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ANNUAL REPORT 2004

Year Ended March 31, 2004



Infinite Contribution to Customers and Society

TOYODA MACHINE WORKS, LTD.

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:

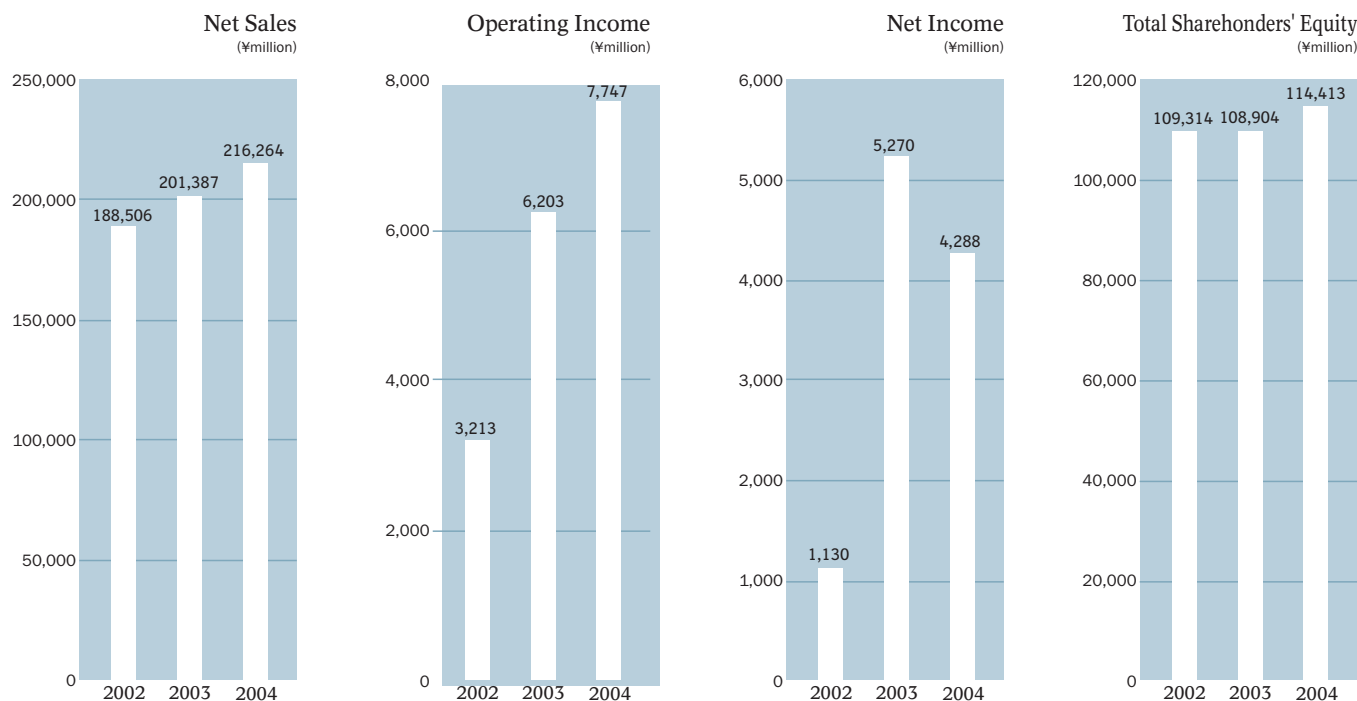
- 1 Consistently put the customer first and place the Company's genuine contribution toward the development of its customers as a top priority.
- 2 Value resources, promote environmental preservation, resource saving and recycling activities, and have operations that are in harmony with people, the greater 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.

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	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Consolidated			
Net Sales	¥216,264	¥201,387	\$2,059,662
Operating Income	7,747	6,203	73,780
Income before Income Taxes and minority interests	6,890	10,515	65,615
Net Income	4,288	5,270	40,836
Total Assets	246,340	221,903	2,346,096
Total Shareholders' Equity	114,413	108,904	1,089,643
Common Stock	24,805	24,805	236,243

Note : The exchange rate of ¥105=U.S.\$1 (as of March 31, 2004 in the Tokyo Foreign Exchange Market) is used for the above calculations.



	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Non-consolidated			
Net Sales	¥168,339	¥158,369	\$1,603,237
Operating Income	4,317	4,126	41,121
Income before Income Taxes	4,389	7,205	41,804
Net Income	3,089	3,305	29,423
Total Assets	216,911	196,383	2,065,820
Total Shareholders' Equity	109,283	103,568	1,040,792
Common Stock	24,805	24,805	236,243

Note : The exchange rate of ¥105=U.S.\$1 (as of March 31, 2004 in the Tokyo Foreign Exchange Market) is used for the above calculations.

To Our Share



Chairman: Tadashi Onishi (Left)

President: Motohiko Yokoyama (Right)

Tadashi Onishi

Motohiko Yokoyama

holders

The Toyota 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 2003), the Company faced an environment in which market competition grew increasingly severe, as the global economy overall enjoyed a recovery trend, and we focused on “enhancing our global competitiveness” as our most critical management issue.

As a result, consolidated operating results for the fiscal year under review produced both higher sales and higher earnings. In both our machine tools business and automotive parts business, we achieved sales in excess of prior year levels. From a profit perspective as well, earnings rose substantially because of the growth in sales and efforts such as rationalization of production and cost reductions. Compared with the past fiscal year, sales increased by 7.4% to ¥216.2 billion, and operating income climbed 24.9% to ¥7.7 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 Toyota 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 dividends. We will aggressively continue our efforts in the future to further meet the high expectations of our shareholders.

The Toyota Machine Works group has adopted 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 Toyota Machine Works group, we will continue 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 the same time, in every corporate activity we will devote our efforts to management based on the law and clear corporate ethics. We will pursue management with the highest possible degree of transparency and a sense of corporate social responsibility, and concentrate our efforts to ensure accountability. We look forward to the continued understanding and support of the shareholders and investors of the Toyota Machine Works group.

Management Strategy for Growth

Analysis of the environment and fiscal 2003 topics

Global markets continue to move towards an era of unprecedented growth. Signs of a recovery are evident in the North American market, while the market in the EU has been bolstered by its latest members and continues to expand. The market in China is enjoying rising expectations of demand as both a manufacturing base and a consumer market, and in East Asia a market has begun to form around Japan as a core. As part of this broad movement, the competition to survive against the challenge of global mega-competitors has grown more severe in both the automotive parts industry and the machine tools industry.

Given this business environment, promotion of a management strategy that accurately identifies market needs and establishes a management foundation capable of outdistancing the competition will be indispensable for Toyoda to continue growing in the 21st century.

We recognized this fact during fiscal 2003, and charted our management course accordingly. In the automotive parts business we began a new business strategy aimed at making us the world leader, by acquiring the Torsen division of Bosch Automotive Systems in August 2003 and merging the Torsen business into Toyoda's drive line business. In other steps as an automotive parts business, in July 2003 we established Toyoda-Koki Automotive (Tianjin) Co., Ltd., our first production foothold in China. In August 2003 we set up the manufacturing company GKN Driveline TOYODA Manufacturing Ltd. and the sales and service company GKN TOYODA (Thailand) Ltd. in Thailand, through joint ventures with GKN Driveline of the UK. These enterprises enhanced our global production and sales organizations.

In the machine tool business we established TOYODA Machinery (Dalian) Co., Ltd., a machine tool sales and service company in China, in April 2003 to support the globalization of our production and sales activities. Finally, in May 2003 we reached an agreement regarding a comprehensive business alliance between Toyoda Machine Works, Ltd. and Mitsui Seiki Kogyo Co., Ltd. In conjunction with the pursuit of joint development of machining centers, both companies integrated their European sales companies and formed Toyoda Mitsui Europe GmbH, and have begun new sales activities.

Management strategy essentials and basic business development policies

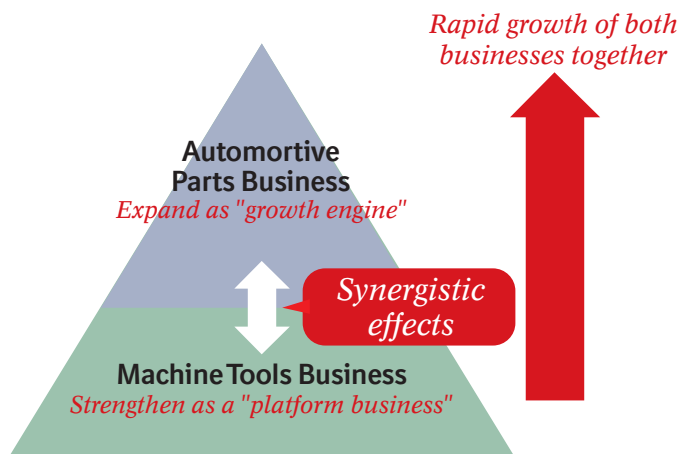
Our focus is on creating a business structure that will continue growing in the 21st century. To achieve this, we are vigorously promoting the following five strategies as our basic themes.

- *Establish a foundation of product quality trusted by customers*
- *Create unique products with strong appeal*
- *Establish an earnings structure to ensure medium-term growth*
- *Create global business organizations*
- *Strengthen human resources development and management to respond to environmental changes*



Toyoda Machine Works is also developing its businesses by promoting a growth strategy that takes maximum advantage of proprietary technologies and products, and the Company's market dominance. Based on full-fledged development of both our machine tool business and our automotive parts business, we boast a unique presence. Toyoda Machine Works uses this unique characteristic to ensure its powerful dominance of "advanced levels of technology, knowledge and experience on its automotive parts processing lines." Over the next year we will further strengthen the machine tool business as our "base business," and seek to use this as the foundation for further enhancement and growth in our automotive parts business, as we aim for integrated growth by highlighting the synergy between both businesses. As our concept for growth in both businesses, we will develop the integrity of our base business—the machine tool business, with an emphasis on earnings, while we expand both the content and earnings of the automotive parts business as the engine for the Toyoda Machine Works group's future growth.

Future growth of the Toyoda Machine Works group



Establish a foundation of product quality trusted by customers

Product quality is a manufacturing firm's lifeline. At Toyoda, we consider maximum emphasis on quality to be an unvarying theme. For the past two years, every company in the Toyoda Machine Works group has sought to achieve "zero defect output." We have sought to realize rapid improvements in design quality and maintain production quality, and worked to develop groundbreaking techniques for improvements centered on each production site. At Toyoda, we believe we will earn customers' trust as the "first name in quality" as a result of our efforts.



Create unique products with strong appeal

As part of our efforts to develop the world's leading products and bolster our global competitive edge, we have been developing "one and only products" based on original, cutting-edge technology only Toyota can offer since fiscal 2003, and pursuing a strategy of creating proprietary markets. Our trailblazing development of the ultra-high precision free-form processing machine "nanoprocessor," for example, led the way towards creation of highly unique products based on our proprietary, cutting edge nanotechnology. In addition, the M&A-based integration of the Torsen business into Toyota's drive line business was a stepping-stone that will unite this development with the creation of new, truly unique products through synergistic effects.

These measures will help further improve the power of the Toyota brand, and ensure that we emerge as the winner from today's intense global competition, by developing "one and only technology" and "one and only products" that provide true customer satisfaction.

Establish an earnings structure to ensure medium-term growth

Establishing an "earnings structure" that enables us to generate profits continuously without being whipsawed by demand trends in the market will be indispensable for us to emerge as the winner in competition over the medium-term. Our ultimate profitability will be the accumulation of the profitability from each business division and each product sector. In addition to the earnings structure in our machine tool business, which we have been improving over the past several years, in our automotive parts business we are taking steps to make each product profitable and improve earnings. In the future this effort will encompass product sectors such as our EPS (Electric Power Steering) business, where we are focusing the development on rack assist EPS. This will also encompass our drive line business, where we have begun development of new businesses through a joint venture with Toyota Motor Corporation and GKN Driveline of the UK, and the integration of the Torsen business into Toyota's drive line business.

Create global business organizations

Toyota adopted this strategy in fiscal 2003. Over the past year, we have aimed at building an organization to coordinate every aspect of our procurement, production, sales, and service activities from a global perspective. As a result, we've accomplished a number of positive measures. In automotive parts business, we purchased the Torsen business from Bosch Automotive Systems, established a new production base in China where we began production

of power steering pumps, expanded business by establishing two companies in Thailand for manufacturing and sales and service, and began production of automotive parts with the establishment of a new production base in the Czech Republic. In addition, in the machine tool business we established a European joint sales company through a business alliance with the Mitsui Seiki Kogyo Co., Ltd., and established a new sales and service company in China.

As this demonstrates, during fiscal 2003 we initiated an unusually large number of overseas projects in both our businesses. Achieving full-scale activity at these new overseas bases, and making sure they are operating efficiently, is therefore a vitally important issue for the future.

Strengthen human resources development and management to respond to environmental changes

Over the coming years, development of human resources capable of responding to an increasingly globalized business environment has become critically important as a basis for the human resources of Toyoda. Based on a clear understanding of the 21st century business environment, at Toyoda we will strengthen human resource management with a focus on nurturing executives and employees capable of creating new value and new approaches to business, and on building the organization to support them.

In addition, we will aim at formation of a business entity that can demonstrate to the maximum extent synergistic effects that reach beyond organizational boundaries, to include synergy between businesses and synergy between group companies, and seek to build cross-organization management systems.



By aggressively implementing the management strategies outlined above, we will strive to increase shareholder value and meet the expectations of all the Company's stakeholders, including our customers, employees, business partners and the people who live in the local communities where we manage our businesses.

We wish to express our appreciation to all of our stakeholders for their support, and look forward to your continued understanding and support of Toyoda's management.

Automotive Parts Business

Begin local production of ITCC 4WD couplings to respond to increase in orders received from the “Big Three” automobile manufacturers in the U.S. To keep up with this increase, Toyoda plans to switch from production in Japan to local production in the U.S. whenever necessary.

Received orders from a succession of the world’s leading automobile manufacturers for IFS (Intelligent Front Steering), Toyoda’s next-generation steering system. Toyoda further strengthened its IFS development and management organizations as orders increased.

Began production of a new-model EPS to be installed in Toyota Crown, Toyota Motor Corporation’s top-of-the-line luxury marque. This new EPS was supplied for the first time as rack assist EPS for mass production motor vehicles.

Took control of Bosch Automotive Systems’ Torsen division (all three companies in Japan, the United States and Belgium) and merged the division into Toyoda’s drive line business. By holding Torsen as well as ITCC, which boasts an overwhelming share in the world market, Toyoda further strengthened its product lineup.

Established the manufacturing firm GKN Driveline TOYODA Manufacturing Ltd. (Toyoda’s investment 49%), and the sales and service company GKN TOYODA (Thailand) Ltd. (Toyoda’s investment 51%) in Thailand through joint ventures with GKN Driveline. Toyoda began supplying constant velocity joints for new car models manufactured by the leading Japanese automobile companies in Thailand.

Established Toyoda-Koki Automotive (Tianjin) Co., Ltd., a new company to produce power steering pumps and other automotive parts in China. In the future Toyoda will expand the company’s production items to other components such as drive line parts, with the goal of increasing sales to new customers in the local Chinese market.

Purchased all of 21.8% ownership share of stock held by joint investment partner TRW company in TOYODA TRW Automotive Inc., Toyoda’s North American production subsidiary, and changed the company name to Toyoda-Koki Automotive North America Inc. Following the purchase Toyoda owns 90% of the company’s outstanding shares, with the remaining 10% owned by Toyota Tsusho Corporation (including Toyota Tsusho America Inc.). As a result, Toyoda is able to also produce strategic parts other than hydraulic power steering pumps, such as steering parts, drive line parts and electronic parts.

Established Toyoda-Koki Automotive Czech Republic, s.r.o., a new automotive parts company, in the Czech Republic. Began plant construction in May 2003, with plans to begin production in October 2004. At the start of operations the plant will manufacture precision processed parts such as transmission components, and after several years, begin production of electronically controlled 4WD couplings. This is Toyoda’s first facility in continental Europe as an automotive parts production base.

2004

2003





Machine Tools Business

Toyoda Mitsui Europe GmbH (TME), the company's sales and service company in Europe, signed an agreement to become an official sponsor of the Panasonic Toyota Racing F1 team. As a result, Toyoda Machine Works, Ltd. and TME will further strengthen their accuracy and efficiency in areas such as production of advanced, precision manufactured F1 racecar components on the circuit and at production facilities. The agreement should also provide opportunities to accelerate global sales activities of Toyoda's machine tools.

Completed commercialization of nine "standard machine" models as machine tools for automotive parts production lines according to processing operation. Toyoda managed to cut design expense in half and shortened delivery times compared with traditional lines centered around specialized machining centers.

Concentrated the resources of both companies with Mitsui Seiki Kogyo Co., Ltd., and over a short time span jointly developed and began sales of four advanced-production process integration horizontal machining center models.

Signed agreement with Mitsui Seiki Kogyo Co., Ltd. for a comprehensive alliance in the machine tool field. The alliance covers all development, production, sales and service, and procurement activities for machine tool-related products. Following the alliance, the two companies integrated their local sales and service companies in the European market and established Toyoda Mitsui Europe GmbH.

Established Toyoda Machinery (Dalian) Co., Ltd., a new machine tool sales and service company in China. This is Toyoda's first overseas subsidiary in China as a local machine tool subsidiary. Toyoda aims to further expand sales in China's burgeoning machine tool market.

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

Currently we are executing our Stage Three Environmental Preservation Plan (Fiscal 2001 - Fiscal 2005). The main issues are broadly 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

At Toyoda, we conduct production activities with the smallest environmental load. These include cutting CO₂ emissions volume, reducing industrial waste, and limiting the quantity of packing and wrapping materials. Since achieving zero emissions (fully eliminating all direct landfill waste) at all six plants in Japan in December 2002, we have been taking steps aimed at achieving this same goal at all of our foreign plants.

Finally, although we have received ISO14001 certification, the international environmental management standard, for all of our domestic production plants, in response to consolidated management we are also moving towards acquiring this certification for our subsidiaries. As of March 2004, we successfully acquired certification at seven of our production companies subject to environmental consolidation.

Two of the largest capital investments among Toyoda's environmentally-related investments in fiscal 2003 were the introduction of a cogeneration system at our Okazaki Plant and large-scale drainage improvement works at our Head Office and main plant. For the former system we adopted a Reciprocating engine system utilizing natural gas as a fuel. This enabled us to improve energy efficiency through power generation and parallel utilization of waste heat, and further reduce the amount of CO₂ exhaust. The latter effort, which we are promoting as a multi-year project in accordance with our medium-term management plan, is a full-fledged effort to support future expansions in production volume and to counter phenomena such as localized heavy rainfall.

Strategy of the Automotive Parts Division

The pursuit to be No. 1 in the world through “the one and only” technology and products

Based on actual and projected data of the global automobile industry, estimates project total worldwide automobile sales to increase by about 17%, from 58.2 million units in 2002 to 67.9 million units in 2010. Substantial growth is expected particularly in the markets in China and India. The large markets in Japan, Europe and the U.S. are also expected to experience some growth.

Given this situation, in the automotive parts business we have set our goals on being No. 1 in the world in terms of product power and technology and solidifying our position as a global systems supplier. We will seek to realize our leading position in the global market space as well, by pursuing enhancements to our drive line business, to which we recently added the Torsen business. To achieve these objectives we will manage our business based on the following three strategies.

1 Develop and increase sales of “the one and only” products

Develop sales to the world’s leading automobile manufacturers, including America’s “Big Three,” by developing and increasing the sale of “the one and only” technology and products that other companies cannot match, and link this to higher sales of existing products as a synergistic effect. We will also improve profitability based on high-value-added technology and products.

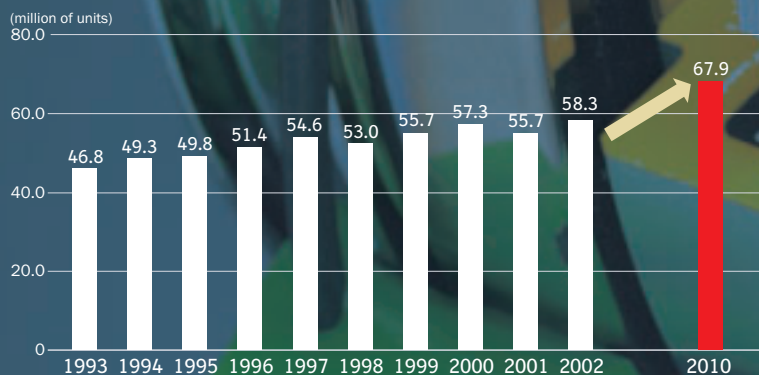
2 Enrich Toyota’s global supply system

Increase sales of “the one and only” products, by strengthening our four-pillar global system of production bases, sales and development bases, and expand production bases in rapidly growing markets in China and ASEAN countries.

3 Strengthen earnings capacity

Comprehensively strengthen earnings capacity, using a multi-faceted approach encompassing promotion of measures to maintain profitability in each product sector, enhancement of competitiveness through production reforms, and global sales growth.

Trend in the number of automobiles produced worldwide



Source : Domestic and foreign automotive associations

1. Develop and increase sales of “the one and only” products

In the steering business and drive line business, the two prominent divisions in the automotive parts business, we are focused on becoming the world’s leading system supplier. To achieve this objective we will further strengthen development of “the one and only” products based on “the one and only” technology, and push to expand sales in the global market. By positioning IFS and EPS as strategic, “the one and only” products in the steering business, and similarly positioning ITCC and Torsen in the drive line business, Toyota’s products in these four fields will propel our future sales growth and earnings improvements.

Steering Business

The orientation of future needs in the global market can be found in realization of “active safety,” or accident prevention. Toyota developed IFS (Intelligent Front Steering), a new product, by using rack assist EPS and E-VGR (Electric controlled Variable Gear Ratio Steering), “the one and only” products of world leading compactness and high-performance, as the core components for active safety steering. Developed as the core technology for future steer-by-wire systems, this product has generated numerous inquiries from global automobile manufacturers promoting active safety. Currently, we are pursuing joint development of IFS with several companies. In hydraulic power steering, on the other hand, where the market is exhibiting a downward trend, we will introduce strong products offering benefits such as electronic control, energy conservation, high pressure and high capacity, and promote sales growth centered on mid- and full-size automobiles.

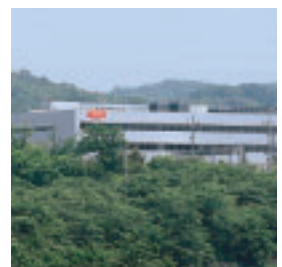
Rack Assist EPS Rack assist EPS, a newly-developed product we began to mass-produce in December 2003, is incorporated with technology capable of supporting mid- and full-sized automobiles with an engine displacement of 2,000cc or larger. As a result, the world’s top specifications and performance on factors such as size, weight, and output were realized. Adopted for use in Toyota Motor Corporation’s Crown line, this product received the Toyota Technology Development Prize as a new-generation EPS. The adoption of rack assist EPS by the world’s leading automobile manufacturers is expected to accelerate. In the future, our EPS business will concentrate on rack assist systems for models such as luxury passenger cars and large-scale vehicles, with the goal of being No. 1 in the world in systems centered on rack assist EPS.

E-VGR In August 2002, we began mass production of the world’s first electronically controlled VGR. This product, which 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, is a ground breaking product that achieves excellent steering control and road handling stability, from low to high speeds, under all driving conditions. The product also provides active safety improvements and offers “the one and only” proprietary technology developed by Toyota.

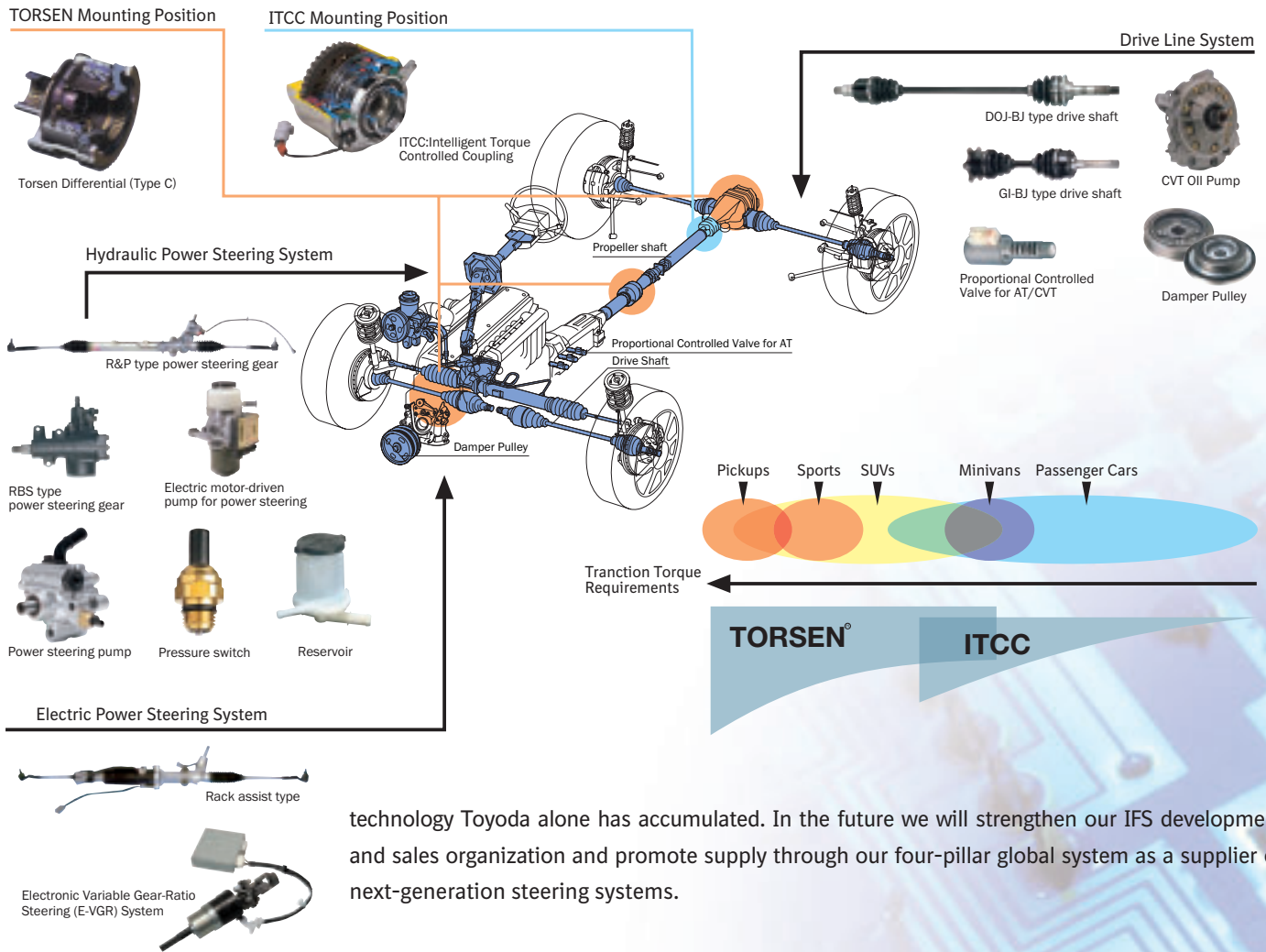
IFS IFS, which Toyota developed as a next-generation steering system offering improved automobile operating performance and running stability, was on high demand by leading global automobile manufacturers during 2004. This system has evolved into a new technology that is drawing the attention of automobile manufacturers around the world as they pursue the goal of active safety. Based on E-VGR and composed of parts such as a steering angle sensor, actuator that controls the tire slice angle, and a process computer, IFS can be called the crystallization, so to speak, of synergy among all of Toyota’s technology assets, including the precise processing and production technology cultivated in our machine tool business and in the electronic control



FEM analysis by a CAD system



Technical Center



technology Toyota alone has accumulated. In the future we will strengthen our IFS development and sales organization and promote supply through our four-pillar global system as a supplier of next-generation steering systems.

Drive Line Business

In the drive line business, our goal is to become the world's top-class drive line system supplier, through cooperation with Toyota Motor Corporation and GKN Driveline plc. of the UK, and integration of our newly acquired Torsen business. In particular we will seek to accelerate global sales growth in the future by supplying Torsen and ITCC, two unique products with excellent global competitiveness.

ITCC & Torsen During 2003, we added Torsen (torque responsive all-time 4WD) to our drive line business. We have developed this business using electronically controlled 4WD couplings (ITCC: Intelligent Torque Controlled Coupling) as our core product, and command an overwhelming lead over other global manufacturers. Combining Torsen and ITCC, which is used mainly in minivans and medium and large-size passenger cars, enabled us to broadly cover other vehicles such as SUV, sports cars and pickup trucks. Given an environment in which the 4WD market will exhibit a substantial growth trend, we expect this broad expansion of Toyota's product lineup to demonstrate a tremendous effect as we rapidly pursue worldwide sales expansion. In fact, after production only within Japan, in July 2004 we began local ITCC production in the U.S., and a broad expansion in orders received from the world's leading automobile manufacturer including the U.S. "Big Three" is continuing. Moreover, since taking over the business from Bosch, worldwide growth in Torsen sales is expanding rapidly, and we expect the growth in sales from the synergistic effect of ITCC and Torsen to increase further in the future. We also anticipate achieving technological synergies in the near future. Toyota will seek to become the world's No. 1 supplier of next-generation drive line systems, by developing new "the one and only" technologies and products such as electronically controlled Torsen, at an early stage.

CVJ In the drive shaft sector, we are promoting increased sales in cooperation with GKN Driveline of the UK, the world's leading manufacturer of constant velocity joints (CVJ), by utilizing technological capabilities centered on GKN Toyota Driveshafts Ltd. (a joint venture owned 51% by Toyota and 49% by GKN Driveline). Because we have already received orders from most domestic car manufacturers, in the future we will aim at promoting full-fledged global sales expansion. Towards this end, in August 2003 we established a CVJ manufacturing company and a sales and service company as joint ventures in Thailand, as the second step of our strategic cooperation with GKN Driveline. Both companies began operations in August 2004. Initially, both companies will increase sales centered on supplies for new models produced by the leading Japanese automobile manufacturers with bases in Thailand, but we also plan to use these companies as a base for supply of components to ASEAN markets and the Japanese market in the future.

2. Enrich Toyota' global supply system

Our global strategy in the automotive parts business is to expand and enhance our production and sales organizations build around our four-pillar global system encompassing Japan, the U.S., Europe and Asia. In the North American market, we will promote increased sales of strategic "the one and only" products as described above, while simultaneously expanding and enhancing our two existing production bases. This will include expanding ITCC production for the "Big Three" and strengthening our Detroit sales and development base, through measures such as converting the local sales base into a technical center and increasing the number of local engineers. In the European market, we will use our three existing production bases to expand supply of "the one and only" products. In particular, because of the large number of automobile manufacturers in the European market with a strong interest in active safety, we will vigorously expand IFS sales in that market. Finally, in the Asian market we established our first new production base in Tianjin, China in July 2003, as an automotive parts business to respond to, in particular, the rapidly growing demand in the Chinese market. Our goal is to establish a three-base organization as quickly as possible, and currently we are considering establishing two additional bases in Guangzhou and Dalian.

3. Strengthen earnings capacity

In our efforts to strengthen earnings capacity in the automotive parts business, we are following a two-pronged approach of "production reform" and "production expansion through sales growth," based on profitability improvement in each product sector. We are pursuing the latter goal by developing and increasing sales of "the one and only" products as described above. The former will be linked to cost reductions, by pushing reforms that eliminate stale concepts, and by thinking in a broad perspective, encompassing production methods, equipment, and products. This will highlight, to the maximum extent, synergies with the processing and manufacturing technology cultivated in our machine tool business. We have already begun specific actions, including eliminating processes such as unifying duplicate procedures, streamlining equipment through standardization of equipment and tools, and by reducing material and processing losses by altering production designs.

Strategy of the Machine Tools and Mechatronics Division

Reform our cost structure and strengthen development of next-generation technologies and products

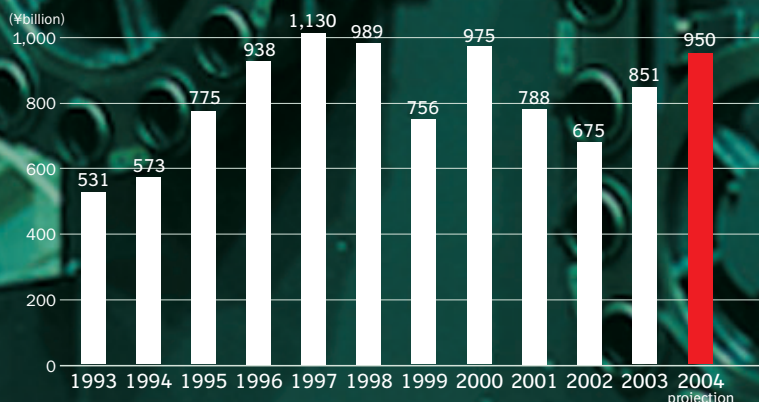
A review of the trend in orders received in the machine tool industry shows total order volume has grown from ¥675 billion—a bottom-out figure showing signs of rebound—in 2002 to ¥851 billion in 2003. This expansionary trend is projected to continue in the immediate future, against a backdrop of increased capital investment mainly in the automobile industry and sectors related to digital devices, and growth in the Asian market centered on China, with orders received reaching ¥950 billion in 2004 and ¥1,000 billion in 2005 (Japan Machine Tool Builders Association forecast).

Given these conditions, in the machine tool and mechatronics business we were able to move solidly into the black as a business division during fiscal 2003 and achieved specified results by “restructuring earnings capacity,” our stated objective. Using this as a base, beginning in fiscal 2004 we will deploy the following three strategies as our strategy for the next stage.

- 1 Reform of cost structure capable of responding even at the bottom of the demand cycle
In an environment in which the machine tools industry is affected relatively easily by business fluctuations, ensure sustainable earnings and improve profitability by further building earnings capacity
- 2 Deploy a technology and product strategy to achieve differentiation
 - ① Further strengthen automotive-related markets in which Toyoda excels
 - ② Promote differentiation and develop new sectors by introducing products that incorporate next-generation technologies
 - ③ Expand synergies with our automotive parts business
- 3 Restructure our global strategy

Restructure our global strategy into an approach appropriate for the next-generation market environment, through alliance-based earnings improvements in the European and U.S. markets and development of the rapidly expanding Chinese market.

Order trend in the machine tools industry (Results of the past 10 years and projections for 2004 and 2005)



Source : Japan Machine Tool Builder's Association



1. Reform of cost structure capable of responding even at the bottom of the demand cycle

Since fiscal 2001, we have implemented a number of measures aimed at creating an organization that can generate earnings even at the bottom of the demand cycle. We have slashed fixed costs and moved aggressively to rationalize operations. This included streamlining our organization through strategic reassignment of human resources, integration of each machine tool model unit through execution of thorough standardization and unification, and consolidation of machine tool models through product selection and focus. As a result of efforts by the entire Toyoda group during these past three years, in fiscal 2003, our operating income (operating income after costs accounted for as head office expenses have been allocated to each business division) in our machine tools and mechatronics division moved substantially into the black.

In the future, we will continue our efforts to build a more profitable organization and improve the profit margin as a business division. Looking at the results of our past efforts and projected performance (on a non-consolidated basis), by fiscal year 2003 we had reduced the number of employees by approximately 20% compared with fiscal 2000, and conversely increased sales per employee by about 20%. Similarly we are making excellent progress in improving our break-even point sales, the ratio of materials and subcontracting expenses to sales, and fixed costs. We expect achieving reductions of 30%, 10% and 20%, respectively, in fiscal 2005 compared with fiscal 2000.

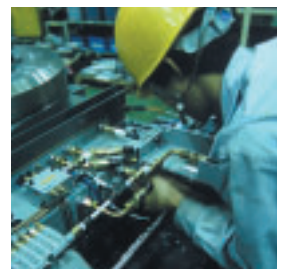
To realize these results we are promoting standardization and unification of product development and manufacturing. By integrating our machine tool model units we cut the number of models in fiscal 2003 by approximately 40% compared with fiscal 2000. By fiscal 2005 we plan to have reduced the number of models by 50%. We are also simultaneously proceeding with standardization and unification of machine tool model units, and by fiscal 2003 had successfully decreased the number of units by about 70% compared with fiscal 2000. We intend to achieve a 75% reduction by fiscal 2005 (non-consolidated basis).

In other areas, as a future approach to cutting fixed costs we are pursuing reductions to operating expenses through downsizing of back-office departments and reassignment of personnel to profit centers, and consolidation and reorganization of domestic bases. We have also coupled this with our objective of strengthening global sales capabilities by replacing overseas Japanese employees with local representatives, which enables us to pursue both goals of lowering costs and increasing profitable performance.

2. Deploy a technology and product strategy to achieve differentiation

To ensure its growth potential and profitability in the future, Toyoda will capture a preeminent position in technological capability and product power in the global market.

The future needs of machine tool users will mainly be ① high speed, high precision and high efficiency, ② energy and resource conservation (measures addressing global environmental concerns), and ③ ultra-high precision processing. For next-generation machine tools to satisfy these needs, the technologies required must include ① high-speed principal axis technology, linear motor drives and parallel mechanisms, ② environmentally friendly technology, and ③ nanotechnology. Looking at Toyoda's present technology level through the number of patent applications, we rank No. 1 in linear motor drives and parallel mechanisms, and third in high-



Customer Center

speed principal axis technology, giving us a prominent position in the industry. Furthermore, in all five of the above-mentioned technical fields, we are positioned as the research and development leader by the Japan Patent Office. We will use this superior technological prowess as a lever to expand our markets and develop new sectors in the future, centered on products incorporated with indispensable next-generation technology.

① Further strengthen automotive-related markets in which Toyota excels

One of our greatest strengths is our technology and know-how of automotive parts processing lines. For processing equipment for engine main parts (5C: cylinder heads, cylinder blocks, camshafts, crank shafts, and con rods), an area in which we are highly skilled, Toyota is leading the way by creating a global standard line based on processing machines incorporated with next-generation technology. First, we are developing optimal standard machines for each processing process based on thorough separation of functions, and upgrading systems with standardized modules such as jigs, tooling, and transport. The cylinder block processing line we developed by using this procedure, for example, is composed of nine standard machine models. The ratio of standard machines used in this line reached nearly 100%, compared with 20% for traditional lines. As a result, we've slashed both design expense and lead time by nearly half, achieved a MTBF (Mean Time Between Failure) level more than ten times better than traditional lines and attained dramatic improvements. This line can provide customers with major benefits because it cuts required capital investment nearly in half.

② Promote differentiation and develop new sectors by introducing products that incorporate next-generation technologies

Toyota is continually developing new products that incorporate next-generation technology, and using these as means to differentiate itself from other companies while aggressively expanding on traditional markets and developing new sectors. In high-speed technology, we have developed and commercialized LineaM III, our linear motor drive super-high speed machining center. Similarly, in parallel mechanisms we offer our HexaM parallel mechanism-based milling machine. In super-precision technology we offer our AHN05 NanoProcessor CNC ultra-high precision free-form surface machine. In environmental technology we market energy-saving grinders. These new items have generated numerous inquiries from both the traditional and next-generation automotive parts processing sectors while drawing attention in new fields such as aircraft parts processing and optical and medical devices parts processing.

③ Expand synergies with our automotive parts business

By deploying the next-generation processing technology we've developed in the machine tool business to Toyota's automotive parts processing equipment, we can enhance our synergistic strategy to improve automotive parts quality and productivity, and contribute to development of next-generation "the one and only" products. We are utilizing products such as our PiccoCenter and super-high-speed metal mold processing machines, including our CNC cylindrical grinder, for various steering-related and drive line-related processing, and using F.form-3V, the first flow forming machine to be adopted for practical use in Japan, for processing Torsen-related parts. Looking ahead, we will develop synergistic expansion measures from a soft perspective as well, including the use of industrial engineers and design engineers from our machine tools business



Strategy of the Machine Tools and Mechatronics Division

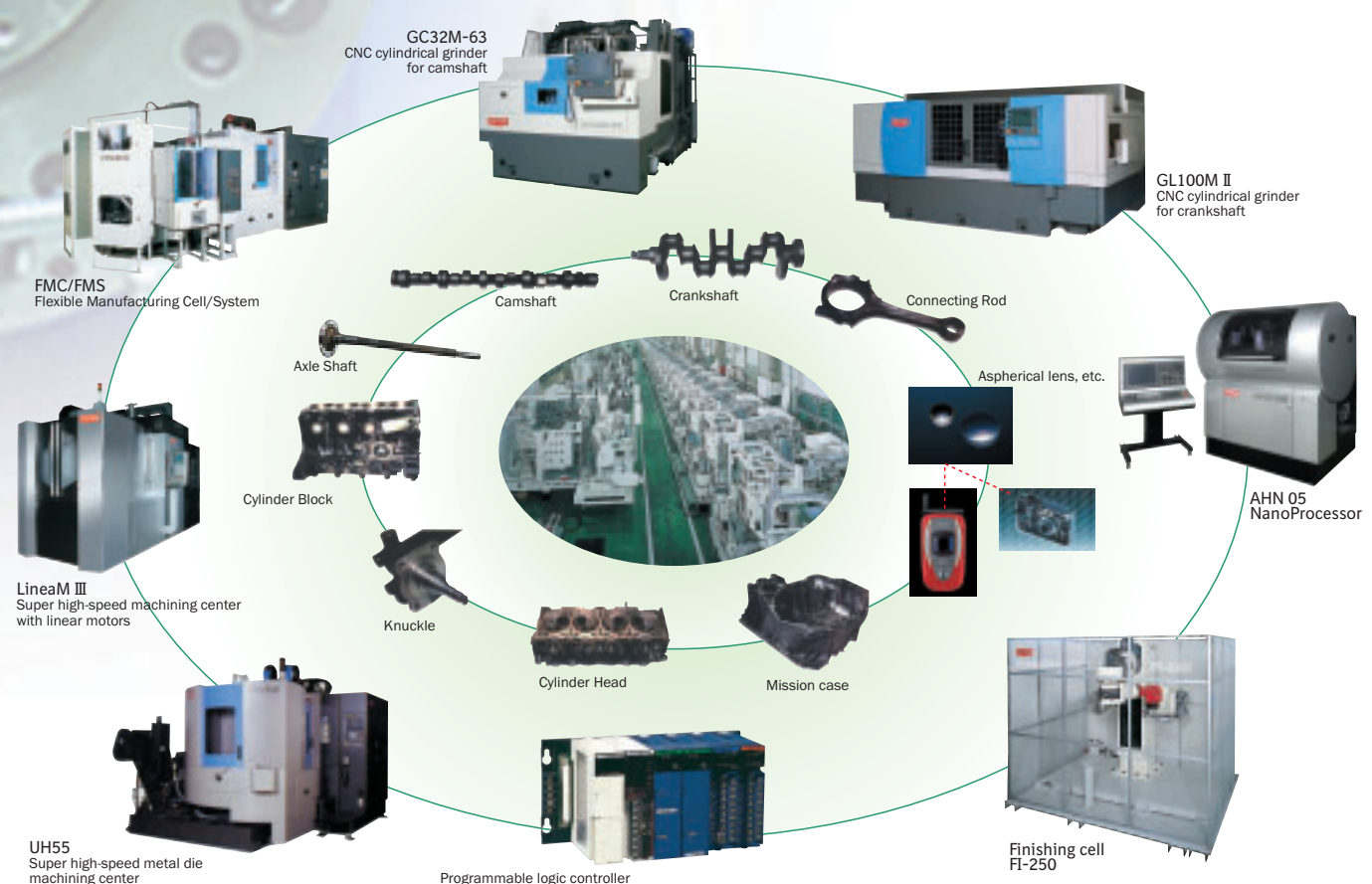
for development and production of automotive parts, and accelerate creation of “the one and only” technology and products in the automotive parts business.

4. Restructure our global strategy

At present Toyota’s sales and service bases in the machine tools business are established around the world in response to the expansion of the global market. Currently we are working towards revising our strategy by region, while tracking demand trends in the global market.

Currently operating results in North America are recovering, and in the future we will seek further business growth centered on the automotive parts processing sector where we possess unique skills. In the European market, on the other hand, where we were compelled to accept an operating slowdown in fiscal 2003. Looking forward, we will demonstrate the effects from integrating our bases with Mitsui Seiki Kogyo Co., Ltd., and take steps to expand sales and improve earnings.

Turning to the Chinese market, where we established Toyota Machinery (Dalian) Co., Ltd. in April 2003 as our machine tool business division’s first overseas subsidiary in China, we will take full advantage of this overseas subsidiary as a manufacturing, sales, and service base to develop loyal Toyota customers and expand our market. With the completion of a Technical Center in November 2003, we are steadily moving to create a sales and service organization for the Chinese market.



- Manufacturing facility
- Sales office
- ▲ Service office



TOYODA MACHINERY USA CORP.
(ARLINGTON HEIGHTS, IL)



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



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

■▲ TOYODA MACHINERY USA CORP.
STANDARD PRODUCTS DIVISION
(ARLINGTON HEIGHTS, IL)

■▲ TOYODA MACHINERY USA CORP.
AUTOMOTIVE PRODUCTS DIVISION (WIXOM, MI)

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

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

●■▲ TOYODA KOKI DO BRASIL
INDUSTRIA E COMERCIO DE MAQUINAS, LTDA.
(SAO PAULO)

JAPAN

●■ Toyoda-Koki Automotive TORSEN Co.

■▲ Hokuriku Sales Office

■▲ Osaka Branch Office

■▲ Hiroshima Sales Office

■▲ Kyushu Sales Office

■▲ Gunma Sales Office

■▲ Saitama Sales Office

■▲ Tokyo Branch Office

■▲ Hamamatsu Sales Office

Nagoya Area



● ■ ▲
TOYODA-KOKI AUTOMOTIVE UK LTD.
(WALES, UK)

■ ▲
TOYODA MACHINERY AND ENGINEERING
EUROPE SAS (PARIS, FRANCE)

■ ▲
TOYODA MITSUI EUROPE UK BRANCH
(COVENTRY, UK)

■ ▲
TOYODA MITSUI EUROPE GmbH
(KREFELD, GERMANY)

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

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TOYODA MACHINERY
(DALIAN) CO., LTD.

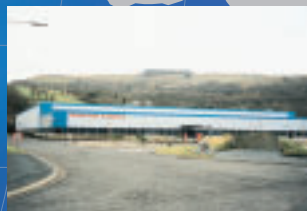
■
BEIJING
REPRESENTATIVE OFFICE

● ■ ▲
TOYODA-KOKI AUTOMOTIVE
(TIANJIN) CO., LTD.

■ ▲
TPA ENGINEERING CORP.

TOYODA MACHINERY(DALIAN) CO., LTD.

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



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



TOYODA MACHINERY AND ENGINEERING
EUROPE SAS (PARIS, FRANCE)



TOYODA MITSUI EUROPE GmbH
(KREFELD, GERMANY)



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

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

● ■ ▲
TOYODA MACHINE WORKS
(THAILAND) CO., LTD.

■ ▲
SINGAPORE REPRESENTATIVE OFFICE



TOYODA MACHINE WORKS (THAILAND)
CO., LTD.

JAPAN



Head Office and Main Plant



Kohda Plant



Hanazono Plant



Okazaki Plant

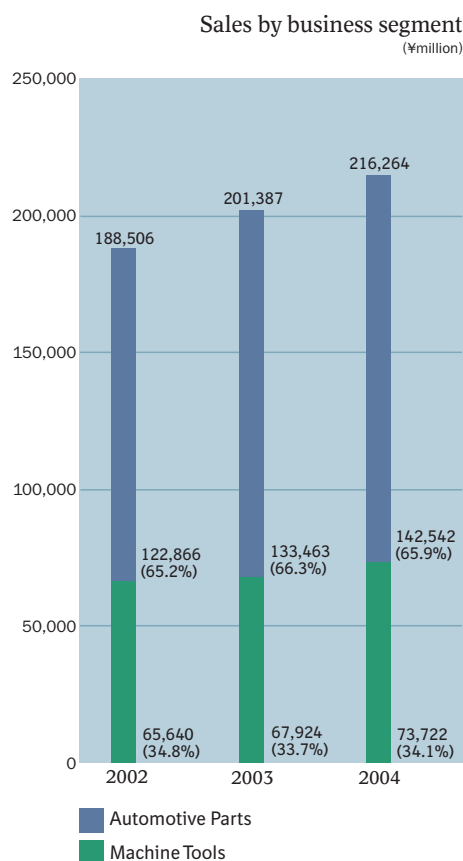


Tadomisaki Plant



Higashi Kariya Plant

Sales by business segment



Note : Numbers in parentheses are the percentage of sales.

Automotive Parts

In the automobile industry, the leading customer for our automotive parts business, domestic sales remained relatively flat despite a decline in demand for compact cars, as sales of mid-sized passenger cars increased. Japanese manufacturers also maintained export sales at the prior year level, offsetting a drop in shipments to North America with growth in exports to Europe. As a result, domestic automobile production was nearly unchanged from the output level in the prior fiscal year.

Under this market environment, we expanded consolidated sales in our automotive parts business by 6.8%, or ¥9,079 million, to ¥142,542 million. Operating income decreased by 47.6%, or ¥6,590 million year-on-year, to ¥7,244 million. Operating income for the fiscal year based on the accounting standards applied before a change in accounting policy (*) decreased 6.0% from the prior fiscal year, to ¥13,004 million.

Machine Tools

In the machine tools industry, we continued to receive orders from the domestic automobile industry at a steady pace for the second year in a row. In addition, capital investments in the general machinery and electrical and precision machinery sectors expanded at an even pace during the fiscal year under review, and remains on track for a recovery. Overseas orders received also rose, boosted by strong demands from countries in Asia, as well as the capital investment recovery trend in Europe and North America. As a result, orders received increased compared to the prior fiscal year.

Given this market environment, consolidated sales in our machine tools business grew by ¥5,798 million, an 8.5% increase, to ¥73,722 million. Operating income fell by 80.7%, dropping ¥2,099 million compared to the prior fiscal year to ¥503 million. Operating income for the fiscal year based on the accounting standards applied before a change in accounting policy (*) jumped 90.6% compared to the prior fiscal year, to ¥4,959 million.

* Change in accounting policy: Until the fiscal year ended March 31, 2003, the line item "adjustment: intersegment accounts" included unallocated operating expenses, which mainly consisted of research and development costs and expenses relating to general and administrative departments. Effective April 1, 2004, such expenses are being allocated to each business segment.

Sales by geographical segment (customer location)

Domestic customers

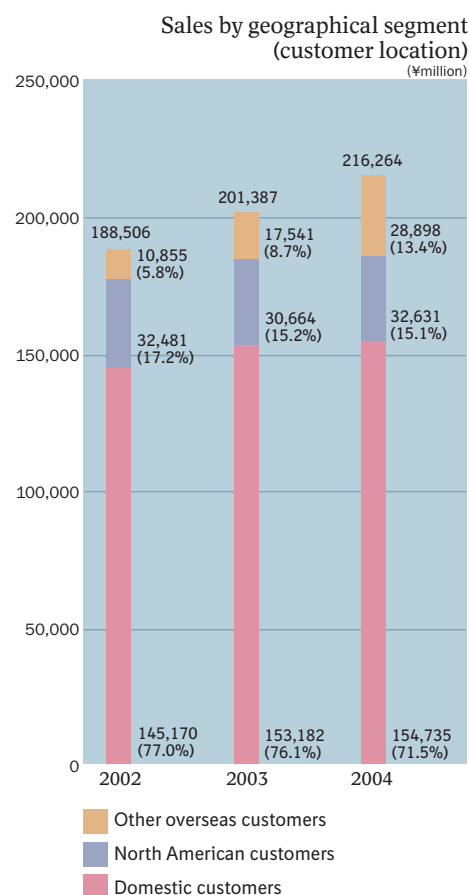
In the automotive parts business, domestic automobile sales expanded at a steady pace, thanks to the effects of new model introductions centered on small-size passenger cars. In the machine tools business, orders received grew against a backdrop of healthy growth in the volume of orders received from the automobile industry for the second year in a row, as well as a recovery in capital investment that reached across nearly every industry sector. As a result, consolidated sales to domestic customers edged up ¥1,553 million (a 1.0% increase) compared to the prior fiscal year to ¥154,735 million.

Sales to domestic customers accounted for 71.5% of total consolidated sales.

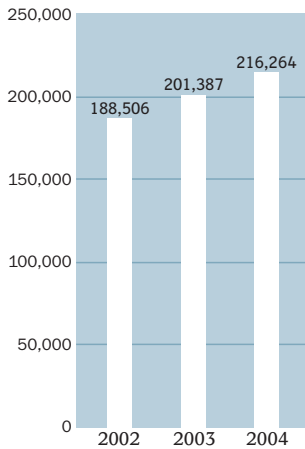
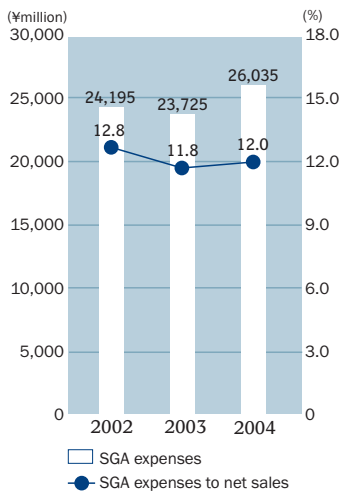
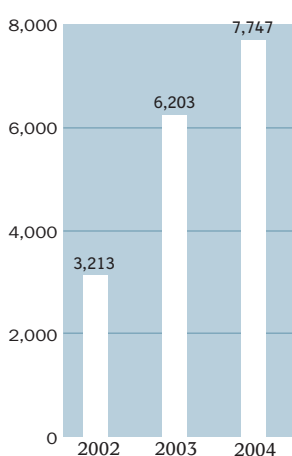
North American and other overseas customers

In the automotive parts business, Japanese automobiles increased their share of the Asian market, as exports mainly to North America and Asia increased, despite the affect of a stronger yen in the North America market. In the machine tools business, several factors contributed to higher sales, including a second year of continued steady growth in capital investments in Asia centered on China and in other regions, the overall recovery trend in both Europe and North America, and orders for large-scale projects that were received in the prior fiscal year. As a result, consolidated net sales to customers in North America and other overseas locations surged ¥13,324 million (a 27.6% increase) compared to the prior fiscal year, to ¥61,529 million.

Sales in overseas regions as a percentage of total consolidated sales rose by 4.6 points to 28.5%.



Note : Numbers in parentheses are the percentage of sales.

Net sales
(¥million)SGA expenses
/SGA expenses to net salesOperating income
(¥million)

Results of Operations

Net sales

During the fiscal year under review, the outlook for Japan's economy began to brighten. Despite a delayed recovery in employment and stagnant personal consumption resulting from the influence of a prolonged deflationary environment, positive signs included an increase in private sector investments in plant and equipment following the recovery in exports, and improved corporate earnings.

As a market environment surrounding the Toyoda Machine Works group, a recovery trend was evident. In the automobile industry, both domestic and overseas sales remained steady at the prior year level, while in the machine tools industry, the influence of the automobile industry's positive performance extended to domestic orders received for general machinery and electromechanical precision machines. Overseas orders received also rose in Asian countries, where economies are showing promising growth, as well as in Europe and the United States, where a recovery is underway.

In light of these circumstances, the Toyoda Machine Works group took steps in order to further develop its production and sales activities on a global basis. In the automotive parts business, the group established local corporations in Tianjin, China, and Thailand, and acquired the Torsen division of Bosch Automotive Systems. In the machine tool business as well, the group established a local corporation in Dalian, China. As a result, the volume of orders received during the fiscal year in the machine tools business for machine tools and mechatronics products combined was ¥69.8 billion, compared to ¥72.6 billion in the prior fiscal year.

As a result of the sales growth in both the machine tools businesses and the automotive parts business, consolidated sales for the fiscal year under review were ¥216,264 million, up 7.4% compared to the prior fiscal year.

Cost of sales and selling, general and administrative expenses — Operating income

In the fiscal year under review, Toyoda Machine Works made further progress in its shift to an environmentally-friendly production system encompassing rationalized production, reduced energy consumption, resource conservation, zero waste and other advances, and the company reduced its ratio of cost of sales to 84.4%, a reduction of 0.7 points from the prior fiscal year level. Moreover, despite increased pressure on expenses from measures such as Toyoda Machine Works continued efforts to enhance its global production and sales organization towards the establishment of new companies, etc., selling, general and administrative expenses were ¥26,035 million as a result of efforts by the Toyoda group to control various activities aggressively and reduce costs, which kept the increase in cost of sales and selling, general and administrative expenses to a minimum.

In addition to the above factors, the effect of increased sales helped boost operating income by ¥1,544 million compared to the prior fiscal year to ¥7,747 million.

Financial Position

Assets

Current assets decreased by ¥513 million compared to the prior fiscal year to ¥93,646 million. The increase for total cash and cash equivalents, short-term

investments, and trade notes and accounts receivable was ¥870 million, while inventory assets fell by ¥1,718 million.

Tangible fixed assets (net property, plant and equipment) increased by ¥12,142 million compared to the prior fiscal year to ¥113,029 million. This was the result of capital investments of ¥22,239 million, mainly in automotive parts, including the establishment of overseas production and sales subsidiaries.

Investments and other assets rose by ¥12,808 million compared to the prior fiscal year, to ¥39,665 million, as a result of the Torsen business acquisition.

As a result of the above changes, total assets of the fiscal year were ¥246,340 million, an increase of ¥24,437 million compared to the prior fiscal year.

Liabilities and shareholders' equity

Current liabilities fell by ¥10,355 million compared to the prior fiscal year because the company redeemed the fourth issue of unsecured convertible bonds. On the other hand, long-term liabilities increased by ¥30,890 million compared to the prior fiscal year because the company issued the third issue of unsecured bonds and acquired a long-term loan. As a result of these changes, total liabilities were ¥128,016 million, ¥20,535 million higher than in the prior fiscal year.

In regard to shareholders' equity, the total shareholders' equity of the fiscal year grew, increasing by ¥5,509 million compared to the prior fiscal year to, ¥114,413 million. The principal factors were an increase in retained earnings of ¥2,761 million compared to the prior fiscal year, and a larger net unrealized gain on available-for-sale securities, which increased by ¥4,268 million compared to the prior fiscal year.

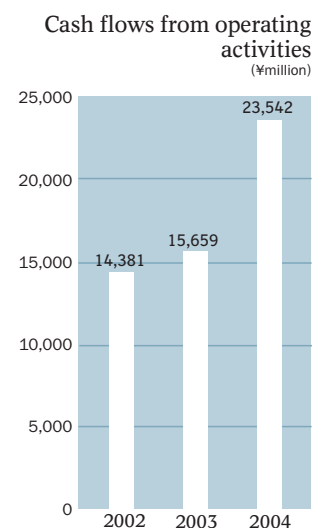
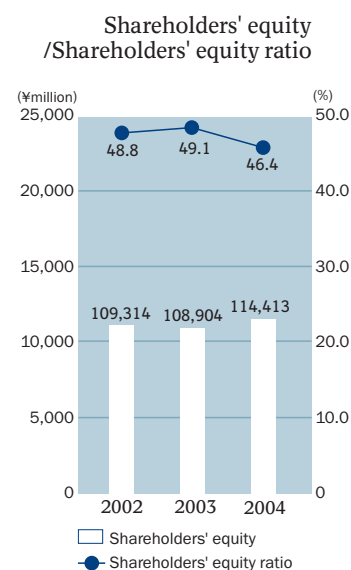
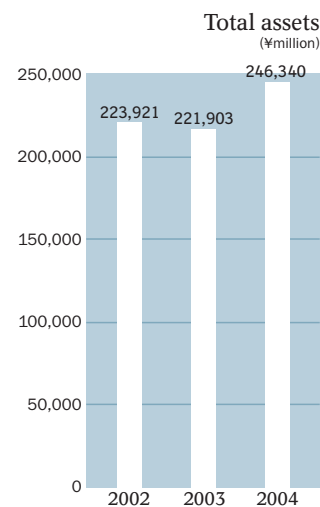
Cash Flows

Cash and cash equivalents at the end of the fiscal year increased by ¥4,004 million compared to the prior fiscal year, taking all financial activities in account. Cash flows from operating activities increased because of increased trade notes and accounts payable. Nevertheless, expenses in investment activities increased because of the increase in acquisitions of subsidiary stock.

Net cash provided by operating activities for the fiscal year increased by ¥7,883 million compared to the prior fiscal year, to ¥23,542 million. This mainly reflected an increase of ¥1,837 million in the employee retirement and severance benefit liability for the fiscal year under review, following a decrease in the employee retirement and severance benefit liability of ¥10,094 million in the prior fiscal year as a result of implementing a return of the entrusted portion of the employee welfare pension fund totaling ¥10 billion, as well as a ¥3,767 million increase in trade notes and accounts payable.

Net cash used in investing activities for the fiscal year was ¥29,172 million, an increase of ¥8,050 million compared to the prior fiscal year. This mainly reflected a ¥12,741 million increase in investments in subsidiary and affiliate stock acquisition resulting from the establishment of three new subsidiaries in the automotive parts business and machine tools business, and the acquisition of the Torsen business, as well as an increase of ¥2,508 for purchases of property, plant and equipment, compared to the prior fiscal year.

Net cash provided by financing activities for the fiscal year was ¥8,630 million, an increase of ¥883 million compared to the prior fiscal year. This primarily reflected ¥19,830 million used for payments of long-term debt, and an increase in long-term debt of ¥28,441 million.





Chairman of the Board
Tadashi Onishi



President
Motohiko Yokoyama

Directors

Chairman of the Board	Tadashi Onishi
President	Motohiko Yokoyama
Deputy President	Shoukichi Yasukawa
Deputy President	Seitoku Kubo
Senior Managing Director	Tadayuki Abe
Senior Managing Director	Yasuaki Hayashi
Managing Director	Hitoshi Akahane
Managing Director	Kazumi Nakamura
Managing Director	Takaaki Suzuki
Managing Director	Takao Yoneda
Managing Director	Katsuyuki Nishizuka
Director	Ryutaro Abe
Director	Jiro Nakano
Director	Minoru Hirata
Director	Masaji Yamamoto
Director	Takuo Shibata
Director	Toshio Hirokawa
Director	Shigeta Mikoshiba
Director	Hiroyuki Kaijima
Director	Tadanobu Kumagai
Director	Tetsuro Shibukawa

Auditors

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



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Consolidated Financial Statements

Consolidated Balance Sheets

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Current Assets:			
Cash and Cash Equivalents (Note 2)	¥ 13,744	¥ 9,740	\$ 130,897
Short-term investments	295	4,408	2,812
Trade notes and accounts receivable (Note 14)	50,718	49,739	483,032
Inventories (Note 3)	20,436	22,154	194,626
Deferred tax assets (Note 11)	4,422	4,303	42,111
Other	4,254	4,013	40,506
Less: allowance for doubtful receivables	(223)	(198)	(2,119)
Total current assets	93,646	94,159	891,865
Investments and Other Assets:			
Investments in securities (Note 9)	25,910	19,865	246,766
Investments in unconsolidated subsidiaries and affiliates	2,310	1,957	21,996
Long-term loans	255	276	2,429
Deferred tax assets (Note 11)	1,135	3,480	10,809
Other	10,178	1,437	96,932
Less: allowance for doubtful receivables	(123)	(158)	(1,174)
Total investments and other assets	39,665	26,857	377,758
Property, Plant and Equipment, at cost (Note 6):			
Land	34,424	32,708	327,851
Buildings and structures	53,518	51,252	509,699
Machinery and equipment	172,231	159,155	1,640,293
Construction in progress	9,577	4,071	91,209
Less: accumulated depreciation	(156,721)	(146,299)	(1,492,579)
Net property, plant and equipment	113,029	100,887	1,076,473
Total Assets	¥ 246,340	¥ 221,903	\$ 2,346,096

See accompanying notes to consolidated financial statements.

LIABILITIES , MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note.1)
	2004	2003	2004
Current Liabilities:			
Short-term debt	¥ 6,999	¥ 5,817	\$ 66,654
Trade notes and accounts payable	27,624	24,547	263,087
Accrued expenses	13,932	12,611	132,683
Accrued income taxes	1,690	1,121	16,099
Deposits received from employees	612	637	5,833
Other	8,169	24,648	77,796
Total current liabilities	59,026	69,381	562,152
Long-term Liabilities:			
Long-term debt (Note 4)	58,542	30,000	557,543
Deferred tax liabilities (Note 11)	1,125	615	10,715
Employee retirement and severance benefit liability (Note 12)	9,323	7,485	88,788
Total long-term liabilities	68,990	38,100	657,046
Total liabilities	128,016	107,481	1,219,198
Commitments and contingent liabilities (Notes 5 and 8)			
Minority Interests in Consolidated Subsidiaries	3,911	5,518	37,255
Shareholders' Equity (Notes 7 and 15):			
Common stock, no par value:			
Authorized-198,550,000 shares;			
Issued-132,939,520 shares in 2004 and 2003	24,805	24,805	236,243
Capital surplus	30,115	30,115	286,806
Retained earnings	55,724	52,963	530,706
Net unrealized gain on available-for-sale securities	7,257	2,989	69,112
Foreign currency translation adjustment	(1,707)	(216)	(16,259)
Less: treasury stock, at cost - 3,349,900 shares in 2004 and 3,302,906 shares in 2003	(1,781)	(1,752)	(16,965)
Total shareholders' equity	114,413	108,904	1,089,643
Total Liabilities, Minority Interests and Shareholders' Equity	¥ 246,340	¥ 221,903	\$ 2,346,096

Consolidated Statements of Income

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries
Fiscal years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Net Sales (Notes 13 and 14)	¥ 216,264	¥ 201,387	\$ 2,059,662
Cost of Sales	182,482	171,459	1,737,927
Gross profit	33,782	29,928	321,735
Selling, General and Administrative Expenses	26,035	23,725	247,955
Operating income (Note 13)	7,747	6,203	73,780
Other Income (Expenses):			
Interest and dividend income	385	314	3,669
Interest expense	(820)	(734)	(7,810)
Other, net	(422)	(152)	(4,024)
Gain on return of substitutional portion of employee pension fund	—	10,080	—
Loss on disposal of inventories	—	(2,714)	—
Loss on sale or disposal of property, plant and equipment	—	(1,262)	—
Loss on write-down of investments in securities and other investments	—	(1,220)	—
Income before income taxes and minority interests	6,890	10,515	65,615
Income Taxes	2,560	4,920	24,381
Minority Interests in Income of Consolidated Subsidiaries	(42)	(325)	(398)
Net Income	¥ 4,288	¥ 5,270	\$ 40,836

Amounts per Share:	Yen		U.S. dollars (Note1)
Net income:			
Basic	¥ 31.40	¥ 38.33	\$ 0.30
Diluted	29.49	33.92	0.28
Dividends	10.00	10.00	0.10

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries
Fiscal years ended March 31, 2004 and 2003

	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, 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)
Net income				4,288			
Dividends paid				(1,296)			
Bonuses to directors and corporate auditors				(208)			
Decrease due to change of consolidation scope				(146)			
Increase in charge of equity interest				123			
Net change in unrealized gain on available-for-sale securities, net of taxes					4,268		
Foreign currency translation adjustment						(1,491)	
Purchases of treasury stock and fractional shares							(29)
Balance, March 31, 2004	132,939,520	¥ 24,805	¥ 30,115	¥ 55,724	¥ 7,257	¥ (1,707)	¥ (1,781)

	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, 2003	\$ 236,243	\$ 286,606	\$ 504,410	\$ 28,467	\$ (2,054)	\$ (16,689)	
Net income			40,836				
Dividends paid			(12,346)				
Bonuses to directors and corporate auditors			(1,985)				
Decrease due to change of consolidation scope			(1,383)				
Increase in charge of equity interest			1,174				
Net change in unrealized gain on available-for-sale securities, net of taxes				40,645			
Foreign currency translation adjustment					(14,205)		
Purchases of treasury stock and fractional shares						(276)	
Balance, March 31, 2004	\$ 236,243	\$ 286,806	\$ 530,706	\$ 69,112	\$ (16,259)	\$ (16,965)	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries
Fiscal years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 6,890	¥ 10,515	\$ 65,615
Adjustment for:			
Depreciation and amortization	11,067	10,194	105,404
Amortization of consolidating adjustment account	562	—	5,357
Loss on sales and disposals of property, plant and equipment, net	185	1,199	1,765
(Gain) loss on marketable securities and investments, net	(133)	1,608	(1,266)
Increase (decrease) in employee retirement and severance benefit liability	1,837	(10,094)	17,500
Interest and dividend income	(385)	(314)	(3,669)
Interest expenses	820	734	7,810
Changes in current assets and current liabilities:			
Increase in trade notes and accounts receivable	(635)	(778)	(6,048)
Decrease in inventories	2,196	5,643	20,915
Increase in trade notes and accounts payable	3,767	941	35,875
Other, net	(170)	(750)	(1,631)
Sub Total	26,001	18,898	247,627
Interest and dividend received	385	314	3,669
Interest paid	(784)	(706)	(7,466)
Income taxes paid	(2,060)	(2,847)	(19,620)
Net cash provided by operating activities	23,542	15,659	224,210
Cash Flows from Investing Activities:			
Net decrease (increase) in securities	5,366	(3,064)	51,101
Increase in investments in subsidiaries and affiliates	(14,026)	(1,285)	(133,579)
Net decrease in loans receivable	155	449	1,480
Purchases of property, plant and equipment	(19,714)	(17,206)	(187,749)
Other, net	(953)	(16)	(9,086)
Net cash used in investing activities	(29,172)	(21,122)	(277,833)
Cash Flows from Financing Activities:			
Increase in short-term debt	1,213	538	11,554
Payments of long-term debt	(19,830)	(39)	(188,857)
Increase in long-term debt	28,441	9,944	270,865
Proceeds from sales of common stock to minority shareholders	204	196	1,939
Purchase of treasury stock, net	(18)	(1,483)	(173)
Dividends paid to shareholders	(1,296)	(1,326)	(12,345)
Dividends paid to minority shareholders	(84)	(83)	(797)
Net cash provided by financing activities	8,630	7,747	82,186
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(19)	(15)	(172)
Net Increase in Cash and Cash Equivalents	2,981	2,269	28,391
Cash and Cash Equivalents at Beginning of Year	9,740	7,091	92,763
Increase in Cash and Cash Equivalents due to the change of consolidation scope	1,023	380	9,743
Cash and Cash Equivalents at End of Year	¥ 13,744	¥ 9,740	\$ 130,897

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of TOYODA MACHINE WORKS, LTD. (the "Parent") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 ¥105=US\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2004. 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.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Parent and its significant subsidiaries (thirty and seventeen subsidiaries for the years ended March 31, 2004 and 2003, 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 or ten years.

For the year ended March 31, 2004, investment in significant affiliates (four and one subsidiaries for the years ended March 31, 2004 and 2003, respectively) 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 affiliates as of March 31, 2004 were as follows:

Consolidated subsidiaries (30 companies):

Domestic consolidated subsidiaries (11 companies):

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

TK Human Corp.

Toyoda-Koki Automotive TORSEN Co.

Overseas consolidated subsidiaries (19 companies):

Toyoda Machinery USA Corp.

Grinders for Industry, Inc.

Toyoda Machinery and Engineering Europe SAS

Toyoda Mitsui Europe GmbH.

Toyoda Mitsui Europe S.A.

Toyoda Machinery S.E. Asia Co., Ltd.

Toyoda Koki do Brasil Industria E Comercio de Maquinas, LTDA.

Toyoda Machinery (Dalian) Co., Ltd.

Toyoda-Koki Automotive North America, Inc.

Toyoda Machine Works(THAILAND) Co., Ltd.

Toyoda-Koki Automotive UK Ltd.

Toyoda-Koki Automotive South Carolina Inc.

Toyoda-Koki Automotive Czech Republic, s.r.o.

Toyoda-Koki Automotive (Tianjin) Co., Ltd.

GKN Toyoda (Thailand) Ltd.

Toyoda-Koki Automotive Torsen Holding S.A.

Toyoda-Koki Automotive Torsen Europe S.A.

Toyoda-Koki Automotive Torsen North America Inc.

CNK Manufacturing (Thailand) Co., Ltd.

Affiliates accounted for by the equity method (4 companies):

Domestic affiliates accounted for by the equity method (2 companies):

Favess Co., Ltd.

MITSUI SEIKI KOGYO Co., Ltd.

Overseas affiliates accounted for by the equity method (2 companies):

T & K AUTOPARTS SDN BHD

GKN Driveline TOYODA Manufacturing Ltd.

20 consolidated subsidiaries, including 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 a positive intent and the 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 overseas consolidated subsidiaries are stated principally at the lower of market or cost, as determined by the first-in first-out method.

(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. Depreciation of property, plant and equipment of overseas consolidated subsidiaries is computed principally by the straight-line method.

(e) Bond issue expenses

Bond issue expenses are charged to income as incurred.

(f) 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.

(g) 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.

(h) 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 it occurs. 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 fifteen years as a certain period within remaining service lives of employees from the next year in which they arise.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

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

(m) 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, 2004 and 2003, cash and cash equivalents consisted of the following:

Cash and cash equivalents:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Cash and Time deposits with a maturity of three months or less	¥ 11,743	¥ 5,040	\$ 111,838
Money Management Fund	2,001	4,700	19,059
Cash and cash equivalents	¥ 13,744	¥ 9,740	\$ 130,897

In September 2003, the Parent acquired a 100.0% interest in the issued and outstanding shares of common stock of Toyoda-Koki Automotive TORSEN Co., Toyoda-Koki Automotive Torsen Holding S.A., Toyoda-Koki Automotive Torsen Europe S.A., and Toyoda-Koki Automotive Torsen North America Inc. ("Torsen") for an aggregate amount of ¥12,796 million (\$121,866 thousand). A summary of the assets and liabilities of Torsen were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Current assets	¥ 3,425		\$ 32,619
Noncurrent assets	3,446		32,819
Excess of cost of investment over equity in net assets acquired	7,813		74,409
Current liabilities	(1,888)		(17,981)
Acquisition cost	12,796		121,866
Cash and cash equivalents as of September 1, 2003	(1,819)		(17,324)
Cash paid, net of cash acquired	¥ 10,977		\$ 104,542

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

(n) Adoption of new accounting standards

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

effective for fiscal years beginning April 1, 2005, with earlier adoption permitted. The Parent and its consolidated subsidiaries will apply this new standard from the year beginning April 1, 2004, but the management does not expect the adoption of this new standard to have any material impact on the consolidated financial statements.

3. Inventories

Inventories as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Finished goods	¥ 5,093	¥ 6,814	\$ 48,500
Raw materials	3,139	3,507	29,893
Work in process	9,845	10,692	93,763
Supplies	2,359	1,141	22,470
	¥ 20,436	¥ 22,154	\$ 194,626

4. Long-term Debt

Long-term debt as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
2.10% unsecured bonds due 2005	¥ 20,000	¥ 20,000	\$ 190,476
0.99% unsecured bonds due 2009	10,000	10,000	95,238
0.57% unsecured bonds due 2010	20,000	—	190,476
0.45% unsecured convertible debentures due 2003	—	19,830	—
Loans from banks and other due through 2008 with an average interest rate of 1.0% per annum at March 31, 2004	8,542	—	81,353
Less-current portion of long-term debt	—	(19,830)	—
	¥ 58,542	¥ 30,000	\$ 557,543

The annual maturities of long-term debt at March 31, 2004 was as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note1)
2005	¥ —	\$ —
2006	20,542	195,638
2007	—	—
2008	—	—
2009	8,000	76,191
There after	30,000	285,714
	¥ 58,542	\$ 557,543

5. Contingent Liabilities

At March 31, 2004 and 2003, contingent liabilities in respect of guarantees principally for affiliates including substantial guarantees amounted ¥820 million (\$7,808 thousand) and ¥0 million respectively.

6. Property, Plant and Equipment

At March 31, 2004, as permitted by accounting principles and practices generally accepted in Japan, deferred gains in relation to the receipt of contribution in aid of real property construction deducted from the original acquisition costs amounted to ¥288 million (\$2,745 thousand).

7. Shareholders' Equity

At March 31, 2004 and 2003, capital surplus consisted of additional paid-in capital. At March 31, 2004 and 2003, retained earnings included the Parent's legal reserve of ¥6,201 million (\$59,057 thousand), 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.

Pursuant to the Japanese Commercial Code and the Parent's amended articles of incorporation approved by shareholders at the annual general meeting on June 22, 2004, the Parent can purchase the treasury stock subject to the resolution of the Board of Directors from that date.

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 ¥546 for the period from June 28, 2004 to June 27, 2007 and up to 194,000 shares of common stock of the Parent would be issuable for exercise of this option.

On June 27, 2003, 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 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 ¥624 for the period from June 28, 2005 to June 27, 2008 and up to 202,000 shares of common stock of the Parent would be issuable for exercise of this option.

8. Lease Transactions

Finance lease is not capitalized as disclosed in Note 2(j) 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)
	2004	2003	2004
Buildings and structures	¥ 910	¥ 868	\$ 8,662
Machinery and Equipment	1,057	1,656	10,069
Other	66	19	635
Total	¥ 2,033	¥ 2,543	\$ 19,366

Pro forma accumulated depreciation at fiscal year-end

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Buildings and structures	¥ 451	¥ 450	\$ 4,299
Machinery and Equipment	587	1,023	5,595
Other	30	8	276
Total	¥ 1,068	¥ 1,481	\$ 10,170

Balance at fiscal year-end

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Buildings and structures	¥ 458	¥ 418	\$ 4,363
Machinery and Equipment	470	633	4,474
Other	38	11	359
Total	¥ 966	¥ 1,062	\$ 9,196

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

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
One year or less	¥ 226	¥ 241	\$ 2,150
More than one year	740	821	7,046
Total	¥ 966	¥ 1,062	\$ 9,196

Lease payments during the fiscal year

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
	¥ 257	¥ 299	\$ 2,448

Pro forma depreciation expenses during the fiscal year

	Millions of yen		Thousands of U.S. dollars (Note1)	
	2004	2003	2004	
	¥ 257	¥ 299	\$ 2,448	

Note: Pro forma depreciation on lease transaction is computed using 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

At March 31, 2004 future minimum lease obligations for noncancelable operating leases were as follows:

	Millions of yen	Thousands of U.S. dollars (Note1)
Due within one year	¥ 2	\$ 16
Due after one year	2	23
	¥ 4	\$ 39

9. Marketable and Investment Securities

At March 31, 2004 and 2003, 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, 2004:				
Equity securities	¥ 9,927	¥ 11,608	¥ —	¥ 21,535
Bonds	10	5	—	15
Other	—	—	—	—
	¥ 9,937	¥ 11,613	¥ —	¥ 21,550

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

Thousands of U.S. dollars (Note1)

Available-for-sale securities with fair value:

At March 31, 2004:

Equity securities	\$ 94,547	\$ 110,556	\$ —	\$ 205,103
Bonds	95	49	—	144
Other	—	—	—	—
	\$ 94,642	\$ 110,605	\$ —	\$ 205,247

During the years ended March 31, 2004 and 2003, 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 2004:			
Equity securities	¥ 245	¥ 170	¥ 1
Bonds	968	16	10
Others	4,009	—	—
	¥ 5,222	¥ 186	¥ 11

Available-for-sale securities

For the year 2003:

Equity securities	¥ 2	¥ —	¥ 0
Bonds	1,500	—	520
Others	100	—	—
	¥ 1,602	¥ —	¥ 520

Thousands of U.S. dollars (Note1)

Available-for-sale securities

For the year 2004:

Equity securities	\$ 2,329	\$ 1,622	\$ 17
Bonds	9,224	146	92
Others	38,182	—	—
	\$ 49,735	\$ 1,768	\$ 109

Expected maturities of debt securities held-to-maturity and available-for-sale at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note1)
Due within one year	¥ 15	\$ 143
Due after one year through five years	1,000	9,524

10. 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. These exposures include certain anticipated export sales or import purchases. The basic policies for derivatives are approved by the Board of Directors and executed and controlled by the Accounting and Financial section.

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

11. Deferred Tax Accounting

In accordance with the application of "Deferred Tax Accounting", deferred income taxes attributable to temporary differences between the recognition for financial reporting purposes and for tax purposes have been provided.

1. Temporary differences are due to the followings:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
<Deferred Tax Assets>			
Retirement and severance benefit	¥ 3,235	¥ 2,152	\$ 30,805
Depreciation and amortization	2,817	2,500	26,828
Accrued employee bonus	2,100	1,740	20,004
Other	3,176	3,551	30,244
	11,328	9,943	107,881
Less, valuation allowance	(946)	(156)	(9,009)
Total	10,382	9,787	98,872
<Deferred Tax Liabilities>			
Unrealized gain on available-for-sale securities	(4,936)	(2,099)	(47,008)
Depreciation and amortization	(918)	(416)	(8,746)
Reserve for advanced depreciation	(85)	(87)	(806)
Reserve for special depreciation	(11)	(17)	(107)
Total	(5,950)	(2,619)	(56,667)
Net Deferred Tax Assets	¥ 4,432	¥ 7,168	\$ 42,205

2. Tax rate differences are due to the followings:

	2004	2003
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%
Decrease in deferred tax assets due to a change in tax rates	—	1.48%
Tax credit for research and development expenses	(3.65%)	—
Other	(0.43%)	(1.02%)
Actual effective income tax rate reflected in the consolidated statements of income	37.16%	46.79%

12. 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.

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 applied the transitional treatment specified on paragraph 47-2 of Accounting Committee Report No. 13 "Practical Guideline of Accounting for Retirement Benefits (Interim Report)" issued by the Japanese Institute of Certified Public Accountants, and 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 as other income on the consolidated statements of income for the year ended March 31, 2003.

Employee retirement and severance benefit liability as of March 31, 2004 and 2003 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Projected benefit obligations	¥ 35,938	¥ 35,276	\$ 342,264
Fair value of pension plan assets	(19,654)	(15,851)	(187,179)
	16,284	19,425	155,085
Unrecognized past service cost	(8,401)	(12,286)	(80,008)
Unrecognized actuarial differences	637	346	6,070
	8,520	7,485	81,147
Prepaid pension cost	(803)	—	(7,641)
Balance of employee retirement and severance benefit liability	¥ 9,323	¥ 7,485	\$ 88,788

Note: Projected benefit obligation of subsidiaries was calculated using the 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, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2004	2003	2004
Service cost	¥ 1,650	¥ 1,603	\$ 15,711
Interest cost	829	857	7,898
Expected return on pension plan assets	(354)	(574)	(3,371)
Amortization of past service cost	(289)	(173)	(2,753)
Amortization of actuarial differences	839	252	7,993
Net pension expense	¥ 2,675	¥ 1,965	\$ 25,478

Assumptions used in the calculation of the above information for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Discount rate	2.5%	2.5%
Expected rate of returns on pension plan assets	2.5%	3.0%
Amortization of past service cost	5 years	5 years
Amortization of actuarial differences	15 years	15 years

13. Segment Information

(a) Business Segments

	Millions of yen	Thousands of U.S. dollars (Note1)
	2004	2004
Sales:		
Machine tools	¥ 73,722	\$ 702,115
Automotive parts	142,542	1,357,547
Consolidated	216,264	2,059,662
Operating income:		
Machine tools	503	4,787
Automotive parts	7,244	68,993
Total	7,747	73,780
Adjustment: intersegment accounts and unallocated operating expenses	—	—
Consolidated	7,747	73,780
Assets:		
Machine tools	87,374	832,139
Automotive parts	125,035	1,190,808
Total	212,409	2,022,947
Adjustment: intersegment accounts and unallocated assets	33,931	323,149
Consolidated	246,340	2,346,096
Depreciation expenses:		
Machine tools	1,920	18,288
Automotive parts	9,147	87,116
Total	11,067	105,404
Adjustment: intersegment accounts	—	—
Consolidated	11,067	105,404
Capital expenditure:		
Machine tools	1,625	15,475
Automotive parts	20,869	198,756
Total	22,494	214,231
Adjustment: intersegment accounts	—	—
Consolidated	22,494	214,231

	Millions of yen	Thousands of U.S. dollars (Note1)	2003	2004
Sales:				
Machine tools	¥ 73,722	¥ 67,924		\$ 702,115
Automotive parts	142,542	133,463		1,357,547
Consolidated	216,264	201,387		2,059,662
Operating income:				
Machine tools	4,959	2,602		47,232
Automotive parts	13,004	13,834		123,840
Total	17,963	16,436		171,072
Adjustment: intersegment accounts and unallocated operating expenses	(10,216)	(10,233)		(97,292)
Consolidated	7,747	6,203		73,780
Assets:				
Machine tools	81,496	80,712		776,149
Automotive parts	112,754	89,168		1,073,853
Total	194,250	169,880		1,850,002
Adjustment: intersegment accounts and unallocated assets	52,090	52,023		496,094
Consolidated	246,340	221,903		2,346,096
Depreciation expenses:				
Machine tools	1,766	1,807		16,821
Automotive parts	8,413	7,653		80,126
Total	10,179	9,460		96,947
Adjustment: intersegment accounts	888	734		8,457
Consolidated	11,067	10,194		105,404
Capital expenditure:				
Machine tools	1,552	2,140		14,789
Automotive parts	19,945	12,824		189,948
Total	21,497	14,964		204,737
Adjustment: intersegment accounts	997	341		9,494
Consolidated	22,494	15,305		214,231

Until the year ended March 31, 2003, "adjustment: intersegment accounts" in the table above included the unallocated operating expenses, which principally consisted of research and development cost and expenses relating to general and administrative department. Effective April 1, 2004, such expenses were allocated to each of the segment in order to present more useful segment information. In addition, "adjustment: intersegment accounts" in the table above also included the unallocated assets, which consisted of monetary assets such as cash, marketable securities and investments in securities at March 31, 2004. In the prior year's consolidated financial statements, such unallocated assets consisted of assets maintained in connection with general operating assets, such as monetary assets and assets related to general and administrative department. This change was made based on the reorganization of the Parent's operating division with a significant increase of consolidated subsidiaries for the year ended March 31, 2004.

Business segment information prepared based on the previous method for comparative purposes is indicated in the right table above.

(b) Geographical Segments

	Thousands of U.S. dollars (Note 1)	
	Millions of yen	2004
Sales by Company Location:		
Domestic companies	¥ 188,289	\$ 1,793,227
North American companies	29,898	284,745
Other overseas companies	12,233	116,504
Total	230,420	2,194,476
Adjustment: intercompany accounts	(14,156)	(134,814)
Consolidated	216,264	2,059,662
Sales by Customer Location:		
Domestic customers	154,735	1,473,669
North American customers	32,631	310,774
Other overseas customers	28,898	275,219
Net sales	216,264	2,059,662
Operating income:		
Domestic companies	5,136	48,910
North American companies	1,816	17,298
Other overseas companies	785	7,476
Total	7,737	73,684
Adjustment: intercompany accounts and unallocated operating expenses	10	96
Consolidated	7,747	73,780
Assets:		
Domestic companies	198,722	1,892,592
North American companies	25,651	244,297
Other overseas companies	24,302	231,440
Total	248,675	2,368,329
Adjustment: intercompany accounts and unallocated assets	(2,335)	(22,233)
Consolidated	246,340	2,346,096

	Thousands of U.S. dollars (Note 1)	
	Millions of yen	2003
Sales by Company Location:		
Domestic companies	¥ 188,289	¥ 176,521
North American companies	29,898	30,071
Other overseas companies	12,233	8,036
Total	230,420	214,628
Adjustment: intercompany accounts	(14,156)	(13,241)
Consolidated	216,264	201,387
Sales by Customer Location:		
Domestic customers	154,735	153,182
North American customers	32,631	30,664
Other overseas customers	28,898	17,541
Net sales	216,264	201,387
Operating income:		
Domestic companies	15,353	15,646
North American companies	1,816	709
Other overseas companies	785	321
Total	17,954	16,676
Adjustment: intercompany accounts and unallocated operating expenses	(10,207)	(10,473)
Consolidated	7,747	6,203
Assets:		
Domestic companies	175,999	156,581
North American companies	22,804	24,024
Other overseas companies	21,604	9,387
Total	220,407	189,992
Adjustment: intercompany accounts and unallocated assets	25,933	31,911
Consolidated	246,340	221,903

As disclosed in (a) industry segment information, the Parent changed the accounting method for preparation of segment information as to the unallocated operating expenses and the unallocated assets from the year ended March 31, 2004. This change for the allocation method of operating expenses and assets was made based on the reorganization of the Parent's operating division with a significant increase of consolidated subsidiaries for the year ended March 31, 2004.

Geographical segment information prepared based on the previous method for comparative purposes is indicated in the right table above.

14. Related Party Transactions

During the years ended March 31, 2004 and 2003, the Parent and its consolidated subsidiaries had operational transactions with Toyota Motor Corporation ("TMC"), a 24.6% shareholder of the Parent. A summary of the significant transactions with TMC for the years ended, or as at March 31, 2004 and 2003 is as follows:

	Thousands of U.S. dollars (Note 1)	
	Millions of yen	2003
For the year:		
Sales of finished goods	¥ 106,170	¥ 103,450
At the year-end:		
Trade accounts receivable	15,804	15,016

15. Subsequent Events

On June 22, 2004, the shareholders of the Parent approved the payment of a year-end cash dividends to shareholders of record as of March 31, 2004, of ¥5 (\$0.05) per share, or a total of ¥648 million (\$6,172 thousand), and bonuses to directors and corporate auditors of ¥117 million (\$1,110 thousand). Cash dividends for the year thus totaled ¥10 (\$0.10) per share, including a semiannual dividend of ¥5 (\$0.05).

On June 22, 2004, 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 21 members of the Board of Directors, 8 selected executive employees of the Parent, and 8 Board members of its subsidiaries as of June 22, 2004. Each stock option is exercisable at a certain exercise price for the period from July 1, 2006 to June 30, 2009, and up to 250,000 shares of common stock of the Parent would be issuable for the exercise of this option.

Report of Independent Auditors

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

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, 2004 and 2003, 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 generally accepted 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 13, effective for the year ended March 31, 2004, TOYODA MACHINE WORKS, LTD. and its consolidated subsidiaries changed their accounting method for Segment Information.

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.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Nagoya, Japan

June 22, 2004

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 MOPPE 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
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
FAVSS CO., LTD.	2003	35.0	1-18, Miyama, Shinpukuji-cho, Okazaki, Aichi, JAPAN Phone: 81-564-27-3611 Fax: 81-564-27-3223
TOYODA-KOKI AUTOMOTIVE TORSEN CO.	1992	100.0	1-5-14, Shinsayama, Sayamashi, Aichi, JAPAN Phone: 81-42-968-2063 Fax: 81-42-953-9275
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
TOYODA MACHINERY AND ENGINEERING EUROPE SAS	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	2003	65.0	Bischofstr. 118-47809 Krefeld, GERMANY Phone: 49-2151-5188-300 Fax: 49-2151-5188-333
TOYODA MACHINERY S.E.ASIA CO., LTD. (Former TOYODA MACHINERY AND ENGINEERING GmbH)	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



Head Office	1-1 Asahimachi, Kariya, Aichi, JAPAN
Established	May 1, 1941
Number of Employees	4,065 persons
Capital	US\$ 236 million
Common Shares	Issued and Outstanding 129,605,442 shares
Stock Exchange Listings	Tokyo Stock Exchange (1st section) Nagoya Stock Exchange (1st section)
Independent Certified	
Public Accountants	ChuoAoyama PricewaterhouseCoopers
Web Site Address	http://www.toyoda-kouki.co.jp/

TOYODA® TOYODA MACHINE WORKS, LTD.

HEAD OFFICE (Machine Tools & Mechatronics Division)

1-1 Asahimachi, Kariya, Aichi, 448-8652 JAPAN

Accounting Dept: (81) 566-25-5093

Overseas Sales Dept: (81) 566-25-5172

Telefacsimile: (81) 566-25-5470

HANAZONO PLANT (Automotive Parts Division)

1-18 Miyama Shinpukuji-cho, Okazaki, Aichi, 444-2106 JAPAN

Automotive Parts Div: (81) 564-27-3478

Telefacsimile: (81) 564-27-3487