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ANNUAL REPORT 2003

Year Ended March 31, 2003

TOYODA MACHINE WORKS, LTD.

TOYODA MACHINE WORKS

Management Philosophy

Toyoda Machine Works, Ltd. will make infinite contributions toward the development of its customers and greater society around the world.

To meet these objectives, the company aims to:

1 Consistently put the customer first and place the Company's genuine contribution toward the development of its customers as a top priority.

2 Value resources, promote environmental preservation, resource saving and recycling activities, and have operations that are in harmony with people, the greater society and the regional environment. Through this, the company hopes to contribute to the creation of a comfortable, abundant living environment.

3 Gain the trust of people and become accepted as a good corporate citizen both in international and domestic circles by having fair and open activities, and respecting the law as well as its spirit.

4 Continue challenging ourselves to develop cutting-edge technologies and to create new value by learning greatly from our customers and society. Furthermore, it will be the company's endless mission to be at the forefront of technology and to maintain our appeal as the No.1 worldwide provider of products.

5 Build a passionate and lively workplace environment by respecting each individual, placing individual creativity in high regard, and engaging in organizational activities that allow employees to work together and challenge themselves to pursue their dreams.

6 Grow steadily in the long-term by continuing to put quality first, promoting improvements to costs and productivity, strengthening the Company's business structure, and responding rapidly to changes in the market environment.

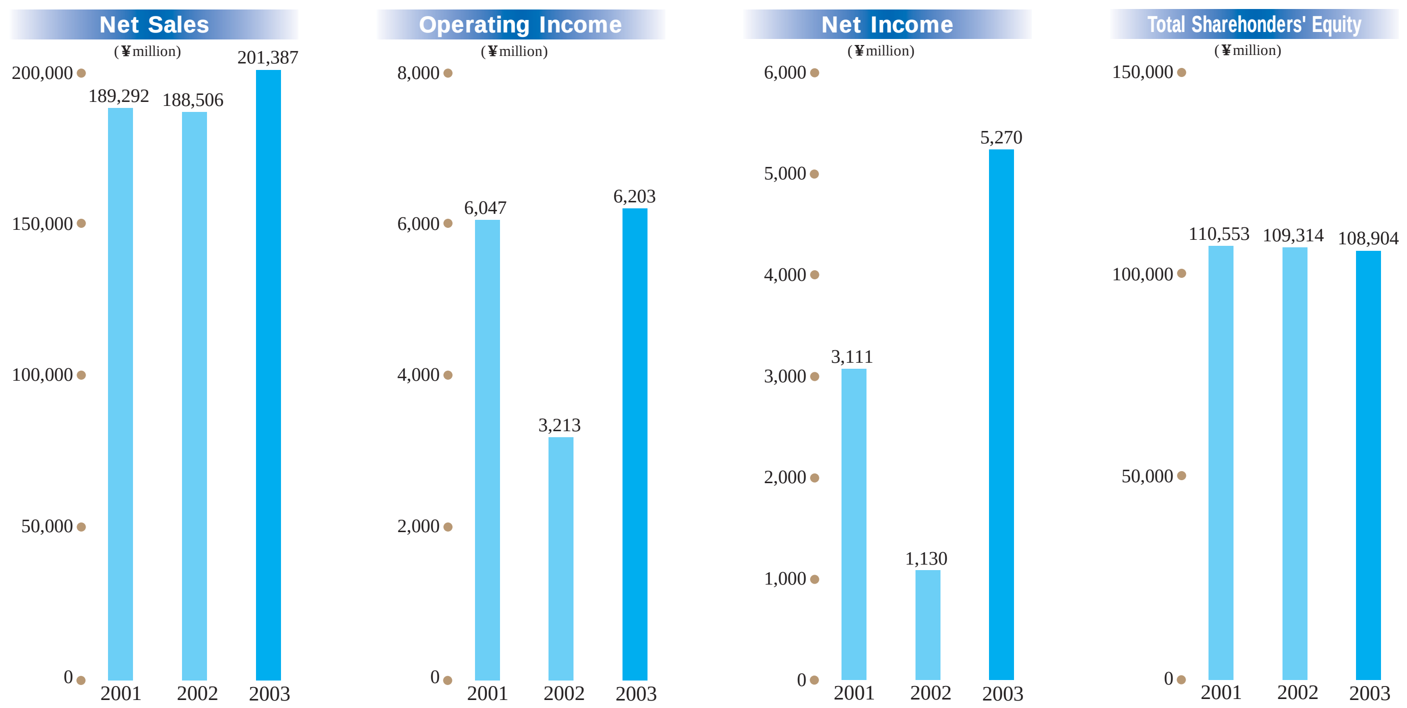
Contents

Financial Highlights

Fiscal years ended March 31, 2003 and 2002

	Millions of yen		*Thousands of U.S. dollars*
	2003	2002	2003
Consolidated			
Net Sales	**¥201,387**	¥188,506	**$1,678,227**
Operating Income	**6,203**	3,213	**51,695**
Income before Income Taxes	**10,515**	3,001	**87,628**
Net Income	**5,270**	1,130	**43,918**
Total Assets	**221,903**	223,921	**1,849,189**
Total Shareholders' Equity	**108,904**	109,314	**907,534**
Common Stock	**24,805**	24,805	**206,712**

Note : The exchange rate of ¥120=U.S.$1 (as of March 31, 2003 in the Tokyo Foreign Exchange Market) is used for the above calculations.



	Millions of yen		*Thousands of U.S. dollars*
	2003	2002	2003
Non-consolidated			
Net Sales	**¥158,369**	¥145,606	**$1,319,744**
Operating Income	**4,126**	2,643	**34,384**
Income before Income Taxes	**7,205**	2,811	**60,048**
Net Income	**3,305**	1,661	**27,549**
Total Assets	**196,383**	196,017	**1,636,532**
Total Shareholders' Equity	**103,568**	104,537	**863,072**
Common Stock	**24,805**	24,805	**206,712**

Note : The exchange rate of ¥120=U.S.$1 (as of March 31, 2003 in the Tokyo Foreign Exchange Market) is used for the above calculations.

Chairman: Tadashi Onishi (Left)

President: Yoshio Yunokawa (Right)

To

The Toyoda Machine Works group manages its business with a bold vision. Our stated goal is to "be acknowledged as a company whose presence has a core role in the industry, fully take on such responsibility and achieve even greater global development." During the fiscal year under review (Fiscal 2002), we focused on "enhancing our business structure" as our most critical management issue, as the international competitive environment grew increasingly challenging.

As a result, consolidated operating results for the fiscal year under review resulted in both higher sales and higher earnings. We achieved sales in excess of the prior year levels in both our machine tools business and automotive parts business. Efforts including product selection and focus and rationalization of production contributed to the improvement in profitability. Sales increased by 6.8% to ¥201.4 billion, and operating income jumped 93.1% to ¥6.2 billion.

The annual dividend per share for the fiscal year under review was ¥10, including an interim dividend of ¥5 per share and the fiscal year-end dividend of ¥5 per share. In light of the Toyoda Machine Works group's policy of returning profits to our shareholders, we are giving comprehensive consideration to our operating performance and dividend payout ratio in order to maintain stable

Our Shareholders

dividends. We will aggressively continue our efforts in the future to further meet the high expectations of our shareholders.

As our group vision for fiscal 2003, we have chosen to continue our efforts from fiscal 2002 under the slogan "*Focusing on making infinite contributions toward the development of customers and greater society.*" We will pursue aggressive management under the following key words:

○ ***Customer first***
○ ***Focus on quality***
○ ***Innovation and Rapid Response***

Through our pursuit of these goals that unite the Toyoda Machine Works group, we will continually seek to offer new value to people in Japan and around the world. We will utilize technical improvements and product manufacturing as a base to turn a future of dreams for our earth and humanity into a reality. At Toyoda Machine Works, we truly believe that creating such a firm will lead to global development.

Management Strategy for Growth

Analysis of the environment and fiscal 2002 Topics

Globalization is proceeding in every industry. In the machine tools industry and the automotive parts industry, competition is again becoming gradually more severe on a worldwide scale. Orders received have recovered since October 2002, as the result of vigorous capital investment in the automobile and automotive parts industries. But more time will be required for a full-fledged demand recovery in the machine tools industry.

Given this business environment, promotion of a management strategy that accurately identifies market needs and construction of a management foundation capable of winning the intensifying global competition will be indispensable for Toyoda Machine Works Ltd. to continue growing in the 21st century.

We recognized this fact during fiscal 2002 and charted our management course accordingly. One action we took was to begin operations at FAVESS Co., Ltd., a joint venture we established with Koyo Seiko Co., Ltd., Toyota Motor Corporation and Denso Corporation in the automotive parts business, in November 2002. FAVESS will be engaged in the development and sale of electric power steering, a product we expect to spread rapidly in the future in the global market. We anticipate FAVESS will play a major role in the further development of our automotive parts business. In the machine tool business, our *Super-precision Processing Machine NanoProcessor*, a product we developed and brought to market in 2002, captured the industry's attention and was awarded the Top Ten New Products Award by the Nikkan Kogyo Shimbun, Ltd. As China continues to steadily acquire the technological capabilities that have made it one of the world's great production bases, we believe continuing to bring to market products that incorporate cutting-edge technology available only from Toyoda is a key strategy for emerging as a winner in today's new competitive environment.

Management strategy essentials

Our focus is on creating a business structure that will continue growing into the 21st century. Using "enhancement of our global competitive edge" as our main theme, we are vigorously promoting the following five strategies:

○ ***Strengthen management systems and earnings capability***

- ***Maximum emphasis on quality and achieve "zero" defect output***
- ***Expand the number of products with leading global market share***
- ***Achieve 50% reductions in costs and lead time***
- ***Create global business organizations***

Strengthen management systems and earnings capability

Our primary objective is to strengthen the management systems at our business units, including our consolidated subsidiaries. This will involve enhancing the earnings dynamic of each individual business unit, while clarifying the core businesses of the entire group and promoting business restructuring that includes reviews of redundant businesses.

We will also seek to take maximum advantage of our full-scale business development of both the machine tools and mechatronics business and the automotive parts business, a rare combination in the industry, to demonstrate the synergistic effects of both businesses, create new core technologies and expand our business territories. With this objective in mind we will focus on construction of a management system capable of maximizing synergistic effects.

Maximum emphasis on quality and achieve "zero" defect output

Product quality is a manufacturing firm's lifeline. At Toyoda, we believe a maximum emphasis on quality is an unvarying theme. Based on this outlook, we have incorporated this concept as one of the three key words in our slogan for fiscal 2003. Through rapid improvements in design quality and broad creation of production quality, we will achieve zero defect output and increase customers' trust as the "first name in quality."

Expand the number of products with leading global market share

During the past two years we have pursued product selection and focus and engaged in efforts aimed at making us the world leader in each business sector through our streamlined product offerings. As a result, we've gradually expanded our global share for each product, and also gradually increased the number of products ranked number one in terms of global market share. We believe further expanding the number of products with top market share in the future is a critically important issue for bolstering our global competitive edge. Accordingly, in fiscal 2003 we will roll out a new strategy rooted in the idea of being "the one and only." To create original markets, we will develop products based on original, cutting-edge technology that only Toyoda can offer. In other words, our expansion will focus on creating "the one and only technology" and "the one and only product."

Achieve 50% reductions in costs and lead times

Reducing manufacturing costs and shortening lead times are indispensable requirements for responding to the needs of our worldwide customers and emerging as the winner in today's intensifying

To Our Shareholders

global competition. They are also the best approach for us to achieve our key management theme of "strengthening our earnings capability." Our focus will be on achieving the objectives of cutting manufacturing costs in half and reducing lead times by 50%, by pursuing unprecedented, innovative ideas. To realize these goals, we will further promote utilization of IT and activities geared to lean manufacturing throughout the entire company.

Create global business organizations

For all of our procurement, production, sales, and service organizations we will construct systems coordinated from a global perspective. In raw material and parts procurement, we will further promote "optimal global procurement" from a viewpoint of quality and cost. As a production organization, we will strengthen our global four-pillar system centered in Japan, Asia, the U.S. and Europe. Our most urgent, critical themes are to achieve start-up of drive train parts production as quickly as possible at our factory in Thailand, where we expanded the plant floor area in December 2002 to three times its former size, and complete the construction of new production bases in China and Central Europe. Finally, as for our sales and service organization, we will enhance and broaden our global organization, including alliances with local firms in every region of the world.

By promoting these management strategies, we will construct a business organization boasting strong, global competitiveness and maximize our firm value.

Status of efforts as of August 2003

During the first half of fiscal 2003, Toyoda has already taken several steps aimed at aggressive system enhancement, including alliances and M&A, based on the management strategy discussed above.

In the automotive parts business, effective August 31, 2003 we will take control of the Bosch Automotive Systems division that manufactures Torsen (automotive torque-sensing differential gears), and merge the Torsen business into Toyoda's drive line business. In other steps, in July 2003 we established a production foothold in China for the first time as an automotive parts business, and in August 2003 set up a manufacturing company and a sales and service company in Thailand through joint ventures with GKN Driveline plc. of the UK. We are moving ahead with preparations to begin operations at all three companies during August 2004.

Activities to Improve the Environment

The Toyoda Machine Works group actively and continually promotes global environment protection efforts. As a corporate citizen trusted by the international community, we want to fulfill all of the social responsibilities placed upon our company.

Currently we are executing our Stage Three Environmental Preservation Plan (Fiscal 2001– Fiscal 2005). Our action items are largely grouped into the following three categories.

○ ***Enhancement of environmental conservation activities through further reductions in environmental load***
○ ***Development and design that give consideration to the environment***
○ ***Expansion of environmental management systems corresponding to consolidated management***

Toyoda's approach to lightening its environmental load is two-pronged. First, we are practicing production activities with the smallest environmental load, such as cutting CO_2 emissions volume, reducing industrial waste, and limiting the quantity of packing and wrapping materials used. At the same time, for our products we are pursuing product design and development to minimize power consumption, fuel costs and floor space. Among these efforts, we believe our ability to achieve our objective of zero emissions (fully eliminating all direct landfill waste) at all six of our plants in Japan in December 2002, more than 18 months ahead of goal, is an especially noteworthy accomplishment.

Finally, although we have received ISO14001 certification, the international environmental management standard, for all of our domestic production base plants, in response to consolidated management we are also moving towards receiving certification for our subsidiaries and plan to complete certification of all our main domestic production companies subject to environmental consolidation by the end of fiscal 2003.

By aggressively executing the management strategy outlined above, we hope to further increase shareholder value and fulfill the expectations of our customers, employees, business partners and local communities.

The management would like to thank our shareholders for the support of our past efforts. We look forward to continuing to receive your understanding and support.

Strategy of the Machine Tools and Mechatronics Division

Efforts to establish a strong business structure and new markets

A review of the trend in orders received in the machine tool industry shows total order volume in 2002 was ¥676 billion, the lowest level in the past seven years. Although the Japan Machine Tool Builders Association projects orders to recover to ¥780 billion in 2003, we believe there is also a possibility a solid recovery in demand will require more time and that the industry faces an unpredictable environment.

Given these conditions, in the machine tools and mechatronics business we worked to during fiscal 2002 reconstruct our earnings capabilities as a measure to lay the foundation for growth in the 21st century. Beginning in fiscal 2003, we will promote management based on the following basic strategies.

1. Create a business structure capable of responding to fluctuating demand
2. Enhance product power and concentrate on the automotive sector, our core industry
3. Develop new markets by pursuing “the one and only” technologies
4. Promote a global strategy that includes advancing into the China market

Order trend in the machine tools industry

Source : Japan Machine Tool Builder’s Association

1. Create a business structure capable of responding to fluctuating demand


Customer Center

During fiscal 2001 and fiscal 2002, we implemented a number of measures aimed at creating an organization that can generate earnings even at the bottom of the demand cycle. These included streamlining our organization through the strategic reassignment of human resources, integration of each machine tool model unit through execution of thorough standardization/unification and consolidation of machine tool models through product selection and focus. As a result, during this two-year period we succeeded in reducing Machine Tools and Mechatronics Division fixed costs by approximately 20%.

Going forward, we will follow an approach aimed at further strengthening our organization. First, we will proceed with further standardization and unification. Specifically, we have been integrating our machine tool model units and reducing the number of parts, and decreased the number of machine tool model units from 1,089 units in fiscal 2001 to 594 units in fiscal 2002. We plan to further reduce our units in fiscal 2003 to less than half the current number. As a result, we believe we will be able to reduce manufacturing costs by approximately 30% over these three years. We will also seek complete standardization, by expanding our efforts to include equipment related to product systematization such as main units and peripheral add-ons as our next target for standardization. Finally, as an approach to strengthen our organization at the design and manufacturing stage, we will pursue a “five less” program to eliminate drawing, processing, assembly, adjustment, and functions while simultaneously seeking to cut lead times in half.

2. Enhance product power and concentrate on the automotive sector, our core industry

Although the trends in the machine tool industry are uncertain, the automotive industry is expected to achieve substantial worldwide growth in the future. Under such circumstances, our technology and know-how for automotive parts processing lines will be Toyoda’s major strong point as we undertake full-scale development of both our machine tools business and our automotive parts business. We will take maximum advantage of this dominance to further enhance our product power in the future, centered on the automotive sector.

For automotive parts processing lines, we are particularly following a strategy of streamlining processing lines for the main components that comprise automobile engines. Initially we will upgrade and strengthen the base machines that form the core of our product lines, and we will differentiate ourselves from other companies by offering our products as processing lines that feature optimal machine configurations. Finally, we fill focus on even larger scale turnkey orders, broaden our product systems, and strengthen alliances with other firms.

Base machines forming the core of our product line include our Top Center G in-line machining center, the FH45 II horizontal machining center, which is optimal for knuckle processing, and the GCS63 III CNC camshaft grinder. Compared to conventional products, all of these machines are epoch-making products that have improved finished goods quality reliability while providing substantial manufacturing cost reductions on the order of 30% to 40%. We are also developing highly accurate practical application machines with higher speeds by making maximum use of the unique characteristics of linear motor drives, such as our LineaM II super high-speed machining center with linear motor drive, and currently we rank No. 1 in terms of domestic delivery performance.

Strategy of the Machine Tools and Mechatronics Division

FH45S
Horizontal machining center

Select G
CNC Cylindrical Grinder

GL5P-III
CNC Cylindrical grinder for mass production

LineaM II
Super high-speed machining center with linear motors

The world's top automobile manufacturers are steadily pursuing globalization. We will increase our sales to global automobile manufacturers and leading parts suppliers by responding to this trend in the future with a product line exhibiting excellent competitiveness in the streamlined sectors described above.

3. Develop new markets by pursuing "the one and only" technologies

Nanoprocessing Sector : The global market for the optoelectronics industry is projected to expand from approximately ¥40 trillion yen today to ¥180 trillion by 2015, more than quadrupling from its present size (according to Japan's Optoelectronic Industry and Technology Development Association). Against the backdrop of this situation, the ultra-high precision parts processing needs of telecommunications sector products such as optical connectors, semiconductor lasers and DVD are showing a broad, large-scale growth trend. Toyoda captured the industry's attention by developing its AHN05 NanoProcessor, an ultra-high precision, free-form surface machine to quickly support these greatly expanding needs. For this product we successfully improved processing precision and shortened processing times through use of hydrostatics bearings and a newly developed, special linear motor. When used for product development, users can achieve a level of precision for both contours and surface roughness that is approximately 30% to 50% higher than the level of other companies' products, as well as shorten processing times to about 30%. With our development of this product, inquiries regarding nanoprocessing machines during fiscal 2002 soared to approximately five times the level in fiscal 2001. Our goal is to stake out a unique position in the nanoprocessing sector by further pursuing upgrades to this technology in the future.

Non-cutting Processing Sector : The F.form-3V developed by Toyoda, the first flow forming machine to be adopted for practical application in Japan, made it possible to form parts with complex shapes without cutting or producing chips and scraps by adopting a new industrial method called "net shape processing." Non-cutting processing is a sector where needs are expected to grow in the future, not only from the desire for material cost reductions but also from the standpoint of environmental protection. In fact, over a one-year period, the number of inquiries about this product and process actually tripled. As we accumulate know-how in this

AHN 05
NanoProcessor

F.form-3V
Net shape processor

LT5-3207H-2T
Laser processor

sector, we will focus on customer development in the global market in the future.

Laser Processing Sector : The laser processing sector possesses strong potential as a next-generation processing technology. We have combined laser processing technology and computerization technology to create our three-dimensional CO_2 laser processing system and our YAG laser welding system.

In this sector as well, we are pursuing upgrades of our unique technology and seeking to develop original markets.

4. Promote a global strategy that includes advancing into the China market

Currently we are developing bases in Japan, Asia, Europe, North and South America and around the world. Nevertheless, until now we did not have a base in China, which is becoming one of the world's major production bases. We therefore established Toyoda Machinery (Dalian) Co., Ltd. (Capital: US$1,830,000) in Dalian, China in April 2003. This wholly-owned local subsidiary will provide manufacturing, sales and service for machine tools and related products in China.

The new company is constructing a technical center that is slated for completion in November 2003. Using the same center as a base, we will move to establish our business in the China market by enhancing our service organization, from local installation to after-sales service for existing users and future new customers, promoting brand awareness and building trust towards the Toyoda brand in the China market.

In the future, we will seek to shift to partial local procurement of order machines, and from the standpoint of optimal global procurement pursue the possibility of imports of China-manufactured machines and knockdown production in China.

We also reached a basic agreement in May 2003 regarding a comprehensive business alliance between Toyoda Machine Works and Mitsui Seiki Kogyo Co., Ltd. The two companies will form a business alliance over the coming months in every area of machine tool-related product development, manufacture, sales and service, and procurement activities. This will include efforts to achieve greater efficiency through an integrated sales and marketing company, formed by combining both company's sales and service operations in each part of the world.

TOYODA MACHINE WORKS

Strategy of the Automotive Parts Division

Be No.1 in the world through "the one and only" technology and products

Based on actual and projected data for the global automobile industry, estimates project total worldwide automobile production to increase by about 25% over ten years, from 52.8 million in 2000 to 66.0 million in 2010. Large growth is expected particularly in China, India, Latin America and Oceania. At the same time, given the extensive scale of their markets, there is still ample room for market development in Europe and North America even though these are mature markets.

Given this situation, in the automotive parts business we have set our sights on being No. 1 in the world in terms of product power and technology and solidifying our position as a global systems supplier. To achieve this objective we will manage our future business based on the following three strategies.

1 Core products strategy

Develop the world's No. 1 products in terms of quality, cost and performance, and introduce them to the global market on a timely basis.

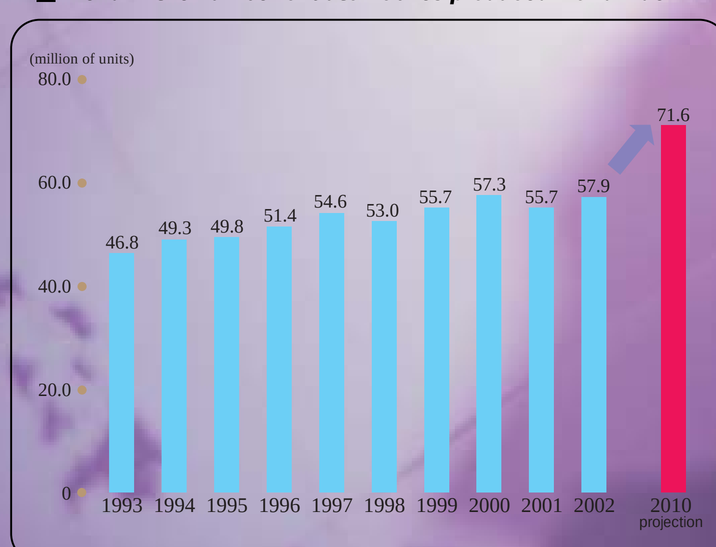
2 Unique products strategy

Generate higher earnings by expanding sales through development of unique technologies and products unmatched by other companies.

3 Global strategy

Create a global business organization that also encompasses alliances.

■ *Trend in the number of automobiles produced worldwide*



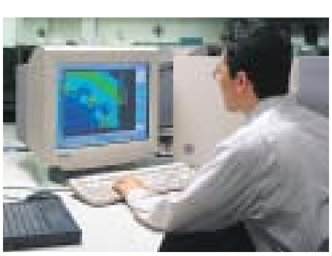
Source : Domestic and foreign automotive associations

1. Core products strategy —Be No. 1 in the world

In the steering business and drive line business, the two most important divisions in the automotive parts business, we are streamlining the product groups that will form the core of our business and devoting our efforts to developing products that can capture leading global market share. We will seek to become the world leader in quality, cost and performance, by providing integrated supply of our products in this sector as a system.

Steering Business

Electric Power Steering (EPS) : We anticipate our efforts in EPS, which we developed over the past several years, to gain further momentum in the future from the establishment of FAVESS Co., Ltd., a joint venture, which is an EPS development and sales company established in November 2002 by Toyoda Machine Works, Koyo Seiko Co., Ltd., Toyota Motor Corporation and Denso Corporation. By combining in one firm the technological capabilities and business strengths these four companies have cultivated separately in the past, FAVESS will develop products with even better performance and expand its business based on its enhanced global competitive edge. In our EPS business, we will concentrate on rack assist EPS used for up-market passenger automobiles and full-sized vehicles, and aim at achieving the world's leading market share for systems built around this type of EPS. The excellent performance of our rack assist EPS is highly rated by automobile manufacturers around the world because we have developed these products with our unique technology for small-scale, high-output built-in motors, and we have already obtained substantial orders. We will begin mass-production in the autumn of 2003, and plan full-scale development for global automobile manufacturers' medium and high-end models after 2005.



FEM anallysis by a CAD system

Technical Center

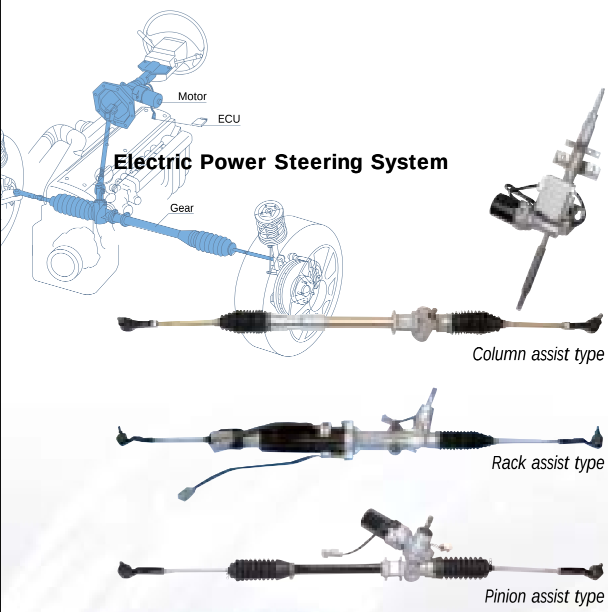
Variable Gear Ratio Steering (VGRS) : Toyoda developed the world's first electronically controlled VGRS, and began mass production in August 2002. This product variably controls the gear ratio (relationship between the turning angle of the steering wheel and the tire slice angle) according to the vehicle's running condition, and is an epoch-making product that will greatly improve performance such as parking ease and high-speed direct forward motion. As a unique technology product, VGRS has received strong positive reviews and numerous inquiries from the world's leading automobile manufacturers.

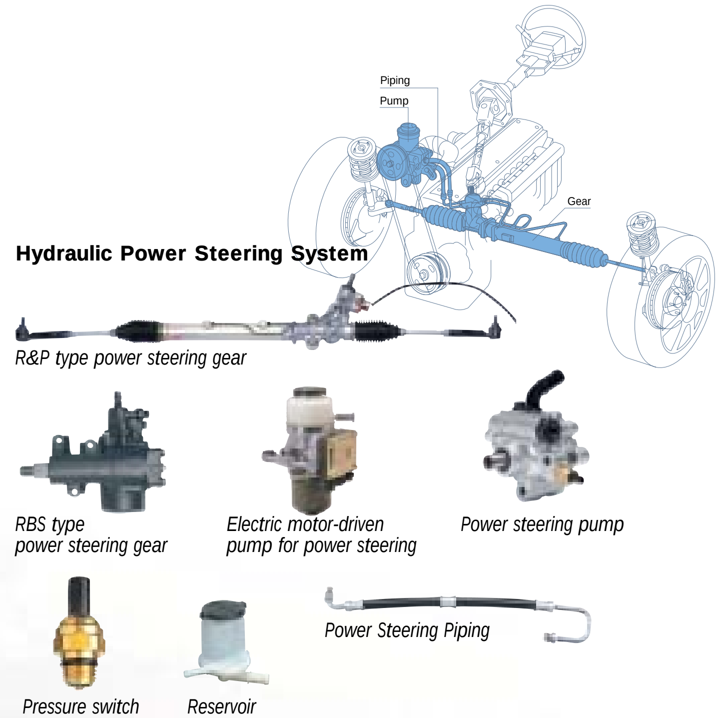
Hydraulic Power Steering : In the hydraulic power steering business, we are working to expand our global market share as an integrated system supplier capable of developing and supplying all pumps, gears and piping systems. Although the global demand trend for hydraulic power steering will follow a downward trend over the long term, we will maintain our profitability in this business by expanding the market to undeveloped customers and regions and increasing global market share. We have already signed future delivery agreements with the major global automobile manufacturers, including the U.S. "Big Three," and our sales plan is enjoying steady growth.

Drive Line Business

In drive line business, our goal is become the world's top-class drive line system supplier through global expansion based, on cooperation with Toyota Motor Corporation and GKN Driveline plc. (formerly GKN plc.) of the UK and integration of the Torsen (automotive torque-sensing differential gears) division transferred from Bosch Automotive Systems with Toyoda's drive line business. Together with providing a complete line of parts by moving into propeller shafts and differential gear housings, in the future we will undertake full-scale efforts as a systems supplier.

Strategy of the Automotive Parts Division



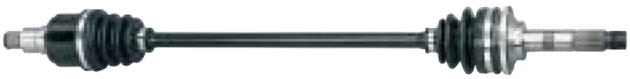


4WD Couplings : In the 4WD coupling sector, we will seek to attain the world's No. 1 market share by strengthening our global expansion for electronically controlled 4WD couplings (ITCC), which boasts an overwhelmingly lead as our main strategic product. We have already obtained new orders from several overseas manufacturers, in addition to orders from traditional customers Toyota Motor Corporation and Nissan Motor Co. We will begin production at our North America production base in May 2004 following large-scale orders from the U.S. Big Three, and anticipate strong expansion. In this business we are working to improve our product strength by developing small units with built-in transfer differential and expanding product series. In addition, we plan to use propeller shafts, a new market we've entered, to achieve supply as a drive line system for FR automobiles and 4WD automobiles in the future. We have also achieved entry into the Torsen business for the first time through a merger transaction. As a result, we have put together a powerful product lineup that enables us to support all 4WD vehicles, from the smallest size to the largest on the road, by combining both ITCC and Torsen (torque responsive all-time 4WD method). We expect this merger with the Torsen business to demonstrate a tremendous synergistic effect in the future that will reach across Toyoda's entire automotive parts business.

Drive Shafts : In the drive shaft sector, through our cooperation with GKN Driveline plc. of the UK, the world's leading manufacturer of constant velocity joints, we are promoting greater sales by taking advantage of technological capabilities centered on GKN Toyoda Driveshafts Ltd. (a joint venture owned 51% by Toyoda and 49% by GKN Driveline plc.). Our goal is to attain the leading market share in Japan and be the world's third largest supplier within the next several years. Currently, inquiries from automobile manufacturers other than Toyota have increased substantially. We anticipate supplying many automobile manufacturers, and have constructed a production line to handle small-quantity production of various product types. In addition, as the second step of our strategic cooperation with GKN Driveline, in August 2003 we will establish a manufacturing company and a sales and service company as joint ventures to supply CVJ to leading Japanese automobile manufacturers in Thailand. We are currently making final preparations to begin operations in August 2004.

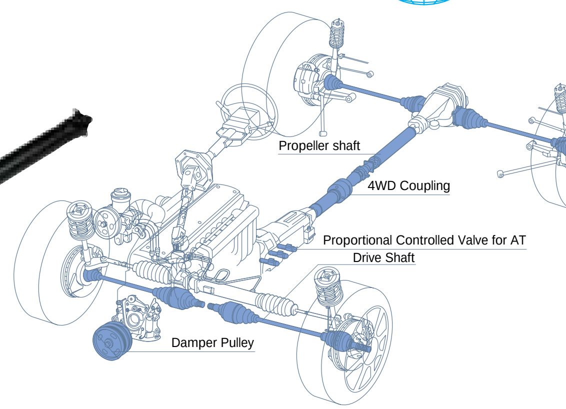
Propeller Shafts : In the propeller shaft sector, which we successfully entered for the first time last year, we are moving to increase the added value of our products through efforts such as development of a next-generation low-vibration model and development of a propeller shaft with an attached constant velocity joint (CVJ). Our goal is to build a global production system covering markets such as Asia and North America and increase worldwide sales of these products.

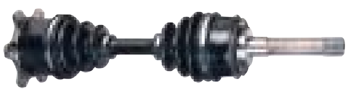
Drive Line System



DOJ-BJ type drive shaft

Propeller shafts



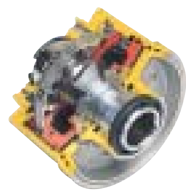


GI-BJ type drive shaft

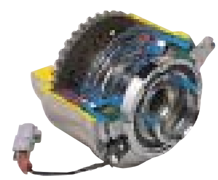
VL-VL type drive shaft

CVT Oil Pump

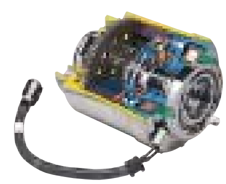
Proportional Controlled Valve for AT/CVT



RBC : Rotary blade coupling



E-RBC : Electronic controlled rotary blade coupling



ITCC : Intelligent torque controlled couplling

Damper Pulley

2. Unique product strategy —Generate higher earnings by increasing added value

Toyoda Machine Works has created a line-up of original, unique products, such as the next-generation ITCC, next-generation rack assist EPS and Intelligent Front Steering system, through the use of highly innovative, state-of-the-art technology. To increase sales using these unique products with their overwhelming competitive edge as core products, in the future we will seek to increase sales in the automotive parts business as a whole while demonstrating synergistic effects on sales growth of peripheral and related parts through development of parts units, modules and systems.

3. Global strategy

To strengthen the global expansion of our automotive parts business, we are currently taking steps to expand and enhance our global four-pillar system. This system will enable us to respond accurately to the optimal global production of each automobile manufacturer. In November 2001 we began operations at Toyoda-koki Automotive South Carolina Inc., our second production and sales base in North America. We plan to open a research and development center on land adjacent to this plant by 2004 as our U.S. base for conducting automotive parts research and development. As our production base in Europe, in February 2003 we established Toyoda-koki Automotive Czech Republic s.r.o. (Capital: 300 million Czech koruna/Financed 100% by Toyoda), and started production of precision processed parts such as manual transmissions. Lastly, in July 2003 we established Toyoda Machinery Automotive (Tianjin) Co., Ltd. (Capital ¥450 million/Toyoda Machine Works 95%, Toyota Tsusho Corporation 5%). This new company in Tianjin, China will produce automotive parts such as PS pumps, and enable us to support the future growth of automobile production in China (operations scheduled to begin in August 2004). By enhancing these global production systems we will be able to provide competitive products and systems on a timely basis and at low cost, and respond to the needs of automobile manufacturers around the world.

TOYODA MACHINE WORKS

Global Network

Manufacturing facility
Sales office
Service office

TOYODA-KOKI AUTOMOTIVE UK LTD. (RESOLVEN, UK)

TOYODA MITSUI EUROPE UK (COVENTRY, UK)

TOYODA MITSUI EUROPE GmbH

TOYODA-KOKI AUTOMOTIVE CZECH REPUBLIC, s.r.o.

TOYODA MACHINERY& ENGINEERING EUROPE (VELIZY, FRANCE)

TPA ENGINEERING CORP.

TOYODA MACHINERY (DALIAN) CO., LTD.

TOYODA-KOKI AUTOMOTIVE (TIANJIN) CO., LTD.

BEIJING REPRESENTATIVE OFFICE

TOYODA MACHINE WORKS (THAILAND) CO., LTD.

TOYODA MACHINERY S.E. ASIA CO., LTD.

SINGAPORE REPRESENTATIVE OFFICE

Hokuriku Sales Office

Osaka Branch Office

Hiroshima Sales Office

Kyushu Sales Office

Gunma Sales Office

Saitama Sales Office

Tokyo Branch Office

Hamamatsu Sales Office

TOYODA MACHINERY USA CORP.
GRINDING MACHINE DIVISION

GRINDERS FOR INDUSTRY (WIXOM, MI)

TOYODA MACHINERY USA CORP. (ARLINGTON HEIGHTS, IL)

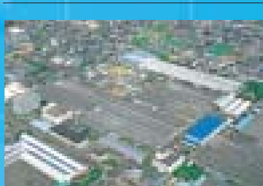
TOYODA-KOKI AUTOMOTIVE NORTH AMERICA INC. (MORRISTOWN, TN)

TOYODA-KOKI AUTOMOTIVE SOUTH CAROLINA INC. (GREENVILLE, SC)

TOYODA KOKI DO BRASIL
INDUSTRIA E COMERICO DE MAQUINAS, LTDA.
(SAO PAULO)

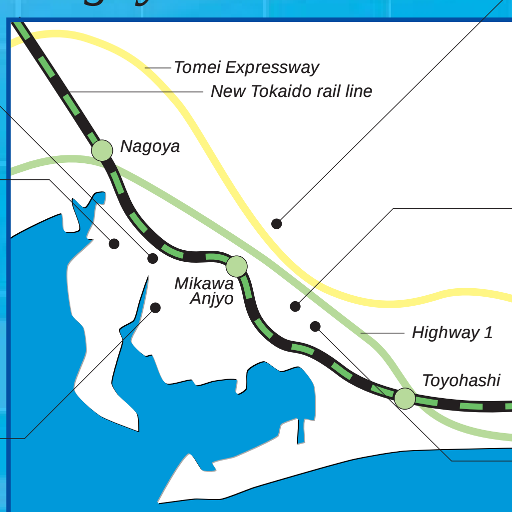
Higashi Kariya Plant

Head Office and Main Plant



Tadomisaki Plant

Nagoya Area



Hanazono Plant

Okazaki Plant

Kohda Plant

Segment Information

Toyoda Machine Works, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2003

Sales by business segment

Machine Tools

In the machine tools industry, we continued to receive orders from the domestic automobile industry at a steady pace. On the other hand, the capital investment situation in the general machinery and electrical and precision machinery sectors gradually continued to improve, but more time will be required before a full-fledged recovery begins. In addition, orders from Europe and North America slowed considerably because of an economic slowdown in these regions. As a result, orders generally showed only a marginal increase compared to the prior fiscal year.

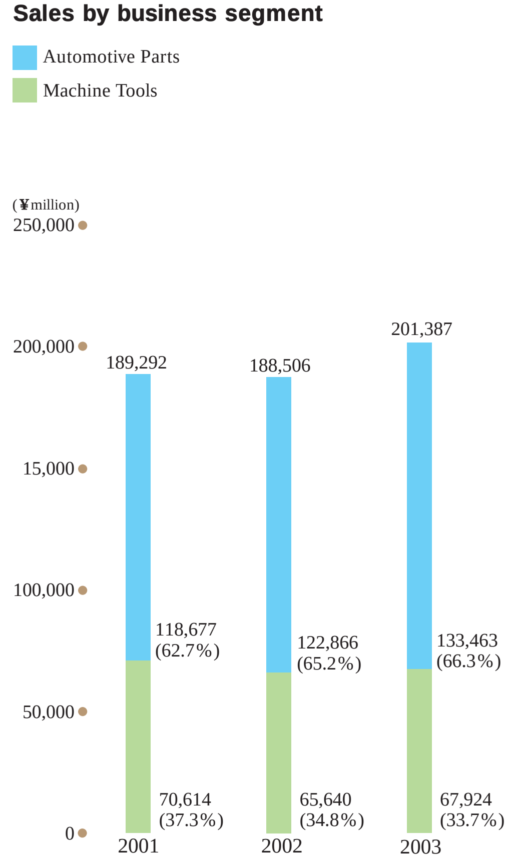
In the face of this market environment, consolidated sales in our machine tools business grew by ¥2,284 million (a 3.5% increase) to ¥67,924 million. Operating income jumped sharply by ¥694 million to ¥2,602 million, up 36.4% compared to the prior fiscal year.

Automotive Parts

In the automobile industry, the leading customer for our automotive parts business, domestic sale remained healthy because of new vehicle introductions centered on compact cars. Japanese manufacturers also boosted exports, primarily to North America and Asia. As a result, domestic automobile production increased.

Under this market environment, we expanded consolidated sales in our auto parts business by 8.6% or ¥10,597 million, to ¥133,463 million, and increased operating income by ¥467 million (a 3.4% increase) compared to the prior fiscal year to ¥13,834 million.

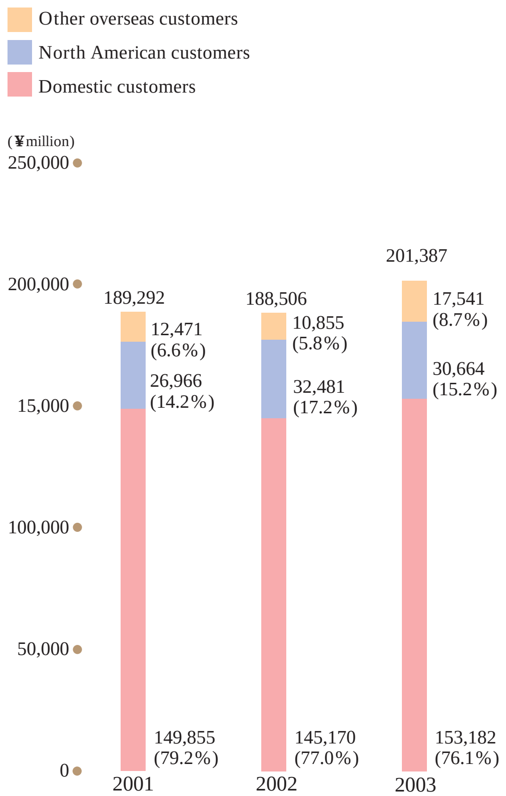
Sales by business segment



Note : Numbers in parentheses are the percentage of sales.

Sales by geographical segment (customer location)

Sales by geographical segment (customer location)



Note : Numbers in parentheses are the percentage of sales.

Domestic customers

In the machine tools business, orders from the automobile industry continued at a steady pace. On the other hand, the situation concerning capital investment in the general machinery and electrical and precision machinery sectors still lacked vigor, even though these sectors continued to gradually move towards recovery, and exports to Europe and North America fell sharply following an economic downturn. In the automotive parts business, exports also increased, centered mainly on shipments to North America and Asia, as domestic sales of automobiles remained steady. As a result, consolidated sales to domestic customers rose by ¥8,012 million (a 5.5% increase) compared to the prior fiscal year to ¥153,182 million.

North American and other overseas customers

In the machine tools business, total sales grew despite a drop in sales in Europe and North America, where capital investment sentiment cooled rapidly as signs of economic recession gathered strength. Customers in Asia including China and in other regions expanded capital investment, as domestic economies remained strong and companies initiated large-scale projects aimed at automobile manufacturers. In the automotive parts business, on the other hand, sales grew in North America, Europe and Asia, thanks to higher sales by Japanese automobile manufacturers and new orders received from North American automakers. As a result, consolidated sales to customers in North America and other overseas locations were ¥48,205 million, up ¥4,869 million (11.2%) compared to the prior fiscal year.

Consolidated Financial Review

Toyoda Machine Works, Ltd. and Consolidated Subsidiaries
Fiscal year ended March 31, 2003

Results of Operations

Net sales

Despite the appearance of several changes that signaled Japan's domestic economic downturn had reached bottom during the fiscal year under review, including a recovery in corporate earnings and some softening of the severe employment environment, deflation became a long-term issue and Japan's economy as a whole remained sluggish.

As the market environment surrounding the Toyoda Machine Works group, signs were mixed. Although the domestic automobile industry remained healthy, the machine tools industry faced a tough situation in its overseas markets, which were affected an economic slowdown in Europe and North America.

Confronted with these circumstances, the Toyoda Machine Works group devoted all of its efforts to developing and selling the world's leading products devoted to putting our customers first, including our ultra-precision free-phase processing machine nanoprocessor in the machine tool business, and our Variable Gear Ratio Steering (VGRS) system in the automotive parts business.

As a result, the volume of orders received in the machine tools business during the fiscal year for machine tools and mechatronics products combined increased by 7.9%, from ¥67,300 million in the prior fiscal year to ¥72,600 million, as the broad drop in overseas orders was more than offset by an increase in domestic orders.

In both the machine tools business and the automotive parts business, sales increased following higher orders for machine tools and expansion of automobile production. As a result, consolidated sales for the fiscal year were ¥201,387 million, up 6.8% compared to the prior fiscal year.

Selling, general and administrative expenses — Operating income

During the fiscal year, the company again increased its future development investment aimed at the creating the world's No.1 products. Nevertheless, as a result of aggressive efforts by the entire company group through various actions to streamline production and slash expenses, we reduced selling, general and administrative expenses for the fiscal year by ¥470 million to ¥23,725 million.

Although a decline in the level of selling prices was noted as global competition intensified, operating income increased by ¥2,990 million compared to the prior fiscal year to ¥6,203 million because of higher sales and rationalization effects that exceeded plan objectives.

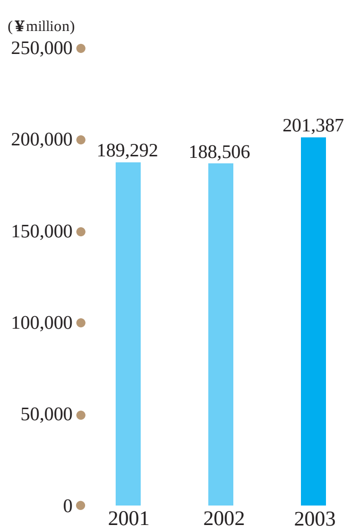
Financial Position

Assets

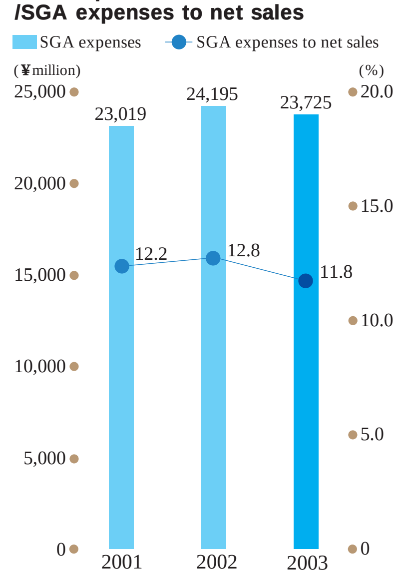
Current assets increased by ¥2,958 million compared to the prior fiscal year to ¥94,159 million. Although inventory assets fell by ¥6,070 million, cash and deposits, trade notes and accounts receivable and marketable securities increased by a total of ¥8,205 million.

Tangible fixed assets (investments and other assets; and

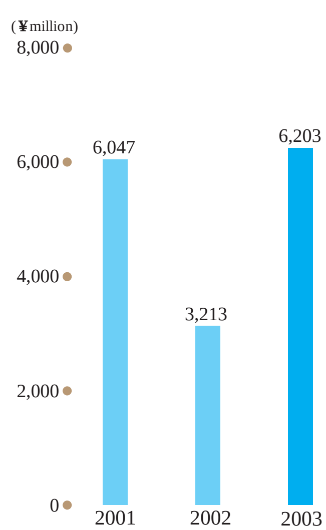
Net sales



SGA expenses /SGA expenses to net sales



Operating income



property, plant and equipment) decreased by ¥4,976 million compared to the prior fiscal year to ¥127,743 million. This reflected a decrease of ¥7,852 million compared to the prior fiscal year, from reductions to investment in securities and deferred tax assets, and an increase of ¥3,064 million for investments such as establishment of Toyoda-koki Automotive Czech Requblic, s.r.o., and Toyoda Machinery (Dalian) Co., Ltd. as part of our global strategy.

Total assets at the end of the fiscal year were ¥221,903 million, a decrease of ¥2,018 million compared to the prior fiscal year.

Liabilities and shareholders' equity

An additional ¥10,000 million in corporate bonds were added to total liabilities from the company's second issue of straight bonds. Total liabilities declined by ¥1,811 million compared to the prior fiscal year to ¥107,481 million, however, primarily reflecting a reduction of ¥10,094 million in the reserve for employee retirement and severance benefits.

Total shareholders' equity fell, decreasing by ¥410 million compared to the prior fiscal year to ¥108,904 million. Although retained earnings increased by ¥3,645 million, the net unrealized gain on available-for-sale securities fell by ¥1,464 million and the foreign currency translation adjustment was negative because of strengthening of the yen. As part of its flexible capital policy, the company also extinguished ¥1,752 million of shareholders' equity through the purchase of treasury stock.

Cash Flows

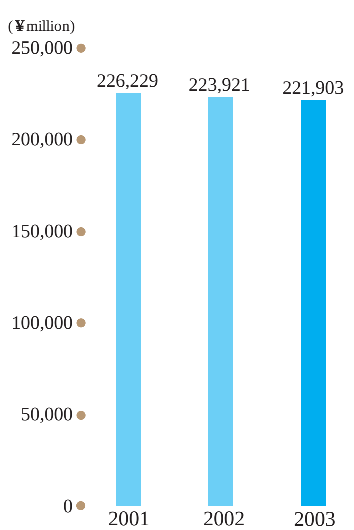
Cash and cash equivalents at the end of the fiscal year increased by ¥2,649 million compared to the prior fiscal year. Cash flows from operating activities increased because of higher net income and a reduction to inventory assets as a result of actions to shrink assets, but the company increased capital investment for product switching and new product development. On the other hand, the company executed a round of capital procurement through issuance of unsecured corporate bonds.

Cash flows from operating activities for the fiscal year increased ¥1,278 million to ¥15,659 million. This mainly reflected a decrease of ¥10,877 million to the reserve for employee retirement and severance benefits, an increase of ¥4,093 million in trade notes and accounts receivable, an increase of ¥7,514 million in income before taxes and adjustments, and inventory reductions (a decrease of ¥5,382 million compared to the prior fiscal year).

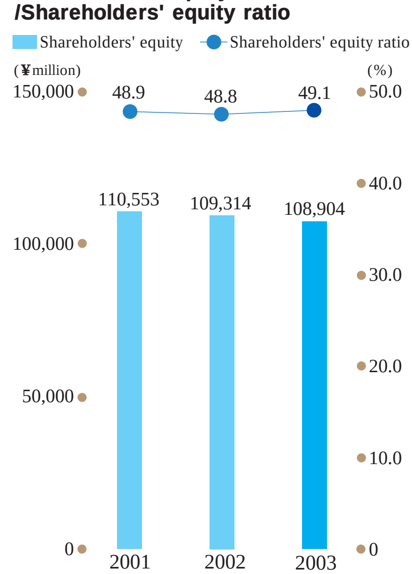
Cash flows from investing activities for the fiscal year was ¥21,122 million. This was ¥8,348 million larger than in the prior year, and mainly reflected an increase of ¥5,031 million in funds used to purchase marketable and investment securities, and an increase of ¥2,988 million for the purchase of property, plant and equipment.

Cash flows from financing activities for the fiscal year was ¥7,747 million, an increase of ¥7,795 million compared to the prior year. This primarily reflected a net amount of ¥9,944 million borrowed through the issuance of unsecured corporate bonds, and an increase of ¥1,367 million for purchases of treasury stock.

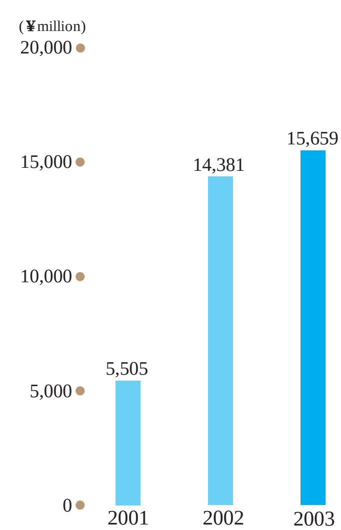
Total assets



Shareholders' equity /Shareholders' equity ratio



Cash flows from operating activities



Board of Directors

As of June 28, 2003

Chairman of the Board
Tadashi Onishi

President
Yoshio Yunokawa

Directors

Chairman of the Board	Tadashi Onishi
President	Yoshio Yunokawa
Senior Managing Director	Seitoku Kubo
Senior Managing Director	Motohiko Yokoyama
Senior Managing Director	Tadayuki Abe
Managing Director	Kazumi Nakamura
Managing Director	Yasuaki Hayashi
Managing Director	Kazuhiko Sugita
Managing Director	Tetsuro Yamakage
Managing Director	Takaaki Suzuki
Director	Takao Yoneda
Director	Katsuyuki Nishizuka
Director	Jiro Nakano
Director	Minoru Hirata
Director	Masaji Yamamoto
Director	Ryutaro Abe
Director	Takuo Shibata
Director	Toshio Hirokawa
Director	Shigeta Mikoshiba
Director	Hiroyuki Kaijima

Auditors

Corporate Auditor	Takeo Shibuki
Corporate Auditor	Takuo Sugiyama
Corporate Auditor	Hiroshi Okuda

TOYODA MACHINE WORKS

Financial Section

Contents

Consolidated Financial Statements

Consolidated Balance Sheets

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Assets			
Current Assets:			
Cash and cash equivalents (Note 2)	**¥ 9,740**	¥ 7,091	**$ 81,168**
Short-term investments	**4,408**	160	**36,734**
Trade notes and accounts receivable (Note 13)	**49,739**	48,432	**414,493**
Inventories (Note 3)	**22,154**	28,224	**184,614**
Deferred tax assets (Note 10)	**4,303**	3,506	**35,857**
Other	**4,013**	4,079	**33,448**
Less: allowance for doubtful receivables	**(198)**	(291)	**(1,652)**
Total current assets	**94,159**	91,201	**784,662**
Investments and Other Assets:			
Investments in securities (Notes 4 and 8)	**19,865**	25,336	**165,541**
Investments in unconsolidated subsidiaries and affiliates	**1,957**	1,874	**16,312**
Long-term loans	**276**	262	**2,297**
Deferred tax assets (Note 10)	**3,480**	5,861	**28,998**
Other	**1,437**	1,570	**11,975**
Less: allowance for doubtful receivables	**(158)**	(5)	**(1,318)**
Total investments and other assets	**26,857**	34,898	**223,805**
Property, Plant and Equipment (Note 4):			
Land	**32,708**	32,373	**272,562**
Buildings and structures	**51,252**	50,026	**427,098**
Machinery and equipment	**159,155**	158,612	**1,326,294**
Construction in progress	**4,071**	4,508	**33,926**
Less: accumulated depreciation	**(146,299)**	(147,697)	**(1,219,158)**
Net property, plant and equipment	**100,887**	97,822	**840,722**
Total Assets	**¥ 221,903**	¥ 223,921	**$ 1,849,189**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Liabilities , Minority Interests and Shareholders' Equity			
Current Liabilities:			
Short-term debt	**¥ 5,817**	¥ 5,436	**$ 48,472**
Trade notes and accounts payable	**24,547**	25,384	**204,558**
Accrued expenses	**12,611**	13,209	**105,092**
Accrued income taxes	**1,121**	2,268	**9,339**
Deposits received from employees	**637**	652	**5,311**
Deferred tax liabilities (Note 10)	**–**	154	**–**
Other (Note 13)	**24,648**	4,715	**205,407**
Total current liabilities	**69,381**	51,818	**578,179**
Long-term Liabilities:			
Long-term debt (Note 4)	**30,000**	39,830	**250,000**
Deferred tax liabilities (Note 10)	**615**	65	**5,123**
Employee retirement and severance benefit liability (Note 11)	**7,485**	17,579	**62,377**
Total long-term liabilities	**38,100**	57,474	**317,500**
Total liabilities	**107,481**	109,292	**895,679**
Commitments and contingent liabilities (Notes 5 and 7)			
Minority Interests in Consolidated Subsidiaries	**5,518**	5,315	**45,976**
Shareholders' Equity (Notes 6 and 14):			
Common stock, no par value:			
Authorized-198,550,000 shares;			
Issued-132,939,520 shares in 2003 and 2002	**24,805**	24,805	**206,712**
Capital surplus	**30,115**	30,115	**250,955**
Retained earnings	**52,963**	49,318	**441,359**
Net unrealized gain on available-for-sale securities	**2,989**	4,453	**24,908**
Foreign currency translation adjustment	**(216)**	892	**(1,797)**
Less: treasury stock, at cost - 3,302,906 shares in 2003 and 341,319 shares in 2002	**(1,752)**	(269)	**(14,603)**
Total shareholders' equity	**108,904**	109,314	**907,534**
Total Liabilities, Minority Interests and Shareholders' Equity	**¥ 221,903**	¥ 223,921	**$ 1,849,189**

Consolidated Statements of Income

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries

Fiscal years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net Sales (Notes 12 and 13)	**¥ 201,387**	¥ 188,506	**$ 1,678,227**
Cost of Sales	**171,459**	161,098	**1,428,824**
Gross profit	**29,928**	27,408	**249,403**
Selling, General and Administrative Expenses	**23,725**	24,195	**197,708**
Operating income (Note 12)	**6,203**	3,213	**51,695**
Other Income (Expenses):			
Interest and dividend income	**314**	321	**2,619**
Interest expense	**(734)**	(753)	**(6,118)**
Other, net	**(152)**	(220)	**(1,268)**
Gain on return of substitutional portion of employee pension fund	**10,080**	–	**84,003**
Loss on disposal of inventories	**(2,714)**	–	**(22,617)**
Loss on sale or disposal of property, plant and equipment	**(1,262)**	–	**(10,521)**
Loss on write-down of investments in securities and other investments	**(1,220)**	–	**(10,165)**
Income before income taxes and minority interests	**10,515**	3,001	**87,628**
Income Taxes	**4,920**	1,940	**41,000**
Minority Interests in Loss (Income) of Consolidated Subsidiaries	**(325)**	69	**(2,710)**
Net Income	**¥ 5,270**	¥ 1,130	**$ 43,918**

	Yen		U.S. dollars (Note 1)
Amounts per Share:			
Net income:			
Basic	**¥ 38.33**	¥ 6.95	**$ 0.32**
Diluted	**33.92**	6.44	**0.28**
Dividends	**10.00**	10.00	**0.08**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries

Fiscal years ended March 31, 2003 and 2002

		Millions of yen					
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
Balance, March 31, 2001	**132,939,520**	**¥ 24,805**	**¥ 30,115**	**¥ 49,995**	**¥ 6,748**	**¥ (957)**	**¥ (153)**
Net income				1,130			
Dividends paid				(1,463)			
Bonuses to directors and corporate auditors				(199)			
Decrease due to change of consolidation scope				(49)			
Decrease due to the merger of non-consolidated subsidiaries				(96)			
Net change in unrealized gain on available-for-sale securities, net of taxes					(2,295)		
Foreign currency translation adjustment						1,849	
Purchases of treasury stock of 169,000 shares under stock option plan and fractional shares							(116)
Balance, March 31, 2002	**132,939,520**	**¥ 24,805**	**¥ 30,115**	**¥ 49,318**	**¥ 4,453**	**¥ 892**	**¥ (269)**
Net income				5,270			
Dividends paid				(1,326)			
Bonuses to directors and corporate auditors				(193)			
Decrease due to change of consolidation scope				(101)			
Decrease due to the merger of non-consolidated subsidiaries				(5)			
Net change in unrealized gain on available-for-sale securities, net of taxes					(1,464)		
Foreign currency translation adjustment						(1,108)	
Purchases of treasury stock of 2,800,000 shares under stock option plan and fractional shares							(1,483)
Balance, March 31, 2003	**132,939,520**	**¥ 24,805**	**¥ 30,115**	**¥ 52,963**	**¥ 2,989**	**¥ (216)**	**¥ (1,752)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
Balance, March 31, 2002	**$ 206,712**	**$ 250,955**	**$ 410,979**	**$ 37,109**	**$ 7,438**	**$ (2,242)**
Net income			43,918			
Dividends paid			(11,048)			
Bonuses to directors and corporate auditors			(1,609)			
Decrease due to change of consolidation scope			(842)			
Decrease due to the merger of non-consolidated subsidiaries			(39)			
Net change in unrealized gain on available-for-sale securities, net of taxes				(12,201)		
Foreign currency translation adjustment					(9,235)	
Purchases of treasury stock of 2,800,000 shares under stock option plan and fractional shares						(12,361)
Balance, March 31, 2003	**$ 206,712**	**$ 250,955**	**$ 441,359**	**$ 24,908**	**$ (1,797)**	**$ (14,603)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries

Fiscal years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥ 10,515**	¥ 3,001	**$ 87,628**
Adjustment for:			
Depreciation and amortization	**10,194**	9,792	**84,948**
Loss on sales and disposals of property, plant and equipment, net	**1,199**	127	**9,992**
Loss on marketable securities and investments, net	**1,608**	237	**13,396**
Provision for retirement and severance benefits, net of payment	**(10,094)**	783	**(84,120)**
Interest and dividend earned	**(314)**	(322)	**(2,619)**
Interest expenses	**734**	753	**6,118**
Changes in current assets and current liabilities			
(Increase) decrease in trade notes and accounts receivable	**(778)**	3,315	**(6,484)**
Decrease in inventories	**5,643**	261	**47,022**
Increase (decrease) in trade notes and accounts payable	**941**	(1,979)	**7,841**
Other, net	**(750)**	1,933	**(6,238)**
Sub Total	**18,898**	17,901	**157,484**
Interest and dividend received	**314**	322	**2,619**
Interest paid	**(706)**	(753)	**(5,883)**
Income taxes paid	**(2,847)**	(3,089)	**(23,727)**
Net cash provided by operating activities	**15,659**	14,381	**130,493**
Cash Flows from Investing Activities:			
Net (increase) decrease in securities	**(3,064)**	1,269	**(25,534)**
Increase in investments in subsidiaries and affiliates	**(1,285)**	(587)	**(10,706)**
Net decrease (increase) in loans receivable	**449**	(378)	**3,737**
Purchases of property, plant and equipment	**(17,206)**	(14,218)	**(143,380)**
Other, net	**(16)**	1,140	**(133)**
Net cash used in investing activities	**(21,122)**	(12,775)	**(176,016)**
Cash Flows from Financing Activities:			
Increase in short-term debt	**538**	1,380	**4,483**
Payments of long-term debt	**(39)**	(136)	**(321)**
Increase in long-term debt	**9,944**	–	**82,871**
Proceeds from sales of common stock to minority shareholders	**196**	341	**1,633**
Acquisition of treasury stock, net	**(1,483)**	(116)	**(12,361)**
Dividends paid to shareholders	**(1,326)**	(1,464)	**(11,049)**
Dividends paid to minority shareholders	**(83)**	(53)	**(696)**
Net cash provided by (used in) financing activities	**7,747**	(48)	**64,560**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(15)**	41	**(125)**
Net Increase in Cash and Cash Equivalents	**2,269**	1,599	**18,912**
Cash and Cash Equivalents at Beginning of Year	**7,091**	5,370	**59,090**
Increase in Cash and Cash Equivalents of Newly Consolidated Subsidiaries	**380**	122	**3,166**
Cash and Cash Equivalents at End of Year	**¥ 9,740**	¥ 7,091	**$ 81,168**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by TOYODA MACHINE WORKS, LTD. (the "Parent") and its consolidated subsidiaries in accordance with the accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards. Relevant notes have been added, and certain reclassifications of the accounts in the basic financial statements published in Japan have been made to present them in a form more familiar to readers outside Japan. These reclassifications do not affect the values of total assets, shareholders' equity, net sales, or net income.

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

The consolidated financial statements presented here are expressed in Japanese yen. Solely for the convenience of the readers, they have been translated into U.S. dollars at the rate of ¥120=US$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2003. These translations should not be construed as representations that the yen amounts have been or could be converted into U.S. dollars at the rate used here or at any other rate.

Certain comparative figures have been reclassified to conform with the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Parent and its significant subsidiaries (seventeen and fourteen subsidiaries for the years ended March 31, 2003 and 2002, respectively). Subsidiaries not included in the consolidated accounts are excluded from these accounts because they are not material in terms of total assets, net sales, net income, and retained earnings taken as whole. All significant intercompany transactions and accounts have been eliminated.

If the cost of investments in consolidated subsidiaries differs from the underlying equity in their net assets adjusted based on fair market value at the date of acquisition, that difference is principally deferred and amortized on a straight-line basis over five years.

For the year ended March 31, 2003, investment in one affiliate is accounted for by the equity method.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost and the equity method is not applied for the valuation of such investments because they are not material in terms of net income and retained earnings.

Consolidated subsidiaries and affiliate as of March 31, 2003 were as follows:

Consolidated subsidiaries (17 companies):

Domestic consolidated subsidiaries (9 companies):

TOYOOKI KOGYO Co., Ltd.
CNK Co., Ltd.
Yutaka Hightech, Ltd.
HOUKO Co., Ltd.
TOYODA VAN MOPPES, Ltd.
FORMICS Inc.
Chuo Kogyo Co., Ltd.
GKN Toyoda Driveshafts Ltd.
TK Engineering Corp.

Overseas consolidated subsidiaries (8 companies):

Toyoda Machinery USA Corp.
Grinders for Industry, Inc.
Toyoda TRW Automotive Inc.
Toyoda Machinery & Engineering Europe
Toyoda-Koki Automotive UK Ltd.
Toyoda Machine Works (Thailand) Co., Ltd.
Toyoda Machinery & Engineering GmbH
Toyoda-Koki Automotive South Carolina Inc.

Domestic affiliate accounted for by the equity method (1company):

Favess Co., Ltd.

GKN Toyoda Driveshafts Ltd. and the Parent's overseas consolidated subsidiaries close their books at December 31 every year, three months earlier than the Parent and other domestic consolidated subsidiaries. The Parent consolidated such subsidiaries' financial statements as of their year-end. Significant transactions for the period between subsidiaries' year-end and the Parent's year-end are adjusted on consolidation.

Overseas consolidated subsidiaries adopt accounting principles generally accepted in their respective countries, and no adjustments to conform with accounting principles generally accepted in Japan have been made to their financial statements on consolidation as allowed under accounting principles and practices generally accepted in Japan.

(b) Investments and marketable securities

Debt securities for which the Parent and its consolidated subsidiaries have both positive intent and ability to hold to maturity are classified as held-to-maturity securities, and are stated at amortized cost. Marketable securities, other than those classified as trading or held-to-maturity securities, are carried at fair value as available-for-sale securities, with net unrealized gains or losses reported on a separate component of shareholders' equity, net of applicable income taxes. Gains and losses on disposition of investment securities are principally computed based on the moving average method. Nonmarketable securities for available-for-sale securities are principally stated at moving average cost. Carrying values of individual investment securities are reduced, if necessary, through write-downs to reflect other-than-temporary impairments in values.

(c) Inventories

Inventories (except work in process for machine tools) are stated principally at cost, as determined by the periodic average method. Work in process for machine tools are stated principally at cost, as determined by the specific identification method. Inventories of some consolidated subsidiaries are stated at the lower of cost (FIFO or specific identification method) or market.

(d) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment (except machinery and equipment for manufacturing automotive parts and the buildings) is computed principally by the declining balance method. Depreciation of machinery and equipment for manufacturing automotive parts is computed principally by the straight-line method. The buildings acquired on and after April 1, 1998 are depreciated by the straight-line method.

(e) Allowance for doubtful receivables

Allowance for doubtful receivables has been provided for at the aggregate amount of estimated credit loss based on the individual financial review approach for doubtful or troubled receivables and a general reserve for other receivables calculated based on the historical loss experience for a certain past period.

(f) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates. Resulting gains and losses are included in net profit or loss for the respective years.

In respect of the financial statement items of overseas consolidated subsidiaries, assets and liabilities of the overseas subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates. Revenue and expenses are translated at the average rate of the respective fiscal years. The shareholders' equity is translated into Japanese yen at rate prevailing when equity was acquired or when a change in equity occurred. Translation differences, after allocating to minority interests portions attributable to minority interests, are reported as foreign currency translation adjustment in a separate component of shareholders' equity in the accompanying consolidated balance sheets.

(g) Employee retirement and severance benefits

Employees who terminate their service with the Parent and its consolidated subsidiaries are entitled to retirement benefits generally determined by the reference of current basic rates of pay, length of service and conditions under which the termination occurs.

The Parent and its domestic consolidated subsidiaries have lump-sum retirement benefit plans and also established non-contributory defined benefit pension plans. In accordance with the accounting standard for employee retirement benefits, the employee retirement and severance benefit liability represents the estimated present value of projected benefit obligation for employees in excess of the fair value of the pension plan assets at the balance sheet date. Unrecognized past service cost is amortized using the straight-line method principally over five years from the year in which they occur. Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis principally over years as a certain period within remaining service lives of employees from the next year in which they arise.

In conjunction with the enforcement of the Defined Benefit Enterprise Pension Plan Law, the Parent received an approval from the Minister of Health, Labor and Welfare for exemption from the future obligation of the employee pension plan funds relating to the substituted portion subject to the Welfare Pension Plan Law on April 23, 2002. The Parent has applied the transitional treatment specified on paragraph 47-2 of Accounting Committee Report No. 13 “Practical Guidelines of Accounting for Retirement Benefits (Interim Report)” issued by the Japanese Institute of Certified Public Accountants, and has recognized an extinguishment of the retirement benefit obligation with respect to such substituted portion as of the date of the approval. As a result, the Parent recorded this effect of ¥10,080 million ($84,003 thousand) as other income on the consolidated statements of income for the year ended March 31, 2003. Pension plan assets equivalent to the amount to be returned to the Japanese government as of March 31, 2003 amounted to ¥16,452 million ($137,101 thousand) at March 31, 2003.

(h) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(i) Leases

Finance lease transactions other than those where ownership is considered to be transferred to the lessee are accounted for as operating lease transactions in accordance with the accounting principles and practices generally accepted in Japan.

(j) Derivatives and hedge accounting

The Parent uses foreign exchange forward contracts or currency option contracts for hedge purposes. Such foreign exchange contracts are accounted for to translate foreign currency denominated assets and liabilities at such contract rates as an interim measures, if certain hedging criteria are met.

(k) Net income and cash dividends per share

Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years. Diluted net income per share is computed assuming convertible bonds were converted at the time of issue unless having anti-dilutive effects and as if stock options or warrants were exercised at the beginning of the relevant year or (if later) on their first exercise date and as if the funds obtained thereby were used to purchase common stock at the average market price during the respective years under the treasury stock method. The Parent and its consolidated subsidiaries adopted the new accounting standard for earnings per share from the current fiscal year. Prior-period per share data has been restated to conform to the current computation.

Cash dividends per share shown for each year in the accompanying consolidated statement of income represent dividends declared as applicable to the respective years.

(l) Consolidated statements of Cash Flows

For the presentation of the consolidated statements of cash flows, the Parent and its consolidated subsidiaries consider cash, time deposits and all other highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. At March 31, 2003 and 2002, cash and cash equivalents consisted of the following:

Cash and cash equivalents:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
Cash and Time deposits with a maturity of three months or less	¥ 5,040	¥ 3,335	$ 41,997
Money Management Fund	4,700	3,756	39,171
Cash and cash equivalents	¥ 9,740	¥ 7,091	$ 81,168

There is no significant non-funds transaction that should be disclosed.

3. Inventories

Inventories as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
Finished goods	¥ 6,814	¥ 7,356	$ 56,784
Raw materials	3,507	4,565	29,226
Work in process	10,692	15,129	89,099
Supplies	1,141	1,174	9,505
	¥ 22,154	¥ 28,224	$ 184,614

4. Long-term Debt

Long-term debt as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
2.10% unsecured bonds due 2005	¥ 20,000	¥ 20,000	$ 166,667
0.99% unsecured bonds due 2009	10,000	—	83,333
0.45% unsecured convertible debentures due 2003	19,830	19,830	165,250
Loans from banks and other due through 2003 with an average interest rate of 2.2% per annum for the year 2002	—	39	—
Less-current portion of long-term debt	(19,830)	(39)	(165,250)
	¥ 30,000	¥ 39,830	$ 250,000

The Parent's shares of common stock is issuable upon conversion of convertible bonds for the period through September 29, 2003 at the current conversion price per share of ¥1,066 ($8.88), subject to adjustment in certain circumstances.

Assets pledged as collateral for short-term debt and long-term debt as at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
Investments in securities	¥ —	¥ 685	$ —
	¥ —	¥ 685	$ —

5. Contingent Liabilities

At March 31, 2003 and 2002, contingent liabilities in respect of guarantees of employees, amounted ¥0 million ($3 thousand) and ¥1 million respectively.

6. Shareholders' Equity

At March 31, 2003 and 2002, capital surplus consisted of additional paid-in capital. At March 31, 2003 and 2002, retained earnings included legal reserve of ¥52,963 million ($441,359 thousand) and ¥49,318 million, respectively.

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

Dividends are approved by the shareholders at an annual general meeting held after the close of the fiscal year to which the dividends are applicable. In addition, a semiannual dividend may be paid upon a resolution of the Board of Directors, subject to limitations imposed by the

Japanese Commercial Code.

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

On June 28, 2000, shareholders of the Parent approved to implement the stock option plan in accordance with the Japanese Commercial Code. Under the plan, the stock option was granted to 21 members of the Board of Directors of the Parent as of June 28, 2000, and each stock option is exercisable at ¥1,013 per share for the period from June 28, 2002 to June 27, 2005. Up to 149,000 shares of common stock of the Parent would be issuable for exercise of this option.

On June 28, 2001, shareholders of the Parent approved another stock option plan. Under the plan, the stock option was granted to 21 members of the Board of Directors and 8 selected executive employees of the Parent as of June 28, 2001, and each stock option is exercisable at ¥643 per share for the period from June 28, 2003 to June 27, 2006. Up to 169,000 shares of common stock of the Parent would be issuable for exercise of this option.

On June 27, 2002, shareholders of the Parent also approved the stock option plan in accordance with the revised Japanese Commercial Code. Under the plan, the stock option was granted as new share subscription rights to 20 members of the Board of Directors and 6 selected executive employees of the Parent and 7 Board members of its subsidiaries as of June 27, 2002. Each stock option is exercisable at a certain exercise price for the period from June 28, 2004 to June 27, 2007 and up to 209,000 shares of common stock of the Parent would be issuable for exercise of this option.

7. Lease Transactions

Finance lease is not capitalized as disclosed in Note 2(i) other than those where ownership is considered to be transferred to the lessee.

Transactions in which the Company is the lessee are summarized as follows:

Pro forma acquisition cost at fiscal year-end

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
Buildings and structures	¥ 868	¥ 855	$ 7,236
Machinery and Equipment	1,656	1,727	13,798
Other	19	19	161
Total	¥ 2,543	¥ 2,601	$ 21,195

Pro forma accumulated depreciation at fiscal year-end

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
Buildings and structures	¥ 450	¥ 382	$ 3,752
Machinery and Equipment	1,023	1,195	8,524
Other	8	5	65
Total	¥ 1,481	¥ 1,582	$ 12,341

Balance at fiscal year-end

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
Buildings and structures	¥ 418	¥ 472	$ 3,484
Machinery and Equipment	633	531	5,274
Other	11	15	96
Total	¥ 1,062	¥ 1,019	$ 8,854

Aggregate minimum future lease obligations, including imputed interest, at fiscal year-end

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
One year or less	¥ 241	¥ 260	$ 2,009
More than one year	821	759	6,845
Total	¥ 1,062	¥ 1,019	$ 8,854

Lease payments during the fiscal year

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
	¥ 299	¥ 309	$ 2,488

Pro forma depreciation expenses during the fiscal year

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
	¥ 299	¥ 309	$ 2,488

Pro forma depreciation on lease transaction is computed by the straight-line method. The useful life and the salvage value are set-up as follows:

The useful life: the lease term
The salvage value: none

8. Marketable and Investment Securities

At March 31, 2003 and 2002, gross unrealized gains and losses for marketable available-for-sale securities are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of Yen			
Available-for-sale securities with fair value:				
At March 31, 2003:				
Equity securities	¥ 10,170	¥ 4,915	¥ (250)	¥ 14,835
Bonds	978	7	(157)	828
Other	4,010	—	(7)	4,003
	¥ 15,158	¥ 4,922	¥ (414)	¥ 19,666
Available-for-sale securities with fair value:				
At March 31, 2002:				
Equity securities	¥ 10,359	¥ 8,948	¥ (312)	¥ 18,995
Bonds	4,085	5	(1,450)	2,640
Other	100	1	—	101
	¥ 14,544	¥ 8,954	¥ (1,762)	¥ 21,736
	Thousands of U.S. dollars			
Available-for-sale securities with fair value:				
At March 31, 2003:				
Equity securities	$ 84,750	$ 40,962	$ (2,083)	$ 123,629
Bonds	8,153	61	(1,307)	6,907
Other	33,409	—	(59)	33,350
	$ 126,312	$ 41,023	$ (3,449)	$ 163,886

During the years ended March 31, 2003 and 2002, the Parent and its consolidated subsidiaries sold available-for-sale securities as follows:

	Proceed on sales	Realized gains	Realized losses
	Millions of Yen		
Available-for-sale securities			
For the year 2003:			
Equity securities	¥ 2	¥ —	¥ 0
Bonds	1,500	—	520
Others	100	—	—
	¥ 1,602	¥ —	¥ 520
Available-for-sale securities			
For the year 2002:			
Equity securities	¥ 1	¥ 0	¥ 0
Bonds	500	—	—
Others	864	49	1
	¥ 1,365	¥ 49	¥ 1
	Thousands of U.S. dollars		
Available-for-sale securities			
For the year 2003:			
Equity securities	$ 17	$ —	$ 0
Bonds	12,500	—	4,332
Others	833	—	—
	$ 13,350	$ —	$ 4,332

Expected maturities of debt securities held-to-maturity and available-for-sale at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. dollars
Due within one year	¥ 4,128	$ 34,400
Due after one year through five years	1,015	8,461

9. Derivatives

The Parent and its consolidated subsidiaries have entered into foreign exchange forward contracts and currency option transactions to hedge foreign exchange risk associated with certain assets, liabilities dominated in foreign currencies. The basic policies for derivatives are approved by the Board of Directors and executed and controlled by the Accounting section.

The Parent and its consolidated subsidiaries do not hold or have not issued any derivatives for the purpose of speculation.

10. Tax Effect Accounting

In accordance with the allocation of Tax Effect Accounting, provision has been made for deferred income taxes attributable to temporary differences between the recognition for financial reporting purposes and for tax purposes.

1. Temporary differences are due to the followings:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
<Deferred Tax Assets>			
Retirement and severance benefit	¥ 2,152	¥ 6,267	$ 17,936
Depreciation and amortization	2,500	2,249	20,835
Accrued employee bonus	1,740	1,189	14,501
Other	3,395	3,875	28,287
Total	9,787	13,580	81,559
<Deferred Tax Liabilities>			
Unrealized gain on available-for-sale securities	(2,099)	(3,287)	(17,489)
Depreciation and amortization	(416)	(1,036)	(3,466)
Reserve for advanced depreciation	(87)	(83)	(726)
Reserve for special depreciation	(17)	(26)	(146)
Total	(2,619)	(4,432)	(21,827)
Net Deferred Tax Assets	¥ 7,168	¥ 9,148	$ 59,732

2. Tax rate differences are due to the followings:

	2003	2002
Japanese statutory effective tax rate	41.24%	41.24%
<Adjustment>		
Operating loss carryforward for tax purposes of certain subsidiaries* where tax effect was not be recognized in prior years	5.09%	23.21%
Decrease in deferred tax assets due to a change in tax rates	1.48%	–
Other	(1.02%)	0.19%
Actual effective income tax rate reflected in the consolidated statements of income	46.79%	64.64%

＊TOYOOKI KOGYO Co., Ltd.
＊GKN Toyoda driveshafts Ltd.
＊Toyoda Machinery USA Corp.
＊Toyoda Machinery & Engineering Europe
＊Toyoda-Koki Automotive UK Ltd.
＊Toyoda Machinery & Engineering GmbH
＊Toyoda-Koki Automotive South Carolina Inc.

With the implementation of the 'Revision of the Local Tax Law' on March 31, 2003, the Japanese statutory effective tax rate used in the calculation of deferred tax assets or liabilities effective from the fiscal year beginning on April 1, 2004 has been changed from 41.24% to 39.88%. As a result, deferred income tax expenses increased by ¥155 million ($1,295 thousand) for the year ended March 31, 2003.

11. Retirement Benefit Plan

The Parent and its consolidated subsidiaries have defined benefit retirement plans covering substantially all employees. Approximately 85% of benefits under the plans are covered by a plan, which is governed by the regulations of Japanese Welfare Pension Insurance Law.

Employee retirement and severance benefit liability as of March 31, 2003 and 2002 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligations	¥ (35,276)	¥ (62,239)	$ (293,969)
Fair value of pension plan assets	15,851	37,627	132,096
	(19,425)	(24,612)	(161,873)
Unrecognized past service cost	12,286	8,268	102,379
Unrecognized actuarial differences	(346)	(1,235)	(2,883)
Balance of employee retirement and severance benefit liability	¥ (7,485)	¥ (17,579)	$ (62,377)

Notes1: The above table for the year ended March 31, 2003 excluded the amounts related to the substituted portion subject to the Japanese Welfare Pension Insurance Law, because of exemption from future benefit obligation approved on April 23, 2002.(see Note2(g))

Notes2: Projected benefit obligation of subsidiaries was calculated using simplified calculation method as permitted by the accounting standard for employee retirement benefits.

Net pension expense related to the retirement benefits for the years ended March 31, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 1,603	¥ 2,081	$ 13,360
Interest cost	857	1,724	7,138
Expected return on pension plan assets	(574)	(1,111)	(4,784)
Amortization of past service cost	(173)	(412)	(1,442)
Amortization of actuarial differences	252	398	2,098
Amortization of translation amount	0	–	6
Net pension expense	¥ 1,965	¥ 2,680	$ 16,376

Assumptions used in the calculation of the above information for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Discount rate	2.5%	3.0%
Expected rate of returns on pension plan assets	3.0%	3.0%
Amortization of past service cost	5 years	5 years
Amortization of actuarial differences	15 years	15 years

12. Segment Information

(a) Business Segments

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2003	2002	2003
Sales:			
Machine tools	¥ 67,924	¥ 65,640	$ 566,037
Automotive parts	133,463	122,866	1,112,190
Total	201,387	188,506	1,678,227
Adjustment: intersegment accounts	—	—	—
Consolidated	201,387	188,506	1,678,227
Operating income:			
Machine tools	2,602	1,908	21,687
Automotive parts	13,834	13,377	115,277
Total	16,436	15,285	136,964
Adjustment: intersegment accounts and unallocated operating expenses*	(10,233)	(12,072)	(85,269)
Consolidated	6,203	3,213	51,695
Assets:			
Machine tools	80,712	84,077	672,601
Automotive parts	89,168	85,822	743,065
Total	169,880	169,899	1,415,666
Adjustment: intersegment accounts and unallocated assets **	52,023	54,022	433,523
Consolidated	221,903	223,921	1,849,189
Depreciation expenses:			
Machine tools	1,807	2,774	15,055
Automotive parts	7,653	6,300	63,777
Total	9,460	9,074	78,832
Adjustment: intersegment accounts	734	718	6,116
Consolidated	10,194	9,792	84,948
Capital expenditure:			
Machine tools	2,140	1,307	17,836
Automotive parts	12,824	10,758	106,860
Total	14,964	12,065	124,696
Adjustment: intersegment accounts	341	299	2,848
Consolidated	15,305	12,364	127,544

* The “unallocated operating expenses” included in this item above totaled ¥10,233 million ($85,269 thousand) for the fiscal year ended March 31,2003 and ¥12,072 million for the fiscal year ended March 31,2002, which principally consisted of mainly research and development cost and expenses related to general and administrative departments.

** The “unallocated assets” included in this item above totaled ¥52,023 million ($433,523 thousand) at March 31,2003 and ¥54,022 million at March 31,2002, which principally consisted of assets maintained in connection with general operating assets, such as marketable securities, a portion of investments in securities and assets related to general and administrative departments.

(b)Geographical Segments

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2003	2002	2003
Sales by Company Location:			
Domestic companies	¥ 176,521	¥ 163,689	$ 1,471,010
North American companies	30,071	31,053	250,588
Other overseas companies	8,036	5,691	66,971
Total	214,628	200,433	1,788,569
Adjustment: intercompany accounts	(13,241)	(11,927)	(110,342)
Consolidated	201,387	188,506	1,678,227
Sales by Customer Location:			
Domestic customers	153,182	145,170	1,276,520
North American customers	30,664	32,481	255,532
Other overseas customers	17,541	10,855	146,175
Net sales	201,387	188,506	1,678,227
Operating income:			
Domestic companies	15,646	13,939	130,381
North American companies	709	794	5,911
Other overseas companies	321	466	2,678
Total	16,676	15,199	138,970
Adjustment: intercompany accounts and unallocated operating expenses	(10,473)	(11,986)	(87,275)
Consolidated	6,203	3,213	51,695
Assets:			
Domestic companies	156,580	157,498	1,304,838
North American companies	24,024	26,981	200,198
Other overseas companies	9,387	5,777	78,232
Total	189,992	190,256	1,583,268
Adjustment: intercompany accounts and unallocated assets	31,911	33,665	265,921
Consolidated	221,903	223,921	1,849,189

13. Related Party Transactions

During the years ended March 31, 2003 and 2002, the Parent and its consolidated subsidiaries had operational transactions with Toyota Motor Corporation (“TMC”), a 25.1% shareholder of the Parent. A summary of the significant transactions with TMC for the years ended, or as at March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2003	2002	2003
For the year:			
Sales of finished goods	¥ 103,450	¥ 97,840	$ 862,080
At the year-end:			
Accounts receivable	15,016	17,247	125,130

14. Subsequent Events

On June 27, 2003, the shareholders of the Parent approved the payment of a year-end cash dividends to shareholders of record as of March 31, 2003, of ¥5 ($0.04) per share, or a total of ¥648 million ($5,402 thousand), and bonuses to directors and corporate auditors of ¥112 million ($935 thousand). Cash dividends for the year thus totaled ¥10 ($0.08) per share, including a semiannual dividend of ¥5 ($0.04).

Pursuant to the Japanese Commercial Code and the resolution by shareholders at the annual general meeting on June 27, 2003, the Parent can purchase the treasury stock of the Parent up to 2 million shares in maximum consideration for ¥1,200 million ($10,000 thousand) for the period through the date of its next annual shareholders' general meeting.

On June 27, 2003, shareholders of the Parent approved a stock option plan, in accordance with the Japanese Commercial Code. Under the plan, the stock option was granted as new share subscription rights to 20 members of the Board of Directors, 8 selected executive employees of the Parent, and 7 Board members of its subsidiaries as of June 27, 2003. Each stock option is exercisable at a certain exercise price for the period from June 28, 2005 to June 27, 2008, and up to 220,000 shares of common stock of the Parent would be issuable for the exercise of this option.

On June 17, 2003, the Parent issued 0.57% ¥20,000 million ($166,667 thousand) unsecured corporate bonds due on June 17, 2010 at par, in order to use for the capital expenditures and refinancing convertible debentures.

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS

Dai Nagoya Building
3-28-12,Meieki,Nakamura-ku
Nagoya,450-8565 Japan
Telephone 81-52-551-3001
Facsimile 81-52-551-3005

Report of Independent Auditors

To the Board of Directors and Shareholders of
TOYODA MACHINE WORKS, LTD.

We have audited the accompanying consolidated balance sheets of TOYODA MACHINE WORKS, LTD. and its consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOYODA MACHINE WORKS, LTD. and its consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

Chuo Aoyama Audit Corporation
ChuoAoyama Audit Corporation
Nagoya, Japan
June 27, 2003

Main Subsidiaries and Affiliates

Name	Year of Incorporation or Acquisition	Equity Ownership (%)	Address
Domestic Subsidiaries and Affiliates			
TOYOOKI KOGYO CO., LTD.	1958	62.0	45 Aza-Kaizan, Hatchi-cho, Okazaki, Aichi, JAPAN Phone: 81-564-48-2211 Fax: 81-564-48-7850
CNK CO., LTD.	1958	66.0	28 Bawari, Noda-cho, Kariya, Aichi, JAPAN Phone: 81-566-21-1833 Fax: 81-566-21-6861
YUTAKA HIGHTECH, LTD.	1960	100.0	1-11-11 Yanagibashi, Taito-ku, Tokyo, JAPAN Phone: 81-3-3861-7491 Fax: 81-3-3861-7495
HOUKO CO., LTD.	1971	100.0	1-3 Aza-Ejiri, Oaza-Hishiike, Kohda-cho, Nukata-gun, Aichi, JAPAN Phone: 81-564-62-1211 Fax: 81-564-62-5401
TOYODA VAN MOPPES LTD.	1975	66.0	1-54 Aza-Shiroyama, Maiki-cho, Okazaki, Aichi, JAPAN Phone: 81-564-48-5311 Fax: 81-564-48-6156
FORMICS INC.	1987	100.0	1-15 Kitajizoyama, Noda-cho, Kariya, Aichi, JAPAN Phone: 81-566-21-8375 Fax: 81-566-21-7827
CHUO KOGYO CO., LTD.	1944	76.0	75 Aza-Konami, Nishimiyuki-cho, Toyohashi, Aichi, JAPAN Phone: 81-532-45-3815 Fax: 81-532-45-7249
GKN TOYODA DRIVESHAFTS LTD.	1999	51.0	Rengabashi Bldg. 8F, 4-8-7 Masaki, Naka-ku, Nagoya, Aichi, JAPAN Phone: 81-52-679-6080 Fax: 81-52-679-6082
TK HUMAN CORP.	1999	100.0	2-2 Showa-cho, Kariya, Aichi, JAPAN Phone: 81-566-25-5328 Fax: 81-566-25-6456
TK ENGINEERING CORP.	1999	100.0	1 Asahimachi 1-chome, Kariya, Aichi, JAPAN Phone: 81-566-25-5364 Fax: 81-566-25-5248
FAVESS CO., LTD.	2003	35.0	1-18, Fukayama, Shinpukuji-cho, Okazaki, Aichi, JAPAN Phone: 81-564-27-3611 Fax: 81-564-27-3223
Overseas Subsidiaries and Affiliates			
TOYODA KOKI DO BRASIL INDUSTRIA E COMERCIO DE MAQUINAS, LTDA.	1973	91.0	Rua Rego Barros 1319, Vila Antonieta, São Paulo-SP, BRAZIL Phone: 55-11-6724-5711 Fax: 55-11-6727-5450
TOYODA MACHINERY USA CORP.	1995	100.0	316 W. University Drive, Arlington Heights, Illinois, 60004, U.S.A. Phone: 1-847-253-0340 Fax: 1-847-577-4680
GRINDERS FOR INDUSTRY, INC.	1968	100.0	Wixom, Michigan, 4811, U.S.A. Phone: 1-248-624-5755 Fax: 1-248-624-3814
TOYODA MACHINERY & ENGINEERING EUROPE	1993	100.0	6 Rue Paul Dautier 78140 Velizy, Villacoublay, FRANCE Phone: 33-1-39.45.11.00 Fax: 33-1-39.46.25.54
TOYODA MITSUI EUROPE GmbH (Former TOYODA MACHINERY & ENGINEERING GmbH)	2003	65.0	Bischeftstr. 118-47809 Krefeld, GERMANY Phone: 49-2151-5188-300 Fax: 49-2151-5188-333
TOYODA MACHINERY S.E.ASIA CO., LTD.	2002	100.0	Thsapol Land 3 Building, 7/F Room #B 947 Moo 12, Bangna-Trad Road, KM.3 Kwang Bangna Khet Bangna, Bangkok 10260 THAILAND Phone: 66-2-361-825～1 Fax: 66-2-361-8252
TOYODA-KOKI AUTOMOTIVE NORTH AMERICA INC.	1989	90.0	5932 Commerce Boulevard, Morristown, Tennessee, 37814, U.S.A. Phone: 1-423-585-2500 Fax: 1-423-585-2502
TOYODA MACHINE WORKS (THAILAND) CO., LTD.	1996	79.0	107 Moo 4 T.Pluakdaeg, A.Rayong, 21140, THAILAND Phone: 66-38-954-320 Fax: 66-38-954-321
TOYODA-KOKI AUTOMOTIVE UK LTD.	1997	100.0	Resolven, Neath, W. Glamorgan, SA11 4SP, U.K. Phone: 44-1639-713-100 Fax: 44-1639-713-128
TOYODA-KOKI AUTOMOTIVE SOUTH CAROLINA INC.	2000	100.0	1866 Old Grove Road, Piedmont South Carolina 29673 U.S.A. Phone: 1-864-277-0400 Fax: 1-864-277-0075

Corporate Data *As of March 31, 2003*

Head Office	1, Asahimachi 1-chome, Kariya, Aichi, JAPAN
Established	May 1, 1941
Number of Employees	4,086
Capital	US$ 187 million
Common Shares	Issued and Outstanding 129,636,614 shares
Stock Exchange Listings	Tokyo Stock Exchange (1st section)
	Osaka Securities Exchange (1st section)
	Nagoya Stock Exchange (1st section)
Independent Certified Public Accountants	Chuo Aoyama Audit Corporation
Web Site Address	http://www.toyoda-kouki.co.jp/

TOYODA® TOYODA MACHINE WORKS, LTD.

HEAD OFFICE (Machine Tools & Mechatronics Division)
1, Asahimachi 1-chome, Kariya, Aichi, 448-8652 JAPAN
Accounting Dept: (81) 566-25-5198
Overseas Sales Dept: (81) 566-25-5171
Telefacsimile: (81) 566-25-5470

HANAZONO PLANT (Automotive Parts Division)
1-18 Fukayama Shinpukuji-cho, Okazaki, Aichi, 444-2106 JAPAN
Automotive Parts Div: (81) 564-27-3478
Telefacsimile: (81) 564-27-3487