

DITMORE ROBERT K  
Form 4  
July 01, 2011

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287  
Expires: January 31, 2005  
Estimated average burden hours per response... 0.5

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
DITMORE ROBERT K

(Last) (First) (Middle)  
7700 FORSYTH BOULEVARD  
(Street)

ST. LOUIS, MO 63105

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
CENTENE CORP [CNC]

3. Date of Earliest Transaction  
(Month/Day/Year)  
06/30/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	06/30/2011		A	V Amount \$ 978.747 (A) or (D) Price 35.76	247,706.973 (1)	D	
Common Stock					15,250	I	By spouse (2)
Common Stock					5,600	I	See footnote (3)
Common Stock					59,200	I	See footnote (4)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price or Number of Shares
Common Stock Option (right to buy)	\$ 7.57					05/03/2004 07/24/2012	Common Stock	22,500
Common Stock Option (right to buy)	\$ 16.65					04/26/2005 05/04/2014	Common Stock	10,000

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DITMORE ROBERT K 7700 FORSYTH BOULEVARD ST. LOUIS, MO 63105		X		

## Signatures

/s/ Keith H. Williamson (executed by attorney-in-fact)

07/01/2011

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Mr. Ditmore's ownership includes 3,110 shares of restricted stock subject to vesting requirements.

Shares owned by spouse who shares Mr. Ditmore's household. Mr. Ditmore disclaims beneficial ownership of the shares held by his

(2) spouse, and the inclusion of these shares in this report shall not be deemed an admission of beneficial ownership of all of the reported shares for purposes of Section 16 or for any other purpose.

(3) Owned by the Ditmore 2002 Charitable Remainder Trust, of which Mr. Ditmore is a co-trustee.

Owned by the Ditmore Family Management Company LLC, of which Mr. Ditmore is a chief manager. Mr. Ditmore disclaims beneficial

(4) ownership except to the extent of his pecuniary interest therein, and the inclusion of these shares in this report shall not be deemed an admission of beneficial ownership of all of the reported shares for purposes of Section 16 or for any other purpose.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. FACE="Times New Roman" SIZE="2">See note 23 to the consolidated financial statements for further discussion.

### Recent Accounting Pronouncements in the United States

In November 2004, the Financial Accounting Standards Board ( 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 FASB Statement No. 123, Accounting for Stock-Based Compensation ( FAS 123 ), supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees ( 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.

In February 2006, the 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

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**Table of Contents**

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 FAS 133. FAS 155 is effective after 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, the 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, 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.

**Critical Accounting Estimates**

The consolidated financial statements of Toyota are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Toyota believes that of its significant accounting policies, the following may involve a higher degree of judgments, estimates and complexity:

***Product Warranty***

Toyota generally warrants its products against certain manufacturing and other defects. 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. All product warranties are consistent with commercial practices. Toyota provides a provision for estimated product warranty costs as a component of cost of sales at the time the related sale is recognized. The accrued warranty costs represent management's best estimate at the time of sale of the total costs that Toyota will incur to repair or replace product parts that fail while still 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. The foregoing evaluations are inherently uncertain, as they require material estimates and some products' warranties extend for several years. Consequently, actual warranty costs will differ from the estimated amounts and could require additional warranty provisions. If these factors require a significant increase in Toyota's accrued estimated warranty costs, it would negatively affect future operating results of the automotive operations.

***Allowance for Doubtful Accounts and Credit Losses***

***Natures of estimates and assumptions***

Sales financing and finance lease receivables consist of retail installment sales contracts secured by passenger cars and commercial vehicles. Collectibility risks include consumer and dealer insolvencies and insufficient collateral values (less costs to sell) to realize the full carrying values of these receivables. As a matter of policy, Toyota maintains an allowance for doubtful accounts and credit losses representing management's estimate of the amount of asset impairment in the portfolios of finance, trade and other receivables. Toyota determines the allowance for doubtful accounts and credit losses based on a systematic, ongoing review and evaluation performed as part of the credit-risk evaluation process, historical loss experience, the size and composition of the portfolios, current economic events and conditions, the estimated fair value and adequacy of collateral and other pertinent factors. This evaluation is inherently judgmental and requires material estimates, including the amounts and timing of future cash flows expected to be received, which may be susceptible to significant change. Although management considers the allowance for doubtful accounts and credit losses to be

**Table of Contents**

adequate based on information currently available, additional provisions may be necessary due to (i) changes in management estimates and assumptions about asset impairments, (ii) information that indicates changes in expected future cash flows, or (iii) changes in economic and other events and conditions. To the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new vehicle prices, resale prices of used vehicles and, correspondingly, the collateral value of Toyota's sales financing and finance lease receivables could experience further downward pressure. If these factors require a significant increase in Toyota's allowance for doubtful accounts and credit losses, it could negatively affect future operating results of the financial services operations. The level of credit losses, which impacts larger on Toyota's results of operations, is influenced primarily by two factors: frequency of occurrence and loss severity. For evaluation purposes, exposures to credit loss are segmented into the two primary categories of consumer and dealer. Toyota's consumer portfolio consists of smaller balance homogenous retail finance receivables and lease earning assets. The dealer portfolio consists of wholesale and other dealer financing receivables. The overall allowance for credit losses is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether reserves are considered adequate to cover probable losses.

**Sensitivity analysis**

The level of credit losses, which could significantly impact Toyota's results of operations, is influenced primarily by two factors: frequency of occurrence and loss severity. The overall allowance for credit losses is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether reserves are considered adequate to cover probable losses. The following table illustrates the effect of an assumed change in expected loss severity, which we believe is one of the key critical estimates for determining the allowance for credit losses, assuming all other assumptions are held consistent. The table below represents the impact on the allowance for credit losses in Toyota's financial services operations as any change impacts most significantly on the financial services operations.

	<b>Yen in millions</b>
	<b>Effect on the allowance</b>
	<b>for credit losses</b>
	<b>as of March 31, 2006</b>
10 percent increase in expected loss severity	¥ 4,581

**Investment in Operating Leases****Natures of estimates and assumptions**

Vehicles on operating leases, where Toyota is the lessor, are valued at acquisition cost and depreciated over their estimated useful lives using the straight-line method to their estimated residual values. Toyota utilizes industry published information and its own historical experience to determine estimated residual values for these vehicles. Toyota evaluates the recoverability of the carrying values of its leased vehicles for impairment when there are indications of declines in residual values, and if impaired, Toyota recognizes an allowance for its residual values. In addition, to the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new vehicle prices, resale prices of used vehicles and, correspondingly, the fair value of Toyota's leased vehicles could be subject to downward pressure. If resale prices of used vehicles decline, future operating results of the financial services operations are likely to be adversely affected by incremental charges to reduce estimated residual values. Throughout the life of the lease, management performs periodic evaluations of estimated end-of-term market values to determine whether estimates used in the determination of the contractual residual value are still considered reasonable. Factors affecting the estimated residual value at lease maturity include, but are not limited to, new vehicle incentive programs, new vehicle pricing, used vehicle supply, projected vehicle return rates, and projected loss severity. The vehicle return rate represents the number of leased vehicles returned at contract maturity and sold by Toyota during the period as a percentage of the number of lease contracts that, as of their origination dates, were scheduled to mature in the same period. A higher rate of vehicle returns exposes Toyota to higher potential losses incurred at lease termination. Loss severity is the extent to which the end-of-term market value of a lease is less than its carrying value at lease end.

**Table of Contents***Sensitivity analysis*

The following table illustrates the effect of an assumed change in the vehicle return rate, which we believe is one of the critical estimates, in determining the allowance for residual value, holding all other assumptions constant. The following table represents the impact on the allowance for residual values in Toyota's financial services operations as those changes impact significantly on financing operations.

	<b>Yen in millions</b>
	<b>Effect on the allowance for residual value as of March 31, 2006</b>
5 percent increase in vehicle return rate	¥ 470

*Impairment of Long-Lived Assets*

Toyota periodically reviews the carrying value of its long-lived assets held and used and assets to be disposed of, including goodwill and other intangible assets, when events and circumstances warrant such a review. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable; however, changes in estimates of such cash flows and fair values would affect the evaluations and negatively affect future operating results of the automotive operations.

*Pension Costs and Obligations**Natures of estimates and assumptions*

Pension costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected rate of return on plan assets, mortality rates and other factors. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligations in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Toyota's pension costs and obligations.

The two most critical assumptions impacting the calculation of pension costs and obligations are the discount rates and the expected rates of returns on plan assets. Toyota determines the discount rates mainly based on the rates of high quality fixed income bonds or fixed income governmental bonds currently available and expected to be available during the period to maturity of the defined benefit pension plans. Toyota determines the expected rates of return for pension assets 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. A weighted-average discount rate of 2.6% and a weighted-average expected rate of return on plan assets of 2.9% is the result of assumptions used for the various pension plans in calculating Toyota's consolidated pension costs and obligations for fiscal 2006.

**Table of Contents****Sensitivity analysis**

The following table illustrates the effect of assumed changes in weighted -average discount rate and the weighted-average expected rate of return on plan assets, which we believe are critical estimates in determining pension costs and obligations, assuming all other assumptions are consistent.

	Yen in millions	
	Effect on pre-tax income for the year ending March 31, 2007	Effect on PBO as of March 31, 2006
Discount rates		
0.5% decrease	¥ (10,139)	¥ 127,688
0.5% increase	9,779	(110,001)
Expected rate of return on plan assets		
0.5% decrease	¥ (6,381)	
0.5% increase	6,381	

**Derivatives and Other Contracts at Fair Value**

Toyota uses derivatives in the normal course of business to manage its exposure to foreign currency exchange rates and interest rates. The accounting is complex and continues to evolve. In addition, there are the significant judgments and estimates involved in the estimating of fair value in the absence of quoted market values. These estimates are based upon valuation methodologies deemed appropriate in the circumstances; however, the use of different assumptions may have a material effect on the estimated fair value amounts.

**Marketable securities**

Toyota's accounting policy is to record a write-down of such investments to realizable value when a decline in fair value below the carrying value is other-than-temporary. 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.

**Outlook**

Toyota expects that the global economy will grow moderately in fiscal 2007, despite factors such as concerns about the U.S. economy and high oil prices worldwide. Toyota expects that the global automotive markets will remain at the same level as fiscal 2006. Toyota, for the purposes of this discussion is assuming an average exchange rate of ¥110 to the U.S. dollar and ¥135 to the euro. With these external factors in mind, Toyota expects that net revenues for fiscal 2007 will increase compared with fiscal 2006 as a result of expected increased sales volumes, with the planned introduction of new models, particularly in North America. Toyota expects that operating income will remain relatively unchanged in fiscal 2007 compared with fiscal 2006. Sales efforts are expected to increase unit sales and, together with cost reduction efforts, increase operating income. On the other hand, the assumed exchange rate of a slightly stronger yen against the U.S. dollar and the euro, the anticipated increases in depreciation expenses as a result of active capital expenditures and expenditures relating to the research and development of environmental technology such as hybrid vehicles and fuel-cell, safety technology and other next-generation technologies are expected to be offsetting factors. In addition, the effects of cost reduction efforts may be influenced by fluctuations in the prices of raw materials. Toyota expects that income before income taxes, minority interest and equity in earnings of affiliated companies and net income will decrease slightly in fiscal 2007 due to the posting of a ¥143.3 billion gain on exchange of marketable securities in fiscal 2006 that will not recur in fiscal 2007. Exchange rate fluctuations can also materially affect Toyota's operating results. In particular, a strengthening of the Japanese yen against the U.S. dollar can have a material adverse effect on Toyota's operating results. Please see Operating and Financial Review and Prospects Operating Results Overview Currency Fluctuation .

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## **Table of Contents**

The foregoing statements are forward-looking statements based upon Toyota's management's assumptions and beliefs regarding economic conditions and market demand for Toyota's products. Please see "Cautionary Statement with Respect to Forward-Looking Statements". Toyota's actual results of operations could vary significantly from those described above as a result of unanticipated changes in the factors described above or other factors, including those described "Risk Factors".

### **5.B LIQUIDITY AND CAPITAL RESOURCES**

Historically, Toyota has funded its capital expenditures and research and development activities primarily through cash generated by operations.

Toyota expects to sufficiently fund its capital expenditures and research and development activities in fiscal 2007 primarily through cash and cash equivalents on hand and increases in cash and cash equivalents from operating activities. See "Information on the Company" Business Overview "Capital Expenditures and Divestitures" for information regarding Toyota's material capital expenditures and divestitures for fiscal 2004, 2005 and 2006 and information concerning Toyota's principal capital expenditures and divestitures currently in progress.

Toyota funds its financing programs for customers and dealers, including loans and leasing programs, from both operating cash flows and borrowings by its finance subsidiaries. Toyota seeks to expand its ability to raise funds locally in markets throughout the world by expanding its network of finance subsidiaries.

Net cash provided by operating activities was ¥2,515.4 billion for fiscal 2006, compared with ¥2,370.9 billion for the prior year. The increase in net cash provided by operating activities resulted primarily from increased operating cash flows attributed to the increase of net income.

Net cash used in investing activities was ¥3,375.5 billion for fiscal 2006, compared with ¥3,061.1 billion for the prior year. The increase in net cash used in investing activities resulted primarily from the increase in additions to finance receivables and the increase in additions to fixed assets including equipment leased to others, which was partially offset by an increase in the collection of finance receivables.

Net cash provided by financing activities was ¥876.9 billion for fiscal 2006, compared with ¥419.3 billion for the prior year. The increase in net cash provided by financing activities resulted primarily from an increase in short-term debt and a decrease in repurchasing shares of common stock of Toyota Motor Corporation.

Total capital expenditures for property, plant and equipment, excluding vehicles and equipment on operating leases, were ¥1,523.4 billion during fiscal 2006, an increase of 42.6% over the ¥1,068.2 billion in total capital expenditures for the prior year. The increase in capital expenditures resulted primarily from the impact of increased capital expenditures in domestic subsidiaries and subsidiaries in North America for expansion of production capability.

Total expenditures for vehicles and equipment on operating leases were ¥1,247.7 billion during fiscal 2006, an increase of 45.9% over the ¥854.9 billion in expenditures in the prior year. The increase in expenditures for vehicles and equipment on operating leases resulted primarily from increased operating lease assets in finance subsidiaries in North America and Europe.

Toyota expects investments in property, plant and equipment, excluding vehicles and equipment on operating leases, to approximately ¥1,550.0 billion during fiscal 2007. Toyota's expected capital expenditures include approximately ¥850.0 billion in Japan, ¥330.0 billion in North America, ¥130.0 billion in Europe, ¥135.0 billion in Asia and ¥105.0 billion in Other, respectively.

Based on currently available information, Toyota does not expect environmental matters to have a material impact on its financial position, results of operations, liquidity or cash flows during fiscal 2007. However, there



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**Table of Contents**

exists a substantial amount of uncertainty with respect to Toyota's obligations under current and future environment regulations as described in Information on the Company Business Overview Governmental Regulations, Environment and Safety Standards .

Cash and cash equivalents were ¥1,569.3 billion at March 31, 2006. Most of Toyota's cash and cash equivalents are held in Japanese yen and in U.S. dollars. In addition, time deposits were ¥50.3 billion and marketable securities were ¥634.8 billion at March 31, 2006.

Liquid assets, which Toyota defines as cash and cash equivalents, time deposits, marketable debt securities and its investment in monetary trust funds, increased during fiscal 2006 by ¥286.8 billion, or 7.5%, to ¥4,096.8 billion.

Trade accounts and notes receivable, net increased during fiscal 2006 by ¥166.9 billion, or 9.2%, to ¥1,980.6 billion, reflecting the impact of increased revenues and the impact of fluctuations in foreign currency translation rates.

Inventories increased during fiscal 2006 by ¥314.2 billion, or 24.1%, to ¥1,620.9 billion, reflecting the impact of increased volumes and the impact of fluctuations in foreign currency translation rates.

Total finance receivables, net increased during fiscal 2006 by ¥1,340.5 billion, or 19.2%, to ¥8,327.5 billion. The increase in finance receivables resulted from the increase in retail financings due to the increase in vehicle unit sales and the increase in wholesale and other dealer loans, including real estate loans and working capital financing provided to dealers. These increases were partially offset by the decrease in finance leases. As of March 31, 2006, finance receivables were geographically distributed as follows: 65.1% in North America 14.3%, in Japan, 9.7% in Europe, 2.9% in Asia and 8.0% in Other. Toyota maintains programs to sell finance receivables through special purpose entities and obtained proceeds from securitization transactions, net of purchased and retained interests totaling ¥88.6 billion during fiscal 2006.

Marketable securities and other securities investments, including those included in current assets, increased during fiscal 2006 by ¥790.2 billion, or 24.3%, to ¥4,037.4 billion, primarily reflecting the increase of U.S. treasury notes held by a subsidiary in North America and Japanese government bonds held by the parent company and the improvement in the Japanese stock market.

Property, plant and equipment increased during fiscal 2006 by ¥1,271.0 billion, or 21.9%, reflecting an increase in capital expenditures and the impact of fluctuations in foreign currency translation rates, which was partially offset by the depreciation charges during the year.

Accounts payable increased during fiscal 2006 by ¥229.7 billion, or 12.4%, reflecting the increased volumes of transactions and the impact of fluctuations in foreign currency translation rates.

Accrued expenses increased during fiscal 2006 by ¥174.8 billion, or 13.6%, reflecting the increase in expenses due to the expansion of the business.

Income taxes payable increased during fiscal 2006 by ¥54.6 billion, or 18.7%, principally as a result of the increase in taxable income in parent company and in subsidiaries.

Toyota's total borrowings increased during fiscal 2006 by ¥1,849.7 billion, or 21.6%. Toyota's short-term borrowings consist of loans with a weighted-average interest rate of 2.20% and commercial paper with a weighted-average interest rate of 3.32%. Short-term borrowings increased during fiscal 2006 by ¥651.2 billion, or 27.3%, to ¥3,033.0 billion. Toyota's long-term debt consists of unsecured and secured loans, medium-term notes, unsecured notes and long-term capital lease obligations with interest rates ranging from 0.01% to 20.00%, and maturity dates ranging from 2006 to 2035. The current portion of long-term debt increased during fiscal 2006

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**Table of Contents**

by ¥572.9 billion, or 49.8%, to ¥1,723.8 billion and the non-current portion increased by ¥625.6 billion, or 12.5%, to ¥5,640.5 billion. The increase in total borrowings reflects the expansion of the financial services operations and the impact of fluctuations in foreign currency translation rates. At March 31, 2006, approximately 39% of long-term debt was denominated in U.S. dollars, 26% in Japanese yen, 13% in euros and 22% in other currencies. Toyota hedges fixed rate exposure by entering into interest rate swaps. There are no material seasonal variations in Toyota's borrowings requirements.

As of March 31, 2006, Toyota's total interest bearing debt was 98.5% of total shareholders' equity, compared to 94.5% as of March 31, 2005.

Toyota's long-term debt was rated AAA by Standard & Poor's Ratings Group, Aaa by Moody's Investors Services and AAA by Rating and Investment Information, Inc. as of March 31, 2006. These ratings represent the highest long-term debt ratings published by each of the respective rating agencies. A credit rating is not a recommendation to buy, sell or hold securities. A credit rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.

Toyota's treasury policy is to maintain controls on all exposures, to adhere to stringent counterparty credit standards, and to actively monitor marketplace exposures. Toyota centralized, and is pursuing global efficiency of, its financial services operations through Toyota Financial Services Corporation.

The key element of Toyota's financial policy is maintaining a strong financial position that will allow Toyota to fund its research and development initiatives, capital expenditures and financing operations on a cost effective basis even if earnings experience short-term fluctuations. Toyota believes that it maintains sufficient liquidity for its present requirements and that by maintaining its high credit ratings, it will continue to be able to access funds from external sources in large amounts and at relatively low costs. Toyota's ability to maintain its high credit ratings is subject to a number of factors, some of which are not within Toyota's control. These factors include general economic conditions in Japan and the other major markets in which Toyota does business, as well as Toyota's successful implementation of its business strategy.

Toyota's unfunded pension liabilities decreased during fiscal 2006 by ¥209.3 billion, or 40.6% to ¥306.7 billion. The unfunded pension liabilities relate primarily to the parent company and its Japanese subsidiaries. The unfunded amounts will be funded through future cash contributions by Toyota or in some cases will be funded on the retirement date of each covered employee. The unfunded pension liabilities decreased in fiscal 2006 compared to the prior year mainly due to the increase in the market value of assets of the plans. See note 19 to the consolidated financial statements.

**5.C RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

Toyota's research and development activities focus on the environment, vehicle safety, information technology and product development.

Toyota's environmental research and development activities focus on:

Developing light weight and more fuel-efficient engines and transmissions. These technologies include the direct injection four-stroke gasoline engine, the nitrous oxide storage reduction catalytic system and the common rail direct injection diesel engine.

Developing alternative fuel powering systems for commercial sale. This includes developing hybrid vehicles and fuel-cell vehicles. The second-generation Prius that Toyota introduced in September 2003 features a new hybrid system which decreases negative environmental impact while increasing power and performance. In June 2005, Toyota's new fuel cell hybrid passenger vehicle became the first vehicle in Japan to acquire vehicle type certification under the Road Vehicles Act, as amended on March 31,

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**Table of Contents**

2005, by Japan's Ministry of Land, Infrastructure and Transport (MLIT). Other Toyota efforts in this area include the development of vehicles fueled by compressed natural gas and other alternative fuel vehicles.

Recycling of vehicle parts through the development of recycling technologies. Work in this area includes developing uses for shredder residue, the recycling of nickel-metal hydride batteries and the development of vehicles constructed with a high proportion of recyclable parts.

Toyota's work in the area of vehicle safety is focused on the development of technologies designed to prevent accidents in the first instance, as well as the development of technologies that protect passengers and reduce the damage on impact in the event of an accident. Safety technologies in development include:

research on protecting diverse passengers, including senior citizens,

autonomous driving support systems, including frontal crash-prevention support systems, and

data exchange driving-support systems using advanced communication technologies.

To expand the frontiers of safety technology in automobiles, Toyota completed in 1995 its first prototype Advanced Safety Vehicle, the ASV-1. In 2000, Toyota created a successor prototype, the ASV-2. The ASV-2 incorporates emerging technologies, such as an autonomous safety support system that uses CCD stereo cameras to recognize obstacles in traffic lanes and an infrastructure-harmonized safety support system to warn the driver of pedestrian crossings. In 2002, Toyota conducted road testing of the ASV-3, a prototype based on further improved infrastructure-harmonized system. With the February 2003 introduction of the Harrier models in Japan, Toyota became the first car manufacturer to implement a pre-crash safety system in its automobiles. This advanced system consists of pre-crash sensors that use millimeter wave radar to detect a possible collision, seat belts that tighten their hold on passengers when a collision is determined to be inevitable and a brake assist system that utilizes power-assisted braking to minimize the speed on impact. In February 2004, Toyota introduced the pre-crash safety system for the first time in the United States by equipping the LS430 with the above features and suspension control features that control nose dives when applying the brakes. Toyota plans to further continue its focus on developing practical applications for its advanced safety technologies.

Toyota's product development program uses a series of methods which are generally intended to promote timely and appropriate responses to changing market demand. These methods include:

reducing the number of vehicle platforms,

sharing parts and components among multiple vehicles,

shortening the time for development and production preparation by the simultaneous study of design and production engineering processes, and

using computers for production design and its evaluation.

In September 2002, Toyota and Nissan Motor Co. entered into an agreement setting forth the basic terms of technical cooperation and other long-term projects involving hybrid systems. This agreement calls for Toyota to supply state-of-the-art hybrid system components to Nissan for 5 years starting from 2006. In addition, with the aim of promoting technical cooperation, both companies agreed to exchange information on hybrid systems that both Toyota and Nissan are currently developing independently, and to discuss the joint development of related components. In March 2004, Toyota and Ford Motor Company announced that they have entered into licensing agreements for patents related to hybrid systems and emissions purification. Pursuant to the agreements, Toyota will license, to Ford Motor Company, patents related to hybrid system control technology. Further, both companies agreed to a cross-licensing arrangement of emission purification technology patents for lean-burn

engines.

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**Table of Contents**

Toyota's research and development expenditures were approximately ¥813 billion in fiscal 2006, ¥755 billion in fiscal 2005 and ¥682 billion in fiscal 2004. Worldwide, approximately 28,000 employees are involved in Toyota's research and development activities.

Toyota does not consider any one group of patents or licenses to be so important that their expiration or termination would materially affect Toyota's business. For a further discussion of Toyota's intellectual property, see [Information on the Company](#) [Business Overview](#) [Intellectual Property](#) .

**5.D TREND INFORMATION**

For a discussion of the trends that affect Toyota's business and operating results, see [Operating Results](#) and [Liquidity and Capital Resources](#) .

**5.E OFF-BALANCE SHEET ARRANGEMENTS**

*Securitization Funding*

Toyota uses its securitization program as part of its funding for its financial services operations. Toyota believes that the securitizations are an important element of its financial services operations as it provides a cost-effective funding source.

Securitization of receivables allows Toyota to access a highly liquid and efficient capital market while providing Toyota with an alternative source of funding and investor diversification. See note 7 to the consolidated financial statements with respect to the impact on the balance sheet, income statement, and cash flows of these securitizations.

Toyota's securitization program involves a two-step transaction. Toyota sells discrete pools of retail finance receivables to a wholly-owned, bankruptcy remote special purpose entity ( SPE ), which in turn transfers the receivables to a qualified special purpose entity ( QSPE or securitization trust ) in exchange for the proceeds from securities issued by the securitization trust. Once the receivables are transferred to the QSPE, the receivables are no longer assets of Toyota and, therefore, no longer appear in Toyota's consolidated balance sheet. These securities are secured by collections on the sold receivables and structured into senior and subordinated classes.

The following flow chart diagrams a typical securitization transaction:

Toyota's use of SPEs in securitizations is consistent with conventional practices in the securitization markets. The sale to the SPE isolates the sold receivables from other creditors of Toyota for the benefit of

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**Table of Contents**

securitization investors and, assuming accounting requirements are satisfied, the sold receivables are accounted for as a sale. While Toyota retains subordinated interests, investors in securitizations have no recourse to Toyota, any cash reserve funds, or any amounts available or funded under the revolving liquidity notes discussed below. Toyota does not guarantee any securities issued by the securitization trust. Each SPE has a limited purpose and may only be used to purchase and sell the receivables. The individual securitization trusts have a limited duration and generally terminate when investors holding the asset-backed securities have been paid all amounts owed to them.

The SPE retains an interest in the securitization trust. The retained interest includes subordinated securities issued by the securitization trust and interest-only strips representing the right to receive any excess interest. The retained interests are subordinated and serve as credit enhancements for the more senior securities issued by the securitization trust. The retained interests are held by the SPE as restricted assets and are not available to satisfy any obligations of Toyota. If forecasted future cash flows result in an other-than-temporary decline in the fair value of the retained interests, then an impairment loss is recognized to the extent that the fair value is less than the carrying amount. Such losses would be included in the consolidated statement of income. These retained interests as well as senior securities purchased by Toyota are reflected in the consolidated balance sheet for accounting purposes.

Various other forms of credit enhancements are provided to reduce the risk of loss for senior classes of securities. These credit enhancements may include the following:

***Cash reserve funds or restricted cash***

A portion of the proceeds from the sale of asset-backed securities may be held by the securitization trust in segregated reserve funds and may be used to pay principal and interest to investors if collections on the sold receivables are insufficient. In the event a trust experiences charge-offs or delinquencies above specified levels, additional excess amounts from collections on receivables held by the securitization trusts will be added to such reserve funds.

***Revolving liquidity notes***

In certain securitization structures, revolving liquidity notes ( RLN ) are used in lieu of deposits to a cash reserve fund. The securitization trust may draw upon the RLN to cover any shortfall in interest and principal payments to investors. Toyota funds any draws, and the terms of the RLN obligate the securitization trust to repay amounts drawn plus accrued interest. Repayments of principal and interest due under the RLN are subordinated to principal and interest payments on the asset-backed securities and, in some circumstances, to deposits into a reserve account. If collections are insufficient to repay amounts outstanding under a RLN, Toyota will recognize a loss for the outstanding amounts. Toyota must fund the entire amount available under the RLN if Toyota's short-term unsecured debt rating is downgraded below P-1 or A-1 by Moody's or S&P, respectively. Management believes the likelihood of Toyota incurring such losses or Toyota's short-term credit rating being downgraded is remote. There were no outstanding amounts drawn on the RLN's at March 31, 2005 and 2006. The RLN had no material fair value as of March 31, 2005 and 2006. Toyota has not recognized a liability for the RLN because it does not expect to be required to fund any amounts under the RLN.

Toyota may enter into a swap agreement with the securitization trust under which the securitization trust is obligated to pay Toyota a fixed rate of interest on payment dates in exchange for receiving amounts equal to the floating rate of interest payable on the asset backed securities. This arrangement enables the securitization trust to issue securities bearing interest on a basis different from that of the receivables held.

Toyota continues to service the sold receivables for a servicing fee. Toyota's servicing duties include collecting payments on receivables and submitting them to the trustee for distribution to the certificate holders.

## **Table of Contents**

While servicing the sold receivables for the securitization trusts, Toyota applies the same servicing policies and procedures that are applied to the owned receivables and maintains a normal relationship with the financing customers.

Other significant provisions relating to securitizations are described below.

### ***Receivable repurchase obligations***

Toyota makes certain representations and warranties to the SPE, and the SPE makes corresponding representations and warranties to the securitization trust, relating to receivables sold in a securitization. Toyota and the SPE may be required to repurchase any receivables in the event of a breach of a representation and warranty relating to the receivable that materially and adversely affects the interest of the SPE, or securitization trust, as applicable. In addition, Toyota, as servicer of the receivables, may be required to repurchase any receivable in the event of a breach of a covenant by the servicer with respect to the receivable that materially and adversely affects the interest of the securitization trust or of an extension or modification of a receivable as to which Toyota, as servicer, does not commit to make advances to fund reductions in interest payments. The repurchase price is generally the outstanding principal balance of the receivable and accrued interest. These provisions are customary for securitization transactions.

### ***Advancing requirements***

As the servicer, Toyota is required to advance certain shortfalls in obligor payments to the securitization trust to the extent it believes the advance will be recovered from future collections of that receivable. Generally, the securitization trust is required to reimburse Toyota for these advances from collections on all receivables before making other required payments. These provisions are customary for securitization transactions.

### ***Lending Commitments***

#### ***Credit facilities with credit card holders***

Toyota's financial services operation issues credit cards to customers. As customary for credit card businesses, Toyota maintains credit facilities with holders of credit cards issued by Toyota. These facilities are used upon each holder's requests up to the limits established on an individual holder basis. Although loans made to customers through this facility are not secured, for the purposes of minimizing credit risks and of appropriately establishing credit limits for each individual credit card holder, Toyota employs its own risk management policy which includes an analysis of information provided by financial institutions in alliance with Toyota. Toyota periodically reviews and revises, as appropriate, these credit limits. Outstanding credit facilities with credit card holders were ¥2,350.8 billion as of March 31, 2006.

#### ***Credit facilities with dealers***

Toyota's financial services operation maintains credit facilities with dealers. These credit facilities may be used for business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements. These loans are typically collateralized with liens on real estate, vehicle inventory, and/or other dealership assets, as appropriate. Toyota obtains a personal guarantee from the dealer or corporate guarantee from the dealership when deemed prudent. Although the loans are typically collateralized or guaranteed, the value of the underlying collateral or guarantees may not be sufficient to cover Toyota's exposure under such agreements. Toyota prices the credit facilities according to the risks assumed in entering into the credit facility. Toyota's financial services operation also provides financing to various multi-franchise dealer organizations, referred to as dealer groups, often as part of a lending consortium, for wholesale inventory financing, business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements. Toyota's outstanding credit facilities with dealers totaled ¥1,334.4 billion as of March 31, 2006.

**Table of Contents****Guarantees**

Toyota enters into certain guarantee contracts with its 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 the maturity of installment payments, and at March 31, 2006 range from one 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 ¥1,236.9 billion. Liabilities for these guarantees of ¥3.3 billion have been provided as of March 31, 2006. Under these guarantee contracts, Toyota is entitled to recover any amounts paid by it from the customers whose obligations it guaranteed.

**5.F TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

For information regarding debt obligations, capital lease obligations, operating leases, and other obligations, including amounts maturing in each of the next five years, see notes 13, 22 and 23 to the consolidated financial statements. In addition, as part of Toyota's normal business practices, Toyota enters into long-term arrangements with suppliers for purchases of certain raw materials, components and services. These arrangements may contain fixed/minimum quantity purchase requirements. Toyota enters into such arrangements to facilitate an adequate supply of these materials and services.

The following tables summarize Toyota's contractual obligations and commercial commitments as of March 31, 2006:

	Total	Yen in millions			
		Less than 1 year	1 to 3 years	3 to 5 years	5 years and after
<b>Contractual Obligations:</b>					
Short-term borrowings (note 13)					
Loans	¥ 986,128	¥ 986,128			
Commercial paper	2,046,891	2,046,891			
Long-term debt * (note 13)	7,306,037	1,709,231	¥ 3,161,232	¥ 1,434,838	¥ 1,000,736
Capital lease obligations (note 13)	58,341	14,657	17,402	25,736	546
Non-cancelable operating lease obligations (note 22)	51,495	9,740	13,565	9,101	19,089
Commitments for the purchase of property, plant and other assets (note 23)	103,324	97,152	6,172		
<b>Total</b>	<b>¥ 10,552,216</b>	<b>¥ 4,863,799</b>	<b>¥ 3,198,371</b>	<b>¥ 1,469,675</b>	<b>¥ 1,020,371</b>

\* Long-term debt represents future principal payments.



**Table of Contents**

Toyota expects to contribute ¥98,561 million to its pension plans in during fiscal 2007.

	Yen in millions				
	Amount of Commitment Expiration				
	Total Amounts Committed	Less than 1 year	Per Period		5 years and after
			1 to 3 years	3 to 5 years	
<b>Commercial Commitments:</b>					
Maximum potential exposure to guarantees given in the ordinary course of business (note 23)	¥ 1,236,977	¥ 380,152	¥ 587,137	¥ 223,862	¥ 45,826
<b>Total Commercial Commitments</b>	<b>¥ 1,236,977</b>	<b>¥ 380,152</b>	<b>¥ 587,137</b>	<b>¥ 223,862</b>	<b>¥ 45,826</b>

**5.G SAFE HARBOR**

All information that is not historical in nature disclosed under Item 5. Operating and Financial Review and Prospects Off-Balance Sheet Arrangements and Tabular Disclosure of Contractual Obligations is deemed to be a forward-looking statement. See Cautionary Statement with Respect to Forward-Looking Statements for additional information.

**Table of Contents****ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.A DIRECTORS AND SENIOR MANAGEMENT**

In June 2003, Toyota implemented a comprehensive reorganization of its senior management structure. As part of this reorganization, Toyota introduced a streamlined board of directors and established the new position of non-board managing officer. At the June 2006 Ordinary General Shareholders Meeting, 26 directors were appointed to serve on the board of directors. Senior Managing Directors not only serve as members of the board to participate in the management of Toyota but also serve as the highest authorities in their respective areas of supervision and oversee the daily operations of specific fields/divisions in conjunction with non-board managing officers. This allows Senior Managing Directors to serve as a conduit between management and daily operations. The 49 non-board managing officers generally have responsibility for Toyota's daily operations in specific fields/divisions and report to the designated Senior Managing Director, and are appointed for one-year terms. Toyota believes that this new management system has enhanced its global competitiveness by promoting timely, hands-on decision-making for day-to-day operational matters. Toyota has seven corporate auditors, four of whom are outside corporate auditors.

<u>Name</u>	<u>Age</u>	<u>Title</u>	<u>Date First Elected to Board or as Auditor</u>
Fujio Cho	69	Chairman of the Board	September 1988
Katsuhiro Nakagawa	64	Vice Chairman of the Board	June 2001
Katsuaki Watanabe	64	President, Member of the Board	September 1992
Tokuichi Uranishi	64	Executive Vice President, Member of the Board	June 1996
Kazuo Okamoto	62	Executive Vice President, Member of the Board	June 1996
Kyoji Sasazu	62	Executive Vice President, Member of the Board	June 1997
Mitsuo Kinoshita	60	Executive Vice President, Member of the Board	June 1997
Yoshimi Inaba	60	Executive Vice President, Member of the Board	June 1997
Takeshi Uchiyamada	59	Executive Vice President, Member of the Board	June 1998
Masatami Takimoto	60	Executive Vice President, Member of the Board	June 1999
Akio Toyoda	50	Executive Vice President, Member of the Board	June 2000
Tetsuo Hattori	59	Senior Managing Director, Member of the Board	June 1999
Yukitoshi Funo	59	Senior Managing Director, Member of the Board	June 2000
Takeshi Suzuki	58	Senior Managing Director, Member of the Board	June 2000
Atsushi Niimi	58	Senior Managing Director, Member of the Board	June 2000
Hajime Wakayama	60	Senior Managing Director, Member of the Board	June 2001
Hiroshi Takada	59	Senior Managing Director, Member of the Board	June 2001
Teiji Tachibana	59	Senior Managing Director, Member of the Board	June 2001
Shinichi Sasaki	59	Senior Managing Director, Member of the Board	June 2001
Shin Kanada	58	Senior Managing Director, Member of the Board	June 2001
Akira Okabe	58	Senior Managing Director, Member of the Board	June 2001
Yoshio Shirai	58	Senior Managing Director, Member of the Board	June 2001
Yoichiro Ichimaru	57	Senior Managing Director, Member of the Board	June 2001
Shoji Ikawa	56	Senior Managing Director, Member of the Board	June 2001
Shoichiro Toyoda	81	Honorary Chairman, Member of the Board	July 1952
Hiroshi Okuda	73	Senior Advisor, Member of the Board	July 1982
Hideaki Miyahara	63	Corporate Auditor	June 2000
Chiaki Yamaguchi	56	Corporate Auditor	June 2003
Masaki Nakatsugawa	53	Corporate Auditor	June 2006
Yasutaka Okamura	77	Corporate Auditor	June 1997
Yoichi Kaya	72	Corporate Auditor	June 2003
Yoichi Morishita	72	Corporate Auditor	June 2006
Akishige Okada	68	Corporate Auditor	June 2006

The term of each director listed above expires in June 2007.

## Table of Contents

### **Biographies**

**Fujio Cho** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1988 and has served as the Chairman of the Board since 2006. Mr. Cho served as the Vice Chairman of the Board from 2005 to 2006, the President, Member of the Board of Toyota from 1999 to 2005, an Executive Vice President, Member of the Board from 1998 to 1999, and as the President of Toyota Motor Manufacturing, U.S.A., Inc. from 1988 to 1994. Mr. Cho also serves as a Director of Aioi Insurance Co., Ltd. and a Director of Central Japan Railway Company and Sony Corporation. Mr. Cho joined Toyota in 1960.

**Katsuhiro Nakagawa** was appointed as a Managing Director, Member of the Board of Toyota Motor Corporation in 2001 and has served as the Vice Chairman of the Board since 2004. Mr. Nakagawa served as an Executive Vice President, Member of the Board between 2003 and 2004. Mr. Nakagawa served as the Executive Advisor of The Tokio Marine and Fire Insurance Co., Ltd. between 1998 and 2001. Mr. Nakagawa was the Vice Minister for International Affairs at the former Japanese Ministry of International Trade and Industry before joining The Tokio Marine and Fire Insurance Co., Ltd. Mr. Nakagawa joined Toyota in 2001.

**Katsuaki Watanabe** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1992 and has served as the President, Member of the Board since 2005 and an Executive Vice President, Member of the Board from 2001 to 2005. Mr. Watanabe also serves as a Director of Mitsubishi UFJ Securities Co., Ltd. Mr. Watanabe joined Toyota in 1964.

**Tokuichi Uranishi** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1996 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Uranishi has also served as the Chairman of Toyota Motor Europe S.A./N.V. since 2005. Mr. Uranishi joined Toyota in 1966.

**Kazuo Okamoto** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1996 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Okamoto also serves as a Director of Toyota Boshoku Corporation. Mr. Okamoto joined Toyota in 1967.

**Kyoji Sasazu** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1997 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Sasazu joined Toyota in 1967.

**Mitsuo Kinoshita** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1997 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Kinoshita has also served as a Vice Chairman of the Board of Gamagori Marine Development Co. Ltd. Mr. Kinoshita joined Toyota in 1968.

**Yoshimi Inaba** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1997 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Inaba also serves as the Chairman of Guangqi Toyota Engine Co., Ltd. Mr. Inaba served as the President of Toyota Motor Sales, U.S.A., Inc. between 1999 and 2003. Mr. Inaba joined Toyota in 1968.

**Takeshi Uchiyamada** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1998 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Uchiyamada also serves as a Director of JTEKT Corporation. Mr. Uchiyamada also serves as the Chairman of Toyota Motor Technical Center (China) Co., Ltd. Mr. Uchiyamada joined Toyota in 1969.

**Masatami Takimoto** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1999 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Takimoto joined Toyota in 1970.

**Table of Contents**

**Akio Toyoda** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 2000 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Toyoda also serves as the Chairman of Toyota FAW (Tianjin) Dies Co., Ltd and as a Director of New United Motor Manufacturing, Inc. Mr. Toyoda joined Toyota in 1984.

**Tetsuo Hattori** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2004. Mr. Hattori has also served as the Chief Vehicle Engineering Officer of Toyota since 2004. Mr. Hattori served as a Director, Member of the Board from 1999 to 2003 and as a Managing Officer from 2003 to 2004. Mr. Hattori joined Toyota in 1971.

**Yukitoshi Funo** has served as a Senior Managing Director, Member of the Board since 2005. Mr. Funo has also served as the Chairman of the Board of Toyota Motor Sales, U.S.A., Inc. since 2005 and as the President from 2003 to 2005. Mr. Funo served as a Director, Member of the Board from 2000 to 2003, as a Managing Officer from 2003 to 2004 and as a Director from 2004 to 2005. Mr. Funo joined Toyota in 1970.

**Takeshi Suzuki** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2004. Mr. Suzuki has also served as the Chief Accounting Officer since 2004 and as the Chief Business Development Officer since 2006. Mr. Suzuki served as a Director, Member of the Board from 2000 to 2003 and as a Managing Officer from 2003 to 2004. Mr. Suzuki joined Toyota in 1970.

**Atsushi Niimi** has served as a Senior Managing Director, Member of the Board since 2005. Mr. Niimi has served as the Chief Strategic Production Planning Officer since 2006 and as the Chief Manufacturing Officer since 2005. Mr. Niimi has also served as the Chairman of the Board of Toyota Motor Engineering & Manufacturing, Inc. since 2006. Mr. Niimi served as a Director, Member of the Board from 2000 to 2003, as a Managing Officer from 2003 to 2004 and as a Director from 2004 to 2005. Mr. Niimi joined Toyota in 1971.

**Hajime Wakayama** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Wakayama has also served as the Chief Purchasing Officer since 2005. Mr. Wakayama served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Wakayama joined Toyota in 1969.

**Hiroshi Takada** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Takada has also served as the Chief Global Planning Operation Officer since 2006. Mr. Takada served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Takada joined Toyota in 1969.

**Teiji Tachibana** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Tachibana has also served as the Chief Government and Public Affairs Officer since 2006 and as the Chief Housing (Housing Company) Officer since 2005. Mr. Tachibana served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Tachibana joined Toyota in 1969.

**Shinichi Sasaki** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Sasaki has also served as the President of Toyota Motor Europe S.A./N.V. since 2005. Mr. Sasaki served as a Director, Member of the Board from 2000 to 2003 and as a Managing Officer from 2003 to 2004. Mr. Sasaki has also served as the Chief Quality Group Officer. Mr. Sasaki joined Toyota in 1970.

**Shin Kanada** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Kanada has also served as the Chief Information System Officer since 2006. Mr. Kanada served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Kanada joined Toyota in 1970.

## Table of Contents

**Akira Okabe** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Okabe has also served as the Chief Asia, Oceania & Middle East Operations Officer since 2005. Mr. Okabe served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Okabe joined Toyota in 1971.

**Yoshio Shirai** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Shirai has also served as the Chief Product Development Officer since 2005. Mr. Shirai served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Shirai joined Toyota in 1973.

**Yoichiro Ichimaru** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Ichimaru has also served as the Chief Domestic Sales Operations Officer and as the Chief Customer Service Operations Officer since 2005. Mr. Ichimaru served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Ichimaru joined Toyota in 1971.

**Shoji Ikawa** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Suzuki has also served as the Chief Production Engineering Officer since 2005. Mr. Ikawa served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Ikawa joined Toyota in 1975.

**Shoichiro Toyoda** has served as a Director, Member of the Board of Toyota Motor Corporation since 1952. Dr. Toyoda is currently the Honorary Chairman of the Board of Toyota Motor Corporation. Dr. Toyoda joined Toyota in 1952.

**Hiroshi Okuda** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1982 and has served as the Senior Advisor, Member of the Board since 2006. Mr. Okuda served as the President, Member of the Board of Toyota from 1995 to 1999 and as Chairman of the Board from 1999 to 2006. Mr. Okuda also serves as a Director of KDDI Corporation. Mr. Okuda joined Toyota in 1955.

**Hideaki Miyahara** has served as a Corporate Auditor of Toyota Motor Corporation since 2000. Mr. Miyahara served as a Director, Member of the Board of Toyota from 1996 to 1999 and as a Managing Director, Member of the Board from 1999 to 2000. Mr. Miyahara joined Toyota in 1965.

**Chiaki Yamaguchi** has served as a Corporate Auditor of Toyota Motor Corporation since 2003. Mr. Yamaguchi also served as the Senior Managing Director of Toyota Finance Corporation from 2001 to 2003. Mr. Yamaguchi joined Toyota in 1972.

**Masaki Nakatsugawa** has served as a Corporate Auditor of Toyota Motor Corporation since 2006. Mr. Nakatsugawa also served as the General Manager of Toyota's Accounting Division from 2004 to 2006. Mr. Nakatsugawa joined Toyota in 1976.

**Yasutaka Okamura** has served as a Corporate Auditor of Toyota Motor Corporation since 1997. Mr. Okamura is the President of International Civil and Commercial Law Centre Foundation. Mr. Okamura has been registered as a practicing lawyer since 1994.

**Yoichi Kaya** has served as a Corporate Auditor of Toyota Motor Corporation since 2003. Mr. Kaya is the Assistant Director of the Research Institute of Innovative Technology for the Earth.

**Yoichi Morishita** has served as a Corporate Auditor of Toyota Motor Corporation since 2006. Mr. Morishita is the Chairman of the Board of Directors of Matsushita Electric Industrial Co., Ltd.

## **Table of Contents**

**Akishige Okada** has served as a Corporate Auditor of Toyota Motor Corporation since 2006. Mr. Okada is the Advisor of Sumitomo Mitsui Banking Corporation.

Akio Toyoda is Shoichiro Toyoda's son. There are no other family relationships among directors and corporate auditors.

None of the persons listed above was selected as a director, corporate auditor or member of senior management pursuant to an arrangement or understanding with Toyota's major shareholders, customers, suppliers or others.

## **6.B COMPENSATION**

The aggregate amount of remuneration, including bonuses but excluding stock options, paid to all directors and corporate auditors as a group by Toyota for services in all capacities during fiscal 2006 was approximately ¥2,024 million. Directors and corporate auditors of Toyota Motor Corporation receive year-end bonuses, the aggregate amount of which is approved at Toyota Motor Corporation's Ordinary General Shareholders Meeting and is based on Toyota Motor Corporation's financial performance for the fiscal year. The amounts of the bonuses paid to individual directors and corporate auditors are then determined based upon discussions at a meeting of Toyota Motor Corporation's board of directors and the meeting of corporate auditors.

Toyota Motor Corporation also granted to its directors 4,550 stock acquisition rights to purchase up to 455,000 shares of common stock during fiscal 2006 under its stock option plan. For a detailed description of the stock options and the stock option plan, see "Share Ownership".

In April 2006, the board of directors of Toyota Motor Corporation decided to abolish the retirement allowance payments for directors and proposed that decision to the Ordinary General Shareholders Meeting. The proposal was subsequently resolved by the Ordinary General Shareholders Meeting in June 2006. The last lump sum retirement allowance was approved at the Ordinary General Shareholders Meeting in June 2006. At the same time, the amount of Directors' remuneration was revised from ¥130 million or less per month to ¥200 million or less per month by the resolution of the Ordinary General Shareholders meeting in June 2006.

During fiscal 2006, Toyota paid retirement allowances aggregating approximately ¥2,850 million to retiring directors and corporate auditors.

## **6.C BOARD PRACTICES**

Toyota's articles of incorporation provide for a board of directors of not more than 30 members and for not more than seven corporate auditors. Shareholders elect the directors and corporate auditors at general shareholders meeting. The normal term of office of a director is one year and of a corporate auditor is four years. Directors and corporate auditors may serve any number of consecutive terms.

The board of directors may elect one Chairman of the Board, one President and one or more Vice Chairmen of the Board, Executive Vice Presidents and Senior Managing Directors. The board of directors elects, pursuant to its resolutions, one or more Representative Directors. Each Representative Director represents Toyota generally in the conduct of its affairs. The board of directors has the ultimate responsibility for the administration of Toyota's affairs. None of Toyota's directors is party to a service contract with Toyota or any of its subsidiaries that provides for benefits upon termination of employment.

Under Japan's Corporation Act (the Corporation Act) and Toyota's articles of incorporation, Toyota may, by a resolution of its board of directors, exempt Directors (including former Directors) from their liabilities to Toyota arising in connection with their failure to execute their duties within the limits stipulated by laws and regulations.

## Table of Contents

Under Corporation Act, Toyota must have at least three corporate auditors. At least half of the corporate auditors will be required to be persons who have not been a Director, accounting counselor (in case that an accounting counselor is a judicial person, a member of such judicial person), executive officer, general manager or employee of Toyota or any of its subsidiaries at any time during the past. The corporate auditors may not at the same time be directors, accounting counselor (in case that an accounting counselor is a judicial person, a member of such judicial person), executive officers, general managers or employees of Toyota or any of its subsidiaries. Together, these corporate auditors form a board of corporate auditors. The corporate auditors have the duty to examine the financial statements and business reports which are submitted by the board of directors to the general shareholders meeting. The corporate auditors also supervise the administration of Toyota's affairs by the directors. Corporate auditors are not required to be, and Toyota's corporate auditors are not, certified public accountants. They are required to participate in meetings of the board of directors but are not entitled to vote.

Under the Corporation Act and Toyota's articles of incorporation, Toyota may, by a resolution of its board of directors, exempt corporate auditors (including former corporate auditors) from their liabilities to Toyota arising in connection with their failure to execute their duties within the limits stipulated by laws and regulations. In addition, Toyota may enter into a liability limitation agreement with each outside corporate auditor which limits the maximum amount of their liabilities owed to Toyota arising in connection with their failure to execute their duties to an amount equal to the minimum liability limit amount prescribed in the laws and regulations.

Toyota does not have a remuneration committee.

### **Significant Differences in Corporate Governance Practices between Toyota and U.S. Companies Listed on the NYSE**

Pursuant to home country practices exemptions granted by the New York Stock Exchange (the NYSE), Toyota is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE's listing standards. The Securities and Exchange Commission (the SEC) approved changes to the NYSE's listing standards related to corporate governance practices of listed companies (the NYSE Corporate Governance Rules) in November 2003, as further amended in November 2004. Toyota is exempt from the approved changes, except for requirements that (a) Toyota's board of corporate auditors satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), (b) Toyota must disclose significant differences in its corporate governance practices as compared to those followed by domestic companies under the NYSE listing standards, (c) Toyota's principal executive officer must notify the NYSE of material non-compliance with (a) and (b), and (d) Toyota must submit annual and interim written affirmations to the NYSE. Toyota's corporate governance practices and those followed by domestic companies under the NYSE Corporate Governance Rules have the following significant differences:

**1. Directors.** Toyota currently does not have any directors who will be deemed as an independent director as required under the NYSE Corporate Governance Rules for U.S. listed companies. Unlike the NYSE Corporate Governance Rules, the Corporation Act does not require Japanese companies with a board of corporate auditors such as Toyota to have any independent directors on its board of directors. While the NYSE Corporate Governance Rules require that the non-management directors of each listed company meet at regularly scheduled executive sessions without management, Toyota currently has no non-management director on its board of directors. Unlike the NYSE Corporate Governance Rules, the Corporation Act does not require, and accordingly Toyota does not have, an internal corporate organ or committee comprised solely of independent directors.

**2. Committees.** Under the Corporation Act, Toyota has elected to structure its corporate governance system as a company with corporate auditors, who are under a statutory duty to monitor, review and report on the management of the affairs of Toyota. Toyota, as with other Japanese companies with a board of corporate auditors, but unlike U.S. listed companies subject to the NYSE Corporate Governance Rules, does not have specified committees, including those that are responsible for director nomination, corporate governance and executive compensation.

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## **Table of Contents**

Pursuant to the Corporation Act, Toyota's board of directors nominates and submits a proposal for the appointment of directors for shareholder approval. The shareholders vote on such nomination at the general shareholders' meeting. The Corporation Act requires that the respective limits or calculation formula, and kind (in case that the remuneration, bonus and any other benefits in compensation for the execution of duties (remuneration, etc.) are to be paid in other than cash) of remuneration, etc. to be paid to directors, and limits of remuneration, etc. to be paid to corporate auditors, must be determined by a resolution of the general shareholders' meeting, unless their remuneration, etc. is provided for in the Articles of Incorporation. The distribution of remuneration, etc. among each director is broadly delegated to the board of directors and the distribution of remuneration among each corporate auditor is determined by consultation among the corporate auditors.

**3. Audit Committee.** Toyota plans to avail itself of paragraph (c)(3) of Rule 10A-3 of the Exchange Act, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of corporate auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

Pursuant to the requirements of the Corporation Act, Toyota elects its corporate auditors through a resolution adopted at a general shareholders meeting. Toyota currently has seven corporate auditors, which exceeds the minimum number of corporate auditors required pursuant to the Corporation Act.

Unlike the NYSE Corporate Governance Rules, the Corporation Act, among others, do not require corporate auditors to establish an expertise in accounting nor are they required to present other special knowledge and experience. Under the Corporation Act, the board of corporate auditors may determine the auditing policies and methods of investigating the conditions of Toyota's business and assets, and may resolve other matters concerning the execution of the corporate auditor's duties. The board of corporate auditors also prepares auditors' reports and gives consent to proposals of the nomination of corporate auditors and accounting auditors.

Toyota currently has four outside corporate auditors under the Corporation Act. Under the Corporation Act, at least half of the corporate auditors of Toyota must be outside corporate auditors, which is such person who was not a director, accounting counselor (in case that an accounting counselor is a judicial person, a member of such judicial person), executive officer, manager, or employee of Toyota or its subsidiaries at any time during the past. Such qualifications for an outside corporate auditor are different from the audit committee independence requirement under the NYSE Corporate Governance Rules.

**4. Corporate Governance Guidelines.** Unlike the NYSE Corporate Governance Rules, Toyota is not required to adopt corporate governance guidelines under Japanese laws and regulations, including the Corporation Act and the Securities and Exchange Law of Japan or stock exchange rules. However, Toyota is required to resolve the matters at the board of directors concerning provision of the system to ensure the execution of duties of the directors to comply with the laws, regulations and the articles of incorporation, and any other systems to ensure the adequacy of the business required under the ordinance of the Ministry of Justice (internal control system or *Naibu-tosei*), and to disclose such matters resolved, policies and the present status of its corporate governance in its business reports, annual securities report and certain other disclosure documents in accordance with the regulations under the Japanese Securities and Exchange Law and stock exchange rules in respect of timely disclosure.

**5. Code of Business Conduct and Ethics.** Unlike the NYSE Corporate Governance Rules, under Japanese laws and regulations including the Corporation Act and the Securities and Exchange Law of Japan, or stock exchange rules, Toyota is not required to adopt a code of business conduct and ethics for directors, officers and employees. Accordingly, Toyota is not required to adopt and disclose waivers of the code of business conduct and ethics for these individuals. However, Toyota resolved the matters concerning provision of the system to ensure the execution of duties of the employees to comply with the laws, regulations and the articles of incorporation, etc. as internal control system or *Naibu-tosei* pursuant to the Corporation Act, maintains guidelines and internal regulations such as Guiding Principles at Toyota, Toyota Code of Conduct and a code



**Table of Contents**

of ethics pursuant to Section 406 of the Sarbanes-Oxley Act. Please see Code of Ethics for additional information.

**6. Shareholder Approval of Equity Compensation Plans.** Unlike the NYSE Corporate Governance Rules, under which material revisions to equity-compensation plans of listed companies are subject to shareholder approval, pursuant to the Corporation Act, generally, the adoption equity compensation plans for directors is required to be approved by a majority of shareholders at the general shareholders meeting as the remuneration, etc. in other than cash. In addition to such approval, if Toyota desires to adopt an equity-compensation plan under which stock acquisition rights are granted on specially favorable terms to the recipient (except where such rights are granted to all of its shareholders on a pro-rata basis at the same time), then Toyota obtains approval by super-majority (as defined in the Corporation Act) at the Ordinary General Shareholders Meeting. Such approval is applicable only to stock acquisition rights to be granted within one year from the date of the approval.

**6.D EMPLOYEES**

The total number of Toyota employees, on a consolidated basis, as reported in Toyota's annual Japanese securities report filed with the director of the Kanto Local Finance Bureau was 285,977 at March 31, 2006, 265,753 at March 31, 2005 and 264,410 at March 31, 2004. The following tables set forth a breakdown of persons employed by business segment and by geographic location at March 31, 2006.

<b>Segment</b>	<b>Number of Employees</b>	<b>Location</b>	<b>Number of Employees</b>
Automotive	250,136	Japan	178,214
Financial services	6,975	North America	33,548
All other	23,614	Europe	20,943
Unallocated	5,252	Asia	31,488
		Other	21,784
Total company	285,977	Total company	285,977

As a result of Toyota's business plan to further localize its global operations, the number of Toyota's employees in the countries in which Toyota operates has generally been growing over the last several years.

Most regular employees of Toyota Motor Corporation and its consolidated subsidiaries in Japan, other than management, are required to become members of the labor unions that comprise the FEDERATION OF ALL TOYOTA WORKERS UNIONS. Approximately 88% of Toyota Motor Corporation's regular employees in Japan are members of this union.

In Japan, basic wages and other working conditions are negotiated annually. In addition, in accordance with Japanese national custom, each employee is also paid a semiannual bonus. Bonuses are negotiated at the time of wage negotiations and are based on Toyota's financial results, prospects and other factors. The average wage increases per employee, excluding bonuses, in Japan have been approximately 1.9% per year for the past five fiscal years.

In general, Toyota considers its labor relations with all of its workers to be good. However, Toyota is currently a party to, and otherwise from time to time experiences, labor disputes in some of the countries in which it operates. Toyota does not expect any disputes to which it is currently a party to materially affect Toyota's consolidated financial position.

Toyota's average number of temporary employees on a consolidated basis was 73,701 during fiscal 2006.

**Table of Contents****6.E SHARE OWNERSHIP**

The following table sets forth information with respect to the number of shares of Toyota's common stock held by each director and corporate auditor as of June 2006.

<b>Name</b>	<b>Number of Shares</b>
Fujio Cho	33,105
Katsuhiro Nakagawa	21,800
Katsuaki Watanabe	20,171
Tokuichi Uranishi	20,633
Kazuo Okamoto	15,564
Kyoji Sasazu	21,092
Mitsuo Kinoshita	21,070
Yoshimi Inaba	15,000
Takeshi Uchiyamada	20,464
Masatami Takimoto	18,100
Akio Toyoda	4,537,891
Tetsuo Hattori	9,526
Yukitoshi Funo	5,248
Takeshi Suzuki	9,076
Atsushi Niimi	11,038
Hajime Wakayama	8,635
Hiroshi Takada	8,850
Teiji Tachibana	10,100
Shinichi Sasaki	8,010
Shin Kanada	9,578
Akira Okabe	16,000
Yoshio Shirai	11,000
Yoichiro Ichimaru	13,568
Shoji Ikawa	20,236
Shoichiro Toyoda	11,144,193
Hiroshi Okuda	64,963
Hideaki Miyahara	19,600
Chiaki Yamaguchi	5,000
Masaki Nakatsugawa	5,700
Yasutaka Okamura	
Yoichi Kaya	
Yoichi Morishita	
Akishige Okada	
Total	16,125,211

Each of the persons listed above owns less than one percent of the issued and outstanding shares of common stock of Toyota. The shares listed above do not include options that are exercisable for shares of Toyota's common stock. For a description of these options, see [Stock Options](#) below.

None of Toyota's shares of common stock entitles the holder to any preferential voting rights.

**Stock Options**

Toyota has enacted stock option plans in each of the past five years. The plans for which stock options or stock acquisition rights are currently exercisable or will become exercisable in the future were approved by Toyota's shareholders in June of 2002, 2003, 2004, 2005 and 2006. Under the plan enacted in 2002, Toyota



**Table of Contents**

issued stock acquisition rights, which are rights introduced as of April 2002 pursuant to the amendment to the Commercial Code, to purchase up to 1,876,000 shares of common stock to its directors and 496 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate. Under the 2003 plan, Toyota issued stock acquisition rights to purchase up to 1,958,000 shares of common stock to its directors and 565 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate. Under the 2004 plan, Toyota issued stock acquisition rights to purchase up to 2,021,000 shares of common stock to its directors and 582 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate. Under 2005 plan, Toyota issued stock acquisition rights to purchase up to 2,104,000 shares of common stock to its directors and 596 officers and employees of its subsidiaries and one Toyota affiliate. Under the 2006 plan, Toyota is authorized to issue stock acquisition rights to purchase up to 3,176,000 shares of common stock to its directors and 580 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate.

Pursuant to the provisions of the 2002, 2003, 2004 and 2005 plans, stock acquisition rights may be exercised during a four-year period that starts two years from the date first granted. Pursuant to the provisions of the 2006 plan, stock acquisition rights may be exercised during a six year period that starts two years from the date of grant. An exercise price of each stock acquisition rights 1.025 times the closing price of Toyota's common stock on the Tokyo Stock Exchange on the date of grant. The 2002 plan provides that each director will be granted no more than 200 and no less than 100 stock acquisition rights, and each eligible officer or employee will be granted no more than 100 and no less than 20 stock acquisition rights. Each of the 2003, 2004 and 2005 plan provides that each director will be granted no more than 200 and no less than 150 stock acquisition rights, and each eligible officer or employee will be granted no more than 100 and no less than 20 stock acquisition rights. The 2006 plan provides that each director will be granted no more than 400 and no less than 300 stock acquisition rights, and each eligible officer or employee will be granted no more than 200 and no less than 20 stock acquisition rights. For each of the 2002, 2003, 2004, 2005 and 2006 plan, one hundred shares will be issued or delivered upon the exercise of each stock acquisition right. The options are granted as of August 1 of each year for each plan, except for the 2004 plan, which options were granted as of August 2, 2004.

The 2002 plan further provides that an option holder who retires while one's options are still exercisable retains the right to exercise one's options until the earlier of: (i) six months after one's retirement, or (ii) six years after the date the options were first granted. The 2006 plan further provides that an option holder who retires while one's options until the earlier of: (i) two years after one's retirement, or (ii) eight years after the date the option's were first granted. Under the 2003, 2004 and 2005 plan, an option holder who retires while one's options are still exercisable retains the right to exercise his shares until six years after the date the options were first granted. An option holder's right to purchase common stock under each plan lapses automatically upon one's death.

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

Exercise price range (Yen)	Number of shares	Outstanding			Number of shares	Exercisable	
		Weighted- average exercise price (Yen)	Weighted- average exercise price (Dollars)	Weighted- average remaining life (Years)		Weighted- average exercise price (Yen)	Weighted- average exercise price (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		¥	\$

Toyota also has an employee stock ownership association in Japan for employees and full time and part time company advisors. Members of the employee stock ownership association set aside certain amounts from their monthly salary and bonuses to purchase Toyota's common stock through the employee stock ownership association. As of March 31, 2006, the employee stock ownership association held 13,602,457 shares of Toyota's common stock.

**Table of Contents****ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****7.A MAJOR SHAREHOLDERS**

As of March 31, 2006, 3,241,757,767 shares (excluding treasury shares) of Toyota's common stock were outstanding. Beneficial ownership of Toyota's common stock in the table below was prepared from publicly available records of the filings made by Toyota's shareholders regarding their ownership of Toyota's common stock under the Securities and Exchange Law of Japan.

Under the Securities and Exchange Law of Japan, any person who becomes, beneficially and solely or jointly, a holder, including, but not limited to, a deemed holder who manages shares for another holder pursuant to a discretionary investment agreement, of more than 5% of the shares with voting rights of a company listed on a Japanese stock exchange (including ADSs representing such shares) must file a report concerning the shareholding with the Director of the relevant local finance bureau. A similar report must be filed, with certain exceptions, if the percentage of shares held by a holder, solely or jointly, of more than 5% of the total issued shares of a company increases or decreases by 1% or more, or if any change to a material matter set forth in any previously filed reports occurs.

Based on publicly available information, the following table sets forth the beneficial ownership of holders of more than 5% of Toyota's common stock as of the dates indicated in the reports described below.

<u>Name of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percentage of Shares Outstanding</u>
Toyota Industries Corporation	187,115,312	5.18

The number of shares owned by Toyota Industries Corporation (formerly, Toyoda Automatic Loom Works, Ltd.) is based on a report filed under the Securities and Exchange Law of Japan stating that Toyota Industries Corporation held or was deemed to hold beneficially, as of November 13, 1995, 187,115,312 shares of Toyota's common stock.

Based on information made publicly available on or after January 1, 2003, the following table describes transactions resulting in a 1% or greater change in the percentage ownership held by major beneficial owners of Toyota's common stock.

<u>Name of Shareholder</u>	<u>Date of Transaction</u>	<u>Shares Owned Prior to Transaction</u>	<u>Percentage of Shares Issued</u>	<u>Number of Shares Changed</u>	<u>Shares Owned After the Transaction</u>	<u>Percentage of Shares Issued</u>
UFJ Bank Limited (Current Bank of Tokyo-Mitsubishi UFJ, Ltd.) and its joint holders*	April 30, 2003	255,060,258	7.07	(37,924,800)	217,135,458	6.01

\* The shares owned by UFJ Bank Limited and its joint holders have decreased from 180,931,065 shares (5.01%) to 167,075,565 shares (4.63%) as of July 31, 2004, and as a result UFJ Bank Limited is no longer classified under the major beneficial shareholders. As of January 1, 2006, UFJ Bank Limited merged with the Bank of Tokyo-Mitsubishi, Ltd. to form the Bank of Tokyo-Mitsubishi UFJ, Ltd. According to The Bank of New York, depository for Toyota's ADSs, as of March 31, 2006, 123,522,694 shares of Toyota's common stock were held in the form of ADRs and there were 1,765 ADR holders of record in the United States. According to Toyota's register of shareholders, as of March 31, 2006, there were 357,948 holders of common stock of record worldwide. As of March 31, 2006, there were 320 record holders of Toyota's common stock with addresses in the United States, whose shareholdings represented approximately 12.4% of the issued common stock on that date. Because some of these shares were held by brokers or other nominees, the number of record holders with addresses in the United States might not fully show the number of beneficial owners in the United States.

## **Table of Contents**

None of Toyota's shares of common stock entitles the holder to any preferential voting rights.

To the extent known to Toyota, Toyota is not owned or controlled, directly or indirectly, by another corporation, any foreign government or any natural or legal person.

Toyota knows of no arrangements the operation of which may at a later time result in a change of control.

## **7.B RELATED PARTY TRANSACTIONS**

### **Business Relationships**

Toyota purchases materials, supplies and services from numerous suppliers throughout the world in the ordinary course of business, including Toyota's equity-method affiliates and those firms with which certain members of Toyota's board of directors are affiliated. Toyota purchased materials, supplies and services from these affiliated entities in the amount of ¥3,356.6 billion in fiscal 2006. Toyota also sells its products and services to Toyota's equity-method affiliates and firms with which certain members of Toyota's board of directors are affiliated. Toyota sold products and services to these affiliated entities in the amount of ¥1,394.1 billion in fiscal 2006. Toyota believes all of these purchase and sale transactions were arm's-length transactions. See note 12 of Toyota's consolidated financial statements for additional information regarding Toyota's investments in and transactions with affiliated companies.

### **Loans**

Toyota regularly has trade accounts and other receivables payable by, and accounts payable to, Toyota's equity-method affiliates and firms with which certain members of Toyota's board of directors are affiliated. Toyota had outstanding trade accounts and other receivables by these affiliated entities in the amount of ¥221.0 billion as of March 31, 2006. Toyota had accounts payable to these affiliated entities in the amount of ¥551.5 billion as of March 31, 2006.

Toyota, from time to time, provides short- to medium-term loans to its affiliates, as well as loans under a loan program established by certain subsidiaries to assist their executives and directors with the purchase of homes. As of March 31, 2006, an aggregate amount of ¥32.7 billion in loans was outstanding to its equity-method affiliates. As of March 31, 2006, an aggregate amount of ¥31.4 billion in loans was outstanding to those of its affiliates not accounted for under the equity method, which are 20% to 50% owned by Toyota. As of March 31, 2006, the largest loan outstanding to any such equity-method affiliate was a loan of ¥27.5 billion at a fixed rate. Toyota believes that each of these loans was entered into in the ordinary course of business.

## **7.C INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**Table of Contents**

**ITEM 8. FINANCIAL INFORMATION**

**8.A CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

1-3. Consolidated Financial Statements. Toyota's audited consolidated financial statements are included under Item 18 Financial Statements . Except for Toyota's consolidated financial statements included under Item 18, no other information in this annual report has been audited by Toyota's auditors.

4. Not applicable.

5. Not applicable.

6. Export Sales. See Operating and Financial Review and Prospects Operating Results Overview Geographical Breakdown .

7. Legal and Arbitration Proceedings. See Information on the Company Business Overview Legal Proceedings .

8. Dividend Policy. See Selected Financial Data Dividends .

**8.B SIGNIFICANT CHANGES**

Except as disclosed in this annual report, there have been no significant changes since the date of Toyota's latest annual financial statements.

**Table of Contents****ITEM 9. THE OFFER AND LISTING****9.A LISTING DETAILS**

The following table sets forth for the periods shown the reported high and low sales prices of the common stock on the Tokyo Stock Exchange and the ADSs on the New York Stock Exchange.

	Tokyo Stock Exchange Price per Share		New York Stock Exchange Price per ADS	
	High	Low	High	Low
<b><u>Fiscal Year Ending March 31,</u></b>				
2002	¥ 4,450	¥ 2,665	\$ 71.50	\$ 46.60
2003	3,790	2,625	57.45	44.40
2004	3,990	2,455	75.88	41.17
2005	4,520	3,730	82.94	65.65
2006	6,560	3,790	110.28	70.75
<b><u>Financial Quarter Ending</u></b>				
June 30, 2004	4,440	3,730	81.95	65.65
September 30, 2004	4,520	4,030	82.94	73.30
December 31, 2004	4,320	3,780	81.87	73.42
March 31, 2005	4,220	3,940	82.27	73.93
June 30, 2005	4,150	3,790	76.81	70.95
September 30, 2005	5,330	3,970	94.33	71.93
December 31, 2005	6,180	4,950	104.90	86.04
March 31, 2006	6,560	5,600	110.28	99.93
<b><u>Month Ending</u></b>				
December 31, 2005	6,180	5,600	104.90	96.05
January 31, 2006	6,150	5,600	108.25	99.93
February 28, 2006	6,560	5,980	108.83	101.65
March 31, 2006	6,520	6,040	110.28	104.76
April 30, 2006	6,950	6,430	118.15	109.75
May 31, 2006	6,900	5,930	124.00	106.00

**9.B PLAN OF DISTRIBUTION**

Not applicable.

**9.C MARKETS**

The primary trading market for Toyota's common stock is the Tokyo Stock Exchange. The common stock is also listed on the Nagoya Stock Exchange and three other regional stock exchanges in Japan.

Since September 29, 1999, American Depositary Shares, each equal to two shares of Toyota's common stock and evidenced by American Depositary Receipts, have been traded and listed on the New York Stock Exchange through a sponsored ADR facility operated by The Bank of New York, as depositary. Prior to that time, Toyota's ADSs were listed on the Nasdaq SmallCap Market through five unsponsored ADR facilities.

Toyota's common stock is also listed on the London Stock Exchange.

**9.D SELLING SHAREHOLDERS**

Not applicable.



**9.E DILUTION**

Not applicable.

**9.F EXPENSES OF THE ISSUE**

Not applicable.

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**Table of Contents**

**ITEM 10. ADDITIONAL INFORMATION**

**10.A SHARE CAPITAL**

Not applicable.

**10.B MEMORANDUM AND ARTICLES OF ASSOCIATION**

Except as otherwise stated, set forth below is information relating to Toyota's common stock, including brief summaries of the relevant provisions of Toyota's articles of incorporation and share handling regulations, as currently in effect, and of the Corporation Act of Japan and related legislation.

**General**

Toyota's authorized number of shares as of March 31, 2006 is 9,740,185,400, of which 3,609,997,492 were issued. According to the amendment of the Articles of Incorporation, Toyota's authorized number of shares became 10,000,000,000 as of the Ordinary General Shareholders' Meeting in June 2006. Under the Corporation Act and Toyota's articles of incorporation, shares must be registered and are transferable generally by delivery of share certificates. In order to assert shareholders' rights against Toyota, a shareholder must have its name and address registered on Toyota's register of shareholders, in accordance with Toyota's share handling regulations. The registered beneficial holder of deposited shares underlying the ADSs is the depository for the ADSs. Accordingly, holders of ADSs will not be able directly to assert shareholders' rights.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Clearing of Share Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing all of the shares to be included in this clearing system with Japan Securities Depository Center, Inc. If a holder is not a participating institution in the Securities Center, it must participate through a participating institution, such as a securities company or bank having a clearing account with the Securities Center. All shares deposited with the Securities Center will be registered in the name of the Securities Center on Toyota's register of shareholders. Each participating shareholder will in turn be registered on Toyota's register of beneficial shareholders and be treated in the same way as shareholders registered on Toyota's register of shareholders. For the purpose of transferring deposited shares, delivery of share certificates is not required. Entry of the share transfer in the books maintained by the Securities Center for participating institutions, or in the book maintained by a participating institution for its customers, has the same effect as delivery of share certificates. The registered beneficial owners may exercise the rights attached to the shares, such as voting rights, and will receive dividends (if any) and notices to shareholders directly from Toyota. The shares held by a person as a registered shareholder and those held by the same person as a registered beneficial owner are aggregated for these purposes. Beneficial owners may at any time withdraw their shares from deposit and receive share certificates.

A new law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within five years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of Common Stock of Toyota, will be subject to the new central clearing system. On the same day, all existing share certificates will become null and void and the companies are not required to withdraw those share certificates from shareholders. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

**Table of Contents**

**Objects and Purposes**

Article 2 of Toyota's articles of incorporation states that its purpose is to engage in the following businesses:

the manufacture, sale, leasing and repair of:

motor vehicles, industrial vehicles, ships, aircraft, other transportation machinery and apparatus, spacecraft and space machinery and apparatus, and parts thereof;

industrial machinery and apparatus, other general machinery and apparatus, and parts thereof;

electrical machinery and apparatus, and parts thereof; and

measuring machinery and apparatus, medical machinery and apparatus, and parts thereof;

the manufacture and sale of ceramics and products of synthetic resins, and materials thereof;

the manufacture, sale and repair of construction materials and equipment, furnishings and fixtures for residential buildings;

the planning, designing, supervision, execution and undertaking of construction works, civil engineering works, land development, urban development and regional development;

the sale, purchase, leasing, brokerage and management of real estate;

the service of information processing, information communications and information supply and the development, sale and leasing of software;

the design and development of product sales systems that utilize networks such as the Internet;

the sale, leasing and maintenance of computers included within such systems, and sales of products by utilizing such systems;

the inland transportation, marine transportation, air transportation, stevedoring, warehousing and tourism businesses;

the printing, publishing, advertising and publicity, general leasing, security and workers dispatch businesses;

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the credit card operations, purchase and sale of securities, investment consulting, investment trust operation, and other financial services;

the operation and management of such facilities as parking lots, showrooms, educational facilities, medical care facilities, sports facilities, marinas, airfields, food and drink stands and restaurants, lodging facilities, retail stores and others;

the non-life insurance agency business and the life insurance agency business;

the production and processing by using biotechnology of agricultural products including trees, and the sale of such products;

the sale of goods related to each of the preceding items and mineral oil; and

the conducting of engineering, invention and research relating to each of the preceding items and the utilization of such invention and research, and any businesses incidental to or related to any of the preceding items.

### **Dividends**

#### **Dividends General**

Under its articles of incorporation, Toyota's business year shall commence on April 1 and end on March 31 of each year and year-end dividends, if any, will be paid to shareholders, beneficial shareholders, and pledgees of record as of March 31 of each year.

## **Table of Contents**

In addition, under the Corporation Act, subject to certain limitation on the distributable surplus, dividends, if any, may be paid to shareholders, beneficial shareholders, and pledgees of record as of a record date as set forth by Toyota's articles of incorporation or as determined by the board of directors from time to time. Dividends shall be paid by way of distribution of surplus. Dividends may be distributed in cash, or in kind subject to certain conditions being met. Toyota may make distribution of dividends by a resolution of a general shareholders' meeting. However, under its articles of incorporation, in addition to the distribution of interim dividends mentioned below, Toyota may generally determine the matters with respect to distribution of surplus by a resolution of the board of directors under certain conditions.

### **Dividends - Interim dividends**

In addition to year-end dividends, under Toyota's articles of incorporation, the board of directors may by resolution declare an interim dividend to shareholders, beneficial shareholders, and pledgees of record as of September 30 of each year.

### **Dividends - Distributable amount**

Under the Corporation Act, Toyota is permitted to make distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount provided for by the Corporation Act and the ordinance of the Ministry of Justice as at the effective date of such distribution of surplus.

The amount of surplus at any given time shall be the amount of Toyota's assets and the book value of Toyota's treasury stock after subtracting and adding the amounts of the items provided for by the Corporation Act and the ordinance of the Ministry of Justice.

### **Dividends - Ex-dividend date and prescription**

Under its articles of incorporation, Toyota is not obligated to pay any dividends in cash which are left unclaimed for a period of three years after the date on which they first became payable.

### **Capital Accounts**

The amount of the cash or assets paid or contributed by subscribers for new shares (with certain exceptions) is required to be accounted for as stated capital, although Toyota may account for an amount not exceeding one-half of such cash or assets as additional paid-in capital.

Under the Corporation Act, Toyota may reduce its additional paid-in capital and legal reserve without limitation on the amount to be reduced, generally, by a resolution of an Ordinary General Shareholders' Meeting and if so decided by the same resolution, may account for the whole or any part of the amount of the reduction of additional paid-in capital as stated capital.

The whole or any part of surplus which may be distributed as dividends may also be transferred to stated capital by a resolution of a general shareholders' meeting.

### **Stock Splits**

Toyota may at any time split the outstanding shares into a greater number of shares by a resolution of the board of directors. Toyota must give public notice of the stock split, specifying a record date for the stock split, not less than two weeks prior to the record date.

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## **Table of Contents**

### **Consolidation of Shares**

Toyota may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in *Voting Rights* ). When a consolidation of shares is to be made, Toyota must give public notice and notice to each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to Toyota for exchange. Toyota must disclose the reason for the consolidation of shares at the Ordinary General Shareholders Meeting.

### **Japanese Unit Share System**

**General.** Consistent with the requirements of the Corporation Act, Toyota's articles of incorporation provide that 100 shares constitute one unit. Although the number of shares constituting a unit is included in the articles of incorporation, any amendment to the articles of incorporation reducing (but not increasing) the number of shares constituting a unit or eliminating the provisions for the unit of shares may be made by a resolution of the board of directors rather than by a special shareholders resolution, which is otherwise required for amending the articles of incorporation. The number of shares constituting one unit, however, cannot exceed 1,000 shares.

**Voting Rights under the Unit Share System.** Under the unit share system, shareholders have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights.

**Share Certificate for Less Than a Full Unit of Shares.** Toyota's articles of incorporation provide that Toyota may choose not to issue share certificate for any number of shares less than a unit. As the transfer of shares normally requires delivery of share certificates, any fraction of a unit for which share certificates are not issued will not be transferable.

**Repurchase by Toyota of Shares Constituting Less Than a Unit.** A holder of shares constituting less than a full unit may require Toyota to purchase those shares at their market value in accordance with the provisions of Toyota's share handling regulations.

**Surrender of American Depositary Shares.** As a result of the unit share system, ADR holders will only be permitted to surrender ADRs and withdraw underlying shares constituting whole units. If a holder surrenders an ADR representing shares that do not constitute an integral number of whole units, the depositary will deliver to that holder only those shares which constitute a whole unit. The depositary will then issue to the holder a new ADR representing the remaining shares. Holders of an ADR that represents less than a whole unit of underlying shares will be unable to withdraw the underlying shares. As a result, those holders will be unable to require Toyota to purchase their underlying shares to the extent those shares constitute less than one whole unit.

### **Voting Rights**

Toyota holds its Ordinary General Shareholders Meeting each year. In addition, Toyota may hold an extraordinary general shareholders meeting whenever necessary by giving at least two weeks advance notice. Under the Corporation Act, notice of any shareholders meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with Toyota's share handling regulations, at least two weeks prior to the date of the meeting.

A holder of shares constituting one or more whole units is generally entitled to one vote per unit of shares subject to the limitations on voting rights set forth in this paragraph. In general, under the Corporation Act, a resolution can be adopted at a general shareholders meeting by a majority of the shares having voting rights represented at the meeting. The Corporation Act and Toyota's articles of incorporation require a quorum for the election of directors and corporate auditors of not less than one-third of the total number of outstanding shares having voting rights. Toyota's shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder the management of which is substantially under Toyota's control through the holding of voting rights or for any other reason, as further provided in an ordinance of the Ministry of Justice does not have voting rights.

**Table of Contents**

Shareholders may exercise their voting rights through proxies, provided that those proxies are also shareholders who have voting rights. Toyota may refuse a shareholder having two (2) or more proxies attend a general shareholders meeting.

The Corporation Act provides that a quorum of at least one-third of outstanding shares with voting rights must be present at a shareholders meeting to approve any material corporate actions such as:

- (1) any amendment of the articles of incorporation with certain exceptions in which a shareholders resolution is not required;
- (2) acquisition of its own shares from a specific party;
- (3) consolidation of shares;
- (4) any issue or transfer of its shares at a specially favorable price (or any issue of stock acquisition rights or bonds with stock acquisition rights at specially favorable conditions by Toyota) to any persons other than shareholders;
- (5) the removal of a corporate auditor;
- (6) the exemption of liability of a director or corporate auditor with certain exceptions;
- (7) a reduction of stated capital which meets certain requirements with certain exceptions;
- (8) a distribution of in-kind dividends which meets certain requirements;
- (9) dissolution, merger, or consolidation with certain exceptions in which a shareholders resolution is not required;
- (10) the transfer of the whole or a material part of the business;
- (11) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders resolution is not required;
- (12) share exchange or share transfer for the purpose of establishing 100% parent-subsiary relationships with certain exceptions in which a shareholders resolution is not required; or
- (13) separating of the corporation with certain exceptions in which a shareholders resolution is not required.

At least two-thirds of the shares having voting rights represented at the meeting must approve these actions.

The voting rights of holders of ADSs are exercised by the depositary based on instructions from those holders.

**Rights to be Allotted Shares**

Holders of shares have no preemptive rights under Toyota's articles of incorporation. Under the Corporation Act, the board of directors may, however, determine that shareholders shall be given rights to be allotted shares or stock acquisition rights on request, respectively, in connection with a particular issue or transfer of shares, or issue of stock acquisition rights. In this case, such rights must be given on uniform terms to all shareholders as of a specified record date by at least two weeks' prior public notice to shareholders of the record date.

Rights to be allotted shares are nontransferable. However, a shareholder may be allotted stock acquisition rights without consideration thereto, and transfer such rights.

**Liquidation Rights**

In the event of a liquidation of Toyota, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the respective number of shares they own.



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## **Table of Contents**

### **Liability to Further Calls or Assessments**

All of Toyota's currently outstanding shares, including shares represented by the ADSs, are fully paid and nonassessable.

### **Transfer Agent**

Mitsubishi UFJ Trust and Banking Corporation is the transfer agent for the shares. Mitsubishi UFJ Trust and Banking Corporation's office is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-8212 Japan. Mitsubishi UFJ Trust and Banking Corporation maintains Toyota's register of shareholders and records transfers of record ownership upon presentation of share certificates.

### **Record Date**

The close of business on March 31 is the record date for Toyota's year-end dividends, if paid. A holder of shares constituting one or more whole units who is registered as a holder on Toyota's register of shareholders or register of beneficial ownership at the close of business as of March 31 is also entitled to exercise shareholders' voting rights at the Ordinary General Shareholders' Meeting with respect to the business year ending on March 31. The close of business on September 30 of each year is the record date for interim dividends, if paid. In addition, Toyota may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' public notice.

The shares generally trade ex-dividend or ex-rights in the Japanese stock exchanges on the third business day before a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

### **Acquisition by Toyota of Shares**

Toyota may acquire its own shares (i) through a stock exchange on which such shares are listed or by way of tender offer (pursuant to an ordinary resolution of a general shareholders' meeting or a resolution of the board of directors), (ii) by purchase from a specific party (pursuant to a special resolution of an Ordinary General Shareholders' Meeting) or (iii) from a subsidiary of Toyota (pursuant to a resolution of the board of directors).

When such acquisition is made by Toyota from a specific party other than a subsidiary of Toyota, any other shareholder may make a demand to a representative director, more than five calendar days prior to the relevant shareholders' meeting, that Toyota also purchase the shares held by such shareholder. However, the acquisition of its own shares at a price not exceeding the then market price to be provided under an ordinance of the Ministry of Justice will not trigger the right of any shareholder to include him/her as the seller of his/her shares in such proposed purchase.

Any such acquisition of shares must satisfy certain requirements that the total amount of the acquisition price may not exceed the amount of the distributable dividends. See Dividends.

Shares acquired by Toyota may be held by it for any period or may be cancelled by resolution of the board of directors. Toyota may also transfer to any person the shares held by it, subject to a resolution of the board of directors, and subject also to other requirements those applicable to the issuance of new shares. Toyota may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

The Corporation Act generally prohibits any subsidiary of Toyota from acquiring shares of Toyota.

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## **Table of Contents**

### **Acquisition or Disposition of Shares or ADS**

Under the Foreign Exchange and Foreign Trade Law and the cabinet orders and ministerial ordinances thereunder (collectively, the Foreign Exchange Regulations ), all aspects of regulations on foreign exchange and foreign trade transactions are, with minor exceptions relating to inward direct investments (which are not generally applicable to Toyota's shares), only subject to post transaction reporting requirements. Acquisitions and dispositions of shares of common stock or ADS by non-residents of Japan (including foreign corporations not resident in Japan) are generally not subject to this reporting requirement. However, the Minister of Finance has the power to impose a licensing requirement for transactions in limited circumstances.

### **Report of Substantial Shareholdings**

The Securities and Exchange Law of Japan and regulations under the Law require any person who has become a holder (together with its related persons) of more than 5% of the total issued shares of a company listed on any Japanese stock exchange (including ADSs representing such shares) to file with the Director of a competent Local Finance Bureau, within five business days, a report concerning those shareholdings. A similar report must also be filed to reflect any change of 1% or more in any shareholding or any change in material matters set out in reports previously filed. Copies of any report must also be furnished to the company and to all Japanese stock exchanges on which the company's shares are listed. For this purpose, shares issuable to a 5% or greater shareholder upon exercise of stock acquisition rights are taken into account in determining both the number of shares held by that holder and the company's total issued share capital.

### **10.C MATERIAL CONTRACTS**

All contracts concluded by Toyota during the two years preceding this filing were entered into in the ordinary course of business.

### **10.D EXCHANGE CONTROLS**

The Foreign Exchange and Foreign Trade Law of Japan and its related cabinet orders and ministerial ordinances (the Foreign Exchange Regulations ) govern the acquisition and holding of shares of capital stock of Toyota by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

individuals who do not reside in Japan; and

corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

individuals who are exchange non-residents;

corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and

corporations (1) of which 50% or more of their voting rights are held by individuals who are exchange non-residents and/or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.



**Table of Contents**

In general, the acquisition of shares of a Japanese company (such as the shares of capital stock of Toyota) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of Toyota) for consideration exceeding ¥100 million to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of capital stock of Toyota) and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company's shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which Toyota's ADSs are issued, the Depositary is required, to the extent that in its judgment it can convert yen on a reasonable basis into dollars and transfer the resulting dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into dollars and to distribute the amount received (after deduction of applicable withholding taxes) to the holder of ADSs.

**10.E TAXATION**

The following discussion is a general summary of the principal U.S. federal income and Japanese national tax consequences of the acquisition, ownership and disposition of shares of common stock or ADSs. This summary does not purport to address all material tax consequences that may be relevant to holders of shares of common stock or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, partnerships and other pass-through entities, investors liable for the U.S. alternative minimum tax, investors that own or are treated as owning 10% or more of Toyota's voting stock, investors that hold shares of common stock or ADSs as part of a straddle, hedge, conversion transaction or other integrated transaction and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the tax laws and regulations of the United States and Japan, judicial decisions, published rulings and administrative pronouncements all as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), as described below, all of which are subject to change (possibly with retroactive effect), and to differing interpretations.

For purposes of this discussion, a U.S. Holder is any beneficial owner of shares of common stock or ADSs that, for U.S. federal income tax purposes, is:

1. an individual who is a citizen or resident of the United States,
2. a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States, any state thereof, or the District of Columbia,
3. an estate the income of which is subject to U.S. federal income tax without regard to its source, or

**Table of Contents**

4. a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

An Eligible U.S. Holder is a U.S. Holder that:

1. is a resident of the United States for purposes of the Treaty,
2. does not maintain a permanent establishment in Japan (a) with which the Shares or ADSs are effectively connected and through which the U.S. holder carries on or has carried on business, or (b) of which the Shares or ADSs form part of the business property, and
3. is eligible for benefits under the Treaty with respect to income and gain derived in connection with the shares of common stock or ADSs.

This summary does not address any aspects of U.S. federal tax law other than income taxation, and does not discuss any aspects of Japanese tax law other than such income taxation, as limited to national taxes, inheritance and gift taxation. This summary also does not cover any state or local, or non-U.S., non-Japanese tax considerations. Investors are urged to consult their tax advisors regarding the U.S. federal, state and local and Japanese and other tax consequences of acquiring, owning and disposing of shares of common stock or ADSs. In particular, where relevant, investors are urged to confirm their status as Eligible U.S. Holders with their tax advisors and to discuss with their tax advisors any possible consequences of their failure to qualify as Eligible U.S. Holders. In addition, this summary is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement, and in any related agreement, will be performed in accordance with its terms.

In general, for purposes of the Treaty and for U.S. federal income and Japanese income tax purposes, owners of ADRs evidencing ADSs will be treated as the owners of the shares of common stock represented by those ADSs, and exchanges of shares of common stock for ADSs, and exchanges of ADSs for shares of common stock, will not be subject to U.S. federal income or Japanese income tax.

*The discussion below is intended for general information only and does not constitute a complete analysis of all tax consequences relating to ownership of shares of common stock or ADSs. Prospective purchasers of shares of common stock or ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.*

**Japanese Taxation**

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of shares of common stock and of ADSs who are either individuals who are non residents of Japan or non-Japanese corporations, without a permanent establishment in Japan ( non-resident Holders ).

Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits are, in general, not a taxable event.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20 percent, provided, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of common stock of Toyota) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or non-residents of Japan, such as non-resident Holders), other than any individual shareholder who holds 5 percent or more of the total issued shares issued by the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 7 percent for dividends due and payable on or before March 31, 2008, and (ii) 15 percent for dividends due and payable on or after

## **Table of Contents**

April 1, 2008. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and the U.K.

Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a portfolio investor is generally reduced to 10 percent of the gross amount actually distributed, and Japanese withholding tax with respect to dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a pension fund is exempt from Japanese taxation by way of withholding or otherwise unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by Toyota to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on payment of dividends on shares of common stock by Toyota is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance through Toyota to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits two Application Forms (one before payment of dividends, the other within eight months after Toyota's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority.

Gains derived from the sale of shares of common stock or ADSs outside Japan by a non-resident Holder holding such shares of common stock or ADSs as portfolio investors are, in general, not subject to Japanese income tax or corporation tax. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of common stock or ADSs as a legatee, heir or donee even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of shares of common stock or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. Holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

## **U.S. Federal Income Taxation**

### ***U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to holders of shares of common stock of Toyota and of ADSs that are U.S. Holders and that hold those shares of common stock or ADSs as capital assets (generally, for investment purposes).

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**Table of Contents*****Taxation of Dividends***

Subject to the passive foreign investment company rules discussed below, the gross amount of any distribution made by Toyota in respect of shares of common stock or ADSs (without reduction for Japanese withholding taxes) will constitute a taxable dividend to the extent paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. The U.S. dollar amount of such a dividend generally will be included in the gross income of a U.S. Holder, as ordinary income, when actually or constructively received by the U.S. Holder, in the case of shares of common stock, or by the depository, in the case of ADSs. Dividends paid by us will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Subject to certain exceptions for short-term and hedged positions, and provided that we are not a passive foreign investment company (as discussed below), dividends received by certain U.S. Holders (including individuals) with respect to the common stock or ADSs will be subject to U.S. federal income taxation at a maximum rate of 15%. However, the U.S. Treasury Department has announced its intention to promulgate rules in proposed form pursuant to which shareholders (and intermediaries) will be permitted to rely on certifications from issuers to establish that dividends qualify for the reduced rate of U.S. federal income taxation. Because such proposed certification procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs or common stock should consult their own tax advisors regarding the availability of the reduced rate in the light of their own particular circumstances.

The U.S. dollar amount of a dividend paid in Japanese yen will be determined based on the Japanese yen/U.S. dollar exchange rate in effect on the date that the dividend is included in the gross income of the U.S. Holder, regardless of whether the payment is converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or otherwise disposed of) will be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the calculation and U.S. federal income tax treatment of foreign currency gain or loss.

To the extent, if any, that the amount of any distribution received by a U.S. Holder in respect of shares of common stock or ADSs exceeds Toyota's current and accumulated earnings and profits, as determined under U.S. federal income tax principles, the distribution first will be treated as a tax-free return of capital to the extent of the U.S. Holder's adjusted tax basis in those shares or ADSs, and thereafter will be treated as U.S. source capital gain.

Distributions of additional shares of common stock that are made to U.S. Holders with respect to their shares of common stock or ADSs, and that are part of a pro rata distribution to all of Toyota's shareholders, generally will not be subject to U.S. federal income tax.

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of shares of common stock or ADSs will constitute income from sources outside the United States, and will be subject to various classifications and other limitations. Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of a Toyota dividend may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, alternatively as a deduction in the computation of such U.S. Holder's taxable income, if the U.S. Holder does not elect to claim a credit for any foreign taxes paid or accrued for the taxable year. Special rules generally will apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential U.S. federal income tax rates. Additionally, special rules apply to individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

(i) has held shares of common stock or ADSs for less than a specified minimum period, or

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**Table of Contents**

(ii) is obligated to make payments related to Toyota dividends,

will not be allowed a foreign tax credit for Japanese taxes imposed on Toyota dividends.

U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. The Internal Revenue Service (the IRS) has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Accordingly, U.S. Holders should be aware that the discussion above regarding the creditability of Japanese withholding tax on dividends could be affected by future actions that may be taken by the IRS.

***Taxation of Capital Gains and Losses***

In general, upon a sale or other taxable disposition of shares of common stock or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder's adjusted tax basis in those shares of common stock or ADSs. A U.S. Holder generally will have an adjusted tax basis in a share of common stock or an ADS equal to its U.S. dollar cost. Subject to the passive investment company rules discussed below, gain or loss recognized on the sale or other taxable disposition of shares of common stock or ADSs generally will be capital gain or loss and, if the U.S. Holder's holding period for those shares or ADSs exceeds one year, will be long-term capital gain or loss. Certain U.S. Holders, including individuals, are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. Under U.S. federal income tax law, the deduction of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder in respect of the sale or other disposition of shares of common stock or ADSs generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

Deposits and withdrawals of common stock in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

***Passive Foreign Investment Companies***

A non-U.S. corporation generally will be classified as a passive foreign investment company (a PFIC) for U.S. federal income tax purposes in any taxable year in which, after applying look-through rules, either (1) at least 75% of its gross income is passive income, or (2) on average at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. The PFIC determination is made annually and generally is based on the value of a non-U.S. corporation's assets (including goodwill) and composition of its income.

Toyota does not believe that it is a PFIC for U.S. federal income tax purposes, and intends to continue its operations in such a manner that it will not become a PFIC in the future. Because the application of the PFIC rules to a corporation such as Toyota (which among other things is engaged in leasing and financing through several subsidiaries) is not entirely clear, no assurances can be made regarding determination of our PFIC status in the current or any future taxable year. If Toyota is determined to be a PFIC, U.S. Holders could be subject to additional U.S. federal income taxes on gain recognized with respect to the shares of common stock or ADSs and on certain distributions. In addition, an interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Moreover, dividends that a U.S. Holder receives from us will not be eligible for the reduced U.S. federal income tax rates described above on dividends if we are a PFIC either in the taxable year of the dividend or the preceding taxable year (and instead will be taxable at rates applicable to ordinary income). Toyota will inform U.S. Holders if it believes that it will be classified as a PFIC in any taxable year.

Prospective investors should consult their own tax advisors regarding the potential application of the PFIC rules to shares of common stock or ADSs.



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**Table of Contents**

***Non-U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial holders of shares of common stock or ADSs that are neither U.S. Holders nor partnerships for U.S. federal income tax purposes ( Non-U.S. Holders ).

Subject to the discussion below under Backup Withholding and Information Reporting , a Non-U.S. Holder generally will not be subject to any U.S. federal income or withholding tax on distributions received in respect of shares of common stock or ADSs unless the distributions are effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder).

Subject to the discussion below under Backup Withholding and Information Reporting , a Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other disposition of shares of common stock or ADSs, unless:

(i) the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder), or

(ii) the Non-U.S. Holder is an individual who was present in the United States for 183 or more days in the taxable year of the disposition and other conditions are met.

Income that is effectively connected with a U.S. trade or business of a Non-U.S. Holder, and, if an income tax treaty applies and so requires, is attributable to a U.S. permanent establishment or fixed base of the Non-U.S. Holder, generally will be taxed in the same manner as the income of a U.S. Holder. In addition, under certain circumstances, any effectively connected earnings and profits that is realized by a corporate Non-U.S. Holder may be subject to an additional branch profits tax at the rate of 30% or at a lower rate that may be prescribed by an applicable income tax treaty.

***Backup Withholding and Information Reporting***

In general, information reporting requirements will apply to dividends paid to a U.S. Holder in respect of shares of common stock or ADSs, and to the proceeds received upon the sale, exchange or redemption of the shares of common stock or ADSs within the United States by U.S. Holders. Furthermore, a backup withholding tax may apply to those amounts (currently at a 28% rate) if a U.S. Holder fails to provide an accurate tax identification number, to certify that such U.S. Holder is not subject to backup withholding or to otherwise comply with the applicable requirements of the backup withholding requirements.

Dividends paid to a Non-U.S. Holder in respect of shares of common stock or ADSs, and proceeds received in the sale, exchange or redemption of shares of common stock or ADSs by a Non-U.S. Holder, generally are exempt from information reporting and backup withholding under current U.S. federal income tax law. However, a Non-U.S. Holder may be required to provide certification of non-U.S. status in order to obtain that exemption.

Persons required to establish their exempt status generally must provide such certification under penalty of perjury on IRS Form W-9, entitled Request for Taxpayer Identification Number and Certification, in the case of U.S. persons, and on IRS Form W-8BEN, entitled Certificate of Foreign Status (or other appropriate IRS Form W-8), in the case of non-U.S. persons. Backup withholding is not an additional tax. The amount of backup withholding imposed on a payment generally may be claimed as a credit against the holder's U.S. federal income tax liability provided that the required information is properly furnished to the IRS.

THE SUMMARY OF U.S. FEDERAL INCOME AND JAPANESE NATIONAL TAX CONSEQUENCES SET OUT ABOVE IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. PROSPECTIVE

**Table of Contents**

PURCHASERS OF COMMON STOCK OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING OR DISPOSING OF COMMON STOCK OR ADSs, BASED ON THEIR PARTICULAR CIRCUMSTANCES.

**10.F DIVIDENDS AND PAYING AGENTS**

Not applicable.

**10.G STATEMENT BY EXPERTS**

Not applicable.

**10.H DOCUMENTS ON DISPLAY**

Toyota files annual reports on Form 20-F and reports on Form 6-K with the SEC. You may read and copy this information at the SEC's Public Reference Room at 100F Street, N.E., Room 1580, Washington, D.C. 20549 or by accessing the SEC's home page (<http://www.sec.gov>). You can also request copies of the documents, upon payment of a duplicating fee, by writing to the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. In addition, Toyota's reports, proxy statements and other information may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Copies of the documents referred to herein may also be inspected at Toyota's offices by contacting Toyota at 1 Toyota-cho, Toyota City, Aichi Prefecture 471-8571, Japan, attention: Financial Reporting Department, Accounting Division, telephone number: 81-565-28-2121.

**10.I SUBSIDIARY INFORMATION**

Not applicable.

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**Table of Contents**

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Toyota is exposed to market risk from changes in foreign currency exchange rates, interest rates and certain commodity and equity security prices. In order to manage the risk arising from changes in foreign currency exchange rates and interest rates, Toyota enters into a variety of derivative financial instruments.

A description of Toyota's accounting policies for derivative instruments is included in note 2 to the consolidated financial statements and further disclosure is provided in notes 20 and 21 to the consolidated financial statements.

Toyota monitors and manages these financial exposures as an integral part of its overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effects on Toyota's operating results.

The financial instruments included in the market risk analysis consist of all of Toyota's cash and cash equivalents, marketable securities, finance receivables, securities investments, long-term and short-term debt and all derivative financial instruments. Toyota's portfolio of derivative financial instruments consists of forward foreign currency exchange contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options. Anticipated transactions denominated in foreign currencies that are covered by Toyota's derivative hedging are not included in the market risk analysis. Although operating leases are not required to be included, Toyota has included these instruments in determining interest rate risk.

***Foreign Currency Exchange Rate Risk***

Toyota has foreign currency exposures related to buying, selling and financing in currencies other than the local currencies in which it operates. Toyota is exposed to foreign currency risk related to future earnings or assets and liabilities that are exposed due to operating cash flows and various financial instruments that are denominated in foreign currencies. Toyota's most significant foreign currency exposures relate to the U.S. dollar and the euro.

Toyota uses a value-at-risk analysis ( VAR ) to evaluate its exposure to changes in foreign currency exchange rates. The value-at-risk of the combined foreign exchange position represents a potential loss in pre-tax earnings that was estimated to be ¥57.1 billion as of March 31, 2005 and ¥51.9 billion as of March 31, 2006. Based on Toyota's overall currency exposure (including derivative positions), the risk during the year ended March 31, 2006 to pre-tax cash flow from currency movements was on average ¥46.6 billion, with a high of ¥51.9 billion and a low of ¥44.1 billion.

The VAR was estimated by using a Monte Carlo Simulation method and assumed 95% confidence level on the realization date and a 10-day holding period.

***Interest Rate Risk***

Toyota is subject to market risk from exposures to changes in interest rates based on its financing, investing and cash management activities. Toyota enters into various financial instrument transactions to maintain the desired level of exposure to the risk of interest rate fluctuations and to minimize interest expense. Certain exchange traded future and option contracts, interest rate caps and floors, along with various investments, have been entered into to reduce the interest rate risk related to these activities. The potential decrease in fair value resulting from a hypothetical 100 basis point upward shift in interest rates would be approximately ¥56.3 billion as of March 31, 2005 and ¥75.6 billion as of March 31, 2006.

There are certain shortcomings inherent to the sensitivity analyses presented. The model assumes interest rate changes are instantaneous parallel shifts in the yield curve; however, in reality, changes are rarely instantaneous. Although certain assets and liabilities may have similar maturities or periods to repricing, they

**Table of Contents**

may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Finance receivables are less susceptible to prepayments when interest rates change and, as a result, Toyota's model does not address prepayment risk for automotive related finance receivables. However, in the event of a change in interest rates, actual loan prepayments may deviate significantly from the assumptions used in the model.

***Commodity Price Risk***

Commodity price risk is the possibility of higher or lower costs due to changes in the prices of commodities, such as non-ferrous alloys (e.g., aluminum), precious metals (e.g., palladium, platinum and rhodium) and ferrous alloys, which Toyota uses in the production of motor vehicles. Toyota does not use derivative instruments to hedge the price risk associated with the purchase of those commodities and controls its commodity price risk by holding minimum stock levels.

***Equity Price Risk***

Toyota holds investments in various available-for-sale equity securities that are subject to price risk. The fair value of available-for-sale equity securities was ¥904.8 billion as of March 31, 2005 and ¥1,469.1 billion as of March 31, 2006. The potential change in the fair value of these investments, assuming a 10% change in prices, would be approximately ¥90.4 billion as of March 31, 2005 and ¥146.9 billion as of March 31, 2006.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**Table of Contents**

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF  
PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

**15.A DISCLOSURES CONTROLS AND PROCEDURES**

Toyota performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the fiscal 2006. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in the Form 20-F that Toyota files under the Exchange Act is accumulated and communicated to its management including the chief executive officer and the principal accounting and financial officer. The disclosure controls and procedures also ensures that the Form 20-F that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. The evaluation was performed under the supervision of Fujio Cho, Toyota's Chairman of the Board and Mitsuo Kinoshita, Toyota's Executive Vice President, Member of the Board. Toyota's disclosures controls and procedures are designed to provide reasonable assurance of achieving its objectives. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Mr. Cho and Mr. Kinoshita have concluded that Toyota's disclosure controls and procedures are effective at the reasonable assurance level.

There have been no changes in Toyota's internal control over financial reporting during fiscal 2006 that have materially affected, or are reasonably likely to materially affect, Toyota's internal control over financial reporting.

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Toyota maintains a corporate auditor system, in accordance with the Japanese Corporation Act. Toyota's board of corporate auditors is comprised of seven corporate auditors, four of whom are outside corporate auditors. Each corporate auditor has been appointed at its shareholders' meetings and has certain statutory powers independently, including auditing the business affairs and accounts of Toyota.

Toyota's board of corporate auditors has determined that it does not have an audit committee financial expert serving on the board of corporate auditors. The qualifications for, and powers of, the corporate auditor delineated in the Corporation Act is different from those anticipated for any audit committee financial expert. Corporate auditors have the authority to be given reports from a certified public accountant or an accounting firm concerning audits, including technical accounting matters. At the same time, each corporate auditor has the authority to consult internal and external experts on accounting matters. Each corporate auditor must fulfill the requirements under Japanese laws and regulations and otherwise follow Japanese corporate governance practices and, accordingly, Toyota's board of corporate auditors has confirmed that it is not necessarily in Toyota's best interest to nominate as corporate auditor a person who meets the definition of audit committee financial experts. Although Toyota does not have an audit committee financial expert on its board of corporate auditors, Toyota

**Table of Contents**

believes that Toyota's current corporate governance system, taken as a whole, including the corporate auditors' ability to consult internal and external experts, is fully equivalent to a system having an audit committee financial expert on its board of corporate auditors.

**ITEM 16B. CODE OF ETHICS**

Toyota has adopted a code of ethics that applies to its directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of Toyota's code of ethics is attached as an exhibit to this annual report on Form 20-F.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

ChuoAoyama PricewaterhouseCoopers has served as our independent public accountants for each of the financial years in the three-year period ended March 31, 2006, for which audited financial statements appear in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by ChuoAoyama PricewaterhouseCoopers and the various network and member firms of the PricewaterhouseCoopers to Toyota in fiscal 2006 and fiscal 2005.

	Yen in millions	
	2005	2006
Audit Fees (1)	1,797	2,025
Audit-related Fees (2)	1,139	604
Tax Fees (3)	782	896
All Other Fees (4)	106	81
<b>Total</b>	<b>3,824</b>	<b>3,606</b>

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the services of annual audit, quarter reviews and semi-annual reviews of Toyota and its subsidiaries and affiliates; the services associated with SEC registration statements or other documents issued in connection with securities offerings such as comfort letters and consents; consultations as to the accounting or disclosure treatment of transactions or events.
- (2) Audit-related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the external auditor, and mainly include the services such as due diligence; agreed-upon or expanded audit procedures; internal control reviews and assistance; review of the effectiveness of the internal audit function; assistance with implementation of the requirements of SEC rules pursuant to the Sarbanes-Oxley Act; financial statement audits of employee benefit plans.
- (3) Tax Fees include fees billed for tax compliance services, including the services such as tax planning, advice and compliance of federal, state, local and international tax; the review of tax returns; assistance with tax audits and appeals; tax only valuation services including transfer pricing and cost segregation studies; expatriate tax assistance and compliance.
- (4) All Other Fees mainly include fees billed for risk management advisory services of assessment and testing of security infrastructure controls; advisory services relating to accounting manual and accounting control; advisory services relating to establishment of a new subsidiary; assistance with continuing education and training; services providing information related to automotive market conditions and sales networks and advisory services on information systems related to dealer controls.

## **Table of Contents**

### **Policies and Procedures of the Board of Corporate Auditors**

Below is a summary of the current policies and procedures of the board of corporate auditors for the pre-approval of audit and permissible non-audit services performed by Toyota's independent public accountants.

Under the policy, the Representative Directors submit a request for general pre-approval of audit and permissible non-audit services for the following fiscal year, which shall include details of the specific services and estimated fees for the services, to the board of corporate auditors, which reviews and determines whether or not to grant the request by the end of March of the fiscal year. Upon the general pre-approval of the board of corporate auditors, the Representative Directors are not required to obtain any specific pre-approval for audit and permissible non-audit services so long as those services fall within the scope of the general pre-approval provided.

The board of corporate auditors makes further determination of whether or not to grant a request to revise the general pre-approval for the applicable fiscal year if such request is submitted by the Representative Directors or the Managing Officer authorized by the Representative Director. Such request may include (i) adding any audit or permissible non-audit services other than the ones listed in the general pre-approval and (ii) obtaining services, which are listed in the general pre-approval but of which the total fee amount exceeds the amount affirmed by the general pre-approval. The determination of whether or not to grant a request to revise the general pre-approval noted in the foregoing may alternatively be made by an Executive Corporate Auditor, who is designated in advance by a resolution of the board of corporate auditors, in which case such Executive Corporate Auditor shall report such decision at the next meeting of the board of corporate auditors. The performance of audit and permissible non-audit services and the payment of fees are subject to review by the board of corporate auditors at least once every fiscal half year.

### **ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Toyota does not have an audit committee. Toyota is relying on the general exemption contained in Rule 10A-3(c)(3) under the Exchange Act, which provides an exemption from the NYSE's listing standards relating to audit committees for foreign companies like Toyota that have a board of corporate auditors. Toyota's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

**Table of Contents****ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED****PURCHASERS**

The following table sets forth purchases of Toyota's common stock by Toyota and its affiliated purchasers during fiscal 2006:

<b>Period</b>	<b>(a) Total Number of Shares Purchased<sup>1</sup></b>	<b>(b) Average Price Paid per Share (Yen)</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>2</sup></b>	<b>(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs<sup>2</sup></b>
April 1, 2005 – April 30, 2005	6,036	¥ 4,020.10	0	21,543,500
May 1, 2005 – May 31, 2005	2,870	3,871.08	0	21,543,500
June 1, 2005 – June 30, 2005	16,003,711	3,860.01	16,000,000	65,000,000
July 1, 2005 – July 31, 2005	12,155	4,119.95	0	65,000,000
August 1, 2005 – August 31, 2005	13,000	4,329.50	0	65,000,000
September 1, 2005 – September 30, 2005	3,308,723	4,587.98	0	65,000,000
October 1, 2005 – October 31, 2005	10,225	5,196.62	0	65,000,000
November 1, 2005 – November 30, 2005	7,610	5,498.22	0	65,000,000
December 1, 2005 – December 31, 2005	14,751	5,857.10	0	65,000,000
January 1, 2006 – January 31, 2006	6,684	5,982.13	0	65,000,000
February 1, 2006 – February 28, 2006	11,583,048	6,210.00	11,575,000	53,425,000
March 1, 2006 – March 31, 2006	6,659	6,281.03	0	53,425,000
<b>Total</b>	<b>30,975,472</b>		<b>27,575,000</b>	

<sup>1</sup> All purchases other than purchases publicly announced and other than 3,300,000 shares purchased in September 2005 in open-market transactions, were made as a result of holders of shares constituting less than one unit, which is 100 shares of common stock, requesting Toyota to purchase shares that are a fraction of a unit, in accordance with Toyota's share handling regulations. Toyota is required to comply with such requests pursuant to the Corporation Act (or until the Corporation Act became effective, the Commercial Code). See Memorandum and Articles of Association – Japanese Unit Share System.

<sup>2</sup> On June 23, 2004, share repurchases were approved at the Ordinary General Shareholders' Meeting pursuant to which Toyota may purchase during a one-year period until the next Ordinary General Shareholders' Meeting up to the lesser of 65,000,000 shares of common stock or the number of shares equivalent to ¥250.0 billion in cost of repurchase. This share repurchase program expired on June 23, 2005. On June 23, 2005, share repurchases were approved at the Ordinary General Shareholders' Meeting pursuant to which Toyota may purchase during a one-year period until the next Ordinary General Shareholders' Meeting up to the lesser of 65,000,000 shares of common stock or the number of shares equivalent to ¥250.0 billion in cost of repurchase. This share repurchase program expired on June 23, 2006. For a discussion of past and current share repurchases, see Business Overview – Toyota's Strategy – Focus on Shareholder Value.

In addition, Toyota may repurchase its own shares through a stock exchange on which such shares are listed or by way of tender offer pursuant to a resolution of the board of directors under Toyota's articles of incorporation. However, Toyota has never repurchased its own shares under such provision.



**Table of Contents**

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

The following financial statements are filed as part of this annual report on Form 20-F.

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**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F - 2
<u>Consolidated balance sheets at March 31, 2005 and 2006</u>	F - 3
<u>Consolidated statements of income for the years ended March 31, 2004, 2005 and 2006</u>	F - 5
<u>Consolidated statements of shareholders' equity for the years ended March 31, 2004, 2005 and 2006</u>	F - 6
<u>Consolidated statements of cash flows for the years ended March 31, 2004, 2005 and 2006</u>	F - 8
<u>Notes to consolidated financial statements</u>	F - 10
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.

**Table of Contents**

**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/ ChuoAoyama PricewaterhouseCoopers

June 23, 2006

F-2

**Table of Contents**

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

	Yen in millions		U.S. dollars
	2005	March 31, 2006	in millions March 31, 2006
<b>Current assets</b>			
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
<b>Total current assets</b>	<b>9,440,105</b>	<b>10,735,222</b>	<b>91,387</b>
<b>Noncurrent finance receivables, net</b>	<b>3,976,941</b>	<b>4,830,216</b>	<b>41,119</b>
<b>Investments and other assets</b>			
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
<b>Total investments and other assets</b>	<b>5,122,371</b>	<b>6,099,529</b>	<b>51,924</b>
<b>Property, plant and equipment</b>			
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)
<b>Property, plant and equipment, net</b>	<b>5,795,594</b>	<b>7,066,628</b>	<b>60,157</b>
<b>Total assets</b>	<b>¥ 24,335,011</b>	<b>¥ 28,731,595</b>	<b>\$ 244,587</b>

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

**Table of Contents**

**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
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>	<b>8,227,206</b>	<b>10,028,735</b>	<b>85,373</b>
<b>Long-term liabilities</b>			
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
<b>Total long-term liabilities</b>	<b>6,557,926</b>	<b>7,552,831</b>	<b>64,296</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>504,929</b>	<b>589,580</b>	<b>5,019</b>
<b>Shareholders equity</b>			
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)
<b>Total shareholders equity</b>	<b>9,044,950</b>	<b>10,560,449</b>	<b>89,899</b>
Commitments and contingencies			
<b>Total liabilities and shareholders equity</b>	<b>¥ 24,335,011</b>	<b>¥ 28,731,595</b>	<b>\$ 244,587</b>

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

**Table of Contents**

**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
<b>Net revenues</b>				
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
<b>Costs and expenses</b>				
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
<b>Other income (expense)</b>				
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
	<b>Yen</b>			<b>U.S. dollars</b>
<b>Net income per share</b>				
- 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

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

Table of Contents

## 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
<b>Balances at March 31, 2003</b>	¥ 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)
<b>Balances at March 31, 2004</b>	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)
<b>Balances at March 31, 2005</b>	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)
<b>Balances at March 31, 2006</b>	¥ 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.

F-6

Table of Contents

## TOYOTA MOTOR CORPORATION

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (CONTINUED)

	U.S. dollars in millions				Treasury	Total
	Common	Additional	Retained	Accumulated	stock,	shareholders
	stock	paid-in	earnings	other	at cost	equity
		capital		comprehensive		
				income (loss)		
<b>Balances at March 31, 2005</b>	\$ 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
<b>Total comprehensive income</b>						<b>16,090</b>
Dividends paid			(2,082)			(2,082)
Purchase and reissuance of common stock					(1,104)	(1,104)
<b>Balances at March 31, 2006</b>	\$ 3,380	\$ 4,216	\$ 89,042	\$ 3,723	\$ (10,462)	\$ 89,899

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

**Table of Contents****TOYOTA MOTOR CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended
	2004	2005	2006	March 31, 2006
<b>Cash flows from operating activities</b>				
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
<b>Cash flows from investing activities</b>				
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.



Table of Contents

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended
	2004	2005	2006	March 31, 2006
<b>Cash flows from financing activities</b>				
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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**Table of Contents**

**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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**Table of Contents**

**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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**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**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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**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**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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**Table of Contents**

**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

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

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
	For the years ended March 31,			in millions
	2004	2005	2006	For the year ended March 31, 2006
<b>Net income</b>				
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
<b>Net income per share</b>				
- 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
<b>Other comprehensive income -</b>				

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



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

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.

**Table of Contents****TOYOTA MOTOR CORPORATION****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

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

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:

	<b>Yen in millions</b>
	<b>For the year ended</b>
	<b>March 31, 2004</b>
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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Marketable securities and other securities investments:**

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	
<b>Available-for-sale</b>				
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	
<b>Available-for-sale</b>				
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	
<b>Available-for-sale</b>				
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
<b>Securities not practicable to determine fair value</b>				
Debt securities	\$ 161			
Equity securities	1,202			
Total	\$ 1,363			

F-19

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**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**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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	<b>2005</b>	<b>2006</b>	<b>2006</b>
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

F-21

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

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

F-23

**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:



<u>Years ending March 31,</u>	<b>Yen in millions</b>	<b>U.S. dollars in millions</b>
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
<b>Total minimum future rentals</b>	<b>¥ 979,895</b>	<b>\$ 8,342</b>

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

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		U.S. dollars
	March 31,		in millions
	2005	2006	March 31, 2006
Current assets	¥ 5,282,960	¥ 6,259,683	\$ 53,288
Noncurrent assets	8,017,220	10,148,606	86,393
<b>Total assets</b>	<b>¥ 13,300,180</b>	<b>¥ 16,408,289</b>	<b>\$ 139,681</b>
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
<b>Total liabilities and shareholders' equity</b>	<b>¥ 13,300,180</b>	<b>¥ 16,408,289</b>	<b>\$ 139,681</b>
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
	For the years ended March 31,			in millions
	2004	2005	2006	For the year ended March 31, 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

F-26

**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 March 31,		U.S. dollars in millions March 31,
	2005	2006	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 in millions
	For the years ended March 31,			For the year ended
	2004	2005	2006	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
	2005	March 31, 2006	in millions March 31, 2006
<b>Deferred tax assets</b>			
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
<b>Deferred tax liabilities</b>			
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)

F-31

Table of Contents

## 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
<b>Deferred tax assets</b>			
Deferred income taxes (Current assets)	¥ 475,764	¥ 520,494	\$ 4,431
Investments and other assets - other	108,513	106,715	908
<b>Deferred tax liabilities</b>			
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
<b>Common stock issued</b>			
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

Table of Contents

## 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)
<b>Balances at March 31, 2003</b>	¥ (311,773)	¥ 7,252	¥ (299,751)	¥ (604,272)
Other comprehensive income (loss)	(203,257)	329,672	273,265	399,680
<b>Balances at March 31, 2004</b>	(515,030)	336,924	(26,486)	(204,592)
Other comprehensive income	75,697	38,455	9,780	123,932
<b>Balances at March 31, 2005</b>	(439,333)	375,379	(16,706)	(80,660)
Other comprehensive income	268,410	244,629	4,937	517,976
<b>Balances at March 31, 2006</b>	¥ (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)
<b>Balances at March 31, 2005</b>	\$ (3,740)	\$ 3,196	\$ (142)	\$ (686)
Other comprehensive income	2,285	2,082	42	4,409

<b>Balances at March 31, 2006</b>	\$ (1,455)	\$ 5,278	\$ (100)	\$ 3,723
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F-34



**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
<b>For the year ended March 31, 2004</b>			
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
<b>For the year ended March 31, 2005</b>			
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
<b>For the year ended March 31, 2006</b>			
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
<b>For the year ended March 31, 2006</b>			
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
<b>Options outstanding at March 31, 2003</b>	3,925,400	¥ 3,656	3.53
Granted	1,958,000	3,116	
Exercised			
Canceled	(987,000)	3,849	
<b>Options outstanding at March 31, 2004</b>	4,896,400	3,401	3.83
Granted	2,021,000	4,541	
Exercised	(810,300)	2,995	
Canceled	(606,800)	4,105	
<b>Options outstanding at March 31, 2005</b>	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	
<b>Options outstanding at March 31, 2006</b>	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	Number of	Exercisable	
		Weighted	Weighted			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

F-36

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

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	and	
	products	administrative	Total
	sold		
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

Table of Contents

## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	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
	March 31,		in millions
	2005	2006	March 31, 2006
<b>Change in benefit obligation</b>			
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
<b>Change in plan assets</b>			
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
	March 31,		in millions
	2005	2006	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

F-40

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

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%

F-41

**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

F-42

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**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**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

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

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
<b>Asset (Liability)</b>		
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
<b>Asset (Liability)</b>				
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

F-45

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

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:

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

**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

**Table of Contents**

**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

F-48

**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

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

	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.

F-51

**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
<b>Non-Financial Services Businesses</b>			
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
<b>Total current assets</b>	<b>6,401,152</b>	<b>7,154,653</b>	<b>60,906</b>
Investments and other assets	4,804,843	5,702,376	48,543
Property, plant and equipment	4,579,052	5,207,760	44,333
<b>Total Non-Financial Services Businesses assets</b>	<b>15,785,047</b>	<b>18,064,789</b>	<b>153,782</b>
<b>Financial Services Businesses</b>			
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
<b>Total current assets</b>	<b>3,836,650</b>	<b>4,361,374</b>	<b>37,128</b>
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
<b>Total Financial Services Businesses assets</b>	<b>9,487,248</b>	<b>11,613,508</b>	<b>98,864</b>
Eliminations	(937,284)	(946,702)	(8,059)
<b>Total assets</b>	<b>¥ 24,335,011</b>	<b>¥ 28,731,595</b>	<b>\$ 244,587</b>



**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
<b>Non-Financial Services Businesses</b>			
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
<b>Total current liabilities</b>	<b>5,139,351</b>	<b>5,774,891</b>	<b>49,161</b>
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
<b>Total long-term liabilities</b>	<b>1,957,404</b>	<b>2,230,611</b>	<b>18,989</b>
<b>Total Non-Financial Services Businesses liabilities</b>	<b>7,096,755</b>	<b>8,005,502</b>	<b>68,150</b>
<b>Financial Services Businesses</b>			
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
<b>Total current liabilities</b>	<b>3,789,503</b>	<b>5,040,058</b>	<b>42,905</b>
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
<b>Total long-term liabilities</b>	<b>4,836,755</b>	<b>5,483,284</b>	<b>46,678</b>
<b>Total Financial Services Businesses liabilities</b>	<b>8,626,258</b>	<b>10,523,342</b>	<b>89,583</b>
<b>Eliminations</b>	<b>(937,881)</b>	<b>(947,278)</b>	<b>(8,064)</b>

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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

F-54

**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
<b>Non-Financial Services Businesses</b>				
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
<b>Financial Services Businesses</b>				
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

F-55



**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
<b>Cash flows from operating activities</b>						
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
<b>Cash flows from investing activities</b>						
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)
<b>Cash flows from financing activities</b>						
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

F-56

**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
<b>Cash flows from operating activities</b>						
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
<b>Cash flows from investing activities</b>						
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)
<b>Cash flows from financing activities</b>						
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

F-57

**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
<b>For the year ended March 31, 2004</b>				
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	
<b>For the year ended March 31, 2005</b>				
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	
<b>For the year ended March 31, 2006</b>				
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,		