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.

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 ¥120.20 = US $1, the approximate rate of exchange prevailing at March 31, 2003, has been used in translation. The inclusion of such amounts are not intended to imply that the Japanese yen actually represent, or 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 118 subsidiaries (33 domestic subsidiaries and 85 overseas subsidiaries, which are listed on page 98 and 99) in 2003, 111 subsidiaries (26 domestic subsidiaries and 85 overseas subsidiaries) in 2002 and 100 subsidiaries (22 domestic subsidiaries and 78 overseas subsidiaries) in 2001.

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 are 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 are consolidated in the consolidated financial statements. Two subsidiaries are 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 subsidiary was excluded from the scope of consolidation due to temporary investments.

For the year ended March 31, 2001, 72 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 were consolidated in the consolidated financial statements. Two subsidiaries were 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.

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 16 major affiliates in 2003, one unconsolidated subsidiary and 18 major affiliates in 2002 and two unconsolidated subsidiaries and 17 major affiliates in 2001 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 99.

(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. 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

Effective beginning 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. 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 did not have trading securities or held-to-maturity securities as of March 31, 2003 and 2002.

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.

(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 foreign subsidiaries.

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

Accumulated depreciation as of March 31, 2003 and 2002 was ¥465,151 million (US$3,869,809 thousand) and ¥447,600 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, 2003 and 2002 was ¥23,579 million (US$196,165 thousand) and ¥16,185 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

Effective beginning the year ended March 31, 2001, Toyota Industries adopted new accounting standards for retirement benefits for employees. 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 required at the end of the 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 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 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. The change in accounting policy is described in Note 3.

(18) Reclassification

Certain prior year amounts have been reclassified to conform to the 2003 presentation. These changes had no impact on previously reported results of operation or cash flows or shareholders' equity.

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. The impact of adoption for new accounting standards is described in "20. Net income per share" below.

(2) 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 were previously recorded as expenses at the time they were awarded. However, in order to make period earnings more appropriate, beginning 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 and income before income taxes decreased by ¥2,525 million.

(b) Accounting for retirement benefits

Effective beginning 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 and income before income taxes decreased by ¥4,982 million. Also, cumulative effect of change in accounting standards for retirement benefits of ¥19,057 million was charged to income and recorded as an extraordinary loss, and gain on securities contribution to employee retirement benefit trust of ¥15,080 million 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 beginning 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. At the beginning of the year ended March 31, 2001, Toyota Industries reviewed the holding purposes of the securities it owned. 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 and investment in securities increased by the same amount.

(d) Accounting for foreign currency transactions

Effective beginning 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 beginning the year ended March 31, 2001, translation adjustments, which had been listed under assets in the consolidated balance sheets as of March 31, 2000, have 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.

4. Acquisitions

(1) 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

(2) For the year ended March 31, 2001

By May 31, 2000, the Company had acquired 97.1% of the share capital of BT Industries AB, a holding company of BT Industries group, which consists of materials handling equipment manufacturing and sales companies. Due to this acquisition, Toyota Industries recorded goodwill amounting to ¥61,557 million, 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
Current assets	¥ 56,289
Fixed assets	117,255
Current liabilities	(33,559)
Long-term liabilities	(49,450)
Minority interest	(762)
Acquisition cost of BT Industries AB	89,773
Less: cash and cash equivalents in BT Industries AB	(3,745)
Cash payment for the acquisition of BT Industries AB	¥ 86,028

5. Marketable securities

(1) 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			Thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Difference	Acquisition cost	Carrying amount	Difference
Securities with carrying amount exceeding acquisition cost:						
Stocks	¥159,155	¥713,979	¥554,824	$1,324,085	$5,939,925	$4,615,840
Bonds						
Corporate bonds	703	703	0	5,849	5,849	0
Other	430	472	42	3,577	3,927	350
Subtotal	160,288	715,154	554,866	1,333,511	5,949,701	4,616,190
Securities with carrying amount not exceeding acquisition cost:						
Stocks	17,963	14,341	(3,622)	149,443	119,310	(30,133)
Bonds						
Government and municipal bonds, etc.	20,000	20,000	(0)	166,389	166,389	(0)
Corporate bonds	2,002	2,002	(0)	16,656	16,656	(0)
Other bonds	3	3	–	24	24	–
Subtotal	39,968	36,346	(3,622)	332,512	302,379	(30,133)
Total	¥200,256	¥751,500	¥551,244	$1,666,023	$6,252,080	$4,586,057

In this year, Toyota Industries recorded ¥3,671 million (US$30,541 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, 2003 are as follows:

Millions of yen			Thousands of U.S. dollars		
Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
¥9,762	¥1,558	¥5	$81,215	$12,962	$42

(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	Thousands of U.S. dollars
Held-to-maturity securities	¥ –	$ –
Other securities		
Domestic unlisted stocks excluding over-the-counter stocks	17,117	142,404
Money management funds	30,073	250,191

(d) Redemption schedule of securities which have maturities within other securities as of March 31, 2003 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	**¥20,000**	**¥0**	**¥–**	**¥–**	**$166,389**	**$0**	**$–**	**$–**
Corporate bonds	**2,705**	**–**	**–**	**–**	**22,504**	**–**	**–**	**–**
Other bonds	**3**	**–**	**–**	**–**	**25**	**–**	**–**	**–**
Total	**¥22,708**	**¥0**	**¥–**	**¥–**	**$188,918**	**$0**	**$–**	**$–**

(2) As of and for the year ended March 31, 2002

(a) Other securities with readily determinable fair value as of March 31, 2002 are as follows:

	Millions of yen		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amount exceeding acquisition cost:			
Stocks	¥160,158	¥941,875	¥781,717
Bonds			
Corporate bonds	2,999	3,000	1
Subtotal	163,157	944,875	781,718
Securities with carrying amount not exceeding acquisition cost:			
Stocks	15,324	10,014	(5,310)
Bonds			
Government and municipal bonds, etc.	0	0	–
Corporate bonds	7,093	7,090	(3)
Other bonds	3	3	–
Subtotal	22,420	17,107	(5,313)
Total	¥185,577	¥961,982	¥776,405

In this year, Toyota Industries recorded ¥302 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, 2002 are as follows:

Millions of yen		
Proceeds	Realized gains	Realized losses
¥17,967	¥242	¥11

(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, 2002 are as follows:

	Millions of yen
Held-to-maturity securities	¥ –
Other securities	
Domestic unlisted stocks excluding over-the-counter stocks	14,996
Money management funds	20,440
Foreign unlisted bonds	7

(d) Redemption schedule of securities which have maturities within other securities as of March 31, 2002 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	¥ –	¥ 0	¥–	¥–
Corporate bonds	8,379	1,711	–	–
Other bonds	2	7	–	–
Total	¥8,381	¥1,718	¥–	¥–

6. Inventories

Inventories as of March 31, 2003 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished goods	**¥28,524**	¥27,490	**$237,304**
Raw materials	**10,284**	11,733	**85,557**
Work in process	**22,956**	25,193	**190,982**
Supplies	**7,377**	6,095	**61,373**
Total	**¥69,141**	¥70,511	**$575,216**

7. Long-term debt

(1) Long-term debt as of March 31, 2003 and 2002 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
The Company:			
0.35% convertible bonds due 2003 without collateral	**¥ 75,692**	¥ 75,742	**$ 629,717**
2.70% bonds due 2008 without collateral	**30,000**	30,000	**249,584**
1.50% bonds due 2003 without collateral	**20,000**	20,000	**166,389**
2.15% bonds due 2008 without collateral	**20,000**	20,000	**166,389**
1.50% bonds due 2006 without collateral	**15,000**	15,000	**124,792**
1.94% bonds due 2009 without collateral	**15,000**	15,000	**124,792**
1.25% bonds due 2005 without collateral	**20,000**	20,000	**166,389**
1.91% bonds due 2010 without collateral	**20,000**	20,000	**166,389**
0.41% bonds due 2007 without collateral	**30,000**	–	**249,584**
1.13% bonds due 2012 without collateral	**50,000**	–	**415,974**
Consolidated subsidiaries:			
1.80% bonds due 2005	**300**	300	**2,496**
Long-term bank loans	**39,904**	67,899	**331,980**
Less: current portion of long-term debt	**(99,019)**	(1,958)	**(823,785)**
Total	**¥236,877**	¥281,983	**$1,970,690**

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 (US$16.50) per share as of March 31, 2003. The aggregate number of shares issuable upon conversion thereof at such conversion price was 38,153 thousand shares.

(2) Annual maturities of long-term debt as of March 31, 2003 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	**¥ 99,019**	**$ 823,785**
2005	**7,810**	**64,975**
2006	**22,935**	**190,807**
2007	**16,058**	**133,594**
2008	**61,682**	**513,161**
2009 and thereafter	**128,392**	**1,068,153**
Total	**¥335,896**	**$2,794,475**

8. Assets pledged as collateral

(1) Assets pledged as collateral as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Investments in securities	**¥21,724**	¥21,854	**$180,732**
Buildings and structures	**3,713**	4,213	**30,890**
Land	**5,340**	3,715	**44,426**
Machinery, equipment and vehicles	**–**	734	**–**
Trade notes and accounts receivable	**519**	449	**4,318**
Other	**29**	29	**241**
Total	**¥31,325**	¥30,994	**$260,607**

(2) Secured liabilities as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Other current liabilities	**¥18,936**	¥18,468	**$157,537**
Short-term bank loans	**7,756**	10,923	**64,526**
Long-term debt	**3,276**	2,691	**27,255**
Total	**¥29,968**	¥32,082	**$249,318**

9. Contingent liabilities

Toyota Industries is contingently liable for guarantees as of March 31, 2003 and 2002 as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Guarantees given by the Company	**¥32,996**	¥ 262	**$274,509**
Guarantees given by consolidated subsidiaries	**6,378**	5,205	**53,062**
Guarantee forwards given by the Company	**3,621**	3,881	**30,125**

Guarantees given by consolidated subsidiaries consist of 467,278 and 421,480 thousand of Swedish krona.

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 the sum of common stock and capital reserve. 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 ¥29,705 million (US$247,130 thousand), ¥29,985 million and ¥26,196 million for the years ended March 31, 2003, 2002 and 2001, respectively.

12. Other non-operating income and expenses

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Other non-operating income:				
Gain on sales of marketable securities	**¥ 1,851**	¥ 242	¥ 725	**¥ 15,399**
Rental income of fixed assets	**2,036**	2,214	1,475	**16,939**
Exchange gain	**1,709**	2,324	453	**14,218**
Gain on sales of fixed assets	**332**	375	148	**2,762**
Sundries	**2,533**	1,624	2,249	**21,073**
Total	**¥ 8,461**	¥6,779	¥ 5,050	**¥ 70,391**
Other non-operating expenses:				
Loss on impairment of securities	**¥ –**	¥ 302	¥ 430	**¥ –**
Depreciation	**2,202**	2,082	2,307	**18,320**
Loss on disposal of fixed assets	**3,101**	1,941	2,996	**25,799**
Exchange loss	**1,224**	557	525	**10,183**
Bond issue costs	**329**	19	227	**2,737**
Sundries	**5,425**	4,914	5,124	**45,133**
Total	**¥12,281**	¥9,815	¥11,609	**¥102,172**

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 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, 2003, 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, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Benefit obligation	**¥ 95,904**	¥ 80,039	**$ 797,870**
Plan assets	**(46,640)**	(49,105)	**(388,020)**
Unfunded benefit obligation	**49,264**	30,934	**409,850**
Unrecognized actuarial loss	**(25,341)**	(9,581)	**(210,823)**
Unrecognized loss in prior service obligation	**(187)**	–	**(1,556)**
Net amount recognized on the balance sheet	**23,736**	21,353	**197,471**
Prepaid pension expenses	**(7,626)**	(5,115)	**(63,444)**
Allowance for retirement benefits	**¥ 31,362**	¥ 26,468	**$ 260,915**

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 ¥2,738 million (US$22,779 thousand) and ¥2,372 million of allowance for retirement and severance benefits for directors and corporate auditors as of March 31, 2003 and 2002, respectively.

(3) Components of retirement benefit expenses for the years ended March 31, 2003, 2002 and 2001 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Service cost	**¥6,615**	¥6,018	¥ 3,799	**$55,033**
Interest cost	**2,036**	1,843	1,677	**16,939**
Expected return on plan assets	**(797)**	(704)	(637)	**(6,631)**
Amortization of prior service obligation	**12**	–	–	**100**
Amortization of unrecognized actuarial gain or loss	**484**	225	–	**4,027**
Amortization of transition obligation	**–**	–	19,057	**–**
Retirement benefit expenses	**¥8,350**	¥7,382	¥23,896	**$69,468**

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

Due to the establishment of a retirement benefit trust in the year ended March 31, 2001, which was the first year of accounting standards for retirement benefit's adoption, amortization of transition obligation also included ¥17,845 million of one-time amortization of retirement benefit obligation which was equivalent to fair value of trust properties at the time of its contribution.

(4) Assumptions used for calculation of retirement benefits for the years ended March 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001	
Method of attribution of estimated retirement benefits to periods of employee service: straight-line method				
Discount rate	**2.0%**	3.0%	3.0%	
Expected return on plan assets	**3.0%**	3.0%	3.0%	
Amortization period of prior service obligation	**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, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Allowance for retirement benefits	**¥ 6,285**	¥ 4,090	**$ 52,288**
Trade receivables	**5,122**	3,282	**42,612**
Accrued expenses	**4,644**	3,272	**38,636**
Net operating loss carry-forwards for tax purposes	**2,437**	2,806	**20,275**
Depreciation	**2,867**	2,386	**23,852**
Securities	**3,149**	1,456	**26,198**
Enterprise tax payable	**1,124**	709	**9,351**
Other	**11,567**	9,608	**96,231**
Subtotal	**37,195**	27,609	**309,443**
Less — valuation allowance	**(2,508)**	(2,382)	**(20,865)**
Total deferred tax assets	**34,687**	25,227	**288,578**
Deferred tax liabilities:			
Other securities	**219,413**	319,819	**1,825,399**
Depreciation	**4,513**	4,290	**37,546**
Land	**2,650**	1,138	**22,047**
Reserve for advanced depreciation	**337**	338	**2,804**
Reserve for special depreciation	**549**	290	**4,567**
Other	**3,837**	3,506	**31,922**
Total deferred tax liabilities	**231,299**	329,381	**1,924,285**
Net deferred tax liabilities	**¥(196,612)**	¥(304,154)	**$(1,635,707)**

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Current assets — deferred tax assets	**¥ 14,072**	¥ 10,081	**$ 117,072**
Investments and other assets — deferred tax assets	**2,863**	2,237	**23,819**
Current liabilities — deferred tax liabilities	**(1,192)**	(494)	**(9,917)**
Long-term liabilities — deferred tax liabilities	**(212,355)**	(315,978)	**(1,766,681)**
Net deferred tax liabilities	**¥(196,612)**	¥(304,154)	**$(1,635,707)**

In conjunction with promulgation of "The act that amends part of local tax regulations that stipulate change of enterprise tax rate" (No. 9, 2003) on March 31, 2003, effective tax rate that is used for calculation of deferred tax assets and liabilities as of March 31, 2003, which will be realized on and after April 1, 2004 has been changed from 41.2% to 39.8%. As a result, net assets as of March 31, 2003 increased by ¥7,290 million and net income for the year then ended decreased by ¥421 million, respectively.

(2) Reconciliations of differences between the statutory rate of income taxes and the effective rate of income taxes for the years ended March 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Statutory rate of income taxes	**41.2%**	41.2%	41.2%
Addition (reduction) in taxes resulting from:			
Equity in losses of affiliates	**4.0**	0.8	1.0
Net pre-tax losses of subsidiaries	**1.2**	0.6	1.4
Elimination of dividend income	**0.8**	0.7	0.9
Dividends income and others permanently not recognized as taxable income	**(3.5)**	(5.4)	(6.7)
Amortization of goodwill	**3.1**	4.1	–
Other	**0.9**	(0.8)	1.0
Effective rate of income taxes	**47.7%**	41.2%	38.8%

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, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Machinery and equipment:			
Acquisition cost equivalents	**¥8,258**	¥5,849	**$68,702**
Accumulated depreciation equivalents	**2,772**	1,391	**23,061**
Machinery and equipment net balance equivalents	**5,486**	4,458	**45,641**
Tools, furniture and fixtures:			
Acquisition cost equivalents	**5,277**	5,313	**43,902**
Accumulated depreciation equivalents	**2,911**	2,530	**24,218**
Tools, furniture and fixtures net balance equivalents	**2,366**	2,783	**19,684**
Total net leased properties	**¥7,852**	¥7,241	**$65,325**

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, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within 1 year	**¥2,274**	¥1,937	**$18,918**
Due after 1 year	**5,577**	5,304	**46,398**
Total	**¥7,851**	¥7,241	**$65,316**

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, 2003, 2002 and 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
2003	**¥2,566**	**$21,348**
2002	1,842	–
2001	1,505	–

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 year ended 2003, 2002 and 2001, 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, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within 1 year	**¥ 2,878**	¥ 2,545	**$ 23,943**
Due after 1 year	**10,084**	9,696	**83,894**
Total	**¥12,962**	¥12,241	**$ 107,837**

(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, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Machinery and equipment:			
Acquisition cost	**¥7,306**	¥6,975	**$60,782**
Accumulated depreciation	**4,284**	4,005	**35,641**
Total net leased property	**¥3,022**	¥2,970	**$25,141**

(b) Pro forma information regarding future minimum lease income as of March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within 1 year	**¥1,816**	¥1,658	**$15,108**
Due after 1 year	**2,657**	2,966	**22,105**
Total	**¥4,473**	¥4,624	**$37,213**

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, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Total lease payments to be received	**¥1,930**	¥2,220	**$16,057**
Depreciation expenses	**1,631**	1,112	**13,569**

(4) Operating leases (as a lessor)

Pro forma information regarding future minimum rentals under operating leases as of March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within 1 year	**¥ 5,431**	¥ 4,525	**$ 45,183**
Due after 1 year	**9,320**	7,147	**77,538**
Total	**¥14,751**	¥11,672	**$122,721**

17. Subsequent events

On May 15, 2003, the Company exercised a warrant issued by Aichi Corporation on May 15, 2002. As a result, the Company increased its share of Aichi Corporation by 17.0% to 51.0%, making Aichi Corporation a subsidiary of the Company.

On June 27, 2003, the Ordinary General Meeting of Shareholders of the Company authorized payment of a year-end cash dividend to shareholders of record as of March 31, 2003 of ¥12 (US$0.100) per share, or a total of ¥3,513 million (US$29,226 thousand), and bonuses to directors and corporate auditors of ¥224 million (US$1,864 thousand). Cash dividends for the year totaled ¥22 (US$0.183) per share, including a semi-annual dividend of ¥10 (US$0.083).

18. Segment information

(1) Business segments

As of and for the years ended March 31, 2003, 2002 and 2001:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Sales:				
Automobile				
Outside customer sales	¥ 595,460	¥ 563,599	¥457,631	$4,953,910
Intersegment transactions	15,523	15,412	4,097	129,143
	610,983	579,011	461,728	5,083,053
Materials handling equipment				
Outside customer sales	373,008	353,043	236,502	3,103,228
Intersegment transactions	90	44	–	749
	373,098	353,087	236,502	3,103,977
Textile machinery				
Outside customer sales	48,740	30,705	33,238	405,491
Intersegment transactions	6	50	–	50
	48,746	30,755	33,238	405,541
Others				
Outside customer sales	52,011	32,816	40,012	432,704
Intersegment transactions	13,078	11,056	4,531	108,802
	65,089	43,872	44,543	541,506
Subtotal	1,097,916	1,006,725	776,011	9,134,077
Elimination of intersegment transactions	(28,697)	(26,562)	(8,628)	(238,744)
Total	¥1,069,219	¥ 980,163	¥767,383	$8,895,333
Operating costs and expenses:				
Automobile	¥ 580,875	¥ 550,051	¥433,203	$4,832,571
Materials handling equipment	356,923	339,721	221,955	2,969,410
Textile machinery	46,437	31,146	33,203	386,331
Others	61,177	39,390	40,178	508,960
Elimination of intersegment transactions	(28,671)	(26,475)	(8,460)	(238,528)
Total	¥1,016,741	¥ 933,833	¥720,079	$8,458,744
Operating income (loss):				
Automobile	¥ 30,108	¥ 28,960	¥ 28,525	$ 250,482
Materials handling equipment	16,175	13,366	14,547	134,567
Textile machinery	2,309	(391)	35	19,210
Others	3,912	4,482	4,365	32,546
Elimination of intersegment transactions	(26)	(87)	(168)	(216)
Total	¥ 52,478	¥ 46,330	¥ 47,304	$ 436,589

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Assets:				
Automobile	**¥ 328,370**	¥ 317,133	¥ 282,504	**$ 2,731,863**
Materials handling equipment	**337,453**	319,335	270,975	**2,807,429**
Textile machinery	**30,922**	22,323	25,404	**257,255**
Others	**51,839**	31,640	15,487	**431,273**
Corporate assets or elimination	**901,807**	1,079,970	1,275,272	**7,502,554**
Total	**¥1,650,391**	¥1,770,401	¥1,869,642	**$13,730,374**
Depreciation and amortization:				
Automobile	**¥ 34,157**	¥ 33,403	¥ 31,764	**$ 284,168**
Materials handling equipment	**20,801**	18,882	10,766	**173,053**
Textile machinery	**1,006**	797	1,034	**8,370**
Others	**3,487**	2,307	3,071	**29,010**
Corporate or elimination of intersegment transactions	**(297)**	(215)	(181)	**(2,471)**
Total	**¥ 59,154**	¥ 55,174	¥ 46,454	**$ 492,130**
Capital expenditures:				
Automobile	**¥ 49,380**	¥ 61,023	¥ 54,734	**$ 410,815**
Materials handling equipment	**24,350**	26,337	70,673	**202,579**
Textile machinery	**2,164**	523	320	**18,003**
Others	**12,068**	903	2,311	**100,400**
Corporate or elimination of intersegment transactions	**(403)**	(466)	(765)	**(3,353)**
Total	**¥ 87,559**	¥ 88,320	¥ 127,273	**$ 728,444**

Main products of each segment are as follows:

Automobile .... Passenger vehicles, diesel and gasoline engines, car air-conditioning compressors
Materials handling equipment .... Counterbalanced forklifts, 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, 2003, 2002 and 2001:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Sales:				
Japan				
Outside customer sales	**¥ 733,869**	¥ 675,346	¥586,087	**$6,105,399**
Intersegment transactions	**78,518**	61,097	31,770	**653,228**
	812,387	736,443	617,857	**6,758,627**
North America				
Outside customer sales	**192,385**	180,535	123,355	**1,600,541**
Intersegment transactions	**1,411**	1,392	337	**11,739**
	193,796	181,927	123,692	**1,612,280**
Europe				
Outside customer sales	**139,515**	121,036	55,826	**1,160,691**
Intersegment transactions	**4,899**	5,426	749	**40,757**
	144,414	126,462	56,575	**1,201,448**
Others				
Outside customer sales	**3,450**	3,246	2,115	**28,702**
Intersegment transactions	**1,034**	652	478	**8,602**
	4,484	3,898	2,593	**37,304**
Subtotal	**1,155,081**	1,048,730	800,717	**9,609,659**
Elimination of intersegment transactions	**(85,862)**	(68,567)	(33,334)	**(714,326)**
Total	**¥1,069,219**	¥ 980,163	¥767,383	**$8,895,333**
Operating costs and expenses:				
Japan	**¥ 767,342**	¥ 695,442	¥577,381	**$6,383,877**
North America	**187,596**	177,442	118,422	**1,560,699**
Europe	**142,469**	125,345	53,724	**1,185,267**
Others	**4,560**	4,011	2,841	**37,936**
Elimination of intersegment transactions	**(85,226)**	(68,407)	(32,289)	**(709,035)**
Total	**¥1,016,741**	¥ 933,833	¥720,079	**$8,458,744**
Operating income (loss):				
Japan	**¥ 45,045**	¥ 41,001	¥ 40,476	**$ 374,750**
North America	**6,200**	4,485	5,270	**51,581**
Europe	**1,945**	1,117	2,851	**16,181**
Others	**(76)**	(113)	(248)	**(632)**
Elimination of intersegment transactions	**(636)**	(160)	(1,045)	**(5,291)**
Total	**¥ 52,478**	¥ 46,330	¥ 47,304	**$ 436,589**

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Assets:				
Japan	**¥ 554,034**	¥ 511,856	¥ 460,474	**$ 4,609,268**
North America	**144,739**	156,188	126,520	**1,204,151**
Europe	**223,446**	202,078	158,351	**1,858,951**
Others	**9,759**	5,757	4,987	**81,190**
Corporate assets or elimination	**718,413**	894,522	1,119,310	**5,976,814**
Total	**¥1,650,391**	¥1,770,401	¥1,869,642	**$13,730,374**

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 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, 2003, 2002 and 2001:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Overseas sales:				
North America	**¥ 192,422**	¥181,177	¥140,161	**$1,600,849**
Europe	**181,347**	160,456	102,666	**1,508,710**
Others	**77,825**	54,837	55,967	**647,463**
Total	**¥ 451,594**	¥396,470	¥298,794	**$3,757,022**
Total sales	**¥1,069,219**	¥980,163	¥767,383	**$8,895,333**
Ratio of overseas sales to total sales (%):				
North America	**18.0%**	18.5%	18.2%	
Europe	**17.0**	16.4	13.4	
Others	**7.2**	5.5	7.3	
Total	**42.2%**	40.4%	38.9%	

Significant countries or areas belonging to each area as of March 31, 2003 are as follows:

North America .... U.S.A., Canada
Europe .... Germany, France, U.K.
Others .... China, Indonesia, 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, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Toyota Motor Corporation	**¥417,058**	¥410,995	¥425,377	**$3,469,700**

Toyota Motor Corporation held 24.7% of the Company's shares as of March 31, 2003, 2002 and 2001, respectively. The above transactions were carried out on commercial terms and conditions.

(2) Purchase of goods and services for the years ended March 31, 2003, 2002 and 2001 were as follows:

Purchase of goods:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Toyota Motor Corporation	**¥293,853**	¥284,531	¥195,514	**$2,444,700**

Purchase of services:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Toyota Industries Health Insurance Society	**¥ 69**	¥ 72	¥ 69	**$574**
Toyota Medical Corporation	**39**	42	33	**325**
Total	**¥108**	¥114	¥102	**$899**

Toyota Industries Health Insurance Society's chairman as of March 31, 2003, 2002 and 2001 is 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, 2003, 2002 and 2001 is Yoshitoshi Toyoda, who is a director of the Company and holds 0.05% 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, 2003 and 2002 are as follows:

Receivables from a related party:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Toyota Motor Corporation	**¥21,108**	¥20,873	**$175,607**

Payable to a related party:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Toyota Motor Corporation	**¥29,753**	¥30,527	**$247,504**

20. Net income per share (EPS)

Bases of calculation for net income per share and net income per share diluted are as follows:

	Millions of yen	Thousands of U.S. dollars
	2003	**2003**
Net income per share:		
Net income	**¥21,933**	**$182,471**
Net income not attributable to common shareholders		
(bonus for directors and statutory auditors that are paid through appropriation)	**329**	**2,737**
Net income attributable to common shareholders	**21,603**	**179,725**
Weighted-average shares (thousand)	**307,813**	**–**
Net income per share (exact yen)	**¥ 70.19**	**$ 0.58**
Net income per share diluted:		
Adjustment for effect of dilutive securities (interest expenses of convertible bond)	**¥ 157**	**$ 1,306**
Weighted-average shares for diluted computation (thousand)	**38,153**	**–**
Net income per share diluted (exact yen)	**¥ 62.90**	**$ 0.52**

In conjunction with the implementation of 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, the Company has adopted those standards for the fiscal year. Net income per share for the year ended March 31, 2002 is changed from ¥87.28 to ¥86.39 and net income per share diluted for the year then ended is changed from ¥78.26 to ¥77.47, respectively, in accordance with new standards.