

TOYOTA MOTOR CORP/
Form 20-F/A
November 07, 2006
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As filed with the Securities and Exchange Commission on November 7, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: March 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 1-14948

TOYOTA JIDOSHA KABUSHIKI KAISHA

(Exact Name of Registrant as Specified in its Charter)

TOYOTA MOTOR CORPORATION

(Translation of Registrant's Name into English)

Japan

(Jurisdiction of Incorporation or Organization)

1 Toyota-cho, Toyota City

Aichi Prefecture 471-8571

Japan

+81 565 28-2121

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:

Common Stock

Name of Each Exchange on Which Registered:

The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

3,241,757,767 Common Stock as of March 31, 2006

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

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Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements that reflect Toyota's plans and expectations. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause Toyota's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. These factors include:

- (i) changes in economic conditions and market demand affecting, and the competitive environment in, the automotive markets in Japan, North America, Europe and other markets in which Toyota operates;
- (ii) fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar, the euro, the Australian dollar and the British pound;
- (iii) Toyota's ability to realize production efficiencies and to implement capital expenditures at the levels and times planned by management;
- (iv) changes in the laws, regulations and government policies in the markets in which Toyota operates that affect Toyota's automotive operations, particularly laws, regulations and policies relating to trade, environmental protection, vehicle emissions, vehicle fuel economy and vehicle safety, as well as changes in laws, regulations and government policies that affect Toyota's other operations, including the outcome of future litigation and other legal proceedings;
- (v) political instability in the markets in which Toyota operates;
- (vi) Toyota's ability to timely develop and achieve market acceptance of new products; and
- (vii) fuel shortages or interruptions in transportation systems, labor strikes, work stoppages or other interruptions to, or difficulties in, the employment of labor in the major markets where Toyota purchases materials, components and supplies for the production of its products or where its products are produced, distributed or sold.

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EXPLANATORY NOTE

On June 26, 2006, Toyota previously filed its Form 20-F, which included in Item 18 its consolidated balance sheets as of March 31, 2005 and 2006 and its consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2004, 2005 and 2006 together with the report of ChuoAoyama PricewaterhouseCoopers. On August 4, 2006, Toyota appointed PricewaterhouseCoopers Aarata as its temporary accounting auditor under the Corporation Act of Japan. Toyota is filing this Form 20-F/A (Amendment No. 1) to re-file the financial statements listed in Item 18 with this Form 20-F/A (Amendment No. 1) together with the report of PricewaterhouseCoopers Aarata on such financial statements. The financial statements being re-filed with this Form 20-F/A (Amendment No. 1) are in all other respects identical to the version previously filed on June 26, 2006 and do not reflect any subsequent information or events other than the filing of the financial statements and audit report of PricewaterhouseCoopers Aarata.

Toyota has no further changes to the previously filed Form 20-F. All information in this Form 20-F/A (Amendment No. 1) is as of June 26, 2006 and does not reflect any subsequent information or events other than the filing of the financial statements and audit report of PricewaterhouseCoopers Aarata referred to above.

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ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this annual report on Form 20-F/A (Amendment No. 1).

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| All financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto. | |

Financial statements of 50% or less owned persons accounted for by the equity method have been omitted because the registrant's proportionate share of the income from continuing operations before income taxes is less than 20% of consolidated income from continuing operations before income taxes and the investment in and advances to each company is less than 20% of consolidated total assets.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of

Toyota Jidosha Kabushiki Kaisha

(Toyota Motor Corporation)

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Toyota Motor Corporation and its subsidiaries at March 31, 2005 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers Aarata

June 23, 2006

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TOYOTA MOTOR CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

| | Yen in millions March 31, | | U.S. dollars in millions March 31, |
|--|------------------------------|---------------------|--|
| | 2005 | 2006 | 2006 |
| Current assets | | | |
| Cash and cash equivalents | ¥ 1,483,753 | ¥ 1,569,387 | \$ 13,360 |
| Time deposits | 63,609 | 50,349 | 428 |
| Marketable securities | 543,124 | 634,879 | 5,405 |
| Trade accounts and notes receivable, less allowance for doubtful accounts of ¥18,656 million in 2005 and ¥19,491 million (\$166 million) in 2006 | 1,813,725 | 1,980,680 | 16,861 |
| Finance receivables, net | 3,010,135 | 3,497,319 | 29,772 |
| Other receivables | 355,381 | 416,336 | 3,544 |
| Inventories | 1,306,709 | 1,620,975 | 13,799 |
| Deferred income taxes | 475,764 | 520,494 | 4,431 |
| Prepaid expenses and other current assets | 387,905 | 444,803 | 3,787 |
| Total current assets | 9,440,105 | 10,735,222 | 91,387 |
| Noncurrent finance receivables, net | 3,976,941 | 4,830,216 | 41,119 |
| Investments and other assets | | | |
| Marketable securities and other securities investments | 2,704,142 | 3,402,523 | 28,965 |
| Affiliated companies | 1,570,185 | 1,828,369 | 15,565 |
| Employees receivables | 49,538 | 75,094 | 639 |
| Other | 798,506 | 793,543 | 6,755 |
| Total investments and other assets | 5,122,371 | 6,099,529 | 51,924 |
| Property, plant and equipment | | | |
| Land | 1,182,768 | 1,215,897 | 10,351 |
| Buildings | 2,935,274 | 3,156,613 | 26,872 |
| Machinery and equipment | 7,897,509 | 8,482,832 | 72,213 |
| Vehicles and equipment on operating leases | 1,828,697 | 2,605,426 | 22,179 |
| Construction in progress | 214,781 | 397,076 | 3,380 |
| | 14,059,029 | 15,857,844 | 134,995 |
| Less - Accumulated depreciation | (8,263,435) | (8,791,216) | (74,838) |
| Property, plant and equipment, net | 5,795,594 | 7,066,628 | 60,157 |
| Total assets | ¥ 24,335,011 | ¥ 28,731,595 | \$ 244,587 |

The accompanying notes are an integral part of these consolidated financial statements.

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TOYOTA MOTOR CORPORATION
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS EQUITY

| | Yen in millions March 31, | | U.S. dollars in millions March 31, |
|--|------------------------------|---------------------|--|
| | 2005 | 2006 | 2006 |
| Current liabilities | | | |
| Short-term borrowings | ¥ 2,381,827 | ¥ 3,033,019 | \$ 25,820 |
| Current portion of long-term debt | 1,150,920 | 1,723,888 | 14,675 |
| Accounts payable | 1,856,799 | 2,086,587 | 17,763 |
| Other payables | 693,041 | 730,184 | 6,216 |
| Accrued expenses | 1,289,373 | 1,464,263 | 12,465 |
| Income taxes payable | 292,835 | 347,488 | 2,958 |
| Other current liabilities | 562,411 | 643,306 | 5,476 |
| Total current liabilities | 8,227,206 | 10,028,735 | 85,373 |
| Long-term liabilities | | | |
| Long-term debt | 5,014,925 | 5,640,490 | 48,016 |
| Accrued pension and severance costs | 646,989 | 679,918 | 5,788 |
| Deferred income taxes | 811,670 | 1,092,995 | 9,305 |
| Other long-term liabilities | 84,342 | 139,428 | 1,187 |
| Total long-term liabilities | 6,557,926 | 7,552,831 | 64,296 |
| Minority interest in consolidated subsidiaries | 504,929 | 589,580 | 5,019 |
| Shareholders equity | | | |
| Common stock, no par value, authorized: 9,740,185,400 shares in 2005 and 2006; issued: 3,609,997,492 shares in 2005 and 2006 | 397,050 | 397,050 | 3,380 |
| Additional paid-in capital | 495,707 | 495,250 | 4,216 |
| Retained earnings | 9,332,176 | 10,459,788 | 89,042 |
| Accumulated other comprehensive income (loss) | (80,660) | 437,316 | 3,723 |
| Treasury stock, at cost, 341,918,553 shares in 2005 and 368,240,025 shares in 2006 | (1,099,323) | (1,228,955) | (10,462) |
| Total shareholders equity | 9,044,950 | 10,560,449 | 89,899 |
| Commitments and contingencies | | | |
| Total liabilities and shareholders equity | ¥ 24,335,011 | ¥ 28,731,595 | \$ 244,587 |

The accompanying notes are an integral part of these consolidated financial statements.

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TOYOTA MOTOR CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

| | Yen in millions | | | U.S. dollars |
|--|-------------------------------|--------------|--------------|--|
| | For the years ended March 31, | | | in millions |
| | 2004 | 2005 | 2006 | For the year ended March 31, 2006 |
| Net revenues | | | | |
| Sales of products | ¥ 16,578,033 | ¥ 17,790,862 | ¥ 20,059,493 | \$ 170,763 |
| Financing operations | 716,727 | 760,664 | 977,416 | 8,320 |
| | 17,294,760 | 18,551,526 | 21,036,909 | 179,083 |
| Costs and expenses | | | | |
| Cost of products sold | 13,506,337 | 14,500,282 | 16,335,312 | 139,059 |
| Cost of financing operations | 364,177 | 369,844 | 609,632 | 5,190 |
| Selling, general and administrative | 1,757,356 | 2,009,213 | 2,213,623 | 18,844 |
| | 15,627,870 | 16,879,339 | 19,158,567 | 163,093 |
| Operating income | 1,666,890 | 1,672,187 | 1,878,342 | 15,990 |
| Other income (expense) | | | | |
| Interest and dividend income | 55,629 | 67,519 | 93,970 | 800 |
| Interest expense | (20,706) | (18,956) | (21,601) | (184) |
| Foreign exchange gain, net | 38,187 | 21,419 | 10,789 | 92 |
| Other income, net | 25,793 | 12,468 | 125,860 | 1,071 |
| | 98,903 | 82,450 | 209,018 | 1,779 |
| Income before income taxes, minority interest and equity in earnings of affiliated companies | 1,765,793 | 1,754,637 | 2,087,360 | 17,769 |
| Provision for income taxes | 681,304 | 657,910 | 795,153 | 6,769 |
| Income before minority interest and equity in earnings of affiliated companies | 1,084,489 | 1,096,727 | 1,292,207 | 11,000 |
| Minority interest in consolidated subsidiaries | (42,686) | (64,938) | (84,393) | (718) |
| Equity in earnings of affiliated companies | 120,295 | 139,471 | 164,366 | 1,399 |
| Net income | ¥ 1,162,098 | ¥ 1,171,260 | ¥ 1,372,180 | \$ 11,681 |
| | | Yen | | U.S. dollars |
| Net income per share | | | | |
| - Basic | ¥ 342.90 | ¥ 355.35 | ¥ 421.76 | \$ 3.59 |
| - Diluted | ¥ 342.86 | ¥ 355.28 | ¥ 421.62 | \$ 3.59 |
| Cash dividends per share | ¥ 45.00 | ¥ 65.00 | ¥ 90.00 | \$ 0.77 |

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The accompanying notes are an integral part of these consolidated financial statements.

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TOYOTA MOTOR CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

| | Yen in millions | | | | | | |
|---|-----------------|----------------------------------|----------------------|--|-------------------------------|---------------------------------|--|
| | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock, at cost | Total shareholders equity | |
| Balances at March 31, 2003 | ¥ 397,050 | ¥ 493,790 | ¥ 7,301,795 | ¥ (604,272) | ¥ (467,363) | ¥ 7,121,000 | |
| Issuance during the year | | 1,389 | | | | 1,389 | |
| Comprehensive income | | | | | | | |
| Net income | | | 1,162,098 | | | 1,162,098 | |
| Other comprehensive income (loss) | | | | | | | |
| Foreign currency translation adjustments | | | | (203,257) | | (203,257) | |
| Unrealized gains on securities, net of reclassification adjustments | | | | 329,672 | | 329,672 | |
| Minimum pension liability adjustments | | | | 273,265 | | 273,265 | |
| Total comprehensive income | | | | | | 1,561,778 | |
| Dividends paid | | | (137,678) | | | (137,678) | |
| Purchase and reissuance of common stock | | | | | (367,922) | (367,922) | |
| Balances at March 31, 2004 | 397,050 | 495,179 | 8,326,215 | (204,592) | (835,285) | 8,178,567 | |
| Issuance during the year | | 528 | | | | 528 | |
| Comprehensive income | | | | | | | |
| Net income | | | 1,171,260 | | | 1,171,260 | |
| Other comprehensive income | | | | | | | |
| Foreign currency translation adjustments | | | | 75,697 | | 75,697 | |
| Unrealized gains on securities, net of reclassification adjustments | | | | 38,455 | | 38,455 | |
| Minimum pension liability adjustments | | | | 9,780 | | 9,780 | |
| Total comprehensive income | | | | | | 1,295,192 | |
| Dividends paid | | | (165,299) | | | (165,299) | |
| Purchase and reissuance of common stock | | | | | (264,038) | (264,038) | |
| Balances at March 31, 2005 | 397,050 | 495,707 | 9,332,176 | (80,660) | (1,099,323) | 9,044,950 | |
| Issuance during the year | | (457) | | | | (457) | |
| Comprehensive income | | | | | | | |
| Net income | | | 1,372,180 | | | 1,372,180 | |
| Other comprehensive income | | | | | | | |
| Foreign currency translation adjustments | | | | 268,410 | | 268,410 | |
| Unrealized gains on securities, net of reclassification adjustments | | | | 244,629 | | 244,629 | |
| Minimum pension liability adjustments | | | | 4,937 | | 4,937 | |
| Total comprehensive income | | | | | | 1,890,156 | |

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| | | | | | | | |
|---|-----------|-----------|--------------|-----------|---------------|-----------|--------------|
| Dividends paid | | | | (244,568) | | | (244,568) |
| Purchase and reissuance of common stock | | | | | | (129,632) | (129,632) |
| Balances at March 31, 2006 | ¥ 397,050 | ¥ 495,250 | ¥ 10,459,788 | ¥ 437,316 | ¥ (1,228,955) | | ¥ 10,560,449 |

The accompanying notes are an integral part of these consolidated financial statements.

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TOYOTA MOTOR CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (CONTINUED)

| | U.S. dollars in millions | | | | | |
|---|--------------------------|----------------------------------|----------------------|--|-------------------------------|---------------------------------|
| | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock, at cost | Total shareholders equity |
| Balances at March 31, 2005 | \$ 3,380 | \$ 4,220 | \$ 79,443 | \$ (686) | \$ (9,358) | \$ 76,999 |
| Issuance during the year | | (4) | | | | (4) |
| Comprehensive income | | | | | | |
| Net income | | | 11,681 | | | 11,681 |
| Other comprehensive income | | | | | | |
| Foreign currency translation adjustments | | | | 2,285 | | 2,285 |
| Unrealized gains on securities, net of reclassification adjustments | | | | 2,082 | | 2,082 |
| Minimum pension liability adjustments | | | | 42 | | 42 |
| Total comprehensive income | | | | | | 16,090 |
| Dividends paid | | | (2,082) | | | (2,082) |
| Purchase and reissuance of common stock | | | | | (1,104) | (1,104) |
| Balances at March 31, 2006 | \$ 3,380 | \$ 4,216 | \$ 89,042 | \$ 3,723 | \$ (10,462) | \$ 89,899 |

The accompanying notes are an integral part of these consolidated financial statements.

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| | Yen in millions | | | U.S. dollars in millions For the year ended March 31, 2006 |
|--|-------------------------------|---------------|---------------|---|
| | For the years ended March 31, | | | |
| | 2004 | 2005 | 2006 | |
| Cash flows from operating activities | | | | |
| Net income | ¥ 1,162,098 | ¥ 1,171,260 | ¥ 1,372,180 | \$ 11,681 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation | 969,904 | 997,713 | 1,211,178 | 10,311 |
| Provision for doubtful accounts and credit losses | 83,138 | 63,154 | 62,646 | 533 |
| Pension and severance costs, less payments | (159,267) | (52,933) | 23,860 | 203 |
| Losses on disposal of fixed assets | 39,742 | 49,159 | 54,981 | 468 |
| Unrealized losses on available-for-sale securities, net | 3,063 | 2,324 | 4,163 | 36 |
| Deferred income taxes | 120,828 | 84,711 | 33,262 | 283 |
| Minority interest in consolidated subsidiaries | 42,686 | 64,938 | 84,393 | 718 |
| Equity in earnings of affiliated companies | (120,295) | (139,471) | (164,366) | (1,399) |
| Changes in operating assets and liabilities, and other | | | | |
| Increase in accounts and notes receivable | (90,721) | (178,363) | (297,598) | (2,533) |
| Increase in inventories | (53,609) | (191,545) | (248,823) | (2,118) |
| (Increase) decrease in other current assets | 43,445 | 34,674 | (89,723) | (764) |
| Increase in accounts payable | 159,120 | 153,747 | 188,702 | 1,606 |
| Increase (decrease) in accrued income taxes | (66,006) | 41,228 | 54,052 | 460 |
| Increase in other current liabilities | 203,535 | 190,450 | 203,075 | 1,729 |
| Other | (150,927) | 79,894 | 23,498 | 200 |
| Net cash provided by operating activities | 2,186,734 | 2,370,940 | 2,515,480 | 21,414 |
| Cash flows from investing activities | | | | |
| Additions to finance receivables | (5,234,578) | (5,594,375) | (6,476,979) | (55,137) |
| Collection of finance receivables | 3,839,812 | 4,609,383 | 5,615,276 | 47,802 |
| Proceeds from sale of finance receivables | 243,128 | 65,536 | 102,854 | 876 |
| Additions to fixed assets excluding equipment leased to others | (945,803) | (1,068,287) | (1,523,459) | (12,969) |
| Additions to equipment leased to others | (542,738) | (854,953) | (1,247,781) | (10,622) |
| Proceeds from sales of fixed assets excluding equipment leased to others | 73,925 | 69,396 | 89,578 | 762 |
| Proceeds from sales of equipment leased to others | 288,681 | 316,456 | 410,683 | 3,496 |
| Purchases of marketable securities and security investments | (1,336,467) | (1,165,791) | (957,296) | (8,149) |
| Proceeds from sales of marketable securities and security investments | 183,808 | 121,369 | 157,707 | 1,342 |
| Proceeds upon maturity of marketable securities and security investments | 1,252,334 | 452,574 | 533,325 | 4,540 |
| Payment for additional investments in affiliated companies, net of cash acquired | (20,656) | (901) | (1,802) | (15) |
| Changes in investments and other assets, and other | (17,941) | (11,603) | (77,606) | (661) |
| Net cash used in investing activities | ¥ (2,216,495) | ¥ (3,061,196) | ¥ (3,375,500) | \$ (28,735) |

The accompanying notes are an integral part of these consolidated financial statements.

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TOYOTA MOTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

| | Yen in millions | | | U.S. dollars in millions For the year ended March 31, 2006 |
|--|-------------------------------|--------------------|--------------------|---|
| | For the years ended March 31, | | | |
| | 2004 | 2005 | 2006 | |
| Cash flows from financing activities | | | | |
| Purchase of common stock | ¥ (357,457) | ¥ (264,106) | ¥ (129,629) | \$ (1,104) |
| Proceeds from issuance of long-term debt | 1,636,570 | 1,863,710 | 1,928,788 | 16,420 |
| Payments of long-term debt | (1,253,045) | (1,155,223) | (1,187,506) | (10,109) |
| Increase in short-term borrowings | 353,833 | 140,302 | 509,826 | 4,340 |
| Dividends paid | (137,678) | (165,299) | (244,568) | (2,082) |
| Net cash provided by financing activities | 242,223 | 419,384 | 876,911 | 7,465 |
| Effect of exchange rate changes on cash and cash equivalents | (74,714) | 24,849 | 68,743 | 585 |
| Net increase (decrease) in cash and cash equivalents | 137,748 | (246,023) | 85,634 | 729 |
| Cash and cash equivalents at beginning of year | 1,592,028 | 1,729,776 | 1,483,753 | 12,631 |
| Cash and cash equivalents at end of year | ¥ 1,729,776 | ¥ 1,483,753 | ¥ 1,569,387 | \$ 13,360 |

The accompanying notes are an integral part of these consolidated financial statements.

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TOYOTA MOTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

Toyota is primarily engaged in the design, manufacture, and sale of sedans, minivans, compact cars, sport-utility vehicles, trucks and related parts and accessories throughout the world. In addition, Toyota provides financing, vehicle and equipment leasing and certain other financial services primarily to its dealers and their customers to support the sales of vehicles and other products manufactured by Toyota.

2. Summary of significant accounting policies:

The parent company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of their countries of domicile. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform to accounting principles generally accepted in the United States of America.

Significant accounting policies after reflecting adjustments for the above are as follows:

Basis of consolidation and accounting for investments in affiliated companies -

The consolidated financial statements include the accounts of the parent company and those of its majority-owned subsidiary companies. All significant intercompany transactions and accounts have been eliminated. Investments in affiliated companies in which Toyota exercises significant influence, but which it does not control, are stated at cost plus equity in undistributed earnings. Consolidated net income includes Toyota's equity in current earnings of such companies, after elimination of unrealized intercompany profits. Investments in non-public companies in which Toyota does not exercise significant influence (generally less than a 20% ownership interest) are stated at cost. The accounts of variable interest entities as defined by the Financial Accounting Standard Board (FASB) Interpretation No. 46(R) *Consolidation of Variable Interest Entities (revised December 2003)* - an interpretation of ARB No.51 (FIN 46(R)) are included in the consolidated financial statements, if applicable.

Estimates -

The preparation of Toyota's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The more significant estimates include: product warranties, allowance for doubtful accounts and credit losses, residual values for leased assets, impairment of long-lived assets, pension costs and obligations, fair value of derivative financial instruments and other-than-temporary losses on marketable securities.

Translation of foreign currencies -

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current exchange rates and all income and expense accounts of those subsidiaries are translated at the average exchange rates for each period. The foreign currency translation adjustments are included as a component of accumulated other comprehensive income.

Foreign currency receivables and payables are translated at appropriate year-end current exchange rates and the resulting transaction gains or losses are recorded in operations currently.

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TOYOTA MOTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue recognition -

Revenues from sales of vehicles and parts are generally recognized upon delivery which is considered to have occurred when the dealer has taken title to the product and the risk and reward of ownership have been substantively transferred, except as described below.

Toyota's sales incentive programs principally consist of cash payments to dealers calculated based on vehicle volume or a model sold by a dealer during a certain period of time. Toyota accrues these incentives as revenue reductions upon the sale of a vehicle corresponding to the program by the amount determined in the related incentive program.

Revenues from the sales of vehicles under which Toyota conditionally guarantees the minimum resale value is recognized on a pro rata basis from the date of sale to the first exercise date of the guarantee in a manner similar to lease accounting. The underlying vehicles of these transactions are recorded as assets and are depreciated in accordance with Toyota's depreciation policy.

Revenues from retail financing contracts and finance leases are recognized using the effective yield method. Revenues from operating leases are recognized on a straight-line basis over the lease term.

Toyota on occasion sells finance receivables in transactions subject to limited recourse provisions. These sales are to trusts and Toyota retains the servicing rights and is paid a servicing fee. Gains or losses from the sales of the finance receivables are recognized in the period in which such sales occur.

Other costs -

Advertising and sales promotion costs are expensed as incurred. Advertising costs were ¥371,677 million, ¥379,702 million and ¥397,599 million (\$3,385 million) for the years ended March 31, 2004, 2005 and 2006, respectively.

Toyota generally warrants its products against certain manufacturing and other defects. Provisions for product warranties are provided for specific periods of time and/or usage of the product and vary depending upon the nature of the product, the geographic location of the sale and other factors. Toyota records a provision for estimated product warranty costs at the time the related sale is recognized based on estimates that Toyota will incur to repair or replace product parts that fail while under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on repair costs. The amount of warranty costs accrued also contains an estimate of warranty claim recoveries to be received from suppliers.

Research and development costs are expensed as incurred and ¥682,279 million, ¥755,147 million and ¥812,648 million (\$6,918 million) for the years ended March 31, 2004, 2005 and 2006, respectively.

Cash and cash equivalents -

Cash and cash equivalents include all highly liquid investments 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.

Marketable securities -

Marketable securities consist of debt and equity securities. Debt and equity securities designated as available-for-sale are carried at fair value with unrealized gains or losses included as a component of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accumulated other comprehensive income in shareholders' equity, net of applicable taxes. Debt securities designated as held-to-maturity investments are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to net realizable value for other-than-temporary declines in market value. In determining if a decline in value is other-than-temporary, Toyota considers the length of time and the extent to which the fair value has been less than the carrying value, the financial condition and prospects of the company and Toyota's ability and intent to retain its investment in the company for a period of time sufficient to allow for any anticipated recovery in market value. Realized gains and losses, which are determined on the average-cost method, are reflected in the statement of income when realized.

Security investments in non-public companies -

Security investments in non-public companies are carried at cost as fair value is not readily determinable. If the value of a non-public security investment is estimated to have declined and such decline is judged to be other-than-temporary, Toyota recognizes the impairment of the investment and the carrying value is reduced to its fair value. Determination of impairment is based on the consideration of such factors as operating results, business plans and estimated future cash flows. Fair value is determined principally through the use of the latest financial information.

Finance receivables -

Finance receivables are recorded at the present value of the related future cash flows including residual values for finance leases.

Allowance for credit losses -

Allowance for credit losses are established to cover probable losses on receivables resulting from the inability of customers to make required payments. The allowance for credit losses is based primarily on the frequency of occurrence and loss severity. Other factors affecting collectibility are also evaluated in determining the amount to be provided.

Losses are charged to the allowance when it has been determined that payments will not be received and collateral cannot be recovered or the related collateral is repossessed and sold. Any shortfall between proceeds received and the carrying cost of repossessed collateral is charged to the allowance. Recoveries are reversed from the allowance for credit losses.

Allowance for residual value losses -

Toyota is exposed to risk of loss on the disposition of off-lease vehicles to the extent that sales proceeds are not sufficient to cover the carrying value of the leased asset at lease termination. Toyota maintains an allowance to cover probable estimated losses related to unguaranteed residual values on its owned portfolio. The allowance is evaluated considering projected vehicle return rates and projected loss severity. Factors considered in the determination of projected return rates and loss severity include historical and market information on used vehicle sales, trends in lease returns and new car markets, and general economic conditions. Management evaluates the foregoing factors, develops several potential loss scenarios, and reviews allowance levels to determine whether reserves are considered adequate to cover the probable range of losses.

The allowance for residual value losses is maintained in amounts considered by Toyota to be appropriate in relation to the estimated losses on its owned portfolio. Upon disposal of the assets, the allowance for residual losses is adjusted for the difference between the net book value and the proceeds from sale.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories -

Inventories are valued at cost, not in excess of market, cost being determined on the average-cost basis, except for the cost of finished products carried by certain subsidiary companies which is determined on the specific identification basis or last-in, first-out (LIFO) basis. Inventories valued on the LIFO basis totaled ¥233,440 million and ¥329,205 million (\$2,802 million) at March 31, 2005 and 2006, respectively. Had the first-in, first-out basis been used for those companies using the LIFO basis, inventories would have been ¥31,894 million and ¥17,070 million (\$145 million) higher than reported at March 31, 2005 and 2006, respectively.

Property, plant and equipment -

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation of property, plant and equipment is mainly computed on the declining-balance method for the parent company and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies at rates based on estimated useful lives of the respective assets according to general class, type of construction and use. The estimated useful lives range from 2 to 65 years for buildings and from 2 to 20 years for machinery and equipment.

Vehicles and equipment on operating leases to third parties are originated by dealers and acquired by certain consolidated subsidiaries. Such subsidiaries are also the lessors of certain property that they acquire directly. Vehicles and equipment on operating leases are depreciated primarily on a straight-line method over the lease term, generally 5 years, to the estimated residual value.

Long-lived assets -

Toyota reviews its long-lived assets, including investments in affiliated companies, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the carrying value of the asset over its fair value. Fair value is determined mainly using a discounted cash flow valuation method.

Goodwill and intangible assets -

Goodwill is not material to Toyota's consolidated balance sheets.

Intangible assets consist mainly of software. Intangible assets with a definite life are amortized on a straight-line basis with estimated useful lives mainly of 5 years. Intangible assets with an indefinite life are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss to be recorded is generally determined by the difference between the fair value of the asset using a discounted cash flow valuation method and the current book value.

Employee benefit obligations -

Toyota has both defined benefit and defined contribution plans for employees' retirement benefits. Retirement benefit obligations are measured by actuarial calculations in accordance with a Statement of Financial

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TOYOTA MOTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounting Standard (FAS) No. 87 *Employers' accounting for pensions* (FAS 87), Accrued pension and severance costs are determined by amounts of obligations, plan assets, unrecognized prior service costs and unrecognized actuarial gains/losses. A minimum pension liability is recorded for plans where the accumulated benefit obligation net of plan assets exceeds the accrued pension and severance costs.

Environmental matters -

Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to existing conditions caused by past operations, which do not contribute to current or future revenues, are expensed. Liabilities for remediation costs are recorded when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or Toyota's commitment to a plan of action. The cost of each environmental liability is estimated by using current technology available and various engineering, financial and legal specialists within Toyota based on current law. Such liabilities do not reflect any offset for possible recoveries from insurance companies and are not discounted. There were no material changes in these liabilities for all periods presented.

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 assets and liabilities 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.

Derivative financial instruments -

Toyota employs derivative financial instruments, including forward foreign currency exchange contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. Toyota does not use derivatives for speculation or trading purposes. Changes in the fair value of derivatives are recorded each period in current earnings or through other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is recognized currently in operations.

Net income per share -

Basic net income per common share is calculated by dividing net income by the weighted-average number of shares outstanding during the reported period. The calculation of diluted net income per common 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 the assumed exercise of dilutive stock options.

Stock-based compensation -

Toyota measures compensation expense for its stock-based compensation plan using the intrinsic value method. Toyota accounts for the stock-based compensation plans under the recognition and measurement principles of the Accounting Principles Board (APB) Opinion No. 25 (APB25), *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under those plans had an exercise price higher than the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the

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company had applied the fair value recognition provisions of FAS No. 123, *Accounting for Stock-Based Compensation* (FAS 123), to stock-based employee compensation. See note 18 to the consolidated financial statements for weighted-average assumptions used in option pricing model.

| | Yen in millions | | | U.S. dollars in millions For the year ended March 31, 2006 |
|---|-------------------------------|-------------|-------------|---|
| | For the years ended March 31, | | | |
| | 2004 | 2005 | 2006 | |
| Net income | | | | |
| As reported | ¥ 1,162,098 | ¥ 1,171,260 | ¥ 1,372,180 | \$ 11,681 |
| Deduct: Total stock-based compensation expenses determined under fair value based method for all awards, net of related tax effects | (1,292) | (1,571) | (1,449) | (12) |
| Pro forma | ¥ 1,160,806 | ¥ 1,169,689 | ¥ 1,370,731 | \$ 11,669 |
| Net income per share | | | | |
| - Basic | | | | |
| As reported | ¥ 342.90 | ¥ 355.35 | ¥ 421.76 | \$ 3.59 |
| Pro forma | 342.51 | 354.87 | 421.32 | 3.59 |
| - Diluted | | | | |
| As reported | ¥ 342.86 | ¥ 355.28 | ¥ 421.62 | \$ 3.59 |
| Pro forma | 342.48 | 354.80 | 421.18 | 3.59 |

Other comprehensive income -

Other comprehensive income refers to revenues, expenses, gains and losses that, under accounting principles generally accepted in the United States of America are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to shareholders' equity. Toyota's other comprehensive income is primarily comprised of unrealized gains/losses on marketable securities designated as available-for-sale, foreign currency translation adjustments, gains/losses on certain derivative instruments and adjustments attributed to additional minimum pension liabilities associated with Toyota's defined benefit pension plans.

Accounting changes -

In December 2004, FASB issued FAS No. 153, *Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29* (FAS 153). The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion; however, included certain exceptions to that principle. FAS 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Toyota adopted FAS 153 for nonmonetary asset exchanges occurring in and after fiscal periods begun after June 15, 2005. The adoption of FAS 153 did not have material impact on Toyota's consolidated financial statements.

In March 2005, FASB issued the FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143* (FIN 47). This Interpretation clarifies that the term

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conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 requires a company to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred. Toyota adopted FIN 47 in the fiscal periods ended after December 15, 2005. The adoption of FIN 47 did not have material impact on Toyota's consolidated financial statements.

Recent pronouncements to be adopted in future periods -

In November 2004, FASB issued FAS No. 151, *Inventory Costs – an amendment of ARB No. 43, Chapter 4* (FAS 151). FAS 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. FAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not expect this statement to have a material impact on Toyota's consolidated financial statements.

In December 2004, FASB issued FAS No. 123(R), *Share-Based Payment (revised 2004)* (FAS 123(R)). FAS 123(R) is a revision of FAS 123, supersedes APB 25, and its related implementation guidance. FAS 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. FAS 123(R) also requires a public entity to initially measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value; the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value will be recognized as compensation cost over that period. Although Toyota is required to implement the standard as of the beginning of the first interim or annual period that begins after June 15, 2005 under Statement No. 123(R), the Securities and Exchange Commission has amended the compliance date and Toyota is required to adopt the Standard for the year ending March 31, 2007. Management does not expect this statement to have a material impact on Toyota's consolidated financial statements.

In May 2005, FASB issued FAS No. 154, *Accounting Changes and Error Corrections – a replacement of APB No. 20 and FAS No. 3* (FAS 154). FAS 154 replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. FAS 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement when the pronouncement does not include specific transition provisions. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of applying FAS 154 will depend on the change, if any, that Toyota may identify and record in future periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In February 2006, FASB issued FAS No. 155, *Accounting for Certain Hybrid Instruments* (FAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). The statement also subjects beneficial interests issued by securitization vehicles to the requirements of FAS133. FAS 155 is effective as of the beginning of first fiscal year that begins after September 15, 2006. Management does not expect this statement to have a material impact on Toyota's consolidated financial statements.

In March 2006, FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets* (FAS 156), which amends FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), with respect to the accounting for separately recognized servicing assets and servicing liabilities. FAS 156 is effective as of the beginning of first fiscal year that begins after September 15, 2006, with earlier adoption permitted. Management does not expect this statement to have a material impact on Toyota's consolidated financial statements.

Reclassifications -

Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2006.

3. U.S. dollar amounts:

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the reader and are unaudited. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars. For this purpose, the rate of ¥117.47 = U.S. \$1, the approximate current exchange rate at March 31, 2006, was used for the translation of the accompanying consolidated financial amounts of Toyota as of and for the year ended March 31, 2006.

4. Supplemental cash flow information:

Cash payments for income taxes were ¥627,483 million, ¥694,985 million and ¥730,469 million (\$6,218 million) for the years ended March 31, 2004, 2005 and 2006, respectively. Interest payments during the years ended March 31, 2004, 2005 and 2006 were ¥203,257 million, ¥226,615 million and ¥332,337 million (\$2,829 million), respectively.

Capital lease obligations of ¥4,826 million, ¥3,571 million and ¥6,673 million (\$57 million) were incurred for the years ended March 31, 2004, 2005 and 2006, respectively.

5. Acquisitions and dispositions:

During the year ended March 31, 2004, Toyota acquired additional ownerships in the following four contract manufacturers, Toyota Auto Body Corporation, Kanto Auto Works LTD, Central Motor CO., LTD, and P.T. Toyota Motor Manufacturing Indonesia. All of them are primarily engaged in manufacturing Toyota brand vehicles. Until the date of each acquisition, Toyota accounted for its investments in these contract manufacturers by the equity method because Toyota was considered to have significant influence of these companies. Subsequent to the date of each acquisition, Toyota's consolidated financial statements include the accounts of

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these contract manufacturers. The fair values of assets acquired and liabilities assumed at the dates of acquisition based on the allocation of the aggregate purchase price for these acquisitions are as follows:

| | Yen in millions |
|----------------------|---------------------------|
| | For the year ended |
| | March 31, 2004 |
| Assets acquired | ¥ 488,939 |
| Liabilities assumed | (372,277) |
| Minority interest | (97,008) |
| Goodwill | 9,557 |
| Less - Cash acquired | (11,703) |
| Net cash paid | ¥ 17,508 |

Pro forma information related to these acquisitions is not included because the impact of these acquisitions, either individually or in the aggregate, on Toyota's consolidated results of operations is not considered to be material.

During the years ended March 31, 2004, 2005 and 2006, Toyota made a number of other acquisitions, however assets acquired and liabilities assumed were not material.

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Marketable securities and other securities investments include debt and equity securities for which the aggregate cost, gross unrealized gains and losses and fair value are as follows:

| | Cost | Yen in millions March 31, 2005 | | Fair value |
|---------------------------|-------------|-----------------------------------|-------------------------------|---------------|
| | | Gross unrealized gains | Gross unrealized losses | |
| Available-for-sale | | | | |
| Debt securities | ¥ 2,205,420 | ¥ 14,113 | ¥ 6,928 | ¥ 2,212,605 |
| Equity securities | 451,903 | 453,494 | 593 | 904,804 |
| Total | ¥ 2,657,323 | ¥ 467,607 | ¥ 7,521 | ¥ 3,117,409 |

Securities not practicable to determine fair value

| | |
|-------------------|-----------|
| Debt securities | ¥ 19,917 |
| Equity securities | 109,940 |
| Total | ¥ 129,857 |

| | Cost | Yen in millions March 31, 2006 | | Fair value |
|---------------------------|-------------|-----------------------------------|-------------------------------|---------------|
| | | Gross unrealized gains | Gross unrealized losses | |
| Available-for-sale | | | | |
| Debt securities | ¥ 2,432,905 | ¥ 4,597 | ¥ 29,356 | ¥ 2,408,146 |
| Equity securities | 661,412 | 807,937 | 198 | 1,469,151 |
| Total | ¥ 3,094,317 | ¥ 812,534 | ¥ 29,554 | ¥ 3,877,297 |

Securities not practicable to determine fair value

| | |
|-------------------|-----------|
| Debt securities | ¥ 18,863 |
| Equity securities | 141,242 |
| Total | ¥ 160,105 |

| | Cost | U.S. dollars in millions March 31, 2006 | | Fair value |
|---------------------------|-----------|--|-------------------------------|---------------|
| | | Gross unrealized gains | Gross unrealized losses | |
| Available-for-sale | | | | |
| Debt securities | \$ 20,711 | \$ 39 | \$ 250 | \$ 20,500 |

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| | | | | |
|---|-----------|----------|--------|-----------|
| Equity securities | 5,630 | 6,878 | 1 | 12,507 |
| Total | \$ 26,341 | \$ 6,917 | \$ 251 | \$ 33,007 |
| Securities not practicable to determine fair value | | | | |
| Debt securities | \$ 161 | | | |
| Equity securities | 1,202 | | | |
| Total | \$ 1,363 | | | |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unrealized losses continuously over a 12 month period or more in the aggregate were not material at March 31, 2005 and 2006.

At March 31, 2005 and 2006, debt securities classified as available-for-sale mainly consist of government bonds and corporate debt securities with maturities from 1 to 10 years.

Proceeds from sales of available-for-sale securities were ¥183,808 million, ¥121,369 million and ¥157,707 million (\$1,342 million) for the years ended March 31, 2004, 2005 and 2006, respectively. On those sales, gross realized gains were ¥8,780 million, ¥14,551 million and ¥2,104 million (\$18 million) and gross realized losses were ¥139 million, ¥231 million and ¥1,207 million (\$10 million), respectively.

During the year ended March 31, 2006, in accordance with EITF Issue No. 91-5, *Nonmonetary Exchange of Cost-Method Investments*, Toyota reclassified ¥143,366 million (\$1,220 million) of gain from Unrealized gains on securities included in the Accumulated other comprehensive income on the consolidated balance sheet to Other income included in the Other income, net on the consolidated statement of income. The gain was recognized based on the merger between UFJ Holdings, Inc. and Mitsubishi Tokyo Financial Group, Inc. on October 1, 2005, and determined as the amount between the cost of the pre-merger entity, UFJ Holdings, Inc. common shares which Toyota had continuously held and the fair market value of the post-merger entity, Mitsubishi UFJ Financial Group, Inc. common shares which Toyota received in exchange for UFJ Holdings, Inc. common shares. The gain was non-cash gain and included in the cost of the available-for-sale equity securities as of March 31, 2006.

During the years ended March 31, 2004, 2005 and 2006, Toyota recognized impairment losses on available-for-sale securities of ¥3,063 million, ¥2,324 million, and ¥4,163 million (\$35 million), respectively, which are included in Other income, net in the accompanying consolidated statements of income.

In the ordinary course of business, Toyota maintains long-term investment securities, included in Marketable securities and other securities investments and issued by a number of non-public companies which are recorded at cost, as their fair values were not readily determinable. Management employs a systematic methodology to assess the recoverability of such investments by reviewing the financial viability of the underlying companies and the prevailing market conditions in which these companies operate to determine if Toyota's investment in each individual company is impaired and whether the impairment is other-than-temporary. Toyota performs this impairment test semi-annually for significant investments recorded at cost. If the impairment is determined to be other-than-temporary, the cost of the investment is written-down by the impaired amount and the losses are recognized currently in operations.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Finance receivables:**

Finance receivables consist of the following:

| | Yen in millions | | U.S. dollars |
|-------------------------------------|-----------------|-------------|-------------------|
| | March 31, | | in millions |
| | 2005 | 2006 | March 31, 2006 |
| Retail | ¥ 4,716,961 | ¥ 5,930,822 | \$ 50,488 |
| Finance leases | 756,732 | 741,280 | 6,310 |
| Wholesale and other dealer loans | 1,773,440 | 1,998,814 | 17,016 |
| | 7,247,133 | 8,670,916 | 73,814 |
| Deferred origination costs | 65,189 | 92,798 | 790 |
| Unearned income | (233,417) | (334,796) | (2,850) |
| Allowance for credit losses | (91,829) | (101,383) | (863) |
| Total finance receivables, net | 6,987,076 | 8,327,535 | 70,891 |
| Less - Current portion | (3,010,135) | (3,497,319) | (29,772) |
| Noncurrent finance receivables, net | ¥ 3,976,941 | ¥ 4,830,216 | \$ 41,119 |

The contractual maturities of retail receivables, the future minimum lease payments on finance leases and wholesale and other dealer loans at March 31, 2006 are summarized as follows:

| Years ending March 31, | Yen in millions | | | U.S. dollars in millions | | |
|------------------------|-----------------|---------------|----------------------------------|--------------------------|---------------|----------------------------------|
| | Retail | Finance lease | Wholesale and other dealer loans | Retail | Finance lease | Wholesale and other dealer loans |
| 2007 | ¥ 1,692,889 | ¥ 194,384 | ¥ 1,664,365 | \$ 14,411 | \$ 1,655 | \$ 14,168 |
| 2008 | 1,497,693 | 124,726 | 99,217 | 12,749 | 1,062 | 845 |
| 2009 | 1,227,787 | 99,718 | 95,581 | 10,452 | 849 | 814 |
| 2010 | 820,275 | 37,035 | 53,532 | 6,983 | 315 | 456 |
| 2011 | 404,888 | 15,239 | 56,384 | 3,447 | 129 | 480 |
| Thereafter | 287,290 | 1,623 | 29,735 | 2,446 | 14 | 253 |
| | ¥ 5,930,822 | ¥ 472,725 | ¥ 1,998,814 | \$ 50,488 | \$ 4,024 | \$ 17,016 |

Finance leases consist of the following:

| | Yen in millions | U.S. dollars |
|--|-----------------|--------------|
| | March 31, | in millions |
| | March 31, | March 31, |

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| | 2005 | 2006 | 2006 |
|--|-----------|-----------|----------|
| Minimum lease payments | ¥ 485,696 | ¥ 472,725 | \$ 4,024 |
| Estimated unguaranteed residual values | 271,036 | 268,555 | 2,286 |
| | 756,732 | 741,280 | 6,310 |
| Deferred origination costs | 1,900 | 1,462 | 12 |
| Less - Unearned income | (71,702) | (102,241) | (870) |
| Less - Allowance for credit losses | (6,502) | (6,140) | (52) |
| Finance leases, net | ¥ 680,428 | ¥ 634,361 | \$ 5,400 |

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Toyota maintains a program to sell retail and lease finance receivables. Under the program, Toyota's securitization transactions are generally structured as qualifying SPEs (QSPEs), thus Toyota achieves sale accounting treatment under the provisions of FAS 140. Toyota recognizes a gain or loss on the sale of the finance receivables upon the transfer of the receivables to the securitization trusts structured as a QSPE. Toyota retains servicing rights and earns a contractual servicing fee of 1% per annum on the total monthly outstanding principal balance of the related securitized receivables. In a subordinated capacity, Toyota retains interest-only strips, subordinated securities, and cash reserve funds in these securitizations, and these retained interests are held as restricted assets subject to limited recourse provisions and provide credit enhancement to the senior securities in Toyota's securitization transactions. The retained interests are not available to satisfy any obligations of Toyota. Investors in the securitizations have no recourse to Toyota beyond Toyota's retained subordinated interests and any amounts drawn on the revolving liquidity notes. Toyota's exposure to these retained interests exists until the associated securities are paid in full. Investors do not have recourse to other assets held by Toyota for failure of obligors on the receivables to pay when due or otherwise.

The following table summarizes certain cash flows received from and paid to the securitization trusts for the years ended March 31, 2004, 2005 and 2006.

| | Yen in millions | | | U.S. dollars in millions |
|---|-------------------------------|----------|----------|-----------------------------|
| | For the years ended March 31, | | | For the year ended |
| | 2004 | 2005 | 2006 | March 31, 2006 |
| Proceeds from new securitizations, net of purchased and retained securities | ¥ 168,135 | ¥ 48,958 | ¥ 88,698 | \$ 755 |
| Servicing fees received | 6,860 | 3,762 | 2,297 | 20 |
| Excess interest received from interest only strips | 20,514 | 9,140 | 4,219 | 36 |
| Repurchases of receivables | (33,614) | (34,675) | (50,086) | (426) |
| Servicing advances | (792) | (215) | (453) | (4) |
| Reimbursement of servicing and maturity advances | 1,358 | 860 | 793 | 7 |

Toyota sold finance receivables under the program and recognized pretax gains resulting from these sales of ¥5,608 million, ¥323 million and ¥837 million (\$7 million) for the years ended March 31, 2004, 2005 and 2006, respectively, after providing an allowance for estimated credit losses. The gain on sale recorded depends on the carrying amount of the assets at the time of the sale. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair values at the date of the sale. The key economic assumptions initially and subsequently measuring the fair value of retained interests include the market interest rate environment, severity and rate of credit losses, and the prepayment speed of the receivables. All key economic assumptions used in the valuation of the retained interests are reviewed periodically and are revised as considered necessary.

At March 31, 2005 and 2006, Toyota's retained interests relating to these securitizations include interest in trusts, interest-only strips, and other receivables, amounting to ¥18,896 million and ¥18,316 million (\$156 million), respectively.

Toyota recorded no impairments on retained interests for the years ended March 31, 2004, 2005 and 2006. Those impairments were calculated, if any, by discounting cash flows using management's estimates and other key economic assumptions.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Key economic assumptions used in measuring the fair value of retained interests at the sale date of securitization transactions completed during the years ended March 31, 2004, 2005 and 2006 were as follows:

| | For the years ended March 31, | | |
|---|-------------------------------|-------------|---------------|
| | 2004 | 2005 | 2006 |
| Prepayment speed related to securitizations | 1.0% - 1.5% | 0.7% - 1.1% | 0.7% - 1.4% |
| Weighted-average life (in years) | 1.70 - 1.85 | 1.85 | 1.72 - 2.06 |
| Expected annual credit losses | 0.50% - 0.80% | 0.30% | 0.05% - 0.18% |
| Discount rate used on the subordinated securities | 5.0% | | |
| Discount rate used on other retained interests | 8.0% - 15.0% | 15.0% | 5.0% |

Expected cumulative static pool losses over the life of the securitizations are calculated by taking actual life to date losses plus projected losses and dividing the sum by the original balance of each pool of assets. Expected cumulative static pool credit losses for the retail loans securitized for the years ended March 31, 2004, 2005 and 2006 were 0.41%, 0.40% and 0.19%, respectively.

The key economic assumptions and the sensitivity of the current fair value of the retained interest to an immediate 10 and 20 percent adverse change in those economic assumptions are presented below.

| | Yen in millions | U.S. dollars |
|---|-----------------|-------------------------------|
| | March 31, 2006 | in millions March 31, 2006 |
| Prepayment speed assumption (annual rate) | 0.7%-1.5% | |
| Impact on fair value of 10% adverse change | ¥ (136) | \$ (1) |
| Impact on fair value of 20% adverse change | (271) | (2) |
| Residual cash flows discount rate (annual rate) | 5.0%-12.0% | |
| Impact on fair value of 10% adverse change | ¥ (172) | \$ (1) |
| Impact on fair value of 20% adverse change | (341) | (3) |
| Expected credit losses (annual rate) | 0.05%-0.41% | |
| Impact on fair value of 10% adverse change | ¥ (56) | \$ (0) |
| Impact on fair value of 20% adverse change | (125) | (1) |

These hypothetical scenarios do not reflect expected market conditions and should not be used as a prediction of future performance. As the figures indicate, changes in the fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. Actual changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Actual cash flows may differ from the above analysis.

Outstanding receivable balances and delinquency amounts for managed retail and lease receivables, which include both owned and securitized receivables, as of March 31, 2005 and 2006 are as follows:

| | Yen in millions | | U.S. dollars |
|---|-----------------|-------------|----------------------------------|
| | 2005 | 2006 | in millions March 31, 2006 |
| Principal amount outstanding | ¥ 5,520,484 | ¥ 6,543,496 | \$ 55,704 |
| Delinquent amounts over 60 days or more | 23,396 | 32,799 | 279 |

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Comprised of:

| | | | |
|-------------------------|-------------|-------------|-----------|
| Receivables owned | ¥ 5,240,276 | ¥ 6,337,306 | \$ 53,949 |
| Receivables securitized | 280,208 | 206,190 | 1,755 |

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Credit losses, net of recoveries attributed to managed retail and lease receivables for the years ended March 31, 2004, 2005 and 2006 totaled ¥48,011 million, ¥34,455 million and ¥46,427 million (\$395 million), respectively.

8. Other receivables:

Other receivables relate to arrangements with certain component manufacturers whereby Toyota procures inventory for these component manufactures and is reimbursed for the related purchases.

9. Inventories:

Inventories consist of the following:

| | Yen in millions | | U.S. dollars |
|--------------------|-----------------|-------------|-------------------|
| | March 31, | | in millions |
| | 2005 | 2006 | March 31, 2006 |
| Finished goods | ¥ 890,118 | ¥ 1,097,203 | \$ 9,340 |
| Raw materials | 189,675 | 221,285 | 1,884 |
| Work in process | 179,943 | 239,450 | 2,038 |
| Supplies and other | 46,973 | 63,037 | 537 |
| | ¥ 1,306,709 | ¥ 1,620,975 | \$ 13,799 |

10. Vehicles and equipment on operating leases:

Vehicles and equipment on operating leases consist of the following:

| | Yen in millions | | U.S. dollars |
|---|-----------------|-------------|-------------------|
| | March 31, | | in millions |
| | 2005 | 2006 | March 31, 2006 |
| Vehicles | ¥ 1,736,238 | ¥ 2,503,064 | \$ 21,308 |
| Equipment | 92,459 | 102,362 | 871 |
| | 1,828,697 | 2,605,426 | 22,179 |
| Less - Accumulated depreciation | (424,609) | (579,896) | (4,936) |
| Vehicles and equipment on operating leases, net | ¥ 1,404,088 | ¥ 2,025,530 | \$ 17,243 |

Rental income from vehicles and equipment on operating leases was ¥267,252 million, ¥291,205 million and ¥395,870 million (\$3,370 million) for the years ended March 31, 2004, 2005 and 2006, respectively. Future minimum rentals from vehicles and equipment on operating leases are due in installments as follows:

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| <u>Years ending March 31,</u> | Yen in millions | U.S. dollars in millions |
|-------------------------------------|----------------------------|-------------------------------------|
| 2007 | ¥ 404,750 | \$ 3,446 |
| 2008 | 314,638 | 2,679 |
| 2009 | 176,244 | 1,500 |
| 2010 | 59,484 | 506 |
| 2011 | 14,611 | 124 |
| Thereafter | 10,168 | 87 |
| Total minimum future rentals | ¥ 979,895 | \$ 8,342 |

The future minimum rentals as shown above should not be considered indicative of future cash collections.

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Allowance for doubtful accounts and credit losses:**

An analysis of activity within the allowance for doubtful accounts relating to trade accounts and notes receivable for the years ended March 31, 2004, 2005 and 2006 is as follows:

| | Yen in millions | | | U.S. dollars in millions For the year ended March 31, 2006 |
|--|-------------------------------|----------|----------|---|
| | For the years ended March 31, | | | |
| | 2004 | 2005 | 2006 | |
| Allowance for doubtful accounts at beginning of year | ¥ 53,172 | ¥ 61,121 | ¥ 55,751 | \$ 475 |
| Provision for doubtful accounts | 16,540 | 15,752 | 10,361 | 88 |
| Write-offs | (2,598) | (12,855) | (1,819) | (15) |
| Other | (5,993) | (8,267) | (2,205) | (19) |
| Allowance for doubtful accounts at end of year | ¥ 61,121 | ¥ 55,751 | ¥ 62,088 | \$ 529 |

The other amount includes the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest and currency translation adjustments for the years ended March 31, 2004, 2005 and 2006.

A portion of the allowance for doubtful accounts balance at March 31, 2005 and 2006 totaling ¥37,095 million and ¥42,597 million (\$363 million), respectively, is attributed to certain non-current receivable balances which are reported as other assets in the consolidated balance sheets.

An analysis of the allowance for credit losses relating to finance receivables and vehicles and equipment on operating leases for the years ended March 31, 2004, 2005 and 2006 is as follows:

| | Yen in millions | | | U.S. dollars in millions For the year ended March 31, 2006 |
|--|-------------------------------|----------|-----------|---|
| | For the years ended March 31, | | | |
| | 2004 | 2005 | 2006 | |
| Allowance for credit losses at beginning of year | ¥ 116,888 | ¥ 87,462 | ¥ 91,829 | \$ 782 |
| Provision for credit losses | 66,598 | 47,402 | 52,285 | 445 |
| Charge-offs, net of recoveries | (92,835) | (44,587) | (50,324) | (428) |
| Other | (3,189) | 1,552 | 7,593 | 64 |
| Allowance for credit losses at end of year | ¥ 87,462 | ¥ 91,829 | ¥ 101,383 | \$ 863 |

The other amount primarily includes the impact of currency translation adjustments for the years ended March 31, 2004, 2005 and 2006.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Affiliated companies and variable interest entities:****Investments in and transactions with affiliated companies -**

Summarized financial information for affiliated companies accounted for by the equity method is shown below:

| | Yen in millions March 31, | | U.S. dollars in millions March 31, |
|--|------------------------------|---------------------|--|
| | 2005 | 2006 | 2006 |
| Current assets | ¥ 5,282,960 | ¥ 6,259,683 | \$ 53,288 |
| Noncurrent assets | 8,017,220 | 10,148,606 | 86,393 |
| Total assets | ¥ 13,300,180 | ¥ 16,408,289 | \$ 139,681 |
| Current liabilities | ¥ 3,982,816 | ¥ 4,925,104 | \$ 41,927 |
| Long-term liabilities | 4,167,042 | 5,262,042 | 44,795 |
| Shareholders' equity | 5,150,322 | 6,221,143 | 52,959 |
| Total liabilities and shareholders' equity | ¥ 13,300,180 | ¥ 16,408,289 | \$ 139,681 |
| Toyota's share of shareholders' equity | ¥ 1,556,236 | ¥ 1,820,717 | \$ 15,499 |
| Number of affiliated companies accounted for by the equity method at end of period | 56 | 56 | |

| | Yen in millions | | | U.S. dollars in millions For the year ended |
|--------------|-------------------------------|--------------|--------------|--|
| | For the years ended March 31, | | | March 31, |
| | 2004 | 2005 | 2006 | 2006 |
| Net revenues | ¥ 13,187,869 | ¥ 15,359,634 | ¥ 18,332,304 | \$ 156,059 |
| Gross profit | ¥ 1,650,233 | ¥ 1,900,344 | ¥ 2,197,699 | \$ 18,709 |
| Net income | ¥ 403,213 | ¥ 420,640 | ¥ 559,686 | \$ 4,765 |

Entities comprising a significant portion of Toyota's investment in affiliated companies include Denso Corporation; Aisin Seiki Co., Ltd.; Toyota Industries Corporation; Toyota Tsusho Corporation; and Toyota Boshoku Corporation.

Certain affiliated companies accounted for by the equity method with carrying amounts of ¥1,235,535 million and ¥1,487,708 million (\$12,665 million) at March 31, 2005 and 2006, respectively, were quoted on various established markets at an aggregate value of ¥1,827,725 million and ¥2,818,476 million (\$23,993 million), respectively.

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Account balances and transactions with affiliated companies are presented below:

| | Yen in millions | | U.S. dollars |
|--|-----------------|-----------|--------------|
| | March 31, | | in millions |
| | 2005 | 2006 | March 31, |
| | | | 2006 |
| Trade accounts and notes receivable, and other receivables | ¥ 179,519 | ¥ 221,006 | \$ 1,881 |
| Accounts payable and other payables | 463,870 | 551,514 | 4,695 |

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | Yen in millions | | | U.S. dollars in millions For the year ended |
|--------------|-------------------------------|-------------|-------------|--|
| | For the years ended March 31, | | | March 31, |
| | 2004 | 2005 | 2006 | 2006 |
| Net revenues | ¥ 883,112 | ¥ 1,150,523 | ¥ 1,394,071 | \$ 11,867 |
| Purchases | 2,577,696 | 2,923,325 | 3,356,626 | 28,574 |

Dividends from affiliated companies accounted for by the equity method for the years ended March 31, 2004, 2005 and 2006 were ¥15,722 million, ¥22,164 million and ¥30,011 million (\$255 million), respectively.

Variable Interest Entities -

Toyota enters into securitization transactions with certain special-purpose entities. However, substantially all securitization transactions are with entities that are qualifying special-purpose entities under FAS 140 and thus no material variable interest entities (VIEs) relating to these securitization transactions.

Certain joint ventures in which Toyota has invested are VIEs for which Toyota is not the primary beneficiary. However, neither the aggregate size of these joint ventures nor Toyota's involvements in these entities are material to Toyota's consolidated financial statements.

13. Short-term borrowings and long-term debt:

Short-term borrowings at March 31, 2005 and 2006 consist of the following:

| | Yen in millions | | U.S. dollars in millions |
|--|-----------------|-------------------|-----------------------------|
| | 2005 | March 31, 2006 | March 31, 2006 |
| Loans, principally from banks, with a weighted-average interest at March 31, 2005 and March 31, 2006 of 1.58% and of 2.20% per annum, respectively | ¥ 789,801 | ¥ 986,128 | \$ 8,395 |
| Commercial paper with a weighted-average interest at March 31, 2005 and March 31, 2006 of 2.81% and of 3.32% per annum, respectively | 1,592,026 | 2,046,891 | 17,425 |
| | ¥ 2,381,827 | ¥ 3,033,019 | \$ 25,820 |

As of March 31, 2006, Toyota has unused short-term lines of credit amounting to ¥2,427,218 million (\$20,662 million) of which ¥561,667 million (\$4,781 million) related to commercial paper programs. Under these programs, Toyota is authorized to obtain short-term financing at prevailing interest rates for periods not in excess of 360 days.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Long-term debt at March 31, 2005 and 2006 comprises the following:

| | Yen in millions March 31, | | U.S. dollars in millions March 31, |
|---|------------------------------|-------------|--|
| | 2005 | 2006 | 2006 |
| Unsecured loans, representing obligations principally to banks, due 2005 to 2025 in 2005 and due 2006 to 2025 in 2006 with interest ranging from 0.05% to 27.00% per annum in 2005 and from 0.04% to 20.00% per annum in 2006 | ¥ 894,212 | ¥ 1,009,001 | \$ 8,589 |
| Secured loans, representing obligations principally to banks, due 2005 to 2019 in 2005 and due 2006 to 2019 in 2006 with interest ranging from 0.35% to 5.60% per annum in 2005 and from 0.35% to 5.60% per annum in 2006 | 24,320 | 15,766 | 134 |
| Medium-term notes of consolidated subsidiaries, due 2005 to 2035 in 2005 and due 2006 to 2035 in 2006 with interest ranging from 0.01% to 7.59% per annum in 2005 and from 0.01% to 9.75% per annum in 2006 | 3,447,104 | 4,364,260 | 37,152 |
| Unsecured notes of parent company, due 2008 to 2018 in 2005 and due 2008 to 2018 in 2006 with interest ranging from 1.33% to 3.00% per annum in 2005 and from 1.33% to 3.00% per annum in 2006 | 500,000 | 500,000 | 4,256 |
| Unsecured notes of consolidated subsidiaries, due 2005 to 2031 in 2005 and due 2006 to 2031 in 2006 with interest ranging from 0.27% to 7.00% per annum in 2005 and from 0.34% to 7.11% per annum in 2006 | 1,228,929 | 1,417,010 | 12,063 |
| Long-term capital lease obligations, due 2005 to 2017 in 2005 and due 2006 to 2017 in 2006, with interest ranging from 0.37% to 9.33% per annum in 2005 and from 0.37% to 9.33% per annum in 2006 | 71,280 | 58,341 | 497 |
| | 6,165,845 | 7,364,378 | 62,691 |
| Less - Current portion due within one year | (1,150,920) | (1,723,888) | (14,675) |
| | ¥ 5,014,925 | ¥ 5,640,490 | \$ 48,016 |

As of March 31, 2006, approximately 39%, 26%, 13% and 22% of long-term debt is denominated in U.S. dollars, Japanese yen, euros, and other currencies, respectively.

As of March 31, 2006, property, plant and equipment with a book value of ¥100,753 million (\$858 million) and in addition, other assets aggregating ¥42,628 million (\$363 million) were pledged as collateral mainly for certain debt obligations of subsidiaries.

The aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

| Years ending March 31, | Yen in millions | U.S. dollars in millions |
|------------------------|-----------------|-----------------------------|
| 2007 | ¥ 1,723,888 | \$ 14,675 |
| 2008 | 1,801,230 | 15,334 |
| 2009 | 1,377,404 | 11,726 |
| 2010 | 911,634 | 7,761 |
| 2011 | 548,940 | 4,673 |

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Standard agreements with certain banks in Japan include provisions that collateral (including sums on deposit with such banks) or guarantees will be furnished upon the banks' request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks. During the year ended March 31, 2006, Toyota has not received any significant such requests from these banks.

As of March 31, 2006, Toyota has unused long-term lines of credit amounting to ¥2,016,470 million (\$17,166 million).

14. Product warranties:

Toyota provides product warranties for certain defects mainly resulting from manufacturing based on warranty contracts with its customers at the time of sale of products. Toyota accrues estimated warranty costs to be incurred in the future in accordance with the warranty contracts. The net change in the accrual for the product warranties for the years ended March 31, 2004, 2005 and 2006, which is included in Accrued expenses in the accompanying consolidated balance sheets, consist of the following:

| | Yen in millions | | | U.S. dollars |
|---|-------------------------------|-----------|-----------|-----------------------------------|
| | For the years ended March 31, | | | in millions |
| | 2004 | 2005 | 2006 | For the year ended March 31, 2006 |
| Liabilities for product warranties at beginning of year | ¥ 262,288 | ¥ 291,747 | ¥ 330,552 | \$ 2,814 |
| Payments made during year | (193,979) | (214,876) | (252,453) | (2,149) |
| Provision for warranties | 230,531 | 255,610 | 298,719 | 2,543 |
| Changes relating to pre-existing warranties | (1,910) | (3,654) | (9,457) | (81) |
| Other | (5,183) | 1,725 | 10,518 | 90 |
| Liabilities for product warranties at end of year | ¥ 291,747 | ¥ 330,552 | ¥ 377,879 | \$ 3,217 |

The other amount primarily includes the impact of currency translation adjustments and the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest.

In addition to product warranties above, Toyota initiates recall actions or voluntary service campaigns to repair or to replace parts which might be expected to fail from products safety perspectives or customer satisfaction standpoints. Toyota accrues costs of these activities, which are not included in the reconciliation above, based on management's estimates.

15. Other payables:

Other payables are mainly related to purchases of property, plant and equipment and non-manufacturing purchases.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. Income taxes:**

The components of income before income taxes comprise the following:

| | Yen in millions | | | U.S. dollars in millions For the year ended March 31, 2006 |
|--|-------------------------------|-------------|-------------|---|
| | For the years ended March 31, | | | |
| | 2004 | 2005 | 2006 | |
| Income before income taxes: | | | | |
| Parent company and domestic subsidiaries | ¥ 1,104,719 | ¥ 946,626 | ¥ 1,159,116 | \$ 9,867 |
| Foreign subsidiaries | 661,074 | 808,011 | 928,244 | 7,902 |
| | ¥ 1,765,793 | ¥ 1,754,637 | ¥ 2,087,360 | \$ 17,769 |

The provision for income taxes consists of the following:

| | Yen in millions | | | U.S. dollars in millions For the year ended March 31, 2006 |
|--|-------------------------------|-----------|-----------|---|
| | For the years ended March 31, | | | |
| | 2004 | 2005 | 2006 | |
| Current income tax expense: | | | | |
| Parent company and domestic subsidiaries | ¥ 404,672 | ¥ 376,845 | ¥ 451,593 | \$ 3,844 |
| Foreign subsidiaries | 155,804 | 196,354 | 310,298 | 2,642 |
| Total current | 560,476 | 573,199 | 761,891 | 6,486 |
| Deferred income tax expense (benefit): | | | | |
| Parent company and domestic subsidiaries | 77,970 | 34,820 | 76,503 | 651 |
| Foreign subsidiaries | 42,858 | 49,891 | (43,241) | (368) |
| Total deferred | 120,828 | 84,711 | 33,262 | 283 |
| Total provision | ¥ 681,304 | ¥ 657,910 | ¥ 795,153 | \$ 6,769 |

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Toyota is subject to a number of different income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 41.3%, 40.2% and 40.2% for the years ended March 31, 2004, 2005, and 2006, respectively. Due to changes in Japanese income tax regulations, effective April 1, 2004, the statutory rate was reduced to approximately 40.2%, and such rate was also used to calculate the future expected tax effects of temporary differences, which are expected to be realized on and after April 1, 2006. Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

| | For the years ended March 31, | | |
|--|-------------------------------|-------|-------|
| | 2004 | 2005 | 2006 |
| Statutory tax rate | 41.3% | 40.2% | 40.2% |
| Increase (reduction) in taxes resulting from: | | | |
| Non-deductible expenses | 0.5 | 0.3 | 0.4 |
| Increase in deferred tax liabilities on undistributed earnings of foreign subsidiaries and affiliates accounted for by the equity method | 1.7 | 1.8 | 2.8 |
| Valuation allowance | (0.9) | (0.1) | (0.4) |
| Tax credits | (3.5) | (3.4) | (4.1) |
| Changes in tax rate resulting from enactment of income tax regulations | 0.6 | | |
| Other | (1.1) | (1.3) | (0.8) |
| Effective income tax rate | 38.6% | 37.5% | 38.1% |

Significant components of deferred tax assets and liabilities are as follows:

| | Yen in millions | | U.S. dollars in millions March 31, 2006 |
|--|-----------------|-------------------|--|
| | 2005 | March 31, 2006 | |
| Deferred tax assets | | | |
| Accrued pension and severance costs | ¥ 172,811 | ¥ 183,824 | \$ 1,565 |
| Warranty reserves and accrued expenses | 160,565 | 208,654 | 1,776 |
| Other accrued employees' compensation | 111,555 | 115,143 | 980 |
| Operating loss carryforwards for tax purposes | 50,566 | 44,293 | 377 |
| Inventory adjustments | 53,093 | 50,407 | 429 |
| Property, plant and equipment and other assets | 131,467 | 162,872 | 1,386 |
| Other | 294,828 | 308,317 | 2,625 |
| Gross deferred tax assets | 974,885 | 1,073,510 | 9,138 |
| Less - Valuation allowance | (102,737) | (93,629) | (797) |
| Total deferred tax assets | 872,148 | 979,881 | 8,341 |
| Deferred tax liabilities | | | |
| Unrealized gains on securities | (255,028) | (451,282) | (3,842) |
| Undistributed earnings of foreign subsidiaries and affiliates accounted for by the equity method | (365,981) | (502,232) | (4,275) |
| Basis difference of acquired assets | (33,313) | (36,135) | (308) |
| Lease transactions | (321,055) | (335,294) | (2,854) |

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| | | | |
|--|-------------|-------------|------------|
| Gain on securities contribution to employee retirement benefit trust | (66,523) | (66,523) | (566) |
| Other | (65,681) | (61,321) | (522) |
| Gross deferred tax liabilities | (1,107,581) | (1,452,787) | (12,367) |
| Net deferred tax liability | ¥ (235,433) | ¥ (472,906) | \$ (4,026) |

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TOYOTA MOTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The valuation allowance mainly relates to deferred tax assets of the consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance for deferred tax assets for the years ended March 31, 2004, 2005 and 2006 consist of the following:

| | Yen in millions | | | U.S. dollars in millions |
|--|-------------------------------|-----------|-----------|-----------------------------|
| | For the years ended March 31, | | | For the year ended |
| | 2004 | 2005 | 2006 | March 31, 2006 |
| Valuation allowance at beginning of year | ¥ 119,620 | ¥ 104,083 | ¥ 102,737 | \$ 875 |
| Additions | 17,738 | 21,249 | 10,285 | 88 |
| Deductions | (31,934) | (22,829) | (19,084) | (163) |
| Other | (1,341) | 234 | (309) | (3) |
| Valuation allowance at end of year | ¥ 104,083 | ¥ 102,737 | ¥ 93,629 | \$ 797 |

The other amount includes the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest, changes in the statutory tax rates and currency translation adjustments during the years ended March 31, 2004, 2005 and 2006.

The deferred tax assets and liabilities that comprise the net deferred tax liability are included in the consolidated balance sheets as follows:

| | Yen in millions | | U.S. dollars in millions |
|---|-----------------|-------------------|-----------------------------|
| | 2005 | March 31, 2006 | March 31, 2006 |
| Deferred tax assets | | | |
| Deferred income taxes (Current assets) | ¥ 475,764 | ¥ 520,494 | \$ 4,431 |
| Investments and other assets - other | 108,513 | 106,715 | 908 |
| Deferred tax liabilities | | | |
| Other current liabilities | (8,040) | (7,120) | (60) |
| Deferred income taxes (Long-term liabilities) | (811,670) | (1,092,995) | (9,305) |
| Net deferred tax liability | ¥ (235,433) | ¥ (472,906) | \$ (4,026) |

Because management intends to reinvest undistributed earnings of foreign subsidiaries to the extent not expected to be remitted in the foreseeable future, management has made no provision for income taxes on those undistributed earnings aggregating ¥2,094,625 million (\$17,831 million) as of March 31, 2006. Toyota estimates an additional tax provision of ¥193,672 million (\$1,649 million) would be required if the full amount of those undistributed earnings became subject to Japanese taxes.

Operating loss carryforwards for tax purposes attributed to consolidated subsidiaries as of March 31, 2006 were approximately ¥121,764 million (\$1,037 million) and are available as an offset against future taxable income of such subsidiaries. The majority of these carryforwards expire in years 2007 to 2020.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17. Shareholders equity:**

Changes in the number of shares of common stock issued have resulted from the following:

| | For the years ended March 31, | | |
|-------------------------------|-------------------------------|----------------------|----------------------|
| | 2004 | 2005 | 2006 |
| Common stock issued | | | |
| Balance at beginning of year | 3,609,997,492 | 3,609,997,492 | 3,609,997,492 |
| Issuance during the year | | | |
| Purchase and retirement | | | |
| Balance at end of year | 3,609,997,492 | 3,609,997,492 | 3,609,997,492 |

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the parent company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriation is required when total amount of the legal reserve and capital surplus reaches 25% of stated capital. The legal reserve included in retained earnings as of March 31, 2005 and 2006 was ¥141,064 million and ¥145,103 million (\$1,235 million), respectively. The legal reserve is restricted and unable to be used for dividend payments, and is excluded from the calculation of the profit available for dividend.

The amounts of statutory retained earnings of the parent company available for dividend payments to shareholders were ¥4,864,555 million and ¥5,255,265 million (\$44,737 million) as of March 31, 2005 and 2006, respectively. In accordance with customary practice in Japan, the appropriations are not accrued in the financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders approval has been obtained. Retained earnings at March 31, 2006 include amounts representing year-end cash dividends of ¥178,297 million (\$1,518 million), ¥55 (\$0.47) per share, which were approved at the Ordinary General Shareholders Meeting held on June 23, 2006.

Retained earnings at March 31, 2006 include ¥1,055,422 million (\$8,985 million) relating to equity in undistributed earnings of companies accounted for by the equity method.

In June 26, 1997, the shareholders of the parent company approved a stock repurchase policy at the Ordinary General Shareholders Meeting in accordance with the Japanese Commercial Code, which allows the company to purchase treasury stock only for the purpose of retirement of the stock with a resulting reduction in retained earnings. Under the stock repurchase policy, the shareholders authorized the parent company to repurchase up to 370 million shares of its common stock without the limitation of time, subject to the approval of the Board of Directors. In October 2001, the Japanese Commercial Code was changed to allow the company to purchase treasury stock without limitation of reason during the whole period until the next Ordinary General Shareholders Meeting by the resolution of the Board of Directors up to the limitation of number of shares and aggregated acquisition costs approved at the Ordinary General Shareholders Meeting. In response to the Japanese Commercial Code revision, on June 26, 2002, at the Ordinary General Shareholders Meeting, the shareholders of the parent company approved the amendment of the stock repurchase policy in the Articles of Incorporation to be deleted the limitation of the purpose of purchasing treasury stock noted above. As a result, Toyota's unused authorized shares for the repurchase of shares of common stock under the legacy policy elapsed. In the same Shareholders Meeting, the shareholders of the parent company also approved the purchase as treasury stock of up to 170 million shares at a cost up to ¥600,000 million during the period until the next Ordinary General Shareholders Meeting which was held on June 26, 2003. As a result, the parent company repurchased approximately 170 million shares during the approved period of time. On June 26, 2003, at the Ordinary General Shareholders Meeting, the shareholders of the parent company again approved to purchase up

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TOYOTA MOTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to 150 million of its common stock at a cost up to ¥400,000 million during the period until the next Ordinary General Shareholders Meeting which was held on June 23, 2004. According to this authorization, the parent company purchased approximately 113 million shares of its treasury stock during the approved period of time. On June 23, 2004, at the Ordinary Shareholders Meeting, the shareholders of the parent company again approved to purchase up to 65 million of its common stock at a cost up to ¥250,000 million during the period until the next Ordinary General Shareholders Meeting which was held on June 23, 2005, and, in response to the Japanese Commercial Code revision, also approved to change the Articles of Incorporation to authorize the Board of Directors to repurchase treasury stock on the basis of its resolution. During this approved period of time, the parent company purchased approximately 59 million of shares. On June 23, 2005, the shareholders of the parent company approved to purchase up to 65 million of its common stock at a cost up to ¥250,000 million during the period until the next Ordinary General Shareholders Meeting which was held on June 23, 2006. As a result, the parent company repurchased approximately 38 million shares during the approved period of time. In addition, on June 23, 2006, at the Ordinary General Shareholders Meeting, the shareholders of the parent company approved to purchase up to 30 million of its common stock at a cost up to ¥200,000 million during the purchase period of one year from the following day. These approvals by the shareholders on and after the resolution in the Ordinary General Shareholders Meeting on June 23, 2004 are not required under the current regulation.

In years prior to 1997, Toyota had made free distributions of shares to its shareholders for which no accounting entry is required in Japan. Had the distributions been accounted for in a manner used by companies in the United States of America, ¥2,576,606 million (\$21,934 million) would have been transferred from retained earnings to the appropriate capital accounts.

Detailed components of accumulated other comprehensive income (loss) at March 31, 2005 and 2006 and the related changes, net of taxes for the years ended March 31, 2004, 2005 and 2006 consist of the following:

| | Yen in millions | | | |
|-----------------------------------|---|--------------------------------------|--|--|
| | Foreign currency translation adjustments | Unrealized gains on securities | Minimum pension liability adjustments | Accumulated other comprehensive income (loss) |
| Balances at March 31, 2003 | ¥ (311,773) | ¥ 7,252 | ¥ (299,751) | ¥ (604,272) |
| Other comprehensive income (loss) | (203,257) | 329,672 | 273,265 | 399,680 |
| Balances at March 31, 2004 | (515,030) | 336,924 | (26,486) | (204,592) |
| Other comprehensive income | 75,697 | 38,455 | 9,780 | 123,932 |
| Balances at March 31, 2005 | (439,333) | 375,379 | (16,706) | (80,660) |
| Other comprehensive income | 268,410 | 244,629 | 4,937 | 517,976 |
| Balances at March 31, 2006 | ¥ (170,923) | ¥ 620,008 | ¥ (11,769) | ¥ 437,316 |

| | U.S. dollars in millions | | | |
|-----------------------------------|---|--------------------------------------|--|--|
| | Foreign currency translation adjustments | Unrealized gains on securities | Minimum pension liability adjustments | Accumulated other comprehensive income (loss) |
| Balances at March 31, 2005 | \$ (3,740) | \$ 3,196 | \$ (142) | \$ (686) |
| Other comprehensive income | 2,285 | 2,082 | 42 | 4,409 |

| | | | | |
|-----------------------------------|------------|----------|----------|----------|
| Balances at March 31, 2006 | \$ (1,455) | \$ 5,278 | \$ (100) | \$ 3,723 |
|-----------------------------------|------------|----------|----------|----------|

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Tax effects allocated to each component of other comprehensive income for the years ended March 31, 2004, 2005 and 2006 are as follows:

| | Yen in millions | | |
|---|-------------------|-----------------------------|----------------------|
| | Pre-tax amount | Tax expense (benefit) | Net-of-tax amount |
| For the year ended March 31, 2004 | | | |
| Foreign currency translation adjustments | ¥ (201,511) | ¥ (1,746) | ¥ (203,257) |
| Unrealized gains on securities: | | | |
| Unrealized net holding gains arising for the year | 572,676 | (229,414) | 343,262 |
| Less: reclassification adjustments for gains included in net income | (22,673) | 9,083 | (13,590) |
| Minimum pension liability adjustments | 455,904 | (182,639) | 273,265 |
| Other comprehensive income | ¥ 804,396 | ¥ (404,716) | ¥ 399,680 |
| For the year ended March 31, 2005 | | | |
| Foreign currency translation adjustments | ¥ 76,089 | ¥ (392) | ¥ 75,697 |
| Unrealized gains on securities: | | | |
| Unrealized net holding gains arising for the year | 87,266 | (35,081) | 52,185 |
| Less: reclassification adjustments for gains included in net income | (22,960) | 9,230 | (13,730) |
| Minimum pension liability adjustments | 16,354 | (6,574) | 9,780 |
| Other comprehensive income | ¥ 156,749 | ¥ (32,817) | ¥ 123,932 |
| For the year ended March 31, 2006 | | | |
| Foreign currency translation adjustments | ¥ 272,214 | ¥ (3,804) | ¥ 268,410 |
| Unrealized gains on securities: | | | |
| Unrealized net holding gains arising for the year | 555,789 | (223,427) | 332,362 |
| Less: reclassification adjustments for gains included in net income | (146,710) | 58,977 | (87,733) |
| Minimum pension liability adjustments | 8,260 | (3,323) | 4,937 |
| Other comprehensive income | ¥ 689,553 | ¥ (171,577) | ¥ 517,976 |
| | | U.S. dollars in millions | |
| | Pre-tax amount | Tax expense (benefit) | Net-of-tax amount |
| For the year ended March 31, 2006 | | | |
| Foreign currency translation adjustments | \$ 2,318 | \$ (33) | \$ 2,285 |
| Unrealized gains on securities: | | | |
| Unrealized net holding gains arising for the year | 4,731 | (1,902) | 2,829 |
| Less: reclassification adjustments for gains included in net income | (1,249) | 502 | (747) |
| Minimum pension liability adjustments | 70 | (28) | 42 |
| Other comprehensive income | \$ 5,870 | \$ (1,461) | \$ 4,409 |

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18. Stock-based compensation:**

In June 1997, the parent company's shareholders approved a stock option plan for board members. In June 2001, the shareholders approved an amendment of the plan to include both board members and key employees. Each year, since the plan's inception, the shareholders have approved the authorization for the grant of options for the purchase of Toyota's common stock. Authorized shares for each year that remain ungranted are unavailable for grant in future years. Stock options with a term ranging from 4 years to 6 years are granted with an exercise price equal to 1.025 times the closing price of Toyota's common stock on the date of grant and generally vest 2 years from the date of grant.

On June 23, 2006, at the Ordinary General Shareholders' Meeting, the shareholders of the parent company approved the authorization of an additional up to 3,500,000 shares for issuance under the Toyota's stock option plan for board members and key employees.

The following table summarizes Toyota's stock option activity:

| | Number of options | Yen Weighted-average exercise price | Weighted-average remaining contractual life in years |
|--|-------------------|--|--|
| Options outstanding at March 31, 2003 | 3,925,400 | ¥ 3,656 | 3.53 |
| Granted | 1,958,000 | 3,116 | |
| Exercised | | | |
| Canceled | (987,000) | 3,849 | |
| Options outstanding at March 31, 2004 | 4,896,400 | 3,401 | 3.83 |
| Granted | 2,021,000 | 4,541 | |
| Exercised | (810,300) | 2,995 | |
| Canceled | (606,800) | 4,105 | |
| Options outstanding at March 31, 2005 | 5,500,300 | 3,802 | 3.86 |
| Granted | 2,104,000 | 4,377 | |
| Exercised | (1,354,000) | 3,052 | |
| Canceled | (1,463,400) | 4,085 | |
| Options outstanding at March 31, 2006 | 4,786,900 | ¥ 4,180 | 4.52 |
| Options exercisable at March 31, 2004 | 1,371,400 | ¥ 4,319 | 1.15 |
| Options exercisable at March 31, 2005 | 1,740,300 | ¥ 3,641 | 1.69 |
| Options exercisable at March 31, 2006 | 946,900 | ¥ 3,078 | 3.09 |

The following table summarizes information for options outstanding and options exercisable at March 31, 2006:

| Exercise | Number of | Outstanding Weighted | Weighted | Weighted | Number of | Exercisable Weighted | Weighted |
|----------|-----------|-------------------------|----------|----------|-----------|-------------------------|----------|
|----------|-----------|-------------------------|----------|----------|-----------|-------------------------|----------|

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| price | | shares | -average | -average | -average | shares | -average | -average |
|--------|-------|-----------|----------|----------|-----------|---------|----------|----------|
| range | | | exercise | exercise | remaining | | exercise | exercise |
| Yen | | | price | Dollars | life | | price | price |
| | | | Yen | | Years | | Yen | Dollars |
| ¥2,958 | 4,000 | 946,900 | ¥ 3,078 | \$ 26 | 3.09 | 946,900 | ¥ 3,078 | \$ 26 |
| 4,001 | 4,541 | 3,840,000 | 4,452 | 38 | 4.88 | | | |
| 2,958 | 4,541 | 4,786,900 | 4,180 | 36 | 4.52 | 946,900 | 3,078 | 26 |

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The weighted-average fair value per option at the date of grant for options granted during the years ended March 31, 2004, 2005 and 2006 was ¥769, ¥1,139 and ¥723 (\$6), respectively. The fair value of options granted, which is amortized over the option vesting period in determining the pro forma impact in Note 2, is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | 2004 | 2005 | 2006 |
|---------------------------------|------|------|------|
| Dividend rate | 1.5% | 1.5% | 2.1% |
| Risk-free interest rate | 0.4% | 1.2% | 0.7% |
| Expected volatility | 34% | 32% | 27% |
| Expected holding period (years) | 5.3 | 5.3 | 4.0 |

19. Employee benefit plans:**Pension and severance plans -**

Upon terminations of employments, employees of the parent company and subsidiaries in Japan are entitled, under the retirement plans of each company, to lump-sum indemnities or pension payments, based on current rates of pay and lengths of service or the number of points mainly determined by those. Under normal circumstances, the minimum payment prior to retirement age is an amount based on voluntary retirement. Employees receive additional benefits on involuntary retirement, including retirement at the age limit.

Effective October 1, 2004, the parent company amended its retirement plan to introduce a point based retirement benefit plan. Under the new plan, employees are entitled to lump-sum or pension payments determined based on accumulated points vested in each year of service.

There are three types of points that vest in each year of service consisting of service period points which are attributed to the length of service, job title points which are attributed to the job title of each employee, and performance points which are attributed to the annual performance evaluation of each employee. Under normal circumstances, the minimum payment prior to retirement age is an amount reflecting an adjustment rate applied to represent voluntary retirement. Employees receive additional benefits upon involuntary retirement, including retirement at the age limit.

As a result of this plan amendment, the projected benefit obligation decreased by ¥32,208 million, at October 1, 2004 and resulted in an unrecognized prior service cost, which will be recognized in future service periods.

Effective October 1, 2005, the parent company partly mended its retirement plan and introduced the quasi cash-balance plan under which benefits are determined based on the variable-interest crediting rate rather than the fixed-interest crediting rate as was in the pre-amended plan. The amendment did not have a material quantitative impact on the projected benefit obligation of the parent company as of March 31, 2006.

The parent company and most subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Corporate Defined Benefit Pension Plan Law (CDBPPL). The contributions to the plans are funded with several financial institutions in accordance with the applicable laws and regulations. These pension plan assets consist principally of investments in government obligations, equity and fixed income securities, and insurance contracts.

Most foreign subsidiaries have pension plans or severance indemnity plans covering substantially all of their employees under which the cost of benefits are currently invested or accrued. The benefits for these plans are based primarily on lengths of service and current rates of pay.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Transfer to the government of the Substitutional Portion of the Employee Pension Fund Liabilities -**

The parent company and most subsidiaries in Japan had maintained employees' pension funds (EPFs) pursuant to the Japanese Welfare Pension Insurance Law (JWPIL). The EPF consisted of two tiers, a Substitutional Portion, in which the EPF, in lieu of the government's social insurance program, collected contributions, funded them and paid benefits to the employees with respect to the pay-related portion of the old-age pension benefits prescribed by JWPIL, and a Corporate Portion which was established at the discretion of each employer.

In June 2001, the CDBPPL was enacted and allowed any EPF to terminate its operation relating to the Substitutional Portion that in the past an EPF had operated and managed in lieu of the government, subject to approval from the Japanese Minister of Health, Labour and Welfare. In September 2003, Toyota Motor Pension Fund, the parent company's EPF under JWPIL, obtained the approval from the Minister for the exemption from benefit payments related to employee services of the Substitutional Portion. In January 2004, Toyota Motor Pension Fund completed the transfer of the plan assets attributable to the Substitutional Portion to the government. In addition, during the years ended March 31, 2004 and 2005, subsidiaries in Japan that had EPFs under JWPIL also completed the transfer of the plan assets attributable to the Substitutional Portion in compliance with the same procedures followed by the parent company.

In accordance with the consensus on EITF Issue No. 03-2, *Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities* (EITF 03-2), Toyota accounted the entire separation process, upon completion of transfer of the plan assets attributable to the Substitutional Portion to the government, as a single settlement transaction. During the years ended March 31, 2004 and 2005, Toyota recognized settlement losses of ¥323,715 million and ¥96,066 million, respectively, as part of net periodic pension costs which are the proportionate amounts of the net unrecognized losses immediately prior to the separation related to the entire EPFs under JWPIL, and which are determined based on the proportion of the projected benefit obligation settled to the total projected benefit obligation immediately prior to the separation. Toyota also recognized as reductions of net periodic pension costs totaling ¥109,885 million and ¥21,722 million for the years ended March 31, 2004 and 2005, respectively, which resulted in gains attributed to the derecognition of previously accrued salary progression. In addition, Toyota recognized gains of ¥320,867 million and ¥121,553 million for the years ended March 31, 2004 and 2005, respectively, which represented the differences between the obligation settled and the assets transferred to the government. These gains and losses are reflected in the consolidated statement of income for the years ended March 31, 2004 and 2005 as follows:

| | Yen in millions For the year ended March 31, 2004 | | |
|---|--|-----------------------|-------------|
| | Selling, general Costs of | | |
| | products sold | and administrative | Total |
| Settlement losses | ¥ (288,177) | ¥ (35,538) | ¥ (323,715) |
| Gains on derecognition of previously accrued salary progression | 98,079 | 11,806 | 109,885 |
| Gains on difference between the obligation settled and the assets transferred | | 320,867 | 320,867 |
| Total | ¥ (190,098) | ¥ 297,135 | ¥ 107,037 |

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| | Yen in millions | | |
|---|-----------------------------------|------------------|------------|
| | For the year ended March 31, 2005 | | |
| | Costs of | Selling, general | |
| | products | and | |
| | sold | administrative | Total |
| Settlement losses | ¥ (85,379) | ¥ (10,687) | ¥ (96,066) |
| Gains on derecognition of previously accrued salary progression | 19,494 | 2,228 | 21,722 |
| Gains on difference between the obligation settled and the assets transferred | | 121,553 | 121,553 |
| Total | ¥ (65,885) | ¥ 113,094 | ¥ 47,209 |

All these gains and losses are non-cash gains and losses, and reported on a net basis in Pension and severance costs, less payments in the consolidated statements of cash flows for the years ended March 31, 2004 and 2005.

During the year ended March 31, 2006, no gains or losses relating to the transfer to the government of the Substitutional Portion of the EPF liabilities.

Toyota uses a March 31 measurement date for the majority of its benefit plans.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Information regarding Toyota's defined benefit plans follow:

| | Yen in millions | | U.S. dollars |
|--|-----------------|-------------------|----------------------------------|
| | 2005 | March 31, 2006 | in millions March 31, 2006 |
| Change in benefit obligation | | | |
| Benefit obligation at beginning of year | ¥ 1,891,051 | ¥ 1,450,739 | \$ 12,350 |
| Service cost | 60,715 | 64,582 | 550 |
| Interest cost | 37,790 | 40,196 | 342 |
| Plan participants' contributions | 1,078 | 578 | 5 |
| Plan amendments | (47,535) | (3,468) | (30) |
| Projected benefit obligation settled due to the separation of substitutional portion | (304,184) | | |
| Actuarial gain or loss | (80,370) | 33,878 | 288 |
| Acquisition and other | (32,816) | 59,956 | 511 |
| Benefits paid | (74,990) | (63,503) | (541) |
| Benefit obligation at end of year | 1,450,739 | 1,582,958 | 13,475 |
| Change in plan assets | | | |
| Fair value of plan assets at beginning of year | 1,049,815 | 934,684 | 7,957 |
| Actual return on plan assets | 43,866 | 276,416 | 2,353 |
| Acquisition and other | (10,304) | 35,908 | 306 |
| Employer contributions | 86,128 | 92,121 | 784 |
| Plan participants' contributions | 1,078 | 578 | 5 |
| Assets transferred to the government due to the separation of substitutional portion | (160,909) | | |
| Benefits paid | (74,990) | (63,503) | (541) |
| Fair value of plan assets at end of year | 934,684 | 1,276,204 | 10,864 |
| Funded status | 516,055 | 306,754 | 2,611 |
| Unrecognized actuarial loss | (256,628) | (2,657) | (23) |
| Unrecognized prior service costs | 171,753 | 152,200 | 1,296 |
| Unrecognized net transition obligations | (13,290) | (11,346) | (96) |
| Net amount recognized | ¥ 417,890 | ¥ 444,951 | \$ 3,788 |

Amounts recognized in the consolidated balance sheets are comprised of the following:

| | Yen in millions | | U.S. dollars |
|-------------------------------------|-----------------|-------------------|----------------------------------|
| | 2005 | March 31, 2006 | in millions March 31, 2006 |
| Accrued pension and severance costs | ¥ 646,989 | ¥ 679,918 | \$ 5,788 |
| Prepaid pension and severance costs | (173,078) | (190,987) | (1,626) |
| Investments and other assets | (7,027) | (7,112) | (60) |

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| | | | |
|--|-----------|-----------|----------|
| Accumulated other comprehensive income | (48,994) | (36,868) | (314) |
| Net amount recognized | ¥ 417,890 | ¥ 444,951 | \$ 3,788 |

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The accumulated benefit obligation for all defined benefit pension plans was ¥1,284,339 million and ¥1,474,574 million (\$12,553 million) at March 31, 2005 and 2006, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for which the accumulated benefit obligations exceed plan assets are as follows:

| | Yen in millions | | U.S. dollars |
|--------------------------------|-----------------|-----------|-------------------|
| | March 31, | | in millions |
| | 2005 | 2006 | March 31, 2006 |
| Projected benefit obligation | ¥ 512,571 | ¥ 535,482 | \$ 4,558 |
| Accumulated benefit obligation | 489,975 | 511,668 | 4,356 |
| Fair value of plan assets | 63,675 | 83,790 | 713 |

Components of the net periodic pension cost are as follows:

| | Yen in millions | | | U.S. dollars |
|---|-------------------------------|-----------|----------|--|
| | For the years ended March 31, | | | in millions |
| | 2004 | 2005 | 2006 | For the year ended March 31, 2006 |
| Service cost | ¥ 75,988 | ¥ 60,715 | ¥ 64,582 | \$ 550 |
| Interest cost | 48,674 | 37,790 | 40,196 | 342 |
| Expected return on plan assets | (24,991) | (27,517) | (24,278) | (207) |
| Amortization of prior service costs | (15,092) | (16,599) | (17,037) | (145) |
| Recognized net actuarial loss | 45,653 | 22,366 | 19,489 | 166 |
| Settlement loss resulting from the transfer of the substitutional portion | 213,830 | 74,344 | | |
| Amortization of net transition obligation | 18,963 | 9,981 | 1,944 | 17 |
| Net periodic pension cost | ¥ 363,025 | ¥ 161,080 | ¥ 84,896 | \$ 723 |

For plans where the accumulated benefit obligation net of plan assets exceeds the accrued pension and severance costs, Toyota has recorded a minimum pension liability. The minimum pension liability amounts at March 31, 2005 and 2006 were ¥56,021 million and ¥43,980 million (\$374 million), respectively. Changes in the minimum pension liability are reflected as adjustments in other comprehensive income for the years ended March 31, 2004, 2005 and 2006 as follows:

| | Yen in millions | | | U.S. dollars |
|---|-------------------------------|---------|---------|--|
| | For the years ended March 31, | | | in millions |
| | 2004 | 2005 | 2006 | For the year ended March 31, 2006 |
| Minimum pension liability adjustments, included in other comprehensive income | ¥ 273,265 | ¥ 9,780 | ¥ 4,937 | \$ 42 |

Weighted-average assumptions used to determine benefit obligations as of March 31, 2005 and 2006 are as follows:

| | March 31, | |
|-------------------------------|------------|-------------|
| | 2005 | 2006 |
| Discount rate | 2.6% | 2.6% |
| Rate of compensation increase | 0.1 - 9.7% | 0.1 - 11.0% |

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Weighted-average assumptions used to determine net periodic pension cost for the years ended March 31, 2004, 2005 and 2006 are as follows:

| | For the years ended March 31, | | |
|--------------------------------|-------------------------------|------------|------------|
| | 2004 | 2005 | 2006 |
| Discount rate | 2.1% | 2.2% | 2.6% |
| Expected return on plan assets | 2.1% | 2.1% | 2.9% |
| Rate of compensation increase | 0.8 - 9.7% | 0.5 - 9.7% | 0.1 - 9.7% |

The expected rate of return on plan assets is determined after considering several applicable factors including, the composition of plan assets held, assumed risks of asset management, historical results of the returns on plan assets, Toyota's principal policy for plan asset management, and forecasted market conditions.

Toyota's pension plan weighted-average asset allocations as of March 31, 2005 and 2006, by asset category are as follows:

| | Plan assets at March 31, | |
|-------------------|-----------------------------|--------|
| | 2005 | 2006 |
| Equity securities | 64.0% | 68.2% |
| Debt securities | 21.5 | 18.8 |
| Real estate | 0.5 | 0.5 |
| Other | 14.0 | 12.5 |
| Total | 100.0% | 100.0% |

Toyota's policy and objective for plan asset management is to maximize returns on plan assets to meet future benefit payment requirements under risks which Toyota considers permissible. Asset allocations under the plan asset management are determined based on Toyota's plan asset management guidelines which are established to achieve the optimized asset compositions in terms of the long-term overall plan asset management. Prior to making individual investments, Toyota performs in-depth assessments of corresponding factors including risks, transaction costs and liquidity of each potential investment under consideration. To measure the performance of the plan asset management, Toyota establishes bench mark return rates for each individual investment, combines these individual bench mark rates based on the asset composition ratios within each asset category, and compares the combined rates with the corresponding actual return rates on each asset category.

Toyota expects to contribute ¥98,561 million (\$839 million) to its pension plan in the year ending March 31, 2007.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| <u>Years ending March 31,</u> | Yen in millions | U.S. dollars in millions |
|-------------------------------|--------------------|-----------------------------|
| 2007 | ¥ 65,989 | \$ 562 |
| 2008 | 65,677 | 559 |
| 2009 | 73,050 | 622 |
| 2010 | 69,887 | 595 |
| 2011 | 68,986 | 587 |

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| | | |
|-------------------|-----------|----------|
| from 2012 to 2016 | 343,657 | 2,925 |
| Total | ¥ 687,246 | \$ 5,850 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Postretirement benefits other than pensions and postemployment benefits -

Toyota's U.S. subsidiaries provide certain health care and life insurance benefits to eligible retired employees. In addition, Toyota provides benefits to certain former or inactive employees after employment, but before retirement. These benefits are currently unfunded and provided through various insurance companies and health care providers. The costs of these benefits are recognized over the period the employee provides credited service to Toyota. Toyota's obligations under these arrangements are not material.

20. Derivative financial instruments:

Toyota employs derivative financial instruments, including foreign exchange forward contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. Toyota does not use derivatives for speculation or trading.

Fair value hedges -

Toyota enters into interest rate swaps, and interest rate currency swap agreements mainly to convert its fixed-rate debt to variable-rate debt. Toyota uses interest rate swap agreements in managing its exposure to interest rate fluctuations. Interest rate swap agreements are executed as either an integral part of specific debt transactions or on a portfolio basis. Toyota uses interest rate currency swap agreements to entirely hedge exposure to currency exchange rate fluctuations on principal and interest payments for borrowings denominated in foreign currencies. Notes and loans payable issued in foreign currencies are hedged by concurrently executing interest rate currency swap agreements, which involve the exchange of foreign currency principal and interest obligations for each functional currency obligations at agreed-upon currency exchange and interest rates.

For the years ended March 31, 2004, 2005 and 2006, the ineffective portion of Toyota's fair value hedge relationships which are included in cost of financing operations in the accompanying consolidated statements of income were not material. For fair value hedging relationships, the components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

Undesignated derivative financial instruments -

Toyota uses foreign exchange forward contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements, and interest rate options, to manage its exposure to foreign currency exchange rate fluctuations and interest rate fluctuations from an economic perspective, and which Toyota is unable or has elected not to apply hedge accounting. Unrealized gains or losses on these derivative instruments are reported in the cost of financing operations and foreign exchange gain, net in the accompanying consolidated statements of income together with realized gains or losses on those derivative instruments.

21. Other financial instruments:

Toyota has certain financial instruments, including financial assets and liabilities and off-balance sheet financial instruments which arose in the normal course of business. These financial instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, euros and other currencies of major industrialized countries. Financial instruments involve, to varying degrees, market risk as instruments are subject to price fluctuations, and elements of credit risk in the event a counterparty should default. In the unlikely event the counterparties fail to meet the contractual terms of a foreign currency or an interest rate instrument, Toyota's risk is limited to the fair value of the instrument. Although Toyota may be

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exposed to losses in the event of non-performance by counterparties on financial instruments, it does not anticipate significant losses due to the nature of its counterparties. Counterparties to Toyota's financial instruments represent, in general, international financial institutions. Additionally, Toyota does not have a significant exposure to any individual counterparty. Based on the creditworthiness of these financial institutions, collateral is generally not required of the counterparties or of Toyota. Toyota believes that the overall credit risk related to its financial instruments is not significant.

The estimated fair values of Toyota's financial instruments, excluding marketable securities and other securities investments and affiliated companies, are summarized as follows:

| | Yen in millions March 31, 2005 | |
|--|-----------------------------------|----------------------|
| | Carrying amount | Estimated fair value |
| Asset (Liability) | | |
| Cash and cash equivalents | ¥ 1,483,753 | ¥ 1,483,753 |
| Time deposits | 63,609 | 63,609 |
| Total finance receivables, net | 6,243,359 | 6,234,855 |
| Other receivables | 355,381 | 355,381 |
| Short-term borrowings | (2,381,827) | (2,381,827) |
| Long-term debt including the current portion | (6,094,565) | (6,140,043) |
| Foreign exchange forward contracts | (10,176) | (10,176) |
| Interest rate and currency swap agreements | 148,119 | 148,119 |
| Option contracts purchased | 2,282 | 2,282 |
| Option contracts written | (4,042) | (4,042) |

| | Yen in millions March 31, 2006 | | U.S. dollars in millions March 31, 2006 | |
|--|-----------------------------------|----------------------|--|----------------------|
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Asset (Liability) | | | | |
| Cash and cash equivalents | ¥ 1,569,387 | ¥ 1,569,387 | \$ 13,360 | \$ 13,360 |
| Time deposits | 50,349 | 50,349 | 428 | 428 |
| Total finance receivables, net | 7,601,838 | 7,413,229 | 64,713 | 63,107 |
| Other receivables | 416,336 | 416,336 | 3,544 | 3,544 |
| Short-term borrowings | (3,033,019) | (3,033,019) | (25,820) | (25,820) |
| Long-term debt including the current portion | (7,306,037) | (7,297,826) | (62,195) | (62,125) |
| Foreign exchange forward contracts | (8,136) | (8,136) | (69) | (69) |
| Interest rate and currency swap agreements | 101,890 | 101,890 | 867 | 867 |
| Option contracts purchased | 2,994 | 2,994 | 25 | 25 |
| Option contracts written | (3,035) | (3,035) | (26) | (26) |

Following are explanatory notes regarding the financial assets and liabilities other than derivative financial instruments.

Cash and cash equivalents, time deposits and other receivables -

In the normal course of business, substantially all cash and cash equivalents, time deposits and other receivables are highly liquid and are carried at amounts which approximate fair value.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Finance receivables, net -**

The carrying value of variable rate finance receivables was assumed to approximate fair value as they were repriced at prevailing market rates at March 31, 2005 and 2006. The fair value of fixed rate finance receivables was estimated by discounting expected cash flows using the rates at which loans of similar credit quality and maturity would be made as of March 31, 2005 and 2006.

Short-term borrowings and long-term debt -

The fair values of short-term borrowings and total long-term debt including the current portion were estimated based on the discounted amounts of future cash flows using Toyota's current incremental borrowing rates for similar liabilities.

22. Lease commitments:

Toyota leases certain assets under capital lease and operating lease arrangements.

An analysis of leased assets under capital leases is as follows:

| Class of property | Yen in millions March 31, | | U.S. dollars in millions March 31, |
|---------------------------------|------------------------------|-----------|--|
| | 2005 | 2006 | 2006 |
| Building | ¥ 11,762 | ¥ 12,095 | \$ 103 |
| Machinery and equipment | 162,938 | 139,063 | 1,184 |
| Less - Accumulated depreciation | (128,578) | (112,495) | (958) |
| | ¥ 46,122 | ¥ 38,663 | \$ 329 |

Amortization expenses under capital leases for the years ended March 31, 2004, 2005 and 2006 were ¥12,908 million, ¥12,725 million and ¥11,348 million (\$97 million), respectively.

Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2006 are as follows:

| Years ending March 31, | Yen in millions | U.S. dollars in millions |
|-------------------------------------|--------------------|-----------------------------|
| 2007 | ¥ 15,407 | \$ 131 |
| 2008 | 13,410 | 114 |
| 2009 | 6,995 | 60 |
| 2010 | 6,483 | 55 |
| 2011 | 21,478 | 183 |
| Thereafter | 563 | 5 |
| Total minimum lease payments | 64,336 | 548 |
| Less - Amount representing interest | (5,995) | (51) |

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| | | |
|---|----------|--------|
| Present value of net minimum lease payments | 58,341 | 497 |
| Less - Current obligations | (14,657) | (125) |
| Long-term capital lease obligations | ¥ 43,684 | \$ 372 |

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Rental expenses under operating leases for the years ended March 31, 2004, 2005 and 2006 were ¥81,912 million, ¥83,784 million and ¥93,867 million (\$799 million), respectively.

The minimum rental payments required under operating leases relating primarily to land, buildings and equipment having initial or remaining non-cancelable lease terms in excess of one year at March 31, 2006 are as follows:

| Years ending March 31, | Yen in millions | U.S. dollars in millions |
|-------------------------------------|----------------------------|-------------------------------------|
| 2007 | ¥ 9,740 | \$ 83 |
| 2008 | 7,374 | 63 |
| 2009 | 6,191 | 53 |
| 2010 | 5,065 | 43 |
| 2011 | 4,036 | 34 |
| Thereafter | 19,089 | 162 |
| Total minimum future rentals | ¥ 51,495 | \$ 438 |

23. Other commitments and contingencies, concentrations and factors that may affect future operations:

Commitments outstanding at March 31, 2006 for the purchase of property, plant and equipment and other assets totaled ¥103,324 million (\$880 million).

Toyota enters into contracts with Toyota dealers to guarantee customers' payments of their installment payables that arise from installment contracts between customers and Toyota dealers, as and when requested by Toyota dealers. Guarantee periods are set to match maturity of installment payments, and at March 31, 2006, range from 1 month to 35 years; however, they are generally shorter than the useful lives of products sold. Toyota is required to execute its guarantee primarily when customers are unable to make required payments. The maximum potential amount of future payments as of March 31, 2006 is ¥1,236,977 million (\$10,530 million). Liabilities for guarantees totaling ¥3,355 million (\$29 million) have been provided as of March 31, 2006. Under these guarantee contracts, Toyota is entitled to recover any amount paid by Toyota from the customers whose original obligations Toyota has guaranteed.

In February 2003, Toyota, General Motors Corporation, Ford, DaimlerChrysler, Honda, Nissan and BMW and their U.S. and Canadian sales and marketing subsidiaries, the National Automobile Dealers Association and the Canadian Automobile Dealers Association were named as defendants in purported nationwide class actions on behalf of all purchasers of new motor vehicles in the United States since January 1, 2001. 26 similar actions were filed in federal district courts in California, Illinois, New York, Massachusetts, Florida, New Jersey and Pennsylvania. Additionally, 56 parallel class actions were filed in state courts in California, Minnesota, New Mexico, New York, Tennessee, Wisconsin, Arizona, Florida, Iowa, New Jersey and Nebraska on behalf of the same purchasers in these states. As of April 1, 2005, actions filed in federal district courts were consolidated in Maine and actions filed in the state courts of California and New Jersey were also consolidated, respectively.

The nearly identical complaints allege that the defendants violated the Sherman Antitrust Act by conspiring among themselves and with their dealers to prevent the sale to United States citizens of vehicles produced for the Canadian market. The complaints allege that new vehicle prices in Canada are 10% to 30% lower than those in the United States and that preventing the sale of these vehicles to United States citizens resulted in United States consumers paying excessive prices for the same type of vehicles. The complaints seek permanent injunctions against the alleged antitrust violations and treble damages in an unspecified amount. In March 2004, the federal district court of Maine (i) dismissed claims against certain Canadian sales and marketing subsidiaries, including

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TOYOTA MOTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Toyota Canada, Inc., for lack of personal jurisdiction but denied or deferred to dismiss claims against certain other Canadian companies, and (ii) dismissed the claim for damages based on the Sherman Antitrust Act but did not bar the plaintiffs from seeking injunctive relief against the alleged antitrust violations. The plaintiffs have submitted an amended complaint adding a claim for damages based on state antitrust laws and Toyota has responded to the plaintiff's discovery requests. Toyota believes that its actions have been lawful. In the interest of quickly resolving these legal actions, however, Toyota entered into a settlement agreement with the plaintiffs at the end of February 2006. The settlement agreement is pending the approval of the federal district court, and immediately upon approval the plaintiffs will, in accordance with the terms of the settlement agreement, withdraw all pending actions against Toyota in the federal district court as well as all state courts and all related actions will be closed.

Toyota has various other legal actions, governmental proceedings and other claims pending against it, including product liability claims in the United States. Although the claimants in some of these actions seek potentially substantial damages, Toyota cannot currently determine its potential liability or the damages, if any, with respect to these claims. However, based upon information currently available to Toyota, Toyota believes that its losses from these matters, if any, would not have a material adverse effect on Toyota's financial position, operating results or cash flows.

In September 2000, the European Union approved a directive that requires member states to promulgate regulations implementing the following: (i) manufacturers shall bear all or a significant part of the costs for taking back end-of-life vehicles put on the market after July 1, 2002 and dismantling and recycling those vehicles. Beginning January 1, 2007, this requirement will also be applicable to vehicles put on the market before July 1, 2002; (ii) manufacturers may not use certain hazardous materials in vehicles to be sold after July 2003; (iii) vehicles type-approved and put on the market after December 15, 2008, shall be re-usable and/or recyclable to a minimum of 85% by weight per vehicle and shall be re-usable and/or recoverable to a minimum of 95% by weight per vehicle; and (iv) end-of-life vehicles must meet actual re-use of 80% and re-use as material or energy of 85%, respectively, of vehicle weight by 2006, rising respectively to 85% and 95% by 2015. All of the member states, other than Ireland, which is currently in the process of legislation domestically, have adopted legislation to implement the directive. In addition, countries such as Sweden, Denmark and Belgium have existing legislation that partially implements the directive. Currently, there are uncertainties surrounding the implementation of the applicable regulations in different European Union member states, particularly regarding manufacturer responsibilities and resultant expenses that may be incurred.

In addition, under this directive member states must take measures to ensure that car manufacturers, distributors and other auto-related economic operators establish adequate used vehicle collection and treatment facilities and to ensure that hazardous materials and recyclable parts are removed from vehicles prior to shredding. This directive impacts Toyota's vehicles sold in the European Union and Toyota expects to introduce vehicles that are in compliance with such measures taken by the member states pursuant to the directive.

Based on the legislation that has been enacted to date, Toyota has provided for its estimated liability related to covered vehicles in existence as of March 31, 2006. Depending on the legislation that is yet to be enacted by certain member states and subject to other circumstances, Toyota may be required to provide additional accruals for the expected costs to comply with these regulations. Although Toyota does not expect its compliance with the directive to result in significant cash expenditures, Toyota is continuing to assess the impact of this future legislation on its results of operations, cash flows and financial position.

Toyota purchases materials that are equivalent to approximately 10% of material costs from a supplier which is an affiliated company.

The parent company has a concentration of labor supply in employees working under collective bargaining agreements and a substantial portion of these employees are working under the agreement that will expire on December 31, 2008.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****24. Segment data:**

The operating segments reported below are the segments of Toyota for which separate financial information is available and for which operating income/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

The major portions of Toyota's operations on a worldwide basis are derived from the Automotive and Financial Services business segments. The Automotive segment designs, manufactures and distributes sedans, minivans, compact cars, sport-utility vehicles, trucks and related parts and accessories. The Financial Services segment consists primarily of financing, and vehicle and equipment leasing operations to assist in the merchandising of the parent company and its affiliate companies products as well as other products. The All Other segment includes the design, manufacturing and sales of housing, telecommunications and other business.

The following tables present certain information regarding Toyota's industry segments and operations by geographic areas and overseas revenues by destination as of and for the years ended March 31, 2004, 2005 and 2006. From the year ended March 31, 2006, in Geographical Segment information and overseas revenues by destination information, Asia region has been disclosed separately from Other region. Prior year information has also been disclosed for comparative purposes.

Segment operating results and assets -

As of and for the year ended March 31, 2004:

| | Yen in millions | | | | Consolidated |
|---------------------------------------|-----------------|--------------------|-----------|---|--------------|
| | Automotive | Financial Services | All Other | Inter-segment Elimination/ Unallocated Amount | |
| Net revenues | | | | | |
| Sales to external customers | ¥ 15,963,100 | ¥ 716,727 | ¥ 614,933 | ¥ | ¥ 17,294,760 |
| Inter-segment sales and transfers | 10,726 | 20,125 | 281,311 | (312,162) | |
| Total | 15,973,826 | 736,852 | 896,244 | (312,162) | 17,294,760 |
| Operating expenses | 14,454,872 | 590,854 | 880,997 | (298,853) | 15,627,870 |
| Operating income | ¥ 1,518,954 | ¥ 145,998 | ¥ 15,247 | ¥ (13,309) | ¥ 1,666,890 |
| Assets | ¥ 10,207,395 | ¥ 8,138,297 | ¥ 941,925 | ¥ 2,752,611 | ¥ 22,040,228 |
| Investment in equity method investees | 1,092,713 | 211,657 | | 60,407 | 1,364,777 |
| Depreciation expenses | 772,829 | 175,533 | 21,542 | | 969,904 |
| Capital Expenditure | 1,020,608 | 432,222 | 43,212 | (7,501) | 1,488,541 |

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of and for the year ended March 31, 2005:

| | Yen in millions | | | | Consolidated |
|---------------------------------------|-----------------|--------------------|-------------|---|--------------|
| | Automotive | Financial Services | All Other | Inter-segment Elimination/ Unallocated Amount | |
| Net revenues | | | | | |
| Sales to external customers | ¥ 17,098,415 | ¥ 760,664 | ¥ 692,447 | ¥ | ¥ 18,551,526 |
| Inter-segment sales and transfers | 15,120 | 20,597 | 337,873 | (373,590) | |
| Total | 17,113,535 | 781,261 | 1,030,320 | (373,590) | 18,551,526 |
| Operating expenses | 15,661,000 | 580,408 | 996,577 | (358,646) | 16,879,339 |
| Operating income | ¥ 1,452,535 | ¥ 200,853 | ¥ 33,743 | ¥ (14,944) | ¥ 1,672,187 |
| Assets | ¥ 11,141,197 | ¥ 9,487,248 | ¥ 1,025,517 | ¥ 2,681,049 | ¥ 24,335,011 |
| Investment in equity method investees | 1,271,044 | 215,642 | | 75,746 | 1,562,432 |
| Depreciation expenses | 754,339 | 220,584 | 22,790 | | 997,713 |
| Capital Expenditure | 1,161,757 | 726,777 | 50,555 | (15,849) | 1,923,240 |

As of and for the year ended March 31, 2006:

| | Yen in millions | | | | Consolidated |
|---------------------------------------|-----------------|--------------------|-------------|---|--------------|
| | Automotive | Financial Services | All Other | Inter-segment Elimination/ Unallocated Amount | |
| Net revenues | | | | | |
| Sales to external customers | ¥ 19,325,616 | ¥ 977,416 | ¥ 733,877 | ¥ | ¥ 21,036,909 |
| Inter-segment sales and transfers | 12,528 | 19,493 | 456,414 | (488,435) | |
| Total | 19,338,144 | 996,909 | 1,190,291 | (488,435) | 21,036,909 |
| Operating expenses | 17,644,099 | 841,092 | 1,150,543 | (477,167) | 19,158,567 |
| Operating income | ¥ 1,694,045 | ¥ 155,817 | ¥ 39,748 | ¥ (11,268) | ¥ 1,878,342 |
| Assets | ¥ 12,354,827 | ¥ 11,613,508 | ¥ 1,191,261 | ¥ 3,571,999 | ¥ 28,731,595 |
| Investment in equity method investees | 1,459,556 | 287,326 | | 73,835 | 1,820,717 |
| Depreciation expenses | 880,360 | 301,734 | 29,084 | | 1,211,178 |
| Capital Expenditure | 1,615,814 | 1,110,191 | 45,282 | (47) | 2,771,240 |

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| | U.S. dollars in millions | | | | Consolidated |
|---------------------------------------|--------------------------|--------------------|-----------|---|--------------|
| | Automotive | Financial Services | All Other | Inter-segment Elimination/ Unallocated Amount | |
| Net revenues | | | | | |
| Sales to external customers | \$ 164,515 | \$ 8,321 | \$ 6,247 | \$ | \$ 179,083 |
| Inter-segment sales and transfers | 107 | 165 | 3,886 | (4,158) | |
| Total | 164,622 | 8,486 | 10,133 | (4,158) | 179,083 |
| Operating expenses | 150,201 | 7,160 | 9,794 | (4,062) | 163,093 |
| Operating income | \$ 14,421 | \$ 1,326 | \$ 339 | \$ (96) | \$ 15,990 |
| Assets | \$ 105,174 | \$ 98,864 | \$ 10,141 | \$ 30,408 | \$ 244,587 |
| Investment in equity method investees | 12,425 | 2,446 | | 628 | 15,499 |
| Depreciation expenses | 7,494 | 2,569 | 248 | | 10,311 |
| Capital Expenditure | 13,755 | 9,451 | 385 | (0) | 23,591 |

Sales to external customers and operating income of the Financial Services segment for the year ended March 31, 2005, includes the impact of adjustments totaling ¥14,991 million made by a sales financing subsidiary in the United States of America for the correction of errors relating to prior periods mainly in connection with capitalization of certain disbursements, including disbursements made in prior years, directly related to origination of loans in accordance with FAS No. 91.

Geographic Information -

As of and for the year ended March 31, 2004:

| | Yen in millions | | | | | Inter-segment Elimination/ Unallocated Amount | Consolidated |
|-----------------------------------|-----------------|---------------|-------------|-------------|-------------|---|--------------|
| | Japan | North America | Europe | Asia | Other | | |
| Net revenues | | | | | | | |
| Sales to external customers | ¥ 7,167,704 | ¥ 5,910,422 | ¥ 2,018,969 | ¥ 1,196,836 | ¥ 1,000,829 | ¥ | ¥ 17,294,760 |
| Inter-segment sales and transfers | 4,422,283 | 217,217 | 145,372 | 46,685 | 117,533 | (4,949,090) | |
| Total | 11,589,987 | 6,127,639 | 2,164,341 | 1,243,521 | 1,118,362 | (4,949,090) | 17,294,760 |
| Operating expenses | 10,481,860 | 5,736,662 | 2,091,866 | 1,183,244 | 1,081,726 | (4,947,488) | 15,627,870 |
| Operating income | ¥ 1,108,127 | ¥ 390,977 | ¥ 72,475 | ¥ 60,277 | ¥ 36,636 | ¥ (1,602) | ¥ 1,666,890 |
| Assets | ¥ 10,210,904 | ¥ 6,674,694 | ¥ 1,842,947 | ¥ 734,609 | ¥ 832,667 | ¥ 1,744,407 | ¥ 22,040,228 |
| Long-lived assets | 3,032,629 | 1,536,550 | 448,954 | 180,493 | 156,021 | | 5,354,647 |

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of and for the year ended March 31, 2005:

| | Yen in millions | | | | | Inter-segment Elimination/ Unallocated Amount | Consolidated |
|-----------------------------------|-----------------|------------------|-------------|-------------|-------------|--|--------------|
| | Japan | North America | Europe | Asia | Other | | |
| Net revenues | | | | | | | |
| Sales to external customers | ¥ 7,408,136 | ¥ 6,187,624 | ¥ 2,305,450 | ¥ 1,572,113 | ¥ 1,078,203 | ¥ | ¥ 18,551,526 |
| Inter-segment sales and transfers | 4,596,019 | 185,829 | 173,977 | 53,309 | 105,499 | (5,114,633) | |
| Total | 12,004,155 | 6,373,453 | 2,479,427 | 1,625,422 | 1,183,702 | (5,114,633) | 18,551,526 |
| Operating expenses | 11,016,913 | 5,925,894 | 2,370,886 | 1,531,650 | 1,136,248 | (5,102,252) | 16,879,339 |
| Operating income | ¥ 987,242 | ¥ 447,559 | ¥ 108,541 | ¥ 93,772 | ¥ 47,454 | ¥ (12,381) | ¥ 1,672,187 |
| Assets | ¥ 10,740,796 | ¥ 7,738,898 | ¥ 2,242,566 | ¥ 945,635 | ¥ 998,172 | ¥ 1,668,944 | ¥ 24,335,011 |
| Long-lived assets | 3,110,123 | 1,708,147 | 544,597 | 247,507 | 185,220 | | 5,795,594 |

As of and for the year ended March 31, 2006:

| | Yen in millions | | | | | Inter-segment Elimination/ Unallocated Amount | Consolidated |
|-----------------------------------|-----------------|------------------|-------------|-------------|-------------|--|--------------|
| | Japan | North America | Europe | Asia | Other | | |
| Net revenues | | | | | | | |
| Sales to external customers | ¥ 7,735,109 | ¥ 7,455,818 | ¥ 2,574,014 | ¥ 1,836,855 | ¥ 1,435,113 | ¥ | ¥ 21,036,909 |
| Inter-segment sales and transfers | 5,376,348 | 232,124 | 153,395 | 205,951 | 166,623 | (6,134,441) | |
| Total | 13,111,457 | 7,687,942 | 2,727,409 | 2,042,806 | 1,601,736 | (6,134,441) | 21,036,909 |
| Operating expenses | 12,035,567 | 7,192,304 | 2,633,462 | 1,897,260 | 1,534,546 | (6,134,572) | 19,158,567 |
| Operating income | ¥ 1,075,890 | ¥ 495,638 | ¥ 93,947 | ¥ 145,546 | ¥ 67,190 | ¥ 131 | ¥ 1,878,342 |
| Assets | ¥ 12,177,125 | ¥ 9,199,818 | ¥ 2,471,258 | ¥ 1,255,350 | ¥ 1,299,072 | ¥ 2,328,972 | ¥ 28,731,595 |
| Long-lived assets | 3,395,553 | 2,403,211 | 666,543 | 347,892 | 253,429 | | 7,066,628 |

| | U.S. dollars in millions | | | | | Inter-segment Elimination/ Unallocated Amount | Consolidated |
|-----------------------------------|--------------------------|------------------|-----------|-----------|-----------|--|--------------|
| | Japan | North America | Europe | Asia | Other | | |
| Net revenues | | | | | | | |
| Sales to external customers | \$ 65,847 | \$ 63,470 | \$ 21,912 | \$ 15,637 | \$ 12,217 | \$ | \$ 179,083 |
| Inter-segment sales and transfers | 45,768 | 1,976 | 1,306 | 1,753 | 1,418 | (52,221) | |
| Total | 111,615 | 65,446 | 23,218 | 17,390 | 13,635 | (52,221) | 179,083 |
| Operating expenses | 102,456 | 61,227 | 22,418 | 16,151 | 13,063 | (52,222) | 163,093 |

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| | | | | | | | | | | | | | | |
|-------------------|----|---------|----|--------|----|--------|----|--------|----|--------|----|--------|----|---------|
| Operating income | \$ | 9,159 | \$ | 4,219 | \$ | 800 | \$ | 1,239 | \$ | 572 | \$ | 1 | \$ | 15,990 |
| Assets | \$ | 103,662 | \$ | 78,316 | \$ | 21,037 | \$ | 10,687 | \$ | 11,059 | \$ | 19,826 | \$ | 244,587 |
| Long-lived assets | | 28,906 | | 20,458 | | 5,674 | | 2,962 | | 2,157 | | | | 60,157 |

Revenues are attributed to geographies based on the country location of the parent company or the subsidiary that transacted the sale with the external customer.

There are no any individually material countries with respect to revenues, operating expenses, operating income, assets and long-lived assets included in other foreign countries.

Unallocated amounts included in assets represent assets held for corporate purposes, which mainly consist of cash and cash equivalents and marketable securities. Such corporate assets were ¥3,270,973 million, ¥3,308,055 million and ¥4,231,148 million (\$36,019 million), as of March 31, 2004, 2005 and 2006, respectively.

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Transfers between industry or geographic segments are made at amounts which Toyota's management believes approximate arm's-length transactions. In measuring the reportable segments' income or losses, operating income consists of revenue less operating expenses.

Overseas Revenues by destination -

The following information shows revenues that are attributed to countries based on location of customers, excluding customers in Japan. In addition to the disclosure requirements under FAS No. 131, *Disclosure about Segments of an Enterprise and Related Information* (FAS 131), Toyota discloses this information in order to provide financial statement users with valuable information.

| | Yen in millions | | | U.S. dollars in millions For the year ended |
|---------------|-------------------------------|-------------|-------------|--|
| | For the years ended March 31, | | | March 31, |
| | 2004 | 2005 | 2006 | 2006 |
| North America | ¥ 6,108,723 | ¥ 6,374,235 | ¥ 7,687,738 | \$ 65,444 |
| Europe | 2,037,344 | 2,365,525 | 2,607,819 | 22,200 |
| Asia | 1,393,084 | 1,776,554 | 2,005,777 | 17,075 |
| Other | 1,962,064 | 2,089,210 | 2,721,981 | 23,172 |

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Certain financial statement data on non-financial services and financial services businesses -**

The financial data below presents separately Toyota's non-financial services and financial services businesses.

Balance sheets

| | Yen in millions | | U.S. dollars |
|---|---------------------|---------------------|-------------------|
| | March 31, | | in millions |
| | 2005 | 2006 | March 31, 2006 |
| Non-Financial Services Businesses | | | |
| Current assets | | | |
| Cash and cash equivalents | ¥ 1,324,126 | ¥ 1,418,022 | \$ 12,071 |
| Time deposits | 8,006 | 14,024 | 119 |
| Marketable securities | 541,785 | 633,036 | 5,389 |
| Trade accounts and notes receivable, less allowance for doubtful accounts | 1,837,539 | 2,002,577 | 17,048 |
| Inventories | 1,306,709 | 1,620,975 | 13,799 |
| Prepaid expenses and other current assets | 1,382,987 | 1,466,019 | 12,480 |
| Total current assets | 6,401,152 | 7,154,653 | 60,906 |
| Investments and other assets | 4,804,843 | 5,702,376 | 48,543 |
| Property, plant and equipment | 4,579,052 | 5,207,760 | 44,333 |
| Total Non-Financial Services Businesses assets | 15,785,047 | 18,064,789 | 153,782 |
| Financial Services Businesses | | | |
| Current assets | | | |
| Cash and cash equivalents | 159,627 | 151,365 | 1,289 |
| Time deposits | 55,603 | 36,325 | 309 |
| Marketable securities | 1,339 | 1,843 | 16 |
| Finance receivables, net | 3,010,135 | 3,497,319 | 29,772 |
| Prepaid expenses and other current assets | 609,946 | 674,522 | 5,742 |
| Total current assets | 3,836,650 | 4,361,374 | 37,128 |
| Noncurrent finance receivables, net | 3,976,941 | 4,830,216 | 41,119 |
| Investments and other assets | 457,115 | 563,050 | 4,793 |
| Property, plant and equipment | 1,216,542 | 1,858,868 | 15,824 |
| Total Financial Services Businesses assets | 9,487,248 | 11,613,508 | 98,864 |
| Eliminations | (937,284) | (946,702) | (8,059) |
| Total assets | ¥ 24,335,011 | ¥ 28,731,595 | \$ 244,587 |

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Assets in the non-financial service include unallocated corporate assets.

| | Yen in millions March 31, | | U.S. dollars in millions March 31, |
|--|------------------------------|-------------------|--|
| | 2005 | 2006 | 2006 |
| Non-Financial Services Businesses | | | |
| Current liabilities | | | |
| Short-term borrowings | ¥ 713,474 | ¥ 797,969 | \$ 6,793 |
| Current portion of long-term debt | 60,092 | 68,299 | 582 |
| Accounts payable | 1,847,036 | 2,084,399 | 17,744 |
| Accrued expenses | 1,200,122 | 1,357,335 | 11,555 |
| Income taxes payable | 263,291 | 328,360 | 2,795 |
| Other current liabilities | 1,055,336 | 1,138,529 | 9,692 |
| Total current liabilities | 5,139,351 | 5,774,891 | 49,161 |
| Long-term liabilities | | | |
| Long-term debt | 747,911 | 730,072 | 6,215 |
| Accrued pension and severance costs | 645,308 | 676,999 | 5,763 |
| Other long-term liabilities | 564,185 | 823,540 | 7,011 |
| Total long-term liabilities | 1,957,404 | 2,230,611 | 18,989 |
| Total Non-Financial Services Businesses liabilities | 7,096,755 | 8,005,502 | 68,150 |
| Financial Services Businesses | | | |
| Current liabilities | | | |
| Short-term borrowings | 2,269,197 | 2,932,799 | 24,966 |
| Current portion of long-term debt | 1,092,328 | 1,662,589 | 14,153 |
| Accounts payable | 15,542 | 9,273 | 79 |
| Accrued expenses | 93,042 | 111,133 | 946 |
| Income taxes payable | 29,544 | 19,128 | 163 |
| Other current liabilities | 289,850 | 305,136 | 2,598 |
| Total current liabilities | 3,789,503 | 5,040,058 | 42,905 |
| Long-term liabilities | | | |
| Long-term debt | 4,503,247 | 5,071,482 | 43,172 |
| Accrued pension and severance costs | 1,681 | 2,919 | 25 |
| Other long-term liabilities | 331,827 | 408,883 | 3,481 |
| Total long-term liabilities | 4,836,755 | 5,483,284 | 46,678 |
| Total Financial Services Businesses liabilities | 8,626,258 | 10,523,342 | 89,583 |
| Eliminations | (937,881) | (947,278) | (8,064) |

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| | | | |
|--|--------------|--------------|------------|
| Total liabilities | 14,785,132 | 17,581,566 | 149,669 |
| Minority interest in consolidated subsidiaries | 504,929 | 589,580 | 5,019 |
| Shareholders' equity | 9,044,950 | 10,560,449 | 89,899 |
| Total liabilities and shareholders' equity | ¥ 24,335,011 | ¥ 28,731,595 | \$ 244,587 |

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Statements of income*

| | Yen in millions | | | U.S. dollars |
|--|-------------------------------|--------------|--------------|--------------|
| | | | | in millions |
| | | | | For the year |
| | | | | ended |
| | For the years ended March 31, | | | March 31, |
| | 2004 | 2005 | 2006 | 2006 |
| Non-Financial Services Businesses | | | | |
| Net revenues | ¥ 16,586,814 | ¥ 17,800,357 | ¥ 20,068,284 | \$ 170,838 |
| Costs and expenses | | | | |
| Cost of revenues | 13,507,835 | 14,497,252 | 16,335,340 | 139,060 |
| Selling, general and administrative | 1,540,724 | 1,813,288 | 1,993,528 | 16,971 |
| Total costs and expenses | 15,048,559 | 16,310,540 | 18,328,868 | 156,031 |
| Operating income | 1,538,255 | 1,489,817 | 1,739,416 | 14,807 |
| Other income, net | 97,885 | 68,736 | 201,978 | 1,720 |
| Income before income taxes, minority interest and equity in earnings of affiliated companies | 1,636,140 | 1,558,553 | 1,941,394 | 16,527 |
| Provision for income taxes | 627,038 | 578,709 | 736,909 | 6,273 |
| Income before minority interest and equity in earnings of affiliated companies | 1,009,102 | 979,844 | 1,204,485 | 10,254 |
| Minority interest in consolidated subsidiaries | (41,886) | (63,952) | (82,401) | (702) |
| Equity in earnings of affiliated companies | 107,542 | 131,849 | 142,139 | 1,210 |
| Net income- Non-Financial Services Businesses | 1,074,758 | 1,047,741 | 1,264,223 | 10,762 |
| Financial Services Businesses | | | | |
| Net revenues | 736,852 | 781,261 | 996,909 | 8,487 |
| Costs and expenses | | | | |
| Cost of revenues | 365,750 | 376,150 | 613,563 | 5,223 |
| Selling, general and administrative | 225,104 | 204,258 | 227,529 | 1,937 |
| Total costs and expenses | 590,854 | 580,408 | 841,092 | 7,160 |
| Operating income | 145,998 | 200,853 | 155,817 | 1,327 |

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| | | | | |
|--|-------------|-------------|-------------|-----------|
| Other expense, net | (16,438) | (4,764) | (9,859) | (84) |
| Income before income taxes, minority interest and equity in earnings of affiliated companies | 129,560 | 196,089 | 145,958 | 1,243 |
| Provision for income taxes | 53,959 | 78,748 | 58,241 | 496 |
| Income before minority interest and equity in earnings of affiliated companies | 75,601 | 117,341 | 87,717 | 747 |
| Minority interest in consolidated subsidiaries | (815) | (988) | (1,992) | (17) |
| Equity in earnings of affiliated companies | 12,753 | 7,622 | 22,227 | 189 |
| Net income- Financial Services Businesses | 87,539 | 123,975 | 107,952 | 919 |
| Eliminations | (199) | (456) | 5 | 0 |
| Net income | ¥ 1,162,098 | ¥ 1,171,260 | ¥ 1,372,180 | \$ 11,681 |

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Statement of cash flows*

| | Yen in millions For the year ended March 31, 2004 | | | Yen in millions For the year ended March 31, 2005 | | |
|---|--|-------------------------------------|--------------------|--|-------------------------------------|--------------------|
| | Non-Financial Services Businesses | Financial Services Businesses | Consolidated | Non-Financial Services Businesses | Financial Services Businesses | Consolidated |
| Cash flows from operating activities | | | | | | |
| Net income | ¥ 1,074,758 | ¥ 87,539 | ¥ 1,162,098 | ¥ 1,047,741 | ¥ 123,975 | ¥ 1,171,260 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | | | |
| Depreciation | 794,371 | 175,533 | 969,904 | 777,129 | 220,584 | 997,713 |
| Provision for doubtful accounts and credit losses | 13,356 | 69,782 | 83,138 | 15,752 | 47,402 | 63,154 |
| Pension and severance costs, less payments | (159,291) | 24 | (159,267) | (53,401) | 468 | (52,933) |
| Losses on disposal of fixed assets | 38,708 | 1,034 | 39,742 | 48,334 | 825 | 49,159 |
| Unrealized losses on available-for-sale securities, net | 3,063 | | 3,063 | 2,324 | | 2,324 |
| Deferred income taxes | 82,918 | 37,603 | 120,828 | 29,398 | 54,860 | 84,711 |
| Minority interest in consolidated subsidiaries | 41,886 | 815 | 42,686 | 63,952 | 988 | 64,938 |
| Equity in earnings of affiliated companies | (107,542) | (12,753) | (120,295) | (131,849) | (7,622) | (139,471) |
| Changes in operating assets and liabilities, and other | 88,212 | (13,546) | 44,837 | (97,535) | 203,762 | 130,085 |
| Net cash provided by operating activities | 1,870,439 | 346,031 | 2,186,734 | 1,701,845 | 645,242 | 2,370,940 |
| Cash flows from investing activities | | | | | | |
| Additions to finance receivables | | (8,814,390) | (5,234,578) | | (9,562,203) | (5,594,375) |
| Collection of and proceeds from sale of finance receivables | | 7,566,463 | 4,082,940 | | 8,586,796 | 4,674,919 |
| Additions to fixed assets excluding equipment leased to others | (923,105) | (22,698) | (945,803) | (1,049,572) | (18,715) | (1,068,287) |
| Additions to equipment leased to others | (133,214) | (409,524) | (542,738) | (146,891) | (708,062) | (854,953) |
| Proceeds from sales of fixed assets excluding equipment leased to others | 63,211 | 10,714 | 73,925 | 60,034 | 9,362 | 69,396 |
| Proceeds from sales of equipment leased to others | 78,393 | 210,288 | 288,681 | 84,450 | 232,006 | 316,456 |
| Purchases of marketable securities and security investments | (1,077,317) | (259,150) | (1,336,467) | (1,053,417) | (112,374) | (1,165,791) |
| Proceeds from sales of and maturity of marketable securities and security investments | 1,108,265 | 327,877 | 1,436,142 | 471,614 | 102,329 | 573,943 |
| Payment for additional investments in affiliated companies, net of cash acquired | (20,656) | | (20,656) | (901) | | (901) |
| Changes in investments and other assets, and other | (16,051) | (41,054) | (17,941) | 84,979 | (16,485) | (11,603) |
| Net cash used in investing activities | (920,474) | (1,431,474) | (2,216,495) | (1,549,704) | (1,487,346) | (3,061,196) |
| Cash flows from financing activities | | | | | | |
| Purchase of common stock | (357,457) | | (357,457) | (264,106) | | (264,106) |
| Proceeds from issuance of long-term debt | 48,373 | 1,682,550 | 1,636,570 | 27,363 | 1,862,012 | 1,863,710 |
| Payments of long-term debt | (140,384) | (1,187,219) | (1,253,045) | (59,689) | (1,160,710) | (1,155,223) |
| Increase (decrease) in short-term borrowings | (105,051) | 544,806 | 353,833 | 564 | 178,956 | 140,302 |
| Dividends paid | (137,678) | | (137,678) | (165,299) | | (165,299) |
| Other | (15,000) | 15,000 | | (7,000) | 7,000 | |
| Net cash provided by (used in) financing activities | (707,197) | 1,055,137 | 242,223 | (468,167) | 887,258 | 419,384 |
| Effect of exchange rate changes on cash and cash equivalents | (61,623) | (13,091) | (74,714) | 21,276 | 3,573 | 24,849 |

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| | | | | | | |
|--|-------------|-----------|-------------|-------------|-----------|-------------|
| Net increase (decrease) in cash and cash equivalents | 181,145 | (43,397) | 137,748 | (294,750) | 48,727 | (246,023) |
| Cash and cash equivalents at beginning of year | 1,437,731 | 154,297 | 1,592,028 | 1,618,876 | 110,900 | 1,729,776 |
| Cash and cash equivalents at end of year | ¥ 1,618,876 | ¥ 110,900 | ¥ 1,729,776 | ¥ 1,324,126 | ¥ 159,627 | ¥ 1,483,753 |

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | Yen in millions | | | U.S. dollars in millions | | |
|---|---|-------------------------------------|--------------|---|-------------------------------------|--------------|
| | For the year ended March 31, 2006 | | | For the year ended March 31, 2006 | | |
| | Non-Financial Services Businesses | Financial Services Businesses | Consolidated | Non-Financial Services Businesses | Financial Services Businesses | Consolidated |
| Cash flows from operating activities | | | | | | |
| Net income | ¥ 1,264,223 | ¥ 107,952 | ¥ 1,372,180 | \$ 10,762 | \$ 919 | \$ 11,681 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | | | |
| Depreciation | 909,444 | 301,734 | 1,211,178 | 7,742 | 2,569 | 10,311 |
| Provision for doubtful accounts and credit losses | 10,361 | 52,285 | 62,646 | 88 | 445 | 533 |
| Pension and severance costs, less payments | 22,664 | 1,196 | 23,860 | 193 | 10 | 203 |
| Losses on disposal of fixed assets | 54,614 | 367 | 54,981 | 465 | 3 | 468 |
| Unrealized losses on available-for-sale securities, net | 4,163 | | 4,163 | 36 | | 36 |
| Deferred income taxes | 31,370 | 1,889 | 33,262 | 267 | 16 | 283 |
| Minority interest in consolidated subsidiaries | 82,401 | 1,992 | 84,393 | 701 | 17 | 718 |
| Equity in earnings of affiliated companies | (142,139) | (22,227) | (164,366) | (1,210) | (189) | (1,399) |
| Changes in operating assets and liabilities, and other | (214,507) | 138,766 | (166,817) | (1,826) | 1,181 | (1,420) |
| Net cash provided by operating activities | 2,022,594 | 583,954 | 2,515,480 | 17,218 | 4,971 | 21,414 |
| Cash flows from investing activities | | | | | | |
| Additions to finance receivables | | (11,407,390) | (6,476,979) | | (97,109) | (55,137) |
| Collection of and proceeds from sale of finance receivables | | 10,545,425 | 5,718,130 | | 89,771 | 48,678 |
| Additions to fixed assets excluding equipment leased to others | (1,516,658) | (6,801) | (1,523,459) | (12,911) | (58) | (12,969) |
| Additions to equipment leased to others | (144,391) | (1,103,390) | (1,247,781) | (1,229) | (9,393) | (10,622) |
| Proceeds from sales of fixed assets excluding equipment leased to others | 81,950 | 7,628 | 89,578 | 697 | 65 | 762 |
| Proceeds from sales of equipment leased to others | 112,692 | 297,991 | 410,683 | 959 | 2,537 | 3,496 |
| Purchases of marketable securities and security investments | (764,016) | (193,280) | (957,296) | (6,504) | (1,645) | (8,149) |
| Proceeds from sales of and maturity of marketable securities and security investments | 561,948 | 129,084 | 691,032 | 4,784 | 1,098 | 5,882 |
| Payment for additional investments in affiliated companies, net of cash acquired | (1,802) | | (1,802) | (15) | | (15) |
| Changes in investments and other assets, and other | (3,292) | (83,104) | (77,606) | (28) | (707) | (661) |
| Net cash used in investing activities | (1,673,569) | (1,813,837) | (3,375,500) | (14,247) | (15,441) | (28,735) |
| Cash flows from financing activities | | | | | | |
| Purchase of common stock | (129,629) | | (129,629) | (1,104) | | (1,104) |
| Proceeds from issuance of long-term debt | 33,904 | 1,930,823 | 1,928,788 | 289 | 16,437 | 16,420 |
| Payments of long-term debt | (59,778) | (1,233,336) | (1,187,506) | (509) | (10,499) | (10,109) |
| Increase in short-term borrowings | 86,731 | 513,602 | 509,826 | 739 | 4,372 | 4,340 |
| Dividends paid | (244,568) | | (244,568) | (2,082) | | (2,082) |
| Net cash provided by (used in) financing activities | (313,340) | 1,211,089 | 876,911 | (2,667) | 10,310 | 7,465 |
| Effect of exchange rate changes on cash and cash equivalents | 58,211 | 10,532 | 68,743 | 495 | 90 | 585 |
| Net increase (decrease) in cash and cash equivalents | 93,896 | (8,262) | 85,634 | 799 | (70) | 729 |
| Cash and cash equivalents at beginning of year | 1,324,126 | 159,627 | 1,483,753 | 11,272 | 1,359 | 12,631 |

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| | | | | | | |
|--|-------------|-----------|-------------|-----------|----------|-----------|
| Cash and cash equivalents at end of year | ¥ 1,418,022 | ¥ 151,365 | ¥ 1,569,387 | \$ 12,071 | \$ 1,289 | \$ 13,360 |
|--|-------------|-----------|-------------|-----------|----------|-----------|

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Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In consolidated statements of cash flows as classified into non-financial services business and financial services business, cash flows from origination and collection activities of finance receivables relating to inventory-sales are continued to be reported in investing activities.

25. Per share amounts:

Reconciliations of the differences between basic and diluted net income per share for the years ended March 31, 2004, 2005 and 2006 are as follows:

| | Yen in millions | Thousands of shares Weighted- average shares | Yen Net income per share | U.S. dollars Net income per share |
|--|--------------------|--|--------------------------------------|---|
| For the year ended March 31, 2004 | | | | |
| Basic net income per common share | ¥ 1,162,098 | 3,389,074 | ¥ 342.90 | |
| Effect of diluted securities | | | | |
| Assumed exercise of dilutive stock options | | 303 | | |
| Diluted net income per common share | ¥ 1,162,098 | 3,389,377 | ¥ 342.86 | |
| For the year ended March 31, 2005 | | | | |
| Basic net income per common share | ¥ 1,171,260 | 3,296,092 | ¥ 355.35 | |
| Effect of diluted securities | | | | |
| Assumed exercise of dilutive stock options | (1) | 662 | | |
| Diluted net income per common share | ¥ 1,171,259 | 3,296,754 | ¥ 355.28 | |
| For the year ended March 31, 2006 | | | | |
| Basic net income per common share | ¥ 1,372,180 | 3,253,450 | ¥ 421.76 | \$ 3.59 |
| Effect of dilutive securities | | | | |
| Assumed exercise of dilutive stock options | (5) | 1,049 | | |
| Diluted net income per common share | ¥ 1,372,175 | 3,254,499 | ¥ 421.62 | \$ 3.59 |

Certain stock options were not included in the computation of diluted net income per share for the years ended March 31, 2004 and 2005 because the options' exercise prices were greater than the average market price per common share during the period.

The following table shows Toyota's net assets per share as of March 31, 2005 and 2006. Net assets per share amounts are calculated as dividing net assets' amount at the end of each period by the number of shares issued and outstanding at the end of corresponding period. In addition to the disclosure requirements under FAS No. 128, *Earnings per Share*, Toyota discloses this information in order to provide financial statement users with valuable information.

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| | Yen in millions | Thousands of shares Shares issued and outstanding at the end of the year | Yen Net assets per share | U.S. dollars Net assets per share |
|-----------------------|--------------------|--|------------------------------------|---|
| March 31, 2005 | ¥ 9,044,950 | 3,268,078 | ¥ 2,767.67 | |
| March 31, 2006 | 10,560,449 | 3,241,757 | 3,257.63 | \$ 27.73 |

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ITEM 19. EXHIBITS

Index to Exhibits

- 1.1 Amended and Restated Articles of Incorporation of the Registrant (English translation)*
- 1.2 Amended and Restated Regulations of the Board of Directors of the Registrant (English translation)*
- 1.3 Amended and Restated Regulations of the Board of Corporate Auditors of the Registrant (English translation)*
- 2.1 Amended and Restated Share Handling Regulations of the Registrant (English translation)*
- 2.2 Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and the owners and beneficial owners from time to time of American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to Exhibit 4.2 to Toyota's Registration Statement on Form F-1 (file no. 333-10768))
- 2.3 Form of ADR (included in Exhibit 2.2)
- 8.1 List of Principal Subsidiaries*
- 11.1 Code of Ethics of the Registrant applicable to its directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. (English translation)*
- 12.1 Certifications of the Registrant's Chairman of the Board and Executive Vice President, Member of the Board pursuant to Section 302 of the Sarbanes-Oxley Act
- 13.1 Certifications of the Registrant's Chairman of the Board and Executive Vice President, Member of the Board pursuant to Section 906 of the Sarbanes-Oxley Act
- 15.1 Consent of Independent Registered Public Accounting Firm

* Incorporated by reference to Toyota's annual report on Form 20-F filed with the SEC on June 26, 2006 (file no. 001-14948).

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TOYOTA MOTOR CORPORATION

By: /s/ TAKESHI SUZUKI

Name: Takeshi Suzuki

Title: Senior Managing Director, Member of the Board;

Chief Finance and Accounting Officer

Date: November 7, 2006