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 June 27, 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 annual report, which pertains to the report as a whole.

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 sheet. Currently, in principle, funds for investments and other long-term capital needs are raised from retained earnings and long-term debt, and working capital needs are met through short-term bank loans. Long-term debt financing is carried out mainly through issuance of bonds, including convertible bonds, and bank loans.

Exceptionally, the 7.4 billion Swedish krona (¥89.2 billion) used for the acquisition of BT Industries AB ("BT Industries") in June 2000 was raised through issuance of commercial paper, bonds and new shares. The decision to issue the new shares was based on a comprehensive management evaluation made from a medium-term perspective. The aim was to maintain a strong financial condition and expand Toyota Industries' range of shareholders and investors worldwide. Part of the funds raised through the issuance of new shares has been appropriated as investments in plant and equipment for the Car Air-Conditioning Compressor Business and other operations.

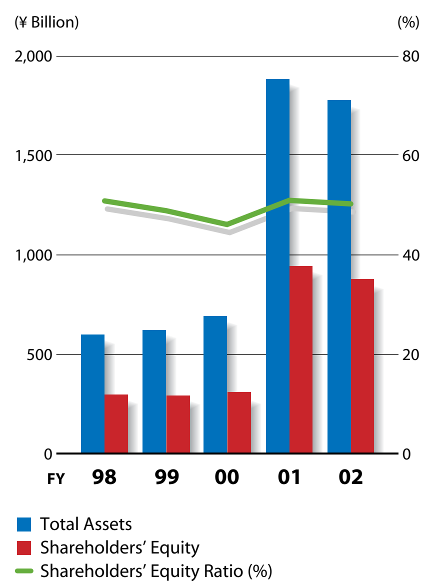
In addition to current assets such as cash and cash equivalents, time deposits and securities, Toyota Industries maintains ¥100.0 billion of commercial paper issuance capacity as of March 31, 2002. Toyota Industries' financial condition remains solid. Through the use of cash and cash equivalents, current assets such as time deposits and securities, as well as free cash flows and fund-raising from financial institutions, Toyota Industries believes that it will be able to provide sufficient funds for the working capital necessary to expand existing operations and develop new projects, and for future investments.

Financial Position

Total assets as of the end of the fiscal year ended March 31, 2002 ("fiscal 2002") stood at ¥1,770.4 billion, a decrease of ¥99.2 billion (5.3%) from fiscal 2001.

Current assets decreased ¥6.0 billion (2.0%) to ¥295.3 billion. This is mainly because decreases in cash and cash equivalents and securities outweighed increases in trade notes and accounts receivable and inventories. Cash and cash equivalents decreased ¥24.2 billion (25.4%) to ¥71.1 billion. Trade notes and accounts receivable increased ¥10.4 billion (10.6%) to ¥107.8 billion. This is due mainly to the consolidation of the industrial equipment sales operation of Toyota Motor Corporation ("TMC") in April 2001. Short-term investments decreased ¥14.6 billion (64.7%) to ¥8.0 billion.

Total Assets, Shareholders' Equity and Shareholders' Equity Ratio



Inventories increased ¥17.7 billion (33.6%) to ¥70.5 billion, and the inventory turnover period increased from 19.7 days to 23.0 days.

Property, plant and equipment increased ¥42.9 billion (14.6%) to ¥337.6 billion, attributable to an increase in machinery, equipment and vehicles, as well as buildings and structures. Intangible assets increased ¥6.9 billion (7.8%) to ¥94.9 billion.

Investments and other assets decreased ¥143.0 billion (12.1%) to ¥1,042.6 billion. This is attributable largely to a decrease in the market prices of shares of Toyota Group companies, including TMC, and other shares held by Toyota Industries. Toyota Industries, primarily in its Automobile Segment, has a very close business relationship with each of the Toyota Group companies, and it recognizes that holding securities of each of these business partners contributes to mutual management stability. From a long-term point of view, Toyota Industries firmly believes that maintaining and improving the competitive strength of the Toyota Group raises its own profitability and contributes to increasing shareholder value.

Current liabilities increased ¥23.0 billion (10.8%) from fiscal 2001 to ¥236.6 billion. This is due mainly to increases in short-term bank loans, reflecting the consolidation of materials handling equipment sales subsidiaries. Trade notes and accounts payable was ¥111.3 billion, an increase of ¥7.8 billion (7.5%). Short-term bank loans increased ¥10.2 billion (43.9%) to ¥33.4 billion.

Long-term liabilities were ¥636.1 billion, a decrease of ¥50.5 billion (7.4%). This is because deferred tax liabilities decreased ¥71.6 billion as a result of a decrease in the market value of investment securities, and long-term debt increased ¥13.5 billion.

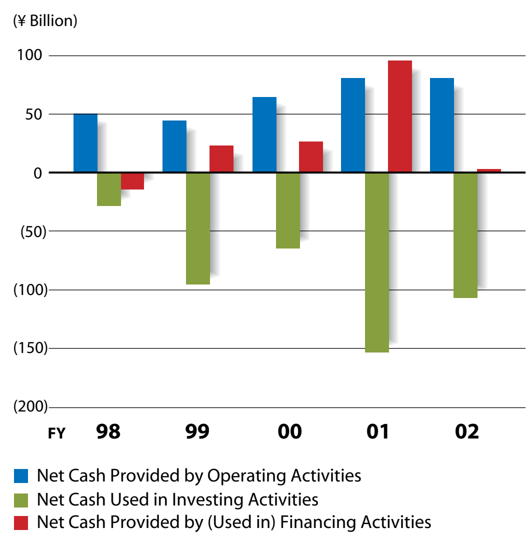
Minority interest in consolidated subsidiaries increased ¥0.7 billion (4.0%) to ¥18.9 billion.

Shareholders' equity decreased ¥72.5 billion (7.6%) to ¥878.8 billion. This is mainly because net unrealized gains on other securities decreased ¥102.3 billion and retained earnings increased ¥20.6 billion. Shareholders' equity per share at year-end decreased to ¥2,809.54 from ¥3,036.77.

Cash Flows

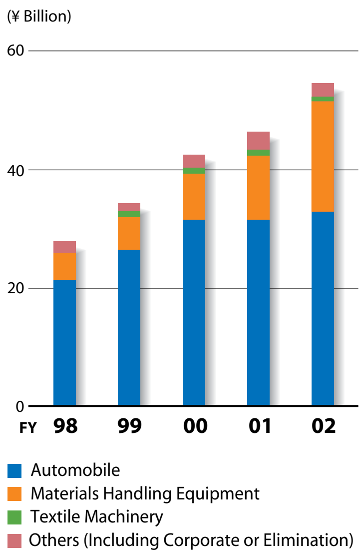
Net cash and cash equivalents provided by operating activities was ¥81.1 billion, an increase of ¥2.7 billion (3.4%) over fiscal 2001. Net cash and cash equivalents used in investing activities decreased ¥49.2 billion (31.5%) to ¥106.7 billion. Net cash and cash equivalents provided by financing activities decreased ¥93.2 billion (98.7%) to ¥1.2 billion. Including translation adjustments, cash and cash equivalents decreased ¥24.2 billion (25.4%) to ¥71.1 billion.

Cash Flows



The increase in net cash provided by operating activities reflects mainly the increase in income before income taxes. Depreciation and amortization increased ¥8.7 billion to ¥55.2 billion, which was offset by the fact that cumulative effect of change in accounting standards for retirement benefits was charged to income in fiscal 2001. In fiscal 2002, depreciation was ¥48.7 billion, and amortization of intangibles and goodwill were ¥1.5 billion and ¥5.0 billion, respectively.

Depreciation and Amortization

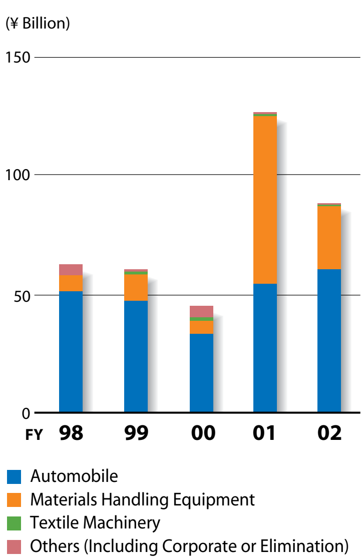


The amounts used for purchase of property, plant and equipment by principal segment were ¥53.7 billion, up ¥3.4 billion (6.8%), in the Automobile Segment, and ¥9.4 billion, up ¥1.2 billion (14.6%), in the Materials Handling Equipment Segment. In January 2002, Toyota Industries made an additional investment of ¥10.0 billion in ST Liquid Crystal Display Corp. ("ST-LCD"), a 50-50 joint venture with Sony Corporation, in order to establish a second production line for low-temperature polysilicon TFT-LCD panels in the fall of 2001. Sony also invested an additional ¥10.0 billion. As a result, the total paid-in capital of ST-LCD reached ¥50.0 billion.

A decrease in net cash provided by financing activities reflected the fact that the fiscal 2001 figure included proceeds from issuance of common stock and bonds in amounts of ¥55.2 billion and ¥39.8 billion, respectively. For fiscal 2002, Toyota Industries paid ¥5.6 billion in cash dividends.

Net cash used in investing activities decreased due mainly to a decrease of ¥85.4 billion in payments for acquisition of subsidiaries' stock. In addition, Toyota Industries used ¥73.6 billion to purchase property, plant and equipment, an increase of ¥18.5 billion over fiscal 2001, and ¥23.7 billion for acquisition of business.

Capital Expenditures



Overview of Performance

Management of Foreign Exchange Risks

The average exchange rate of the yen to the U.S. dollar (TTM) in fiscal 2002 was ¥125.09, a year-on-year depreciation of ¥14.51 (13.1%).

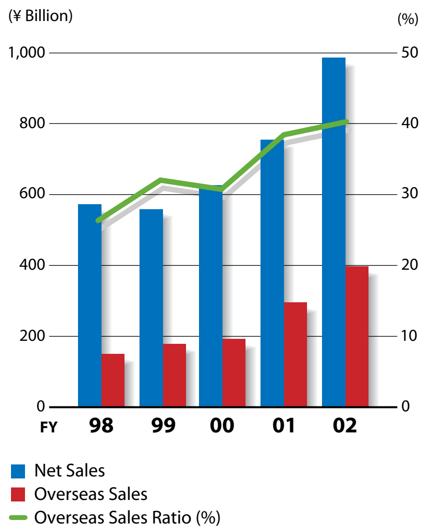
Overseas sales increased ¥97.7 billion (32.7%) over fiscal 2001 to ¥396.5 billion, accounting for 40.4% of total sales. This is due primarily to the large increases in sales in Europe and North America which accompanied the consolidation of BT Industries' results into Toyota Industries' accounts for the full year, as well as the transfer of TMC's industrial equipment sales operation.

Overseas sales and the ratio of overseas sales to total sales are likely to remain at this high level as sales of TOYOTA- and BT-brand materials handling equipment are expected to continue to increase in Europe and the U.S., and the overseas operations of the Car Air-Conditioning Compressor Business will also expand.

To hedge the foreign exchange risks arising from the export and import of materials, parts and products, Toyota Industries uses derivative instruments (foreign currency forward contracts and foreign currency option contracts). Toyota Industries is also making efforts to procure materials and parts and to produce finished goods in areas closer to overseas markets in order to reduce currency exchanges.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Net Sales, Overseas Sales and Overseas Sales Ratio



Operating Performance

In fiscal 2002, the Japanese economy remained sluggish. A global economic slowdown resulted in decreased exports, production and capital investment, while a weakening of the domestic jobs market kept consumer spending stagnant. Although the global economy was severely affected by the terrorist attacks in September 2001, it showed signs of an upturn from the beginning of 2002.

In this operating environment, Toyota Industries focused its efforts on product quality and retaining the trust of its customers. It also made efforts to strengthen its corporate structure by stepping up the development of attractive products, aggressively conducting sales promotions and carrying out a company-wide program to reduce costs.

Toyota Industries' net sales for fiscal 2002 increased ¥212.8 billion (27.7%) over fiscal 2001 to ¥980.2 billion, and net income increased ¥4.7 billion (20.6%) to ¥27.3 billion, marking a record high for a second consecutive year. The increase in net sales is due primarily to an increase in sales of the Automobile Segment and Materials Handling Equipment Segment. The increase in net income is due largely to the growth in net sales, as well as the success of efforts to reduce costs and increase productivity.

Operating Performance Highlights by Business Segment

Net sales figures for each segment described below do not include intersegment transactions.

Net sales of the Automobile Segment totaled ¥563.6 billion, up ¥106.0 billion (23.2%) over fiscal 2001. Within this segment, net sales of the Vehicle Business totaled ¥280.1 billion, an increase of ¥84.2 billion (43.0%). In April 2001, Toyota Industries started production of the RAV4, a compact sport utility vehicle. However, production of the Vitz (Yaris in Europe) decreased because TMC started production of the Yaris in France. Total production decreased 29,000 units (10.4%) to 247,000 units. The increase in net sales reflects the fact that TMC started charging for engines and other parts, whereas previously such parts had been supplied free of cost. As this change caused an increase of ¥67.5 billion in both sales and cost of sales, there was no effect on the gross profit of Toyota Industries. Net sales of the Engine Business totaled ¥114.9 billion, an increase of ¥12.8 billion (12.5%), due mainly to increased sales of CD-type diesel engines. Net sales of the Car Air-Conditioning Compressor Business totaled ¥153.1 billion, an increase of ¥13.6 billion (9.7%). Sales were up both in Japan and overseas, due mainly to new product development, strengthened sales promotion and increased production capacity.

Net sales of the Materials Handling Equipment Segment totaled ¥353.0 billion, an increase of ¥116.5 billion (49.3%) over fiscal 2001. The increase reflected steady domestic sales and the consolidation of the operating results of BT Industries for the full year (Note 2(1)). These factors were partially offset by adverse market conditions in North America.

Net sales of the Textile Machinery Segment totaled ¥30.7 billion, a decrease of ¥2.5 billion (7.6%) from fiscal 2001. Though Toyota Industries engaged in vigorous sales and service activities, including the display of selections of its latest products, from current models to next-generation models, at international exhibitions, these efforts could not make up for decreased exports to Indonesia, Thailand and South Korea.

Net sales of the Others Segment totaled ¥32.8 billion, a decrease of ¥7.2 billion (18.0%) from fiscal 2001.

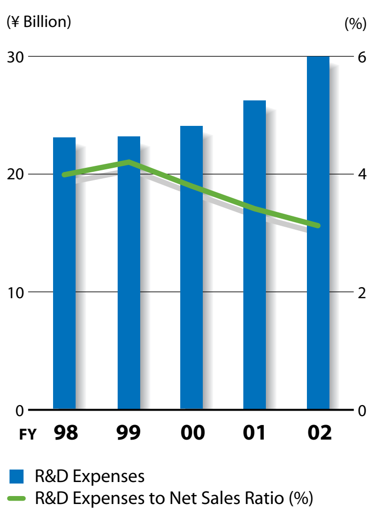
Cost of Sales and Selling, General and Administrative Expenses

Toyota Industries' cost of sales for fiscal 2002 increased ¥165.6 billion (25.0%) over fiscal 2001 to ¥828.6 billion. This reflects the fact that TMC charged Toyota Industries for engine and other parts in an amount of ¥67.5 billion in the Automobile Segment, as well as the increase in sales of the Materials Handling Equipment Segment. The ratio of cost of sales to net sales improved from 86.4% to 84.5%, due primarily to the effects of increases in productivity and capacity utilization ratio driven by increased production and cost reduction activities.

Selling, general and administrative (SGA) expenses increased ¥48.1 billion (84.4%) to ¥105.2 billion. The ratio of SGA expenses to net sales increased from 7.4% to 10.7%, largely as a result of the consolidation of materials handling equipment sales subsidiaries, including BT Industries. Amortization of goodwill increased ¥3.5 billion over fiscal 2001, of which an amount of approximately ¥2.0 billion was used for a one-time amortization of goodwill following the consolidation of materials handling equipment sales subsidiaries.

Research and development expenses, included in SGA and manufacturing costs, increased ¥3.8 billion (14.5%) to ¥30.0 billion, representing 3.1% of net sales. By principal segment, research and development expenses were ¥18.1 billion in the Automobile Segment and ¥9.2 billion in the Materials Handling Equipment Segment.

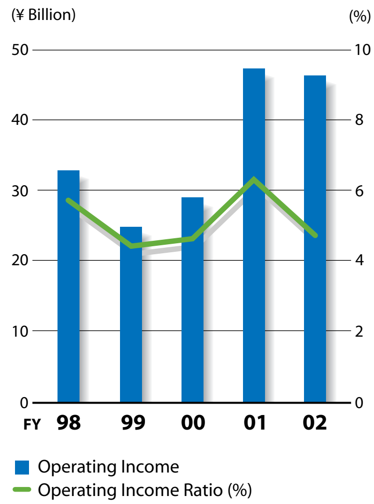
R&D Expenses and R&D Expenses to Net Sales Ratio



Operating Income

Due to the factors summarized above, operating income for fiscal 2002 decreased ¥1.0 billion (2.1%) from fiscal 2001 to ¥46.3 billion. Operating income ratio decreased from 6.2% to 4.7%.

Operating Income and Operating Income Ratio



Non-Operating Income and Expenses

Non-operating income for fiscal 2002 increased ¥6.9 billion (42.3%) over fiscal 2001 to ¥23.1 billion. This was because interest income increased ¥4.4 billion as a result of the consolidation of BT Industries for the full year.

Non-operating expenses increased ¥2.6 billion (13.5%) over fiscal 2001 to ¥21.6 billion. This was because interest expenses increased ¥4.4 billion as a result of the consolidation of BT Industries for the full year.

Ordinary Income

Ordinary income increased ¥3.3 billion (7.5%) over fiscal 2001 to ¥47.9 billion.

Extraordinary Gains and Losses

No item was registered for fiscal 2002. The adoption of new accounting standards for retirement benefits, which became effective on April 1, 2000, led to an aggregate funding shortfall of ¥19.1 billion in retirement benefit obligation for fiscal 2001, and the whole shortfall was accounted for as an extraordinary loss. To compensate for this loss, ¥15.1 billion was posted as an extraordinary gain by an employee retirement benefit trust, established through the contribution of certain investment securities held by Toyota Industries. Also, a change was made in the treatment of Toyota Industries' retirement and severance benefits for directors and corporate auditors. This had been treated as an expense recorded at the time of payment. In order to make period earnings more appropriate and the financial statements healthier beginning from fiscal 2001, Toyota Industries changed the accounting method to provide for actual amounts payable during the term based on its internal rules. Accordingly, a ¥2.3 billion provision for retirement and severance benefits for directors and corporate auditors was recorded as an extraordinary loss.

Income before Income Taxes

Income before income taxes was ¥47.9 billion, an increase of ¥9.6 billion (25.2%) over fiscal 2001.

Income Taxes

Net of current and deferred income taxes was ¥19.7 billion, up ¥4.9 billion (32.9%) over fiscal 2001. The effective income tax rate increased from 38.8% to 41.2%.

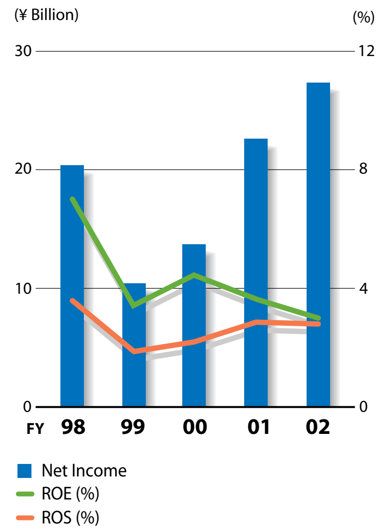
Minority Interest in Consolidated Subsidiaries

Minority interest in consolidated subsidiaries increased ¥0.1 billion to ¥0.8 billion over fiscal 2001.

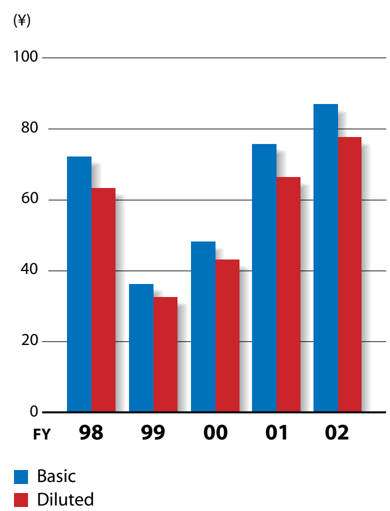
Net Income

Net income for fiscal 2002 was ¥27.3 billion, an increase of ¥4.7 billion (20.6%) over fiscal 2001. Return on sales (ROS) decreased from 2.9% to 2.8%. Return on equity (ROE), using the average at fiscal 2002 and fiscal 2001 year-ends, decreased from 3.6% to 3.0%. Net income per share increased from ¥75.90 to ¥87.28, and diluted net income per share increased from ¥67.77 to ¥78.26.

Net Income, ROE and ROS



Net Income per Share



Strategies and Projections for the Fiscal Year Ending March 31, 2003

Business Strategies

Since its establishment as a textile machinery manufacturer over 75 years ago, Toyota Industries has expanded the scope of its specific characteristics. The operational strategies for these categories are 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-brand 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

<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 production of engines for TOYOTA-brand 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 play a more important role in the development and production of TOYOTA-brand cars and engines, Toyota Industries will step up its efforts to strengthen its research and development capability and improve productivity. In its work in this category for TMC, Toyota Industries will also make proposals for the design and launch of auto parts and compact cars, and actively work to ensure that such proposals are adopted.

The second category, which comprises the Car Air-Conditioning Compressor Business, the Materials Handling Equipment Business and the Textile Machinery Business, is identified as a business field in which Toyota Industries must cultivate further development of global markets by precisely grasping customers' 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 training and development of superior engineers. Since the Car Air-Conditioning Compressor Business and the Materials Handling Equipment Business are positioned as core businesses, Toyota Industries places a priority on them in its allocation of management resources. In addition, on April 1, 2001, Toyota Industries established TOYOTA Material Handling Company as a uniquely independent company within Toyota Industries. The main purpose of this move was to strengthen independent management in the unit by giving it the authority needed to respond flexibly and speedily to changes in the business environment and to emerge a winner in the face of intensifying global competition.

The third category, the Electronics Business, which includes the production of LCDs, will also be made a priority in Toyota Industries' allocation of management resources in order to develop this activity into a core business in the future. This is a field characterized by rapid advances in technological innovation. Toyota Industries recognizes that it must strengthen its research and development capability to maintain competitiveness in this field. Continuing capital expenditures will be required to do this. Swift decision-making is also required for success in this business, which depends on rapidly getting production on track, improving the rejection rate of products and achieving a return on investment. Aiming to participate in the Electronics Business and expand operations in the short term, and to diversify risks by entering new areas of this business, Toyota Industries has not only carried out independent product development, but has also entered into joint ventures with both Sony Corporation and Ibiden Co., Ltd. Toyota Industries believes that this strategy has been successful to date and views this category as a key source of future corporate growth.

Management's Discussion and Analysis of Financial Condition and Results of Operations

More Efficient Management of Funds

Until March 2002, the full amount of deposits in financial institutions that have headquarters in Japan was fully protected by the Deposit Insurance Corporation of Japan (DICJ), a government organization under the Deposit Insurance Law. Effective April 2002, the guaranteed sum insured was reduced to a maximum principal of ¥10 million per depositor per financial institution, plus interest (limited coverage). To achieve more efficient fund utilization, Toyota Industries Group is pushing ahead with localized fund management by region.

At Toyota Industries Group, we are spreading risk by switching to more secure credits and reviewing relationships with banks with a view to establishing deposit limits in accordance with bank credit ratings. Also, to minimize risks to the working capital of the Group, Toyota Industries has started to take in the surplus funds of its subsidiaries. In North America, Toyota Industries North America, Inc. ("TINA"), one of our holding companies, is promoting intensive management of funds. TINA is mainly responsible for efficient appropriation of funds by coordinating surpluses and shortfalls among Group companies and borrowing directly from Toyota Industries Corporation. From fiscal 2001, ended December 31, 2001, TINA and its subsidiaries have paid taxes on a consolidated basis. Tax planning through consolidated tax payment is expected to reduce Toyota Industries' effective income tax rate.

Capital and Business Collaboration

On April 25, 2002, the Boards of Directors of both Toyota Industries and Aichi Corporation ("Aichi") voted to conclude a comprehensive agreement on capital and business collaboration between the two companies. Aichi is listed on the Tokyo and Nagoya Stock Exchanges as a manufacturer of special-purpose vehicles such as aerial lift equipment for construction works. Through this collaboration, both companies will be able to offer product lineups that best exploit the strengths of each company. Toyota Industries will concentrate on the manufacture of materials handling equipment such as forklift trucks, while Aichi will specialize in special-purpose vehicles.

On May 14, 2002, Aichi issued and allocated 20,056,000 shares of common stock to Toyota Industries. This amounts to 34% of Aichi's total shares issued, for which we paid ¥3.2 billion. We also obtained a warrant that when exercised in May 2003 will raise our holding to 51%. This will turn Aichi into one of our subsidiaries, and raise our total investment amount to ¥7.0 billion.

Forecast for Fiscal 2003

For fiscal 2003, ending March 31, 2003, Toyota Industries forecasts consolidated net sales of ¥990.0 billion, ordinary income of ¥48.0 billion and net income of ¥23.5 billion. These projections are based on an exchange rate of ¥125=US$1.

Dividend Policy

Toyota Industries Corporation's dividend policy is to continue paying stable dividends, while giving overall consideration to business results and dividends payout ratio, in order to meet the expectations of shareholders.

Toyota Industries' Ordinary General Meeting of Shareholders, held on June 27, 2002, approved a year-end cash dividend of ¥10.0 per share. Including the interim cash dividend of ¥9.0 per share, cash dividends for the year totaled ¥19.0 per share, an increase of ¥2.0 per share over fiscal 2001. The dividend payout ratio was 23.8%.

Toyota Industries views retained earnings as an important resource for securing future profits for its shareholders, and it intends to strategically invest to aggressively pursue business expansion and strengthen its management foundations. Toyota Industries also use reserves to repurchase treasury stocks.

Stock Repurchase Program

On May 10, 2002, the Board of Directors of Toyota Industries Corporation resolved to propose an agenda item asking for authorization to repurchase its shares by a shareholder resolution to be adopted at the Ordinary General Meeting of Shareholders held on June 27, 2002. This will allow the Company to implement flexible capital policies in accordance with the business environment. The Board of Directors of Toyota Industries Corporation is authorized to repurchase up to 20 million of the Company's common shares (representing 6.4% of the Company's issued shares) at a total purchase price not exceeding ¥50 billion.

Change in Share Trading Unit

To broaden the range of investors in Toyota Industries' stock and to promote the trading of its shares, Toyota Industries lowered the minimum trading unit of its shares from 1,000 to 100 with effect from August 1, 2001. Accordingly, Toyota Industries' shares listed on the Tokyo Stock Exchange, Nagoya Stock Exchange and Osaka Securities Exchange have since been traded in units of 100 shares. As a result, the number of shareholders increased by 2,867—from 14,937 as of March 31, 2001 to 17,804 as of March 31, 2002.

Toyota Industries' Relationship to Toyota Motor Corporation

In 1933, Kiichiro Toyoda, eldest son of founder Sakichi Toyoda and Managing Director of Toyota Industries (then Toyoda Automatic Loom Works, Ltd.) at the time, 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, 2002, Toyota Industries holds 5.4% (196,725 thousand shares) of TMC's total shares issued. As of the same date, TMC holds 24.7% (77,282 thousand shares) of Toyota Industries' total shares issued. Toyota Industries is one of TMC's affiliates accounted for by the equity method.

TMC assigns the assembly of certain cars and the production of automobile engines to us. We also directly or indirectly manufacture and sell other automobile components to TMC. In fiscal 2002, our net sales to TMC totaled ¥411.0 billion and accounted for 41.9% of consolidated net sales.

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