Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by 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 Commercial Code of Japan 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.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69=US$1, the approximate rate of exchange prevailing at March 31, 2004, has been used in translation. The inclusion of such amounts are not intended to imply that the Japanese yen actually represent, have been or could be converted into equivalent amounts 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 140 subsidiaries (42 domestic subsidiaries and 98 overseas subsidiaries, which are listed on pages 90 and 91) in 2004, 118 subsidiaries (33 domestic subsidiaries and 85 overseas subsidiaries) in 2003 and 111 subsidiaries (26 domestic subsidiaries and 85 overseas subsidiaries) in 2002.

For the year ended March 31, 2004, 22 subsidiaries were newly added to the scope of consolidation. One unconsolidated subsidiary is excluded from the scope of consolidation due to temporary investments.

For the year ended March 31, 2003, eight subsidiaries were newly added to the scope of consolidation and one company was excluded from the scope of consolidation. Since two subsidiaries out of eight subsidiaries were deemed as being acquired by the Company as of the semi-annual period end and as of October 1, 2002, respectively, the results of operations of the latter half of the year of those subsidiaries were consolidated in the consolidated financial statements. Two unconsolidated subsidiaries were excluded from the scope of consolidation due to temporary investments.

For the year ended March 31, 2002, 15 subsidiaries were newly added to the scope of consolidation and four companies were excluded from the scope of consolidation. Since five subsidiaries out of 15 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 were consolidated in the consolidated financial statements. One unconsolidated subsidiary was excluded from the scope of consolidation due to temporary investments.

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 within Toyota Industries have been eliminated.

All 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 three unconsolidated subsidiaries and 19 major affiliates in 2004, two unconsolidated subsidiaries and 16 major affiliates in 2003, and one unconsolidated subsidiary and 18 major affiliates in 2002 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 91.

(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 overseas subsidiaries and affiliates are translated into Japanese yen at the year-end exchange rates and all revenue and expense accounts are translated at prevailing fiscal average rates.

(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

Toyota Industries classifies 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 did not have trading securities or held-to-maturity securities as of March 31, 2004 and 2003.

Other securities with readily determinable fair values are stated at fair value based on market prices at the end of the 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 readily determinable 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)).

(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 for the Company and Japanese subsidiaries and by the straight-line method for overseas subsidiaries.

Significant renewals and additions are capitalized at cost. Repair and maintenance are charged to income as incurred.

Accumulated depreciation as of March 31, 2004 and 2003 was ¥509,379 million (US$4,819,553 thousand) and ¥465,151 million, respectively.

Estimated useful lives are mainly as follows:

Building and structures	5 – 50 years
Machinery, equipment and vehicles	3 – 22
Tools, furniture and fixtures	2 – 20

(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.

Accumulated amortization of intangibles and goodwill as of March 31, 2004 and 2003 was ¥30,743 million (US$290,879 thousand) and ¥23,579 million, respectively.

(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

Toyota Industries accrues an amount which is considered to be incurred in the period based on the estimated projected benefit obligations and estimated pension assets at the end of the year. To provide for the retirement benefits for directors and corporate auditors, an amount which is calculated at the end of the year as required by an internal rule describing the retirement benefits for directors and corporate auditors is accrued.

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

(b) Hedging instruments and hedged items

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

(c) Hedging policy

Hedging transactions are executed and controlled based on 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) 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 income for the year.

(16) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements 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. The change in accounting policy is described in Note 3.

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

(1) For the year ended March 31, 2003

Accounting Standard for Earnings Per Share

Effective beginning the year ended March 31, 2003, Financial Accounting Standard No. 2 "Accounting Standard for Earnings Per Share" and Financial Accounting Standards Implementation Guidance No. 4 "Implementation Guidance for Accounting Standards for Earnings Per Share" issued by the Accounting Standards Board of Japan have been applied.

(2) Recent accounting pronouncements in Japan

On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset's net selling price and value in use. The standard shall be effective for fiscal years beginning April 1, 2005, with earlier adoption permitted.

4. Acquisitions

For the year ended March 31, 2002

Summary of assets and liabilities that increased due to the acquisition of business (materials handling sales operation) from Toyota Motor Corporation is as follows:

	Millions of yen
Current assets	¥11,912
Fixed assets	14,957
Current liabilities	(1,184)
Long-term liabilities	(1,152)
Acquisition cost	24,533
Less: cash and cash equivalents	(814)
Cash payment for the acquisition	¥23,719

5. Marketable securities

(1) As of and for the year ended March 31, 2004

(a) Other securities with readily determinable fair value as of March 31, 2004 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	**¥185,252**	**¥1,075,222**	**¥889,970**	**$1,752,786**	**$10,173,356**	**$8,420,570**
Subtotal	**185,252**	**1,075,222**	**889,970**	**1,752,786**	**10,173,356**	**8,420,570**
Securities with carrying amount not exceeding acquisition cost:						
Stocks	**2,097**	**1,653**	**(444)**	**19,841**	**15,640**	**(4,201)**
Bonds						
Government and municipal bonds, etc.	**0**	**0**	**0**	**0**	**0**	**0**
Other bonds	**1**	**1**	**0**	**9**	**9**	**0**
Subtotal	**2,098**	**1,654**	**(444)**	**19,850**	**15,649**	**(4,201)**
Total	**¥187,350**	**¥1,076,876**	**¥889,526**	**$1,772,636**	**$10,189,005**	**$8,416,369**

In this year, Toyota Industries recorded ¥184 million (US$1,741 thousand) of impairment on an equity security included in securities with carrying amount not exceeding the cost lines.

(b) Other securities sold during the year ended March 31, 2004 are as follows:

Millions of yen			Thousands of U.S. dollars		
Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
¥2,181	**¥803**	**¥11**	**$20,636**	**$7,598**	**$104**

(c) Contents and carrying amount of securities (excluding held-to-maturity bonds within securities with fair value) without readily determinable fair value as of March 31, 2004 are as follows:

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Held-to-maturity securities	¥ –	$ –
Other securities		
Domestic unlisted stocks excluding over-the-counter stocks	18,200	172,202
Money management funds	20,019	189,412

(d) Redemption schedule of securities which have maturities within other securities as of March 31, 2004 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	–	–	–	–	–	–	–	–
Other bonds	46	0	–	–	435	0	–	–
Total	¥46	¥0	¥0	¥–	$435	$0	$0	$–

(2) As of and for the year ended March 31, 2003

(a) Other securities with readily determinable fair value as of March 31, 2003 are as follows:

	Millions of yen		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amount exceeding acquisition cost:			
Stocks	¥159,155	¥713,979	¥554,824
Bonds			
Corporate bonds	703	703	0
Other	430	472	42
Subtotal	160,288	715,154	554,866
Securities with carrying amount not exceeding acquisition cost:			
Stocks	17,963	14,341	(3,622)
Bonds			
Government and municipal bonds, etc.	20,000	20,000	(0)
Corporate bonds	2,002	2,002	(0)
Other bonds	3	3	–
Subtotal	39,968	36,346	(3,622)
Total	¥200,256	¥751,500	¥551,244

In this year, Toyota Industries recorded ¥3,671 million of impairment on an equity security included in securities with carrying amount not exceeding the cost lines.

(b) Other securities sold during the year ended March 31, 2003 are as follows:

Millions of yen		
Proceeds	Realized gains	Realized losses
¥9,762	¥1,558	¥5

(c) Contents and carrying amount of securities (excluding held-to-maturity bonds within securities with fair value) without readily determinable fair value as of March 31, 2003 are as follows:

	Carrying amount
	Millions of yen
Held-to-maturity securities	¥ –
Other securities	
Domestic unlisted stocks excluding over-the-counter stocks	17,117
Money management funds	30,073

(d) Redemption schedule of securities which have maturities within other securities as of March 31, 2003 is as follows:

	Millions of yen			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Bonds				
Government bonds	¥20,000	¥0	¥–	¥–
Corporate bonds	2,705	–	–	–
Other bonds	3	–	–	–
Total	¥22,708	¥0	¥–	¥–

6. Inventories

Inventories as of March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Finished goods	**¥31,265**	¥28,524	**$295,818**
Raw materials	**11,722**	10,284	**110,909**
Work in process	**26,893**	22,956	**254,452**
Supplies	**7,694**	7,377	**72,798**
Total	**¥77,574**	¥69,141	**$733,977**

7. Long-term debt

(1) Long-term debt as of March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
The Company:			
0.35% convertible bonds due 2003 without collateral	¥ –	¥ 75,692	$ –
2.70% bonds due 2008 without collateral	30,000	30,000	283,849
1.50% bonds due 2003 without collateral	–	20,000	–
2.15% bonds due 2008 without collateral	20,000	20,000	189,233
1.50% bonds due 2006 without collateral	15,000	15,000	141,924
1.94% bonds due 2009 without collateral	15,000	15,000	141,924
1.25% bonds due 2005 without collateral	20,000	20,000	189,233
1.91% bonds due 2010 without collateral	20,000	20,000	189,233
0.41% bonds due 2007 without collateral	30,000	30,000	283,849
1.13% bonds due 2012 without collateral	50,000	50,000	473,082
Consolidated subsidiaries:			
1.80% bonds due 2005	300	300	2,838
Long-term bank loans	38,263	39,904	362,030
Less: current portion of long-term debt	(3,038)	(99,019)	(28,744)
Total	¥235,525	¥236,877	$2,228,451

(2) Annual maturities of long-term debt as of March 31, 2004 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 3,038	$ 28,744
2006	29,657	280,604
2007	16,337	154,575
2008	61,698	583,764
2009	20,344	192,487
2010 and thereafter	107,489	1,017,021
Total	¥238,563	$2,257,195

8. Assets pledged as collateral

(1) Assets pledged as collateral as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Investments in securities	¥33,126	¥21,724	$313,426
Buildings and structures	3,837	3,713	36,305
Land	8,466	5,340	80,102
Machinery, equipment and vehicles	2	–	19
Trade notes and accounts receivable	431	519	4,078
Other	232	29	2,195
Total	¥46,094	¥31,325	$436,125

(2) Secured liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Other current liabilities	¥19,422	¥18,936	$183,764
Short-term bank loans	5,059	7,756	47,866
Long-term debt	2,435	3,276	23,039
Total	¥26,916	¥29,968	$254,669

9. Contingent liabilities

Toyota Industries is contingently liable for guarantees as of March 31, 2004 and 2003 as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Guarantees given by the Company	¥11,250	¥32,996	$106,443
Guarantees given by consolidated subsidiaries	10,030	6,378	94,900
Guarantee forwards given by the Company	3,314	3,621	31,356

10. 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 Ordinary 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.

11. Research and development expenses

Research and development expenses, which are included in selling, general and administrative expenses and manufacturing costs, amounted to ¥29,562 million (US$279,705 thousand), ¥29,705 million and ¥29,985 million for the years ended March 31, 2004, 2003 and 2002, respectively.

12. Other non-operating income and expenses

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Other non-operating income:				
Gain on sales of marketable securities	**¥ 819**	¥ 1,851	¥ 242	**$ 7,749**
Rental income of fixed assets	**1,833**	2,036	2,214	**17,343**
Exchange gain	**836**	1,709	2,324	**7,910**
Gain on sales of fixed assets	**808**	332	375	**7,645**
Sundries	**4,873**	2,533	1,624	**46,107**
Total	**¥ 9,169**	¥ 8,461	¥ 6,779	**$ 86,754**
Other non-operating expenses:				
Loss on impairment of securities	**¥ 152**	¥ –	¥ 302	**$ 1,438**
Depreciation	**2,342**	2,202	2,082	**22,159**
Loss on disposal of fixed assets	**3,523**	3,101	1,941	**33,333**
Exchange loss	**1,283**	1,224	557	**12,139**
Bond issue costs	**502**	329	19	**4,750**
Sundries	**6,286**	5,425	4,914	**59,476**
Total	**¥14,088**	¥12,281	¥ 9,815	**$133,295**

13. Derivative instruments

(1) Qualitative disclosure about derivatives

(a) Contents of derivative instruments into which Toyota Industries entered, policy with respect to entering into derivative instruments, and purpose of using derivative instruments:

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

(b) Contents of risks related to derivative instruments:

Interest rate swaps, foreign currency forward contracts and foreign currency option 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.

(c) Controls in place over transactions handling derivative instruments:

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

(2) Quantitative disclosure about derivatives

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

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 overseas 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, 2004, tax-qualified pension plan covers 50% of total plans.

Also, the Company established an employee retirement benefit trust.

(2) Components of allowance for retirement benefits as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Benefit obligation	**¥ 96,344**	¥ 95,904	**$ 911,572**
Plan assets	**(57,929)**	(46,640)	**(548,103)**
Unfunded benefit obligation	**38,415**	49,264	**363,469**
Unrecognized actuarial loss	**(15,372)**	(25,341)	**(145,444)**
Unrecognized loss in prior service obligation	**(597)**	(187)	**(5,649)**
Net amount recognized on the balance sheet	**22,446**	23,736	**212,376**
Prepaid pension expenses	**(7,218)**	(7,626)	**(68,294)**
Allowance for retirement benefits	**¥ 29,664**	¥ 31,362	**$ 280,670**

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 sheets includes ¥4,600 million (US$43,527 thousand) and ¥2,738 million of allowance for retirement and severance benefits for directors and corporate auditors as of March 31, 2004 and 2003, respectively.

(3) Components of retirement benefit expenses for the years ended March 31, 2004, 2003 and 2002 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Service cost	**¥ 7,424**	¥6,615	¥6,018	**$ 70,243**
Interest cost	**4,559**	2,036	1,843	**43,136**
Expected return on plan assets	**(822)**	(797)	(704)	**(7,777)**
Amortization of prior service obligation	**79**	12	–	**747**
Amortization of unrecognized actuarial gain or loss	**1,854**	484	225	**17,542**
Retirement benefit expenses	**¥13,094**	¥8,350	¥7,382	**$123,891**

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

(4) Assumptions used for calculation of retirement benefits for the years ended March 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002	
Method of attribution of estimated retirement benefits to periods of employee service: straight-line method				
Discount rate	**2.00%**	2.00%	3.00%	
Expected return on plan assets	**3.00%**	3.00%	3.00%	
Amortization period of prior service obligation	**6–11 years**	6–11 years	–	— Straight-line method over the remaining service period of employees starting from following year
Amortization period of unrecognized actuarial gains or losses	**20 years**	20 years	20 years	— Straight-line method over the average remaining service period of employees starting from following year

15. Income taxes

(1) The significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Allowance for retirement benefits	**¥ 8,927**	¥ 6,285	**$ 84,464**
Trade receivables	**5,026**	5,122	**47,554**
Accrued expenses	**5,458**	4,644	**51,642**
Net operating loss carry-forwards for tax purposes	**4,985**	2,437	**47,166**
Depreciation	**3,732**	2,867	**35,311**
Securities	**2,238**	3,149	**21,175**
Enterprise tax payable	**1,566**	1,124	**14,817**
Other	**14,800**	11,567	**140,032**
Subtotal	**46,732**	37,195	**442,161**
Less — valuation allowance	**(6,556)**	(2,508)	**(62,031)**
Total deferred tax assets	**40,176**	34,687	**380,130**
Deferred tax liabilities:			
Other securities	**354,600**	219,413	**3,355,095**
Depreciation	**4,298**	4,513	**40,666**
Land	**1,110**	2,650	**10,502**
Reserve for advanced depreciation	**468**	337	**4,428**
Reserve for special depreciation	**589**	549	**5,573**
Other	**7,118**	3,837	**67,348**
Total deferred tax liabilities	**368,183**	231,299	**3,483,612**
Net deferred tax liabilities	**¥(328,007)**	¥(196,612)	**$(3,103,482)**

Net deferred tax liabilities consist of the following components on the consolidated balance sheet.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current assets — deferred tax assets	**¥ 17,534**	¥ 14,072	**$ 165,900**
Investments and other assets — deferred tax assets	**3,538**	2,863	**33,475**
Current liabilities — deferred tax liabilities	**(2,743)**	(1,192)	**(25,953)**
Long-term liabilities — deferred tax liabilities	**(346,336)**	(212,355)	**(3,276,904)**
Net deferred tax liabilities	**¥(328,007)**	¥(196,612)	**$(3,103,482)**

(2) Reconciliations of differences between the statutory rate of income taxes and the effective rate of income taxes for the years ended March 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
Statutory rate of income taxes	**41.2%**	41.2%	41.2%
Addition (reduction) in taxes resulting from:			
Dividends income and others permanently not recognized as taxable income	**(3.4)**	(3.5)	(5.4)
Other	**(1.9)**	10.0	5.4
Effective rate of income taxes	**35.9%**	47.7%	41.2%

16. Leases

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

(a) Pro forma information regarding the leased properties such as acquisition cost and accumulated depreciation, which are not reflected in the accompanying consolidated balance sheets as of March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Buildings and structures			
Acquisition cost equivalents	**¥ 13**	¥ –	**$ 123**
Accumulated depreciation equivalents	**11**	–	**104**
Buildings and structures net balance equivalents	**2**	–	**19**
Machinery and equipment:			
Acquisition cost equivalents	**10,095**	8,258	**95,515**
Accumulated depreciation equivalents	**5,203**	2,772	**49,229**
Machinery and equipment net balance equivalents	**4,892**	5,486	**46,286**
Tools, furniture and fixtures:			
Acquisition cost equivalents	**5,340**	5,277	**50,525**
Accumulated depreciation equivalents	**3,279**	2,911	**31,025**
Tools, furniture and fixtures net balance equivalents	**2,061**	2,366	**19,500**
Software:			
Acquisition cost equivalents	**147**	–	**1,391**
Accumulated depreciation equivalents	**63**	–	**596**
Software net balance equivalents	**84**	–	**795**
Total net leased properties	**¥ 7,039**	¥7,852	**$66,600**

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 at year-end is immaterial.

(b) Pro forma information regarding future minimum lease payments as of March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within 1 year	**¥2,696**	¥2,274	**$25,508**
Due after 1 year	**4,343**	5,577	**41,092**
Total	**¥7,039**	¥7,851	**$66,600**

The amount equivalent to future minimum lease payments as of the end of the year includes 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 at year-end is immaterial.

(c) Total lease payments for the years ended March 31, 2004, 2003 and 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
2004	**¥3,614**	**$34,193**
2003	2,566	–
2002	1,842	–

Pro forma depreciation expenses, which are not reflected in the accompanying consolidated statements of income, are computed mainly by the straight-line method, which assumes zero residual value and leasing term to be useful lives for the years ended 2004, 2003 and 2002, and are equivalent to the amount of total lease payments of the above.

(2) Operating leases (as a lessee)

Pro forma future lease payments under operating leases as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within 1 year	¥ 3,091	¥ 2,878	$ 29,246
Due after 1 year	13,584	10,084	128,527
Total	¥16,675	¥12,962	$157,773

(3) Finance leases (as a lessor) which do not transfer ownership of leased properties to lessees

(a) Information regarding leased properties such as acquisition cost and accumulated depreciation under finance leases as of March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Machinery and equipment:			
Acquisition cost	¥8,061	¥7,306	$76,270
Accumulated depreciation	4,686	4,284	44,337
Total net leased property	¥3,375	¥3,022	$31,933

(b) Pro forma information regarding future minimum lease income as of March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within 1 year	¥1,673	¥1,816	$15,829
Due after 1 year	2,842	2,657	26,890
Total	¥4,515	¥4,473	$42,719

The amount equivalent to future minimum lease income includes the imputed interest income portion because the percentage which is computed by dividing future minimum lease income by total balance of property, plant and equipment at year-end is immaterial.

(c) Total lease receipts and depreciation expenses for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Total lease payments to be received	¥2,179	¥1,930	$20,617
Depreciation expenses	1,847	1,631	17,476

(4) Operating leases (as a lessor)

Pro forma information regarding future minimum rentals under operating leases as of March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within 1 year	**¥ 7,217**	¥ 5,431	**$ 68,285**
Due after 1 year	**10,741**	9,320	**101,627**
Total	**¥17,958**	¥14,751	**$169,912**

17. Subsequent events

On June 22, 2004, the shareholders of the Company authorized payment of a year-end cash dividend to shareholders of record as of March 31, 2004 of ¥12 (US$0.114) per share, or a total of ¥3,812 million (US$36,068 thousand), and bonuses to directors and corporate auditors of ¥246 million (US$2,328 thousand). Cash dividends for the year totaled ¥24 (US$0.228) per share, including a semi-annual dividend of ¥12 (US$0.114).

18. Segment information

(1) Business segments

As of and for the years ended March 31, 2004, 2003 and 2002:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Sales:				
Automobile				
Outside customer sales	**¥ 603,863**	¥ 595,460	¥ 563,599	**$ 5,713,530**
Intersegment transactions	**15,698**	15,523	15,412	**148,529**
	619,561	610,983	579,011	**5,862,059**
Materials handling equipment				
Outside customer sales	**443,444**	373,008	353,043	**4,195,704**
Intersegment transactions	**138**	90	44	**1,306**
	443,582	373,098	353,087	**4,197,010**
Textile machinery				
Outside customer sales	**45,969**	48,740	30,705	**434,942**
Intersegment transactions	**16**	6	50	**151**
	45,985	48,746	30,755	**435,093**
Others				
Outside customer sales	**71,103**	52,011	32,816	**672,751**
Intersegment transactions	**14,132**	13,078	11,056	**133,712**
	85,235	65,089	43,872	**806,463**
Subtotal	**1,194,363**	1,097,916	1,006,725	**11,300,625**
Elimination of intersegment transactions	**(29,984)**	(28,697)	(26,562)	**(283,698)**
Total	**¥ 1,164,379**	¥1,069,219	¥ 980,163	**$11,016,927**
Operating costs and expenses:				
Automobile	**¥ 592,031**	¥ 580,875	¥ 550,051	**$ 5,601,580**
Materials handling equipment	**424,233**	356,923	339,721	**4,013,937**
Textile machinery	**45,885**	46,437	31,146	**434,147**
Others	**79,485**	61,177	39,390	**752,058**
Elimination of intersegment transactions	**(29,886)**	(28,671)	(26,475)	**(282,770)**
Total	**¥ 1,111,748**	¥1,016,741	¥ 933,833	**$10,518,952**
Operating income (loss):				
Automobile	**¥ 27,530**	¥ 30,108	¥ 28,960	**$ 260,479**
Materials handling equipment	**19,349**	16,175	13,366	**183,073**
Textile machinery	**100**	2,309	(391)	**946**
Others	**5,750**	3,912	4,482	**54,405**
Elimination of intersegment transactions	**(98)**	(26)	(87)	**(928)**
Total	**¥ 52,631**	¥ 52,478	¥ 46,330	**$ 497,975**

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Assets:				
Automobile	**¥ 338,247**	¥ 328,370	¥ 317,133	**$ 3,200,369**
Materials handling equipment	**406,384**	337,453	319,335	**3,845,056**
Textile machinery	**24,744**	30,922	22,323	**234,119**
Others	**100,626**	51,839	31,640	**952,086**
Corporate assets or elimination	**1,141,994**	901,807	1,079,970	**10,805,128**
Total	**¥2,011,995**	¥1,650,391	¥1,770,401	**$19,036,758**
Depreciation and amortization:				
Automobile	**¥ 35,793**	¥ 34,157	¥ 33,403	**$ 338,660**
Materials handling equipment	**23,538**	20,801	18,882	**222,708**
Textile machinery	**931**	1,006	797	**8,809**
Others	**5,443**	3,487	2,307	**51,500**
Corporate or elimination of intersegment transactions	**(353)**	(297)	(215)	**(3,340)**
Total	**¥ 65,352**	¥ 59,154	¥ 55,174	**$ 618,337**
Capital expenditures:				
Automobile	**¥ 48,793**	¥ 49,380	¥ 61,023	**$ 461,661**
Materials handling equipment	**32,205**	24,350	26,337	**304,712**
Textile machinery	**1,204**	2,164	523	**11,392**
Others	**7,749**	12,068	903	**73,318**
Corporate or elimination of intersegment transactions	**(442)**	(403)	(466)	**(4,182)**
Total	**¥ 89,509**	¥ 87,559	¥ 88,320	**$ 846,901**

Main products of each segment are as follows:

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 plastic package substrates for IC chipsets, casting machines

Corporate assets included in corporate assets or elimination consist mainly of cash and cash equivalents, short-term investments and investments in securities held by the Company.

(2) Geographical segments

As of and for the years ended March 31, 2004, 2003 and 2002:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Sales:				
Japan				
Outside customer sales	¥ 785,253	¥ 733,869	¥ 675,346	$ 7,429,776
Intersegment transactions	87,271	78,518	61,097	825,726
	872,524	812,387	736,443	8,255,502
North America				
Outside customer sales	198,753	192,385	180,535	1,880,528
Intersegment transactions	1,113	1,411	1,392	10,531
	199,866	193,796	181,927	1,891,059
Europe				
Outside customer sales	167,512	139,515	121,036	1,584,937
Intersegment transactions	5,896	4,899	5,426	55,786
	173,408	144,414	126,462	1,640,723
Others				
Outside customer sales	12,861	3,450	3,246	121,686
Intersegment transactions	1,630	1,034	652	15,422
	14,491	4,484	3,898	137,108
Subtotal	1,260,289	1,155,081	1,048,730	11,924,392
Elimination of intersegment transactions	(95,910)	(85,862)	(68,567)	(907,465)
Total	¥1,164,379	¥1,069,219	¥ 980,163	$11,016,927
Operating costs and expenses:				
Japan	¥ 826,696	¥ 767,342	¥ 695,442	$ 7,821,894
North America	193,745	187,596	177,442	1,833,145
Europe	170,263	142,469	125,345	1,610,966
Others	14,623	4,560	4,011	138,357
Elimination of intersegment transactions	(93,579)	(85,226)	(68,407)	(885,410)
Total	¥1,111,748	¥1,016,741	¥ 933,833	$10,518,952
Operating income (loss):				
Japan	¥ 45,828	¥ 45,045	¥ 41,001	$ 433,608
North America	6,121	6,200	4,485	57,914
Europe	3,145	1,945	1,117	29,757
Others	(132)	(76)	(113)	(1,249)
Elimination of intersegment transactions	(2,331)	(636)	(160)	(22,055)
Total	¥ 52,631	¥ 52,478	¥ 46,330	$ 497,975

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Assets:				
Japan	**¥ 643,180**	¥ 554,034	¥ 511,856	**$ 6,085,533**
North America	**136,830**	144,739	156,188	**1,294,635**
Europe	**238,388**	223,446	202,078	**2,255,540**
Others	**22,082**	9,759	5,757	**208,932**
Corporate assets or elimination	**971,515**	718,413	894,522	**9,192,118**
Total	**¥2,011,995**	¥1,650,391	¥1,770,401	**$19,036,758**

Significant countries or areas belonging to each segment as of March 31, 2004 are as follows:

North America .... U.S.A., Canada
Europe .... Sweden, France, Germany
Others .... China, India

Corporate assets included in corporate assets or elimination consist mainly of cash and cash equivalents, short-term investments and investments in securities held by the Company.

(3) Overseas sales

For the years ended March 31, 2004, 2003 and 2002:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Overseas sales:				
North America	**¥ 196,861**	¥ 192,422	¥181,177	**$ 1,862,626**
Europe	**211,081**	181,347	160,456	**1,997,171**
Others	**89,415**	77,825	54,837	**846,012**
Total	**¥ 497,357**	¥ 451,594	¥396,470	**$ 4,705,809**
Total sales	**¥1,164,379**	¥1,069,219	¥980,163	**$11,016,927**
Ratio of overseas sales to total sales (%):				
North America	**16.9%**	18.0%	18.5%	
Europe	**18.1**	17.0	16.4	
Others	**7.7**	7.2	5.5	
Total	**42.7%**	42.2%	40.4%	

Significant countries or areas belonging to each area as of March 31, 2004 are as follows:

North America .... U.S.A., Canada
Europe .... Germany, France, Italy
Others .... China, Australia, Pakistan

19. Related party transactions

The following transactions were carried out with related parties:

(1) Sales of goods and services for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Toyota Motor Corporation	**¥406,267**	¥417,058	¥410,995	**$3,843,949**

Toyota Motor Corporation held 24.1% of the Company's shares as of March 31,2004. The above transactions were carried out on commercial terms and conditions.

(2) Purchase of goods and services for the years ended March 31, 2004, 2003 and 2002 were as follows:

Purchase of goods:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Toyota Motor Corporation	**¥285,412**	¥293,853	¥284,531	**$2,700,464**

Purchase of services:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Toyota Industries Health Insurance Society	**¥ 66**	¥ 69	¥ 72	**$ 624**
Toyota Medical Corporation	**37**	39	42	**350**
Toyota Technological Institute	**50**	–	–	**473**
Total	**¥153**	¥108	¥114	**$1,447**

Toyota Industries Health Insurance Society's chairman as of March 31, 2004, 2003 and 2002 was Shiro Endo, who is a director of the Company and holds 0.01% of the Company's shares. Toyota Medical Corporation's chairman as of March 31, 2004, 2003 and 2002 was Yoshitoshi Toyoda, who is a director of the Company and holds 0.05% of the Company's shares. Toyota Technological Institute's chairman as of March 31, 2004 was Tatsuro Toyoda, who is a director of the Company and holds 0.08% of the Company's shares. 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, 2004 and 2003 are as follows:

Receivables from a related party:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Toyota Motor Corporation	**¥23,421**	¥21,108	**$221,601**

Payable to a related party:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Toyota Motor Corporation	**¥29,247**	¥29,753	**$276,724**

20. Net income per share (EPS)

Bases of calculation for net income per share and net income per share diluted for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net income per share:			
Net income	¥ 33,623	¥ 21,933	$318,128
Net income not attributable to common shareholders			
(bonuses for directors and statutory auditors that are paid through appropriation)	330	329	3,122
Net income attributable to common shareholders	33,293	21,603	315,006
Weighted-average shares (thousand)	308,144	307,813	–
Net income per share (exact yen)	¥ 108.04	¥ 70.19	$ 1.02
Net income per share diluted:			
Adjustment for effect of dilutive securities (interest expenses of convertible bond)	¥ 12	¥ 157	$ 114
Weighted-average shares for diluted computation (thousand)	18,468	38,153	–
Net income per share diluted (exact yen)	¥ 101.97	¥ 62.90	$ 0.96