over the coming years. Toyota Industries' strategic operations are divided into three categories, based on the mission assigned to each.

First Category: Vehicle Business and Engine Business

<Mission>

As a member of the Toyota Group, to contribute to the high quality and technological advances of TOYOTA cars.

Second Category: Car Air-Conditioning Compressor Business, Materials Handling Equipment Business and Textile Machinery Business

<Mission>

To aggressively expand global markets through the development of products using Toyota Industries' unique technologies.

Third Category: Electronics Business, Logistics Solutions Business, etc.

<Mission>

To be a key source of Toyota Industries' future growth.

The first category, the Vehicle Business and the Engine Business, handles mainly the production of vehicles consigned by TMC and the production of engines for TOYOTA cars. To play a more important role in the Toyota Group, Toyota Industries is making continual efforts to improve its production technologies and strengthen quality control. For Toyota Industries, this field of business provides a stable platform for its own growth, while also contributing to the success of the Toyota Group.

Aiming to be more proactive in the development and production of TOYOTA cars and engines, Toyota Industries will step up its efforts to strengthen its R&D capability and improve productivity. Toyota Industries will also make proposals to TMC for the design and launch of auto parts and small cars, and actively work to ensure such proposals are adopted. In the Engine Business, Toyota Industries will contribute to TMC's global strategy, especially in Europe, with its diesel engines.

The second category comprises the Car Air-Conditioning Compressor Business, the Materials Handling Equipment Business and the Textile Machinery Business. This is a business field in which Toyota Industries must cultivate further development of global markets by precisely identifying customer needs, and developing and marketing state-of-the-art products that meet these needs through the application of original technologies. Firmly believing that technological improvement is the key to competitiveness, Toyota Industries strives to strengthen its technological development capabilities by fostering the development of superior engineers. Since the Car Air-Conditioning Compressor Business and the Materials Handling Equipment Business are positioned as core businesses, Toyota Industries intends to prioritize its allocation of management resources to them. In addition, on April 1, 2001, Toyota Industries established TOYOTA Material Handling Company as an independent company within Toyota Industries. The main purpose of this move was to help ensure a flexible and speedy response to changes in the business environment and emerge a winner in the face of intensifying global competition.

The third category consists of the Electronics Business, which includes the production of LCDs, and the Logistics Solutions Business. These businesses will also be made a priority in Toyota Industries' allocation of management resources in order to grow them into core businesses. The Electronics Business is a field characterized by rapid advances in technological innovation, requiring stronger R&D capability and continual capital expenditure to maintain competitiveness. The key to success in this field is to get production on track quickly, improve the rejection rate of products and achieve a quick return on investment. In order to participate in the Electronics Business and expand operations in a short period of time, as well as to diversify the risks of entering new areas of this business, Toyota Industries has not only carried out independent product development, but has also entered into joint ventures with Sony and Ibiden Co., Ltd. In addition, Toyota Industries independently conducts R&D into power electronics parts for automobiles and organic light-emitting diodes. Toyota Industries believes that this strategy has been successful to date and sees the Electronics Business as a key source of future corporate growth.

In recent years, Japanese industries have been increasingly moving toward outsourcing product distribution and storage functions in order to reduce logistics costs. Seeing this as an opportunity, Toyota Industries entered into the Logistics Solutions Business in Japan. Taking advantage of our materials handling know-how accumulated through the production and sales of forklift trucks and other materials handling equipment, we aim to provide customer-oriented proposals for optimized logistics and cost reduction. Through proactive allocation of management resources, we hope our Logistics Solutions Business will become a new source of stable revenues for Toyota Industries.

Outlook for Results for Fiscal 2005

Although the Japanese economy is expected to continue on a path toward a steady recovery, there are numerous areas of concern, including exchange rate fluctuations and market conditions for such raw materials as steel. Overseas, the economic outlook is clouded by uncertainties about the direction of the U.S. economy prior to the presidential election as well as movements in the overheating Chinese economy.

For fiscal 2005, Toyota Industries expects to record consolidated net sales of ¥1,150.0 billion, ordinary income of ¥60.0 billion and net income of ¥34.0 billion. Toyota Industries will make group-wide efforts aimed at the timely development and introduction of products tailored to customer needs, carry out sales and service activities and undertake cost-reduction activities.

Toyota Industries' forecasts are based on an assumed exchange rate of ¥105=US$1.

Dividend Policy

Toyota Industries' dividend policy is to continue paying stable dividends, while giving overall consideration to business results and the dividend payout ratio, in order to meet the expectations of shareholders. Toyota Industries' Ordinary General Meeting of Shareholders, held on June 22, 2004, approved a year-end cash dividend of ¥12.0 per share. Including the interim cash dividend of ¥12.0 per share, cash dividends for the year totaled ¥24.0 per share, an increase of ¥2.0 per share over fiscal 2003. The dividend payout ratio increased from 34.0% to 35.5%. Toyota Industries will 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.

Risk Information

The following represent risks that could have a material impact on Toyota Industries' financial condition, business results and share prices. The risks mentioned in this annual report represent only a portion of the risks that could have an impact on Toyota Industries' financial condition and business results, and do not necessarily cover all possible risks. There is also a possibility that Toyota Industries could be affected in the future by risks currently unknown or not considered noteworthy or significant.

Economic Trends

Demand for products supplied by the various businesses of Toyota Industries is influenced by market trends in such industries as automobiles, logistics, electronics and textiles. Also, the choice of whether or not to purchase Toyota Industries' products is at the discretion of customers. Accordingly, worsening of economic conditions or a worsening economic outlook could result in sluggish consumption in Toyota Industries' principal sales regions, which could either directly or indirectly cause Toyota Industries' sales and operating income to decrease. Toyota Industries aims to build an earnings structure that is not easily influenced by changes in the business environment by diversifying its businesses while raising productivity, reducing fixed and variable costs and lowering its break-even margin. Nevertheless, Toyota Industries believes that decreases in demand in related industries as well as economic slowdowns in regions and countries where it engages in sales could have an adverse impact on its business results. Although, as a matter of course, economic trends in Japan are especially crucial, Toyota Industries also carries out its Car Air-Conditioning Compressor, Materials Handling Equipment and Textile Machinery businesses globally. Therefore, economic trends in principal regions and countries where Toyota Industries carries out business activities, including the U.S., European countries, China and other Asian countries, could have a significant impact on its business results.

Principal Customers

Toyota Industries' automobile and engine products are sold primarily to TMC. In fiscal 2004, net sales to TMC accounted for 34.9% of consolidated net sales. Therefore, TMC's vehicle sales could have an impact on Toyota Industries' business results. As of March 31, 2004, TMC held 24.1% of Toyota Industries' total voting rights and 23.5% of total shares issued.

Product Development Capabilities

Based on the concept of "developing appealing new products," Toyota Industries proactively develops new products by utilizing its leading-edge technologies, as it strives to anticipate increasingly sophisticated and diversifying needs of the market and ensure the satisfaction of its customers. R&D activities are focused mainly on developing and upgrading products in current business fields and peripheral sectors. Toyota Industries expects that revenues derived from these fields will continue to account for a significant portion of total revenues and anticipates that future growth will be contingent on the development and sales of new products in these fields. Toyota Industries believes that it can continue to develop appealing new products. However, Toyota Industries may not be able to forecast market needs and develop and introduce appealing new products in a timely manner. This could result in lower future growth and have an adverse impact on Toyota Industries' financial condition and business results. Such a situation could result from risks that include no assurance Toyota Industries can allocate sufficient future funds necessary for the development of appealing new products; no assurance that product sales will be successful, as forecasts of products supported by the market may not always be accurate; no assurance that newly developed products and technologies will always be protected as intellectual property; and no assurance that Toyota Industries' products will not become obsolete due to rapid technological advances and changes in market needs.

New Businesses

Toyota Industries invests in companies that engage in new businesses, as well as aggressively carries out new businesses independently. In undertaking new businesses, a myriad of technological and marketing-related issues must be resolved and latent demand must be effectively stimulated. New businesses involve numerous uncertain factors, and in the event that business plans are not achieved in accordance with expectations, all investment burdens incurred could have an adverse impact on Toyota Industries' financial condition and business results.

Product Defects

Guided by the basic philosophy of "offering products and services that are clean, safe and of high quality," Toyota Industries makes its utmost efforts to enhance quality. However, Toyota Industries cannot guarantee all its products will be defect-free and that product recalls will not be made in the future. Toyota Industries is insured for product liability indemnity. However, Toyota Industries cannot guarantee that this insurance will sufficiently cover final indemnity amounts incurred. Product defects that could lead to large-scale recalls and product liability indemnities could result in large cost burdens and have a significant negative impact on the evaluation of Toyota Industries. It could also have an adverse effect on Toyota Industries' financial condition and business results due to a decrease in sales, deterioration of profitability and decrease in share prices of Toyota Industries.

Price Competition

Toyota Industries faces extremely harsh competition in each of the industries in which it conducts business, including its materials handling equipment and automobile businesses, which are the core of Toyota Industries' earnings foundation. Toyota Industries believes it offers high-value-added products that are unrivalled in terms of technology, quality and cost. Amid an environment characterized by intensifying price competition, however, Toyota Industries may be unable to maintain or increase market share against low-cost competitors or to maintain profitability. This could have an adverse impact on Toyota Industries' financial condition and business results.

Reliance on Suppliers of Raw Materials and Components

Toyota Industries' products rely on various raw materials and components from suppliers outside Toyota Industries. Toyota Industries has concluded basic business contracts with these external suppliers and assumes it can carry out stable transactions for raw materials and components. However, Toyota Industries has no assurances against future shortages of raw materials and components, which arise from a global shortage due to tight supply or an unforeseen accident involving a supplier. Such shortages could have a negative effect on Toyota Industries' product production and cause an increase in costs, which could have an adverse impact on Toyota Industries' financial condition and business results.

Alliances with Other Companies

Aiming to expand its businesses, Toyota Industries engages in joint activities with other companies through alliances and joint ventures. However, a disagreement between Toyota Industries and its partners, owing to business, financial or other reasons, could prevent Toyota Industries from deriving the intended benefits of its alliances. This could have an adverse impact on Toyota Industries' financial condition and business results.

Exchange Rate Fluctuations

Toyota Industries' businesses encompass the production and sales of products and the provision of services worldwide. Generally, the strengthening of the yen against other currencies (especially against the U.S. dollar and the euro, which account for a significant portion of Toyota Industries' sales) has an adverse impact on Toyota Industries' business, while a weakening of the yen has a favorable impact. An increase in the value of currencies in countries or regions where Toyota Industries carries out production could lead to an increase in local production, procurement and distribution costs. Such an increase in costs could reduce Toyota Industries' price competitiveness and have an adverse impact on Toyota Industries' financial condition and business results. Additionally, because export sales of several businesses are denominated mainly in yen, exchange rate fluctuations could have an adverse impact on Toyota Industries' financial condition and business results due to a change in market prices.

Effects of Disasters, Power Blackouts and Other Incidents

Toyota Industries carries out regular checks and inspections of its production facilities. However, there is no assurance Toyota Industries can completely prevent or lessen the impact of man-made or natural disasters, including malfunctions of production facilities, fires at production facilities and power blackouts. For example, the majority of Toyota Industries' domestic production facilities and most of its business partners are situated in the Chubu region. Therefore, a major earthquake such as the Tokai Earthquake, or an incident that affects other operations, could have an adverse impact on Toyota Industries' financial condition and business results.

Latent Risks Associated with International Activities

Toyota Industries manufactures and sells products and provides services in various countries. Such unforeseen factors as social chaos, including political disruptions, terrorism and wars, as well as changes in economic conditions, could have an adverse impact on Toyota Industries' financial condition and business results.

Official Restrictions

Toyota Industries' business activities are subject to a diverse range of regulations in countries in which it carries out business operations. They include regulations related to investment, trade, competition, intellectual property, taxes, foreign exchange, the environment and recycling. Significant changes in such regulations could restrict Toyota Industries' business activities or lead to an increase in costs.

Share Price Fluctuations

At the end of fiscal 2004, Toyota Industries held marketable securities, mostly shares, valued at approximately ¥1,076.9 billion, and therefore bears the risk of price fluctuation of these shares. Based on fair market value of these shares at the end of fiscal 2004, Toyota Industries had unrealized gains of ¥889.5 billion on these shares. However, unrealized gains on marketable securities could worsen depending on future share price movements. Additionally, a fall in share prices could reduce the value of pension assets, leading to an increase in the pension shortfall.

Retirement Benefit Liabilities

Toyota Industries' employee retirement benefit expenses and liabilities are calculated based on expected rates of return on pension assets as well as assumptions upon making actuarial calculations that incorporate discount rates and other factors. Therefore, differences between actual results and assumptions as well as changes in the assumptions could have a significant impact on recognized expenses and calculated liabilities in future accounting periods.

Significant Accounting Policies and Estimates

Toyota Industries' financial statements are prepared in conformity with accounting principles and practices generally accepted in Japan. In preparing financial statements, management must make estimates, judgments and assumptions that affect reported amounts of assets and liabilities at fiscal year-end as well as revenues and expenses during each fiscal year. Among Toyota Industries' significant accounting policies, the following categories require a considerable degree of judgment and estimation and are highly complex.

Allowance for Doubtful Accounts

To prepare for the risk of receivables becoming uncollectible, Toyota Industries estimates its allowance for doubtful accounts by utilizing the percentage of historical experiences in credit losses for ordinary receivables and individually examining the feasibility of collection for receivables that seem to be uncollectible. Evaluating the allowance for doubtful accounts involves judgments made in accordance with the nature of the situation, and this allowance represents an essential and crucial estimate — including future estimates of cash flow amounts and timing — that could change significantly. Based on currently available information, Toyota Industries' management believes its present allowance for doubtful accounts is sufficient. However, the need to significantly increase allowance for doubtful accounts in the future could have an adverse impact on Toyota Industries' business results.

Allowance for Retirement Benefits

Calculations differ for retirement benefits, retirement benefit expenses and liabilities after employee retirement, as well as benefits for employees on leave of absence because different assumptions are used at the time of calculation. Assumptions include such factors as discount rates, amount of benefits, interest expenses, expected rates of return on pension assets and mortality rates. The difference in amounts between these assumptions and actual results is calculated cumulatively and amortized over future accounting periods, and thus becomes an expense and is recognized as a liability in future accounting periods. Toyota Industries believes its assumptions are reasonable. However, differences between actual results or changes in the assumptions could have an impact on retirement benefits and retirement benefit expenses and liabilities after employee retirement.

Toyota Industries' Relationship to Toyota Motor Corporation

For historical reasons, Toyota Industries has a close relationship with TMC and Toyota Group companies in terms of capital investment and business dealings.

Determined to manufacture Japanese-made automobiles, in 1933, Kiichiro Toyoda, the eldest son of founder Sakichi Toyoda and then Managing Director of Toyota Industries (then Toyoda Automatic Loom Works, Ltd.), established the Automobile Division within the Company. In 1937, the Automobile Division was spun off and became an independent company, Toyota Motor Co., Ltd. (the present Toyota Motor Corporation).

As of March 31, 2004, Toyota Industries held 5.4% (196,725 thousand shares) of TMC's total shares issued. As of the same date, TMC held 24.1% (76,600 thousand shares) of Toyota Industries' total voting rights and 23.5% of total shares issued. Toyota Industries is one of TMC's affiliates accounted for by the equity method.

Toyota Industries assembles certain cars and produces automobile engines under consignment from TMC, while its car air-conditioning compressors are sold to DENSO Corporation ("DENSO"). Also, a portion of our other automobile-related components and products is directly or indirectly sold to Toyota Group companies. In fiscal 2004, our net sales to TMC and DENSO accounted for approximately 34.9% and 9.2% of consolidated net sales, respectively.

As a member of the Toyota Group, we intend to enhance the competitiveness of TMC and other Toyota Group companies by contributing in such areas as quality, cost, delivery and technology. We believe that this will be reflected in increases in our sales to and profits from the Toyota Group, thus increasing the shareholder value of Toyota Industries.