Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

On 28 June, 2001, the General Meeting of Shareholders of Toyoda Automatic Loom Works, Ltd. approved to change its name effective August 1, 2001 to Toyota Industries Corporation. The accompanying consolidated financial statements have been prepared based on the accounts maintained by Toyoda Automatic Loom Works, Ltd. under new corporate name of Toyota Industries Corporation (the "Company") and its consolidated subsidiaries (together, hereinafter referred to as "Toyota Industries") in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥123.90 = U.S. $1, the approximate rate of exchange prevailing at March 30, 2001, has been used in translation. The inclusion of such amounts are not intended to imply that the Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

2. Summary of significant accounting policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its 100 subsidiaries (22 domestic subsidiaries and 78 overseas subsidiaries, which are listed on page 86) in 2001, 29 subsidiaries (22 domestic subsidiaries and seven overseas subsidiaries) in 2000 and 27 subsidiaries (20 domestic subsidiaries and seven overseas subsidiaries) in 1999. The unconsolidated subsidiaries are excluded from consolidation because such subsidiaries would have no material effect on the consolidated financial statements of Toyota Industries, or Toyota Industries' owning majority of such subsidiaries would be temporary.

For the year ended March 31, 2000, as a result of adoption of the new accounting standards, two companies which had been treated as affiliates became consolidated subsidiaries.

For the year ended March 31, 2001, 71 subsidiaries, including 63 BT Industries group companies, were newly added to the scope of consolidation. Since 64 subsidiaries out of 72 subsidiaries were deemed as being acquired by the Company as of the semi-annual period end, the results of operations of the latter half of the year of those subsidiaries are consolidated in the consolidated financial statements. Two unconsolidated subsidiaries are excluded from the scope of consolidation because majority owning investments into those two subsidiaries are temporary.

The fiscal years of certain subsidiaries are different from the fiscal year of the Company. Since the difference is not more than three months, the Company is using those subsidiaries' statements for those fiscal years, making adjustments for significant transactions that materially affect the financial position or results of operations.

All significant intercompany transactions, balances and unrealized profits among Toyota Industries have been eliminated.

A full portion of the assets and liabilities of the acquired subsidiaries is stated at fair value as of the date of acquisition of control.

(2) Investments in unconsolidated subsidiaries and affiliates

Investments in two unconsolidated subsidiaries and 17 major affiliates in 2001 and two affiliates in 2000 and 1999 are accounted for by the equity method of accounting. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost due to their insignificant effect on the consolidated financial statements.

The major affiliates accounted for by the equity method are listed on page 87.

(3) Translation of foreign currencies

Foreign currency denominated receivables and payables are translated into Japanese yen at the year-end exchange rates and the resulting transaction gains or losses are included in income statements.

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at year-end exchange rates and all revenue and expense accounts are translated at prevailing fiscal average rates from the year ended March 31, 2000, although the year-end exchange rates had been used until the year ended March 31, 1999. The resulting translation adjustments are included as a separate component of shareholders' equity from the year ended March 31, 2001. Changes in accounting policies are discussed in Note 3.

(4) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

(5) Marketable securities and investment in securities

Until the year ended March 31, 2000, marketable securities (current) and investment in securities (non-current) with a market quotation on a stock exchange are valued at the lower of moving-average cost or market value. Marketable securities and investment in securities without a market quotation are valued at moving-average cost.

Effective for the year ended March 31, 2001, Toyota Industries adopted new accounting standards for financial instruments that include accounting for marketable securities and investment in securities, which are included in short-term investments together with time deposits due over three months and investments in securities on the balance sheet as of March 31, 2001. The new accounting standards require Toyota Industries to classify securities into four categories by purpose of holding: trading securities, held-to-maturity securities, other securities, and investments in unconsolidated subsidiaries and affiliates. Toyota Industries does not have trading securities nor held-to-maturity securities as of March 31, 2001.

Other securities with fair values are stated at fair value based on market prices at the end of year. Unrealized gains and losses are included in net unrealized gains on other securities as a separate component of shareholders' equity. Cost of sales of such securities is determined by the moving average method. Other securities without fair values are stated at cost, as determined by the moving average method.

Investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method (see Note 2.(2) above).

(6) Inventories

Inventories are stated mainly at cost determined by the moving average method.

(7) Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost. Depreciation expenses of property, plant and equipment are computed mainly by the declining-balance method, under which useful lives and residual values are same ones prescribed in Japanese Tax Law. Accumulated depreciation as of March 31, 2001 and 2000 was ¥406,843 million ($3,283,640 thousand) and ¥358,153 million, respectively.

(8) Intangible assets and amortization

Amortization of intangible assets is computed using the straight-line method. Software costs for internal use are amortized by the straight-line method over their expected useful lives (mainly five years).

Goodwill, if material, is amortized principally over less than 20 years on a straight-line basis, while immaterial goodwill is charged to income as incurred. Goodwill incurred before April 1, 2000 has been amortized over five years on a straight-line basis.

(9) Allowances for doubtful accounts

Toyota Industries adopted the policy of providing an allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying to the remaining accounts a percentage determined by certain factors such as historical collection experiences.

(10) Deferred charges

Stock issuance costs and bond issuance costs are expensed as incurred.

(11) Allowance for retirement benefits

Until the year ended March 31, 2000, the allowance for retirement benefits was calculated at the present value based on the amount that would be paid if all employees voluntarily retired.

Effective for the year ended March 31, 2001, Toyota Industries adopted new accounting standards for retirement benefits for employees. Toyota Industries accrues amount which is considered to be incurred in the period based on the estimated benefit obligations and estimated pension assets at the end of year.

To provide for the retirement benefits for directors and corporate auditors, an amount which is required at the end of year by an internal rule describing the retirement benefits for directors is accrued.

The change in accounting policy is described in Note 3.

(12) Lease transactions

Finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for mainly by the method similar to that applicable to ordinary operating leases.

(13) Consumption tax

The consumption tax under the Japanese Consumption Tax Law withheld by Toyota Industries on sales of goods is not included in the amount of net sales in the accompanying consolidated statements of income, and the consumption tax paid by Toyota Industries under the law on purchases of goods and services, and expenses is not included in the related amount.

(14) Hedge accounting

(a) Method of hedge accounting

Mainly deferral method of hedge accounting is applied. In case of foreign currency forward contracts, the hedged items are translated at contracted forward rates if certain conditions are met.

(b) Hedging instruments and hedged items

Hedging instruments:	derivative instruments (interest rate swaps and foreign currency forwards)
Hedged items:	risk of change in interest rate on borrowings and risk of change in forward exchange rate on transactions denominated in foreign currencies (monetary assets and liabilities, marketable securities and forecasted transactions)

(c) Hedging policy

Hedging transactions are executed and controlled based on the Toyota Industries' internal rule and Toyota Industries is hedging interest rate risks and foreign currency risks. Toyota Industries' hedging activities are reported periodically to a director responsible for accounting.

(d) The method used to measure hedge effectiveness

Hedge effectiveness is measured by comparing accumulated changes in market prices of hedged items and hedging instruments or accumulated changes in estimated cash flows from the inception of the hedge to the date of measurements performed. Currently it is considered that there are high correlations between them.

(e) Others

Due to the fact that counterparties to Toyota Industries represent major financial institutions which have high creditworthiness, Toyota Industries believes that the overall credit risk related to its financial instruments is insignificant.

(15) Appropriation of retained earnings

In the accompanying consolidated statements of shareholders' equity, the approved amount during the relevant fiscal year is reflected for the appropriation of retained earnings of consolidated subsidiaries. In Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings through an appropriation, instead of being charged to the income for the year.

(16) Income taxes

Income taxes are principally provided in amounts currently payable for each year. Until the year ended March 31, 1999, deferred income taxes arising from timing differences between reporting for accounting purposes and that for tax purposes were not required to be accounted for under Japanese accounting principles and therefore was not recorded in the financial statements by the Company and its domestic subsidiaries and affiliates. (For most of overseas subsidiaries and affiliates, deferred income taxes have been recorded and reflected in their respective financial statements.)

However, effective for the year ended March 31, 2000, tax effect accounting has been adopted. The change in accounting policies is discussed in Note 3.

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(17) Net income per share

The computation of basic net income per share is based on the weighted-average number of outstanding shares of common stock. The calculation of diluted net income per share is similar to the calculation of basic net income per share, except that the weighted-average number of shares outstanding includes the additional dilution from potential common stock equivalents such as convertible bonds. Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

3. Changes in accounting policies and adoption of new accounting standards

(1) For the year ended March 31, 2001

(a) Allowance for retirement and severance benefits for directors and corporate auditors

The Company's retirement and severance benefits for directors and corporate auditors was previously recorded as expenses at the time they were awarded. However, in order to make period earnings more appropriate, from the year ended March 31, 2001, these expenses are accrued based on the directors' retirement benefit rule. Compared to the previous method, operating income and ordinary income decreased by ¥196 million ($1,582 thousand) and income before income taxes decreased by ¥2,525 million ($20,379 thousand).

(b) Accounting for retirement benefits

Effective for the year ended March 31, 2001, the new accounting standards for retirement benefits have been applied. As a result, operating income and ordinary income decreased by ¥1,005 million ($8,111 thousand) and income before income taxes decreased by ¥4,982 million ($40,210 thousand). Also, cumulative effect of change in accounting standards for retirement benefits of ¥19,057 million ($153,810 thousand) was charged to income and recorded as an extraordinary loss, and gain on securities contribution to employee retirement benefit trust of ¥15,080 million ($121,711 thousand) was charged to income and recorded as an extraordinary gain. Allowance for retirement and severance benefits and unamortized prior service cost are included in allowance for retirement benefits.

(c) Accounting for financial instruments

Effective for the year ended March 31, 2001, the new accounting standards for financial instruments have been applied. As a result, ordinary income and income before income taxes increased by ¥359 million ($2,897 thousand). At the beginning of the year ended March 31, 2001, Toyota Industries reviewed the holding purposes of the securities it owns. As a result, marketable securities expiring within one year were classified under current assets as marketable securities and the others were classified as investment in securities. As a result, marketable securities decreased by ¥394 million ($3,180 thousand) and investment in securities increased by the same amount.

(d) Accounting for foreign currency transactions

Effective for the year ended March 31, 2001, the amended accounting standards for foreign currency transactions have been applied. Neither profits nor losses resulted from this change. Effective for the year ended March 31, 2001, translation adjustments, which had been listed under assets in the consolidated balance sheets as of March 31, 2000 has been shifted under shareholders' equity and included in minority interest in consolidated subsidiaries due to the amendment of Japanese Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements.

(2) For the year ended March 31, 2000

(a) Consolidation and investments in affiliates

Since the year ended March 31, 2000, Toyota Industries has adopted the new accounting standards for preparation of consolidated financial statements. To follow the new standards, Toyota Industries has changed its criteria with regard to the identification of companies to be consolidated from the percentage-of-ownership approach to the effective control approach. Pro forma disclosure of the effect of the retroactive application of the new accounting standards is not required under accounting standards generally accepted in Japan. As a result of the adoption of the new standards, two companies have been newly consolidated because Toyota Industries was deemed to have effective controls over those two companies.

(b) Translation of foreign subsidiaries' financial statements

Until the year ended March 31, 1999, revenue and expenses accounts of overseas consolidated subsidiaries had been translated into Japanese yen at year-end rates. From the year ended March 31, 2000, the Company has used annual average rates. This change was made to present the operating results more precisely as the significance of the overseas consolidated subsidiaries had been increasing and their revenue and expenses were incurred throughout the fiscal years.

As a result of this change, net sales increased by ¥10,431 million, ordinary income increased by ¥551 million and income before income taxes increased by ¥198 million for the year ended March 31, 2000 compared to the amounts accounted for under the former policies.

(c) Income taxes

Tax effect accounting has been adopted from the year ended March 31, 2000 due to the amendment of the accounting standards for income taxes. As a result, deferred tax assets were newly recognized in the amount of ¥9,867 million, ¥4,556 million in current assets and ¥5,311 million in investments and other assets, and deferred tax liabilities were recognized in the amount of ¥2,042 million in the consolidated financial statements as of March 31, 2000. Also, net income for the year ended March 31, 2000 and retained earnings as of March 31,2000 increased by ¥2,970 million and ¥8,458 million, respectively.

In addition to the above, cumulative effect of the adoption of tax effect accounting of ¥5,487 million at the beginning of the year ended March 31, 2000 was recognized as adjustments in retained earnings.

(3) For the year ended March 31, 1999

Legal reserve:

From the year ended March 31, 1999, in the consolidated balance sheets, legal reserve and retained earnings have been combined and shown as retained earnings.

4. Acquisitions

(1) For the year ended March 31, 2001

Until May 31, 2000, the Company acquired 97.1% of the share capital of BT Industries AB, a holding company of BT Industries group which is materials handling equipment manufacturing and sales companies. Due to this acquisition, Toyota Industries recorded goodwill amounting to ¥61,557 million ($496,828 thousand), which is amortized over 20 years.

The summarized assets and liabilities arising from the acquisition, the acquisition cost to purchase BT Industries AB's shares, and the net cash payment made for the acquisition are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 56,289	$ 454,310
Fixed assets	117,255	946,368
Current liabilities	(33,559)	(270,856)
Long-term liabilities	(49,450)	(399,112)
Minority interest	(762)	(6,150)
Acquisition cost of BT Industries AB	89,773	724,560
Less: cash and cash equivalents in BT Industries AB	(3,745)	(30,226)
Cash payment for the acquisition of BT Industries AB	¥ 86,028	$ 694,334

(2) For the year ended March 31, 2000

Summary of assets and liabilities that increased due to the acquisition of the water-jet loom business from Nissan Texsys Co., Ltd. is as follows:

	Millions of yen
Current assets	¥1,222
Fixed assets	386
Total	1,608
Current liabilities	99
Long-term liabilities	11
Total	¥ 110

5. Marketable securities

(1) As of and for the year ended March 31, 2001

(a) Other securities with fair value as of March 31, 2001 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Difference	Acquisition cost	Carrying amount	Difference
Securities with carrying amount exceeding acquisition cost:						
Stocks	¥159,376	¥1,110,176	¥950,800	$1,286,328	$8,960,258	$7,673,930
Bonds						
Government and municipal bonds, etc.	–	–	–	–	–	–
Corporate bonds	13,702	13,723	21	110,589	110,759	170
Other bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	173,078	1,123,899	950,821	1,396,917	9,071,017	7,674,100
Securities with carrying amount not exceeding acquisition cost:						
Stocks	7,995	7,560	(435)	64,528	61,017	(3,511)
Bonds						
Government and municipal bonds, etc	0	0	–	0	0	–
Corporate bonds	2,498	2,475	(23)	20,161	19,976	(185)
Other bonds	3	3	–	24	24	–
Other	720	720	–	5,811	5,811	–
Subtotal	11,216	10,758	(458)	90,524	86,828	(3,696)
Total	¥184,294	¥1,134,657	¥950,363	$1,487,441	$9,157,845	$7,670,404

In this year, Toyota Industries recorded ¥2 million ($16 thousand) of impairment on an equity security included in securities with the carrying amount not exceeding the cost lines.

(b) Other securities sold during the year ended March 31, 2001 are as follows:

Millions of Yen			Thousands of U.S. dollars		
Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
¥23,689	¥15,317	¥0	$191,145	$123,624	$0

Proceeds include ¥17,845 million ($144,027 thousand) of proceeds from the establishment of retirement benefit trust. And, realized gains include ¥15,080 million ($121,711 thousand) of gain on securities contribution to employee retirement benefit trust.

(c) Contents and carrying amount of securities (excluding held-to-maturity bonds within securities with fair value) not practicable to fair value as of March 31, 2001, are as follows:

	Millions of yen	Thousands of U.S. dollars
Held-to-maturity securities	–	–
Other securities		
Domestic unlisted stocks excluding over-the-counter stocks	¥12,644	$102,050
Commercial paper used in repurchase agreements	3,999	32,276
Bonds used in repurchase agreements	2,000	16,142
Money management funds	341	2,752
Foreign unlisted bond	310	2,502

(d) Redemption schedule of securities which have maturities within other securities as of March 31, 2001 is as follows:

	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Bonds								
Government bonds	¥ –	¥ –	¥0	¥ –	$ –	$ –	$0	$ –
Corporate bonds	10,702	4,518	–	978	86,376	36,465	–	7,893
Other	3	10	–	300	24	81	–	2,422
Securities other than bonds	6,022	129	–	–	48,604	1,041	–	–
Total	¥16,727	¥4,657	¥0	¥1,278	$135,004	$37,587	$0	$10,315

(2) As of March 31, 2000

Current and non-current marketable securities included in current assets and in investments and other assets as of March 31, 2000 are as follows:

	Millions of yen		
	Carrying amount	Fair value	Unrealized gains (losses)
Current:			
Stock	¥ 393	¥ 1,256	¥ 863
Bonds	2	3	1
Other	–	–	–
Subtotal	395	1,259	864
Non-current:			
Stock	162,983	1,323,286	1,160,303
Bonds	2,000	1,997	(3)
Other	50	50	0
Subtotal	165,033	1,325,333	1,160,300
Total	¥165,428	¥1,326,592	¥1,161,164

(a) The following methods are used to determine fair value:

Listed securities — mainly closing prices on Tokyo Stock Exchange

Unlisted bonds — prices after adjustments made on the standard quotation prices of over-the-counter standard bonds announced by Japan Securities Dealers' Association

Beneficiary certificates of securities investment trusts — Basic standard cost

(b) Carrying amounts of the securities which are excluded from disclosure above are as follows:

	Millions of yen
Current:	
Bonds used in repurchase agreements	¥ 3,994
Commercial paper used in repurchase agreements	3,993
Discount bank debentures	3,491
Foreign unlisted bonds	810
Money management funds	632
Non-current:	
Domestic unlisted stocks excluding over-the-counter stocks	¥22,856
Foreign unlisted bonds	3,310

6. Inventories

Inventories as of March 31, 2001 and 2000 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished goods	¥16,164	¥ 3,342	$130,460
Raw materials	10,329	4,615	83,366
Work in process	21,370	18,104	172,478
Supplies	4,900	4,154	39,547
Total	¥52,763	¥30,215	$425,851

7. Long-term debt

(1) Long-term debt as of March 31, 2001 and 2000 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
The Company:			
0.35% convertible bonds due 2003 without collateral	¥ 75,748	¥ 75,748	$ 611,364
2.70% bonds due 2008 without collateral	30,000	30,000	242,131
1.50% bonds due 2003 without collateral	20,000	20,000	161,421
2.15% bonds due 2008 without collateral	20,000	20,000	161,421
1.50% bonds due 2006 without collateral	15,000	15,000	121,065
1.94% bonds due 2009 without collateral	15,000	15,000	121,065
1.25% bonds due 2005 without collateral	20,000	–	161,421
1.91% bonds due 2010 without collateral	20,000	–	161,421
Consolidated subsidiaries:			
1.80% bonds due 2005	300	300	2,421
Long-term bank loans	53,555	6,011	432,243
Less: Current portion of long-term debt	(1,108)	(987)	(8,943)
Total	¥268,495	¥181,072	$2,167,030

The conversion period of the 0.35% convertible bonds due 2003 is from May 1, 1996 to September 29, 2003 and the conversion price was ¥1,983.90 ($16.01) per share as of March 31, 2001. The aggregate number of shares issuable upon conversion thereof at such conversion price was 38,181 thousand shares.

(2) Annual maturities of long-term debt as of March 31, 2001 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 1,108	$ 8,943
2003	15,282	123,341
2004	124,818	1,007,409
2005	3,760	30,347
2006	23,060	186,118
2007 and thereafter	101,575	819,815
Total	¥269,603	$2,175,973

8. Assets pledged as collateral

(1) Assets pledged as collateral as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Investments in securities	**¥23,116**	¥ 5,721	**$186,570**
Buildings and structures	**4,249**	3,631	**34,294**
Land	**3,190**	2,871	**25,747**
Machinery, equipment and vehicles	**383**	730	**3,091**
Trade notes and accounts receivable	**200**	200	**1,614**
Other	**29**	144	**234**
Total	**¥31,167**	¥13,297	**$251,550**

(2) Secured liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Other current liabilities	**¥17,608**	¥17,376	**$142,115**
Short-term bank loans	**8,702**	5,106	**70,234**
Long-term debt	**1,867**	4,435	**15,068**
Total	**¥28,177**	¥26,917	**$227,417**

9. Contingent liabilities

Toyota Industries is contingently liable for guarantees as of March 31, 2001 and 2000 as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Guarantees given by the Company	**¥ 338**	¥ 370	**$ 2,728**
Guarantees given by consolidated subsidiaries	**3,468**	–	**27,990**
Guarantee forwards given by the Company	**3,363**	2,936	**27,143**
Acts similar to guarantees given by consolidated subsidiaries	**10,289**	–	**83,043**

Guarantees given by consolidated subsidiaries consist of 288,278 thousand of Swedish krona, and acts similar to guarantees given by consolidated subsidiaries consist of 855,299 thousand of Swedish krona.

10. Accounting for notes receivable and notes payable maturing at year-end date

Although year-end date of the year ended March 31, 2001, was a holiday for banking institutions, the following notes receivable and notes payable were accounted as if they were settled at year-end date. Consequently, they are not included in trade notes and account receivables and trade notes and accounts payable on the balance sheet as of March 31, 2001.

	Millions of yen	Thousands of U.S. dollars
Notes receivable	¥569	$4,592
Notes payable	857	6,917

11. Shareholders' equity

Under the Japanese Commercial Code, amounts equal to at least 10% of the sum of the cash dividends and other external appropriations paid by the Company and its domestic subsidiaries must be set aside as a legal reserve until it equals 25% of common stock. The legal reserve may be used to reduce a deficit or may be transferred to common stock by taking appropriate corporate action. In consolidation, the legal reserves of the Company and its domestic subsidiaries are accounted for as retained earnings.

Year-end cash dividend is approved at the General Meeting of Shareholders of the Company held after the close of the fiscal year to which the dividend is applicable. In addition, interim cash dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Japanese Commercial Code.

Proceeds from the conversion of convertible bonds have been accounted for in approximately equal amounts as common stock and capital surplus. At least 50% of the proceeds have been accounted for as common stock, in accordance with the provisions of the Japanese Commercial Code.

12. Research and development expenses

Research and development expenses, which were included in selling, general and administrative expenses and manufacturing costs, amounted to ¥26,196 million ($211,429 thousand), ¥24,062 million and ¥23,231 million for the year ended March 31, 2001, 2000 and 1999, respectively.

13. Derivative instruments

(1) For the year ended March 31, 2001

(a) Qualitative disclosure about derivatives

Contents of derivative instruments into which Toyota Industries entered, policy to enter into derivative instruments, and purpose of using derivative instruments:

Toyota Industries uses interest rate swap agreements and foreign currency forward contracts, to reduce interest rate risks on borrowings and to hedge foreign currency risks on transactions denominated in foreign currencies (receivables and payables, securities, and forecasted transactions), respectively.

Contents of risks related to derivative instruments:

Interest rate swaps and foreign currency forward contracts into which Toyota Industries entered, have risks of fluctuations in interest rates and in foreign currency exchange rates. Due to the fact that counterparties to Toyota Industries represent major financial institutions which have high creditworthiness, Toyota Industries believes that the overall credit risk related to its financial instruments is insignificant.

Controls in place over transactions handling derivative instruments:

Hedging transactions are executed and controlled based on the Toyota Industries' internal rule and Toyota Industries' hedging activities are reported periodically to a director responsible for accounting.

(b) Quantitative disclosure about derivatives

Toyota Industries omitted this information because hedge accounting is applied to all of derivative instruments into which Toyota Industries entered.

(2) For the year ended March 31, 2000

Toyota Industries did not use any derivative instruments.

14. Retirement benefits

(1) Outline of retirement benefit plans:

The Company and its domestic subsidiaries maintain tax qualified pension plans and lump-sum indemnities plans both of which are non-contributory defined benefit pension plans. In addition, certain foreign subsidiaries maintain non-contributory defined benefit pension plans. Since 1987, the Company has been transferring the covering percentages of pension plan from lump-sum indemnities plan to tax qualified pension plan. As of March 31, 2001, tax qualified pension plan is covering 50% of total plans. Also, the Company established employee retirement benefit trust.

(2) Components of allowance for retirement benefits as of March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Benefit obligation	¥ 71,458	$ 576,739
Plan assets	(46,513)	(375,407)
Unfunded benefit obligation	24,945	201,332
Unrecognized actuarial loss	(4,812)	(38,838)
Net amount recognized on the balance sheet	20,133	162,494
Prepaid pension expenses	(2,598)	(20,968)
Allowance for retirement benefits	¥ 22,731	$ 183,462

Certain subsidiaries use the simplified method to determine benefit obligations.

Prepaid pension expenses are included in other investments and other assets.

Allowance for retirement benefits on the balance sheet includes ¥2,803 million ($22,623 thousand) of allowance for retirement and severance benefits for directors and corporate auditors as discussed in Note 3.

(3) Components of retirement benefit expenses for the year ended March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 3,799	$ 30,662
Interest cost	1,677	13,534
Expected return on plan assets	(637)	(5,141)
Amortization of transition obligation	19,057	153,810
Retirement benefit expenses	¥23,896	$192,865

Retirement expenses of subsidiaries which adopted simplified method are included in both service cost and amortization of transition obligation.

Due to the establishment of retirement benefit trust in the year ended March 31, 2001, which is the first year of accounting standards for retirement benefits' adoption, amortization of transition obligation also includes ¥17,845 million ($144,027 thousand) of one-time amortization of retirement benefit obligation at beginning of the year which is equivalent to fair value of trust properties at the time of its contribution.

(4) Assumptions used for calculation of retirement benefits for the year ended March 31, 2001 are as follows:

Method of attribution of estimated retirement benefits to periods of employee service	Straight-line method	
Discount rate	3.0%	
Expected return on plan assets	3.0%	
Amortization period of unrecognized actuarial gains or losses	20 years	Straight-line method over the average remaining service period of employee starting from following year
Amortization period of net transition obligation	1 year	

15. Income taxes

(1) The significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Net operating loss carry-forwards for tax purposes	¥ 2,290	¥ 2,368	$ 18,483
Trade receivables	3,203	1,708	25,851
Accrued expenses	2,330	1,452	18,805
Depreciation	1,708	1,338	13,785
Allowance for retirement benefits	3,562	993	28,749
Enterprise tax payable	1,058	776	8,539
Securities	1,034	507	8,345
Other	4,602	4,034	37,144
Subtotal	19,787	13,176	159,701
Less — valuation allowance	(2,448)	(2,394)	(19,757)
Total deferred tax assets	17,339	10,782	139,944
Deferred tax liabilities:			
Other securities	391,484	–	3,159,677
Depreciation	1,618	1,304	13,059
Land	1,112	1,112	8,975
Reserve for advanced depreciation	384	409	3,099
Reserve for special depreciation	96	59	775
Other	148	72	1,195
Total deferred tax liabilities	394,842	2,956	3,186,780
Net deferred tax assets (liabilities)	¥(377,503)	¥ 7,826	$(3,046,836)

(2) Reconciliations of differences between the statutory rate of income taxes and the effective rate of income taxes for the year ended March 31, 2001 and 2000 are as follows:

	2001	2000
Statutory rate of income taxes	41.2%	41.2%
Addition (reduction) in taxes resulting from:		
Equity in loss of affiliates	1.0	7.6
Net pre-tax losses of subsidiaries	–	3.5
Elimination of dividend income	0.9	1.3
Dividends income and other permanently not recognized as taxable income	(6.7)	(8.6)
Other	2.4	1.3
Effective rate of income taxes	38.8%	46.3%

16. Leases

(1) Finance leases which do not transfer ownership of leased properties to lessees

(a) Pro forma information regarding the leased properties such as acquisition cost, accumulated depreciation under finance leases as of March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Machinery and equipment:			
Acquisition cost equivalents	¥2,339	¥2,214	$18,878
Accumulated depreciation equivalents	910	534	7,345
Machinery and equipment year-end balance equivalents	1,429	1,680	11,533
Tools, furniture and fixture:			
Acquisition cost equivalents	4,660	5,507	37,611
Accumulated depreciation equivalents	2,228	3,052	17,982
Tools, furniture and fixture year-end balance equivalents	2,432	2,455	19,629
Total net leased properties	¥3,861	¥4,135	$31,162

Acquisition cost equivalents include the imputed interest expense portion because the percentage which is computed by dividing future minimum lease payments by total balance of property, plant and equipment, etc., at year-ends is immaterial.

(b) Pro forma information regarding future minimum lease payments as of March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within 1 year	¥1,302	¥1,501	$10,508
Due after 1 year	2,559	2,634	20,654
Total	¥3,861	¥4,135	$31,162

Future minimum lease payments under finance leases include the imputed interest expense portion because the percentage which is computed by dividing future minimum lease payments by total balance of property, plant and equipment, etc., at year-ends is immaterial.

(c) Total lease payments for the years ended March 31, 2001, 2000 and 1999 are as follows:

	Millions of yen	Thousands of U.S. dollars
2001	¥1,505	$12,147
2000	1,749	–
1999	1,679	–

Pro forma depreciation expenses, which are not reflected in the accompanying consolidated statements of income, are computed mainly by the straight-line method which assume zero residual value and leasing term to be useful lives for the years ended 2001, 2000 and 1999, and are equivalent to the amount of total lease payments of the above.

(2) Operating leases

(a) Pro forma future lease payments under operating leases (as a lessee) as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within 1 year	¥ 5,116	¥203	$ 41,291
Due after 1 year	9,543	165	77,022
Total	¥14,659	¥368	$118,313

(b) Pro forma future lease payments under operating leases (as a lessor) as of March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within 1 year	¥1,456	$11,751
Due after 1 year	7,717	62,284
Total	¥9,173	$74,035

17. Subsequent events

On June 28, 2001, the shareholders of the Company authorized the payment of year-end cash dividends to shareholders of record as of March 31, 2001 of ¥9.00 ($0.073) per share, or a total of ¥2,820 million ($22,760 thousand), and bonuses to directors and corporate auditors of ¥208 million ($1,679 thousand). Cash dividends for the year totaled ¥17.00 ($0.137) per share, including interim cash dividends of ¥8.00 ($0.065).

18. Segment information

(1) Business segments

As of and for the years ended March 31, 2001, 2000 and 1999:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	2001
Sales:				
Automobile				
Outside customer sales	¥457,631	¥423,413	¥364,269	$3,693,551
Inter-segment transactions	4,097	3,335	2,431	33,067
	461,728	426,748	366,700	3,726,618
Materials Handling Equipment				
Outside customer sales	236,502	149,085	151,370	1,908,814
Inter-segment transactions	–	–	–	–
	236,502	149,085	151,370	1,908,814
Textile Machinery				
Outside customer sales	33,238	23,135	18,947	268,264
Inter-segment transactions	–	–	–	–
	33,238	23,135	18,947	268,264
Others				
Outside customer sales	40,012	30,140	24,290	322,938
Inter-segment transactions	4,531	2,613	2,974	36,570
	44,543	32,753	27,264	359,508
Subtotal	776,011	631,721	564,281	6,263,204
Elimination of inter-segment transactions	(8,628)	(5,948)	(5,405)	(69,637)
Total	¥767,383	¥625,773	¥558,876	$6,193,567
Operating costs and expenses:				
Automobile	¥433,203	¥402,320	¥349,302	$3,496,392
Materials Handling Equipment	221,955	143,335	142,918	1,791,404
Textile Machinery	33,203	26,107	22,402	267,982
Others	40,178	32,001	25,064	324,278
Elimination of inter-segment transactions	(8,460)	(6,857)	(5,624)	(68,281)
Total	¥720,079	¥596,906	¥534,062	$5,811,775
Operating income (loss):				
Automobile	¥ 28,525	¥ 24,428	¥ 17,398	$ 230,226
Materials Handling Equipment	14,547	5,750	8,452	117,410
Textile Machinery	35	(2,972)	(3,455)	282
Others	4,365	752	2,200	35,230
Elimination of inter-segment transactions	(168)	909	219	(1,356)
Total	¥ 47,304	¥ 28,867	¥ 24,814	$ 381,792

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Assets:				
Automobile	**¥ 282,504**	¥266,839	¥254,087	**$ 2,280,097**
Materials Handling Equipment	**270,975**	81,343	78,518	**2,187,046**
Textile Machinery	**25,404**	23,427	22,224	**205,036**
Others	**15,487**	18,012	20,729	**124,996**
Corporate assets or elimination	**1,275,272**	296,293	241,513	**10,292,752**
Total	**¥1,869,642**	¥685,914	¥617,071	**$15,089,927**
Depreciation and amortization:				
Automobile	**¥ 31,764**	¥ 31,707	¥ 26,518	**$ 256,368**
Materials Handling Equipment	**10,766**	7,751	5,548	**86,893**
Textile Machinery	**1,034**	978	1,024	**8,345**
Others	**3,071**	2,398	1,404	**24,786**
Corporate or elimination of inter-segment transactions	**(181)**	(82)	(114)	**(1,461)**
Total	**¥ 46,454**	¥ 42,752	¥ 34,380	**$ 374,931**
Capital expenditures:				
Automobile	**¥ 54,734**	¥ 33,058	¥ 47,635	**$ 441,759**
Materials Handling Equipment	**70,673**	5,426	11,691	**570,404**
Textile Machinery	**320**	1,042	663	**2,583**
Others	**2,311**	5,794	875	**18,652**
Corporate or elimination of inter-segment transactions	**(765)**	(574)	(396)	**(6,174)**
Total	**¥ 127,273**	¥ 44,746	¥ 60,468	**$ 1,027,224**

Main products of each segment:

Automobile .... Passenger vehicles, diesel and gasoline engines, car air-conditioning compressors

Materials Handling Equipment .... Counterbalanced forklift trucks, warehouse trucks, skid steer loaders, automated storage and retrieval systems, automatic guided vehicles

Textile Machinery .... Ring spinning frames, air-jet looms, water-jet looms

Others .... Ball grid array-type plastic package substrates for IC chipsets, casting machines

Corporate assets as of March 31, 2001, included in corporate assets or elimination amounting to ¥1,278,393 million ($10,317,942 thousand) mainly consist of cash and cash equivalents, short-term investments and investments in securities held by the Company.

Effective for the year ended March 31, 2001, the new accounting standards for retirement benefits have been applied. Consequently, operating costs and expenses increased by ¥721million ($5,819 thousand) for the Automobile Segment, ¥197 million ($1,590 thousand) for the Materials Handling Equipment Segment, ¥41 million ($331 thousand) for the Textile Machinery Segment and ¥46million ($371 thousand) for the Others Segment, respectively, and operating income for each segment decreased by the same amount.

Effective for the year ended March 31, 2001, allowance for retirement and severance benefits for directors and corporate auditors has been recorded. Consequently, operating costs and expenses increased by ¥145 million ($1,170 thousand) for the Automobile Segment, ¥37 million ($299 thousand) for the Materials Handling Equipment Segment, ¥10 million ($81 thousand) for the Textile Machinery Segment and ¥4 million ($32 thousand) for the Others Segment, respectively, and operating income for each segment decreased by the same amount.

Effective for the year ended March 31, 2001, the new accounting standards for financial instruments have been applied. Consequently, assets increased by ¥40 million ($323 thousand) for the Materials Handling Equipment Segment and ¥942,594 million ($7,607,670 thousand) for corporate assets or elimination.

Effective for the year ended March 31, 2000, the new accounting standards for income taxes have been applied. Consequently, assets increased by ¥3,335 million for the Automobile Segment, ¥1,221 million for the Materials Handling Equipment Segment, ¥442 million for the Textile Machinery Segment, ¥621 million for the Others Segment, and ¥4,247 million for corporate assets or elimination.

As discussed in Note 3, from the year ended March 31, 2000, revenue and expense accounts of overseas subsidiaries have been translated into Japanese yen at annual average rates while year-end rates had been used until the year ended March 31, 1999. Consequently, sales, operating income, assets, depreciation and amortization and capital expenditures increased by ¥4,477 million, ¥251 million, ¥145 million, ¥287 million and ¥960 million for the Automobile Segment, and also increased by ¥5,856 million, ¥338 million, ¥210 million, ¥135 million and ¥303 for the Materials Handling Equipment Segment. In addition, sales, operating loss, depreciation and amortization and capital expenditures increased by ¥99 million, ¥30 million, ¥12 million and ¥5 million, and assets decreased by ¥36 million for the Textile Machinery Segment.

(2) Geographical segments

As of and for the years ended March 31, 2001, 2000 and 1999:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Sales:				
Japan				
Outside customer sales	**¥586,087**	¥531,274	¥465,444	**$4,730,323**
Inter-segment transactions	**31,770**	25,309	18,860	**256,416**
	617,857	556,583	484,304	**4,986,739**
North America				
Outside customer sales	**123,355**	79,232	78,264	**995,601**
Inter-segment transactions	**337**	–	–	**2,720**
	123,692	79,232	78,264	**998,321**
Europe				
Outside customer sales	**55,826**	–	–	**450,573**
Inter-segment transactions	**749**	–	–	**6,045**
	56,575	–	–	**456,618**
Others				
Outside customer sales	**2,115**	15,267	15,168	**17,070**
Inter-segment transactions	**478**	589	551	**3,858**
	2,593	15,856	15,719	**20,928**
Subtotal	**800,717**	651,671	578,287	**6,462,606**
Elimination of inter-segment transactions	**(33,334)**	(25,898)	(19,411)	**(269,039)**
Total	**¥767,383**	¥625,773	¥558,876	**$6,193,567**
Operating costs and expenses:				
Japan	**¥577,381**	¥533,987	¥465,139	**$4,660,056**
North America	**118,422**	74,547	73,342	**955,787**
Europe	**53,724**	–	–	**433,608**
Others	**2,841**	15,358	15,100	**22,930**
Elimination of inter-segment transactions	**(32,289)**	(26,986)	(19,519)	**(260,606)**
Total	**¥720,079**	¥596,906	¥534,062	**$5,811,775**
Operating income (loss):				
Japan	**¥ 40,476**	¥ 22,596	¥ 19,165	**$ 326,683**
North America	**5,270**	4,685	4,922	**42,534**
Europe	**2,851**	–	–	**23,010**
Others	**(248)**	498	619	**(2,002)**
Elimination of inter-segment transactions	**(1,045)**	1,088	108	**(8,433)**
Total	**¥ 47,304**	¥ 28,867	¥ 24,814	**$ 381,792**

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Assets:				
Japan	**¥ 460,474**	¥361,459	¥349,787	**$ 3,716,497**
North America	**126,520**	44,035	39,113	**1,021,146**
Europe	**158,351**	–	–	**1,278,055**
Others	**4,987**	17,322	15,846	**40,250**
Corporate assets or elimination	**1,119,310**	263,098	212,325	**9,033,979**
Total	**¥1,869,642**	¥685,914	¥617,071	**$15,089,927**

Significant countries or areas belonging to each segment are as follows:

North America . . . . U.S.A., Canada

Europe . . . . Sweden, France, Germany

Others . . . . India, China

Corporate assets as of March 31, 2001, included in corporate assets or elimination amounting to ¥1,278,393 million ($10,317,942 thousand) mainly consist of cash and cash equivalents, short-term investments and investments in securities held by the Company.

Effective for the year ended March 31, 2001, the Europe Segment has been separated from the Others Segment because business there increased in importance. Sales, operating income, and assets of the Europe Segment in prior year were ¥14,822 million, ¥681 million, and ¥13,472 million, respectively.

Effective for the year ended March 31, 2001, the new accounting standards for retirement benefits have been applied. Consequently, operating costs and expenses of the Japan Segment increased by ¥1,005 million ($8,111 thousand) and operating income of the Japan Segment decreased by the same amount.

Effective for the year ended March 31, 2001, allowance for retirement and severance benefits for directors and corporate auditors have been recorded. Consequently, operating costs and expenses of the Japan Segment increased by ¥196 million ($1,582 thousand) and operating income of the Japan Segment decreased by the same amount.

Effective for the year ended March 31, 2001, the new accounting standards for financial instruments have been applied. Consequently, assets increased by ¥40 million ($323 thousand) for the Japan Segment and ¥942,594 million ($7,607,700 thousand) for corporate assets or elimination.

Effective for the year ended March 31, 2000, the new accounting standards for income taxes have been applied. Consequently, assets increased by ¥9,025 million for Japan Segment, ¥811 million for North America Segment and ¥31 million for the Others Segment.

As discussed in Note 3, from the year ended March 31, 2000, revenue and expense accounts of overseas subsidiaries have been translated into Japanese yen at annual average rates while year-end rates had been used until the year ended March 31, 1999. Consequently, sales, operating income and assets increased by ¥8,031 million, ¥475 million and ¥308 million for the North America Segment, ¥2,401 million, ¥84 million and ¥11 million for the Others Segment.

(3) Overseas sales

For the years ended March 31, 2001, 2000 and 1999:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Overseas sales:				
North America	**¥140,161**	¥90,314	¥93,748	**$1,131,243**
Europe	**102,666**	–	–	**828,620**
Others	**55,967**	101,678	84,989	**451,719**
Total	**¥298,794**	¥191,992	¥178,737	**$2,411,582**
Total sales	**¥767,383**	¥625,773	¥558,876	**$6,193,567**
Ratios of overseas sales to total sales (%):				
North America	**18.2%**	14.4%	16.8%	
Europe	**13.4**	–	–	
Others	**7.3**	16.3	15.2	
Total	**38.9%**	30.7%	32.0%	

Significant countries or areas belonging to each area as of March 31, 2001 are as follows:

North America .... U.S.A., Canada

Europe .... Germany, France, U.K.

Others .... China, Indonesia, Australia, Korea, Taiwan

Germany, France and U.K. were included in the Others area until the year ended March 31, 2000.

The Europe area, which had been included in the Others area until the year ended March 31, 2000, has been separately disclosed the year ended March 31, 2001 due to its increased materiality. Sales to the Europe area was ¥54,034 million (8.6% to total sales) in the previous year.

As discussed in Note 3, from the year ended March 31, 2000, revenue and expense accounts of overseas subsidiaries have been translated into Japanese yen at annual average rates while year-end rates had been used until the year ended March 31, 1999. Consequently, overseas sales increased by ¥8,027 million for the North America area, ¥2,347 million for the Others area.

19. Related party transactions

The following transactions were carried out with related parties.

(1) Sales of goods and services for the year ended March 31, 2001, and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Toyota Motor Corporation	**¥425,377**	¥393,780	**$3,433,228**

Toyota Motor Corporation holds 24.67% of the Company's shares as of March 31, 2001. The above transactions were carried out on commercial terms and conditions.

(2) Purchase of goods and services for the year ended March 31, 2001, and 2000 are as follows:

Purchase of goods:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Toyota Motor Corporation	¥195,514	¥184,935	$1,577,998

Purchase of services:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Toyota Motor Corporation	¥4,685	¥4,848	$37,813
TOYODA AUTOMATIC LOOM WORKS Health Insurance Society	69	62	557
Toyota Medical Corporation	33	32	266
Total	¥4,787	¥4,942	$38,636

TOYODA AUTOMATIC LOOM WORKS Health Insurance Society's chairman is Shiro Endo as of March 31, 2001, who is a director of the Company and holds 0.01% of the Company's shares, and Shigetaka Mitomo as of March 31, 2000, who was a corporate auditor. Toyota Medical Corporation's chairman is Yoshitoshi Toyoda as of March 31, 2001 and 2000, who is a director of the Company and holds 0.05% and 0.06% of the Company's shares, respectively. The transactions above were carried out on commercial terms and conditions.

(3) Outstanding balances arising from sale/purchase of goods/services as of March 31, 2001 and 2000 are as follows:

Receivables from a related party:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Toyota Motor Corporation	¥35,483	¥34,782	$286,384

Payable to a related party:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Toyota Motor Corporation	¥18,214	¥21,120	$147,006

(4) Loans to an affiliate for the year ended March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Balance at the beginning of the year	¥ 8,600	$ 69,411
Loans made during the year	–	–
Repayments during the year	(8,600)	(69,411)
Balance at the end of the year	¥ –	$ –

A loan was made to ST Liquid Crystal Display Corp., in which the Company owns 50.0% of the shares, and given on commercial terms and conditions without any collateral.