TOYODA®

ISO 9001
ISO 14001
Certified

ANNUAL REPORT 2005

Year Ended March 31, 2005

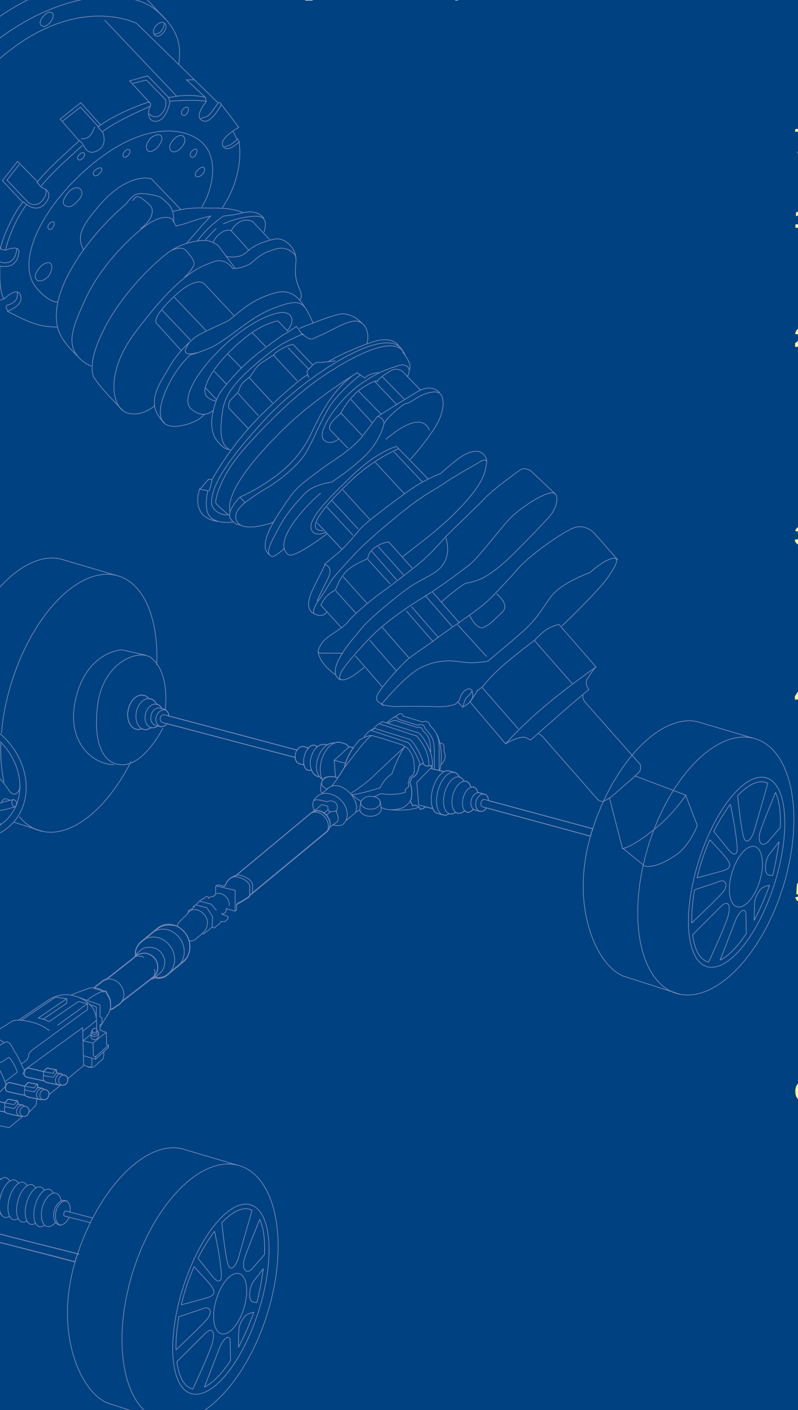
Infinite Contribution to Customers and Society

TOYODA MACHINE WORKS, LTD.

TOYODA MACHINE WORKS

MANAGEMENT PHILOSOPHY

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



To meet these objectives, the company aims to:

1. Consistently put the customer first and place the Company's genuine contribution toward the development of its customers as a top priority.
2. Value resources, promote environmental preservation, resource saving and recycling activities, and have operations that are in harmony with people, the greater society and the regional environment. Through this, the company hopes to contribute to the creation of a comfortable, abundant living environment.
3. Gain the trust of people and become accepted as a good corporate citizen both in international and domestic circles by having fair and open activities, and respecting the law as well as its spirit.
4. Continue challenging ourselves to develop cutting-edge technologies and to create new value by learning greatly from our customers and society. Furthermore, it will be the company's endless mission to be at the forefront of technology and to maintain our appeal as the No.1 worldwide provider of products.
5. Build a passionate and lively workplace environment by respecting each individual, placing individual creativity in high regard, and engaging in organizational activities that allow employees to work together and challenge themselves to pursue their dreams.
6. Grow steadily in the long-term by continuing to put quality first, promoting improvements to costs and productivity, strengthening the Company's business structure, and responding rapidly to changes in the market environment.

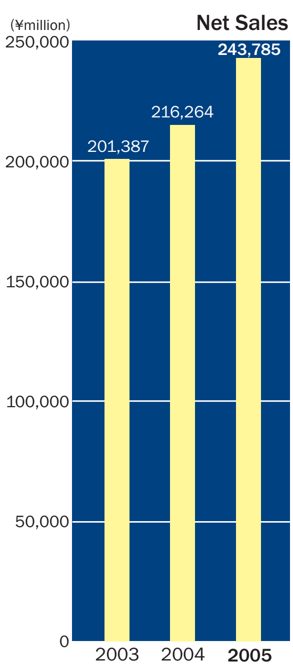
Contents

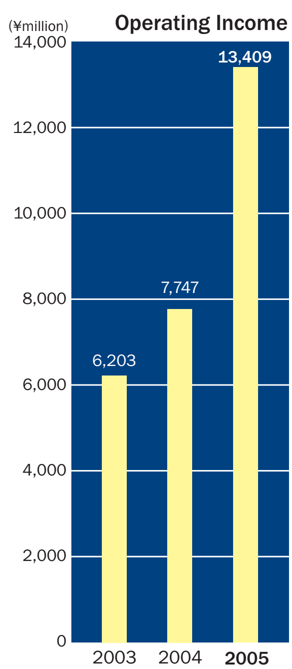
FINANCIAL HIGHLIGHTS

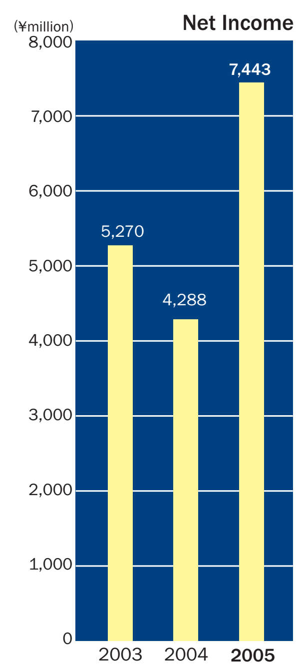
Fiscal years ended March 31, 2005 and 2004

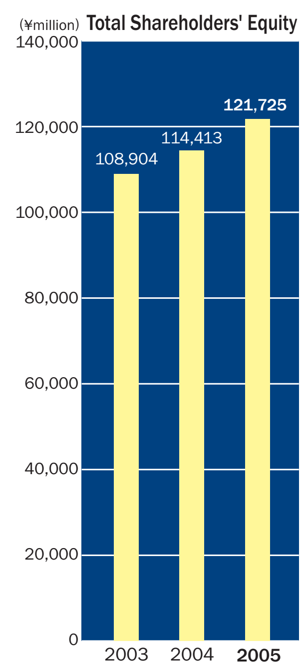
	Millions of yen		*Thousands of U.S. dollars*
	2005	2004	**2005**
Consolidated			
Net Sales	**¥243,785**	¥216,264	**$2,278,361**
Operating Income	**13,409**	7,747	**125,319**
Income before Income Taxes and minority interests	**11,567**	6,890	**108,099**
Net Income	**7,443**	4,288	**69,557**
Total Assets	**272,218**	246,340	**2,544,097**
Total Shareholders' Equity	**121,725**	114,413	**1,137,620**
Common Stock	**24,805**	24,805	**231,827**

Note : The exchange rate of ¥107=U.S.$1 (as of March 31, 2005 in the Tokyo Foreign Exchange Market) is used for the above calculations.









	Millions of yen		*Thousands of U.S. dollars*
	2005	2004	**2005**
Non-consolidated			
Net Sales	**¥186,421**	¥168,339	**$1,742,248**
Operating Income	**7,768**	4,317	**72,598**
Income before Income Taxes	**7,312**	4,389	**68,337**
Net Income	**4,963**	3,089	**46,386**
Total Assets	**233,972**	216,911	**2,186,652**
Total Shareholders' Equity	**113,877**	109,283	**1,064,273**
Common Stock	**24,805**	24,805	**231,827**

Note : The exchange rate of ¥107=U.S.$1 (as of March 31, 2005 in the Tokyo Foreign Exchange Market) is used for the above calculations.

To

Chairman (Left)
Takaya Yamada

President and CEO(Right)
Motohiko Yokoyama

Our Shareholders

The Toyoda Machine Works group manages its business with a bold vision. Our stated goal is to "be acknowledged as a company whose presence has a core role in the industry, fully take on such responsibility and achieve even greater global development." During the fiscal year under review (Fiscal 2004), the Company faced a business environment in which the global economy generally continued to expand strongly and the environment for orders received grew at a steady pace, even as the intensity of global competition increased. Given these circumstances, in the automotive parts business the Toyoda Machine Works group focused on expanding operations it has positioned as engines of growth and earnings, while in the machine tool business we sought to "build a robust organization" with an emphasis on earnings. In another step forward, in February 2005 the Company and Koyo Seiko Co., Ltd. signed a letter of intent to effect a merger as companies on equal footing.

As a result, consolidated operating results for the fiscal year under review produced higher net sales and earnings. In both our automotive parts business and machine tools business, we achieved net sales in excess of the prior year levels. From a profit perspective as well, earnings rose substantially because of the growth in net sales and efforts such as rationalization of production and cost reductions. Compared with the prior consolidated fiscal year, net sales increased 12.7% to ¥243.7 billion, and operating income jumped 73.1% to ¥13.4 billion.

For the fiscal year under review, the Company increased its annual dividend per share by one yen to ¥11. This consisted of an interim dividend of ¥5 per share, and a fiscal year-end dividend of ¥6 per share that included an extraordinary dividend of one yen. In light of the Toyoda Machine Works group's policy of returning profits to our shareholders, we are giving comprehensive consideration to our operating performance and dividend payout ratio in order to maintain stable dividends. We will aggressively continue our efforts in the future to further meet the high expectations of our shareholders.

The Toyoda Machine Works group has adopted the slogan, "Focusing on making infinite contributions to customers and society at large." We will pursue aggressive management using the following key words:

- ***Customer first***
- ***Focus on Quality***
- ***Innovation and Rapid Response***
- ***Action to accomplish objectives***

In order to remain a world leader, beginning in fiscal 2005 we will thoroughly instill the attitude "act to accomplish" in every employee by adopting the new key words "action to accomplish objectives." Through our pursuit of these goals that unite the Toyoda Machine Works group, we will continue to offer new value to people in Japan and around the world, and increase the worth of the Toyoda Machine Works group to society. At the same time, we will strive to turn a future of dreams for our earth and humanity into a reality. We also will actively pursue steps to protect the global environment. In every corporate activity, we will devote our efforts to management based on the law and clear corporate ethics, manage our business with a high degree of transparency and pursue a sense of corporate social responsibility while concentrating our efforts to ensure accountability. We look forward to the continued understanding and support of the shareholders and investors of the Toyoda Machine Works group.

Management Strategy for Growth

Analysis of the fiscal 2004 environment

Global markets surrounding the automotive parts industry and the machine tools industry are exhibiting strong expansionary trends. Factors driving growth include the ongoing global expansion of the automobile industry, the dynamic capital investment needs of Asian countries centered on China, and the vigorous recovery of capital investment in the United States and Europe. At the same time, however, customers continue to ratchet up the level of their demands, and the competition to survive and grow against global mega-competitors is intensifying steadily. These changes require a number of responses, including further enhancement of cost competitiveness, the capability to realize environmental, safety, and related technology development needs, and greater improvements at the product quality level.

Given this business environment, promotion of a management strategy that accurately identifies market needs, and establishment and reinforcement of a management foundation, which is capable of outdistancing the competition, will be indispensable for Toyoda to create a business structure that can contribute to our customers and continue growing in the 21st century.

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 six strategies as our basic themes.

- ***Strengthen the foundation of the Toyoda Machine Works Group's product quality trusted by customers***
- ***Enhance the power of the Toyoda brand to contribute to our customers and generate business growth***
- ***Establish an earnings structure to ensure medium-term growth***
- ***Create and strengthen Toyoda's global business organizations***
- ***Strengthen human resources development and management to respond to environmental changes***
- ***Maximize the results from the merger with Koyo Seiko Co., Ltd.***

The first five of these six strategy essentials are themes we have pursued over the past several years, and we have nearly completed the "foundation" for each theme through efforts begun in the past. During fiscal 2005, we will direct these strategic measures implemented so far to more certain results by working to "strengthen the foundation."

The sixth strategy essential is a new theme that will lead the Toyoda Machine Works group to new innovations. On January 1, 2006, we will merge with Koyo Seiko Co., Ltd. and begin operations as a new post-merger company under the name JTEKT Corporation. By fusing the two companies' knowledge and experience, we will transform Toyoda into a firm capable of delivering the technological skills to achieve manufacturing innovations from Japan to the world, and create a company that will be able to win the trust of its customers and society.

Strengthen the foundations of the Toyoda Machine Works Group's product quality trusted by customers

The Toyoda Machine Works group continually challenges itself to achieve the maximum possible improvement in the "quality" that is the basis of our customers' trust. As we have sought rapid improvements in both design and manufacturing quality, every company in the Toyoda Machine Works group has sought to achieve "zero defect output." Currently we have positioned the Hanazono Plant in Aichi Prefecture, Japan, which is the Company's main automotive parts factory, as the "mother plant" for this project, where we are carrying out zero defect production activity. As we provide examples of this activity and problem areas encountered at this plant to our overseas factories, we will work to achieve thorough zero defect activities at all of the group's manufacturing plants worldwide.

Enhance the power of the Toyoda brand to contribute to our customers and generate business growth

Toyoda boasts technological dominance in a variety of areas, including its machine technology, processing technology and engineering technology cultivated in the machine tools sector, and its control technology and electronic technology in the mechatronics sector. We have set our sights on taking maximum advantage of these core technologies to make the Toyoda Machine Works group the "world leader" in a variety of product sectors and establish a powerful "Toyoda" brand. To achieve this goal, we are focusing our efforts on expanding the technologies and products for which Toyoda is the world's sole supplier, which will enable us to "contribute to customer production innovation" and "grow new markets." Examples of how we have steadily increased the number of Toyoda's truly unique technologies and products include development of the ultra-high precision free-form surface machine "NanoProcessor" (fiscal 2003) and development of the small cylindrical grinder "EG Processor" (fiscal 2004), which received the Ten Best New Products award sponsored by the Nikkan Kogyo Shimbun Co. in the machine tool business, and our pursuit of synergy by merging the Torsen business into Toyoda's drive line business through M&A (fiscal 2003) and the development of IFS (Intelligent Front Steering) combining two truly unique technologies (fiscal 2004) in the automotive parts business.

Establish an earnings structure to ensure medium-term growth

Toyoda boasts a unique position from which it is pursuing full-scale business development of both the machine tool business and the automotive parts business. We are making maximum use of this dominance to further strengthen our machine tool business as a our "base business," and focusing on using this as a foundation to further enhance and expand our automotive parts business and achieve integrated growth by demonstrating the synergy between both businesses. To achieve this medium to long-term growth more reliably, from an earnings perspective we are moving to forge a solid earnings structure, by enhancing the individual earnings structure of each business division and each product sector.

Create and strengthen Toyoda's global business organizations

During fiscal 2003 and fiscal 2004, the Toyoda group undertook a project to newly establish and refurbish a large number of its overseas production bases in both its automotive parts and machine tool businesses. As a result, we have nearly completed construction of Toyoda's global production organization as the foundation for future growth. Together with bringing production activities at these overseas production bases on line in the future, we will execute measures to reinforce and expand our service and supply organizations supporting these bases and move towards optimized global procurement of raw materials, parts and other requirements.

Strengthen human resources development and management to respond to environmental changes

Based on a clear understanding of the 21st century business environment, at Toyoda we also are seeking to build an organization with a focus on nurturing executives and employees capable of creating new value and creating systems that can respond rapidly to change. As one component of this approach, Toyoda introduced a new director system at its Regular General Meeting of the Shareholders in June 2005, which involved reducing the number of board directors and establishing a new corporate officer system. Together with achieving accelerated decision-making by a smaller Board of Directors, the corporate

officers will focus on faster execution of business activities and greater precision by concentrating on implementation of the operations at divisions for which they are responsible.

Maximize the results from the merger with Koyo Seiko Co., Ltd.

Prior to signing the letter of intent concerning the merger with Koyo Seiko, Toyoda had already jointly established FAVESS Co., Ltd. with Koyo Seiko in November 2002, through which the two companies were cooperating on the development and sale of electric power steering and achieving strong results. As global competition within the automotive industry has intensified in recent years, both Koyo Seiko and Toyoda Machine Works have been faced with the urgent task of strengthening operations through such means as increasing development resources and improving technology development capabilities in order to possess the worldwide networks and ability to develop future complex systems for large-scale projects necessary to compete effectively with the world's leading system suppliers.

Based on the experience of working together successfully at FAVESS, the two companies have judged that through an overall merger of their wide range of management resources, even greater steering business results can be obtained and at the same time a synergistic effect realized in bearing, machine tool and drive line operations, and on February 3, 2005 signed a letter of intent concerning the merger. The two companies signed a formal merger agreement on May 13, 2005, and currently are working towards completion of the merger on January 1, 2006.

The new company we will create through this comprehensive merger will be primarily an automotive parts manufacturer, while possessing tremendous manufacturing strength as a result of its machine tool operations, and will seek to grow rapidly into a firm that is capable of winning the trust and meeting the high expectations of customers. We believe the new company will be able to compete effectively within today's harsh business environment, build global name awareness, earn the trust of society and capitalize on new business opportunities as a result.

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.

OUTLINE OF THE MERGER

On February 3, 2005, Toyoda Machine Works, Ltd. and Koyo Seiko Co., Ltd. resolved to merge as companies on equal footing, and signed a letter of intent concerning the merger. The two companies then signed a formal merger agreement on May 13, 2005. Both firms currently are working on creating an organization capable of demonstrating the merger's effects to the maximum extent, centered on a Merger Preparation Committee chaired by the presidents of the two companies, with the goal of completing the merger on January 1, 2006.

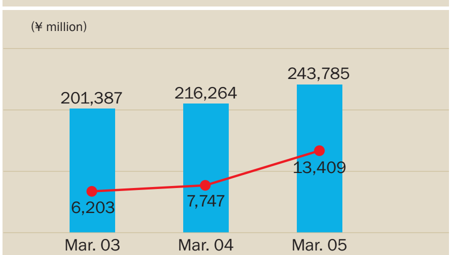
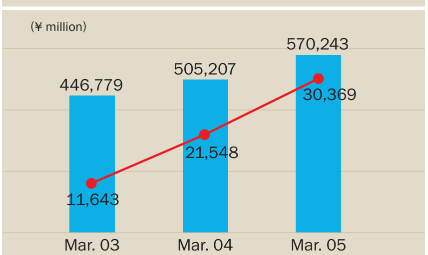
Koyo Seiko began the commercial production of bearings in 1921, and until today has supplied a wide range of automotive parts, including various bearings and steering products. In addition, Koyo Seiko was the world's first company to develop electric power steering, and currently boasts the top-level global share in this market.

Toyoda Machine Works was established and began the manufacture of machine tools in 1941, and since that time has grown into one of the worlds' leading machine tool producers. Based on its strength in this field, Toyoda embarked on the manufacture of steering products, drive line products and other automotive products and has achieved significant production levels. In particular, in recent years Toyoda Machine Works has developed and expanded the market for such new advanced-technology automotive products as electronically controlled couplings and active-control variable gear ratio steering, putting it a step ahead of competitors.

The two companies jointly established FAVESS Co., Ltd. in November 2002, through which they are carrying out the cooperative development and sale of electric power steering. As global competition intensifies, both companies will seek to develop their relationship further, and by integrating their entire organizations through the merger will focus on growing into a corporate group that can compete effectively with the world's leading systems suppliers.

JTEKT Corporation, the name of the new company, is meant to convey the comprehensive integrated strengths of the post-merger firm, ranging from its technological to organizational aspects. As the results both companies anticipate from the merger in particular, JTEKT will pursue several objectives, including

Details of the Merging Companies

	TOYODA	Koyo
Main business activitier	Manufacture and sales of machine tools, mechatronics products, steering products, drive line products and other automotive components	Manufacture and sales of all bearing types, steering products, machine tools, industrial furnaces, other machine parts, etc.
Established	May 1941	January 1921
Head office	Kariya-shi, Aichi, Japan	Chuo-ku, Osaka, Japan
President	Motohiko Yokoyama	Kohshi Yoshida
Capital	24,805 million yen	33,464 million yen
Total issued shares	132,939,520	215,241,532
Shareholder capital	113,877 million yen	155,720 million yen
Total assets	233,972 million yen	381,372 million yen
Fiscal year end	March	March
Number of employees	3,878	5,902
Consolidated results		

Net sales

Operating income

TOYODA + Koyo ➡ JTEKT Corporation

A merger, which started as an alliance, leads to complete synergy.

J+Tekton

Tekton=Ancient Greek for a person possessing superior technique

J=Joint, Joy, Japan

- Creation of a solid management base through expansion of the scale of the firm's businesses
- Efficiency improvements through integration of management functions
- Stronger new product development capabilities through expansion of its technological development areas
- A larger and more efficient global sales and production base
- Enhanced competitiveness through production innovations built on the machine tool business as a base

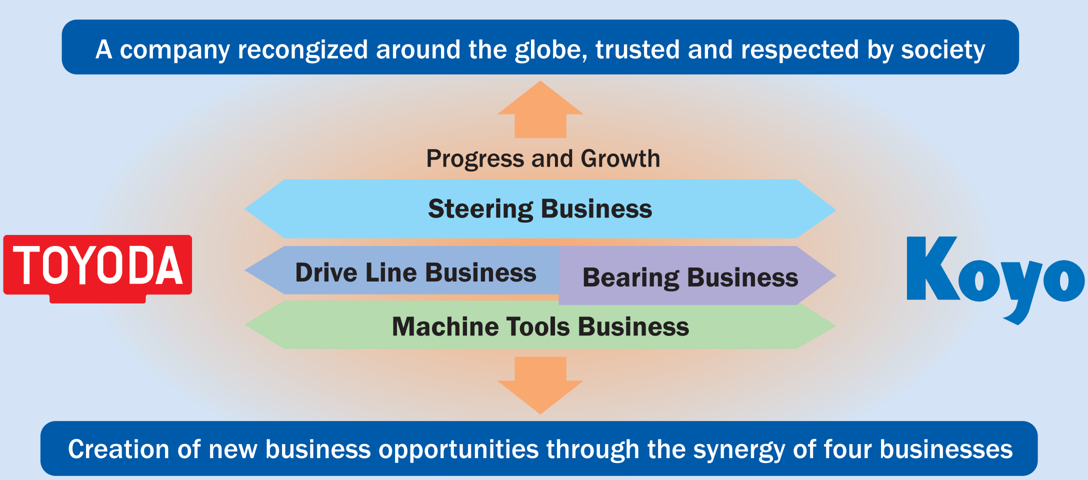
The operations of the new company will consist of the steering business, drive line business, bearings business, and machine tool business.

The largest effect full integration will have on Toyoda's businesses will be synergy. In the steering business, where management anticipates the greatest synergy, JTEKT will seek to establish a leading position in the global market. By repositioning both companies' resources, and concentrating their combined knowledge and experience, the new company will pursue synergy from every aspect including enhanced technological development capabilities, an expanded product lineup, stronger cost competitiveness, and broader global supply strengths. JTEKT's objective will be to become a "system supplier at the global level."

We also will work to maximize synergy in the drive line business, where Toyoda already boasts the world's preeminent products, by taking advantage of our bearing technology to bolster drive shaft product capabilities, for example. In this business, JTEKT's objective will be to become "the world's top-class drive line supplier."

In the bearing business and machine tool business, which we have positioned as the base businesses, we will concentrate our resources in the automobile sector, and pursue new product development and creation of product packages by combining the technologies of both businesses. Our objective will be to achieve "the world's leading position in automobile bearings" in the bearing business, and become the "system supplier offering the world's Number One technology" in the machine tool business.

By achieving synergy in these four businesses, JTEKT will focus on developing each business while simultaneously fostering fresh business opportunities.



TOYODA MACHINE WORKS

The Automotive Parts Division

Seeking to be the World's Number One Systems Supplier

From estimates based on actual results and projected data for the global automobile industry, worldwide automobile sales are expected to grow from 60.9 million units in 2003 to 67.9 million units in 2010, an increase of approximately 11%. Large-scale growth is anticipated for the Chinese and Indian markets, with marginal increases expected in the Japanese, European and American markets as well, which already are huge markets.

Given these circumstances, Toyoda will seek to become the world's Number One systems supplier in the automotive parts business and will work to strengthen its product capabilities and technological prowess. The company will pursue this approach based on four points in particular, namely:

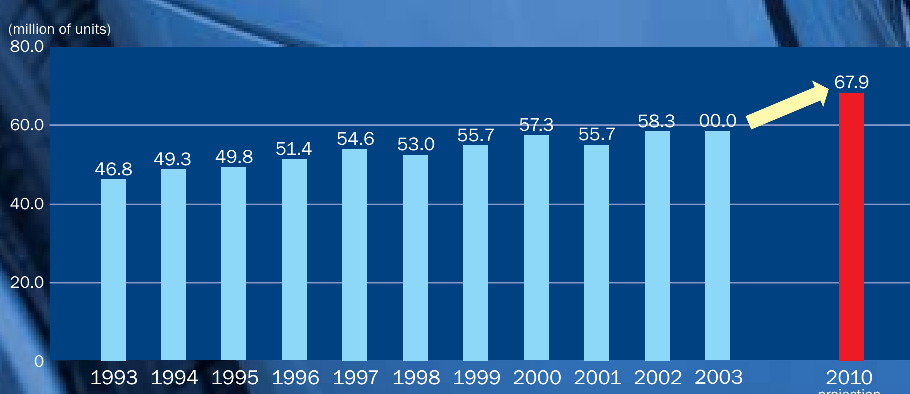
1. **Strengthen production capacity and development capabilities to support increased IT applications in vehicles**
2. **Further expand Toyoda's global supply organization to support global expansion by automobile manufacturers**
3. **Achieve further quality improvements and strengthen cost competitiveness to succeed against global competition**
4. **Enhance earnings capacity from both an individual product and a company-wide perspective**

In terms of product development, by positioning IFS (Intelligent Front Steering) and EPS as strategic, "one and only" products in the steering business, and similarly positioning ITCC and Torsen in the drive line business, our products in these fields will propel future sales growth and earnings improvements.

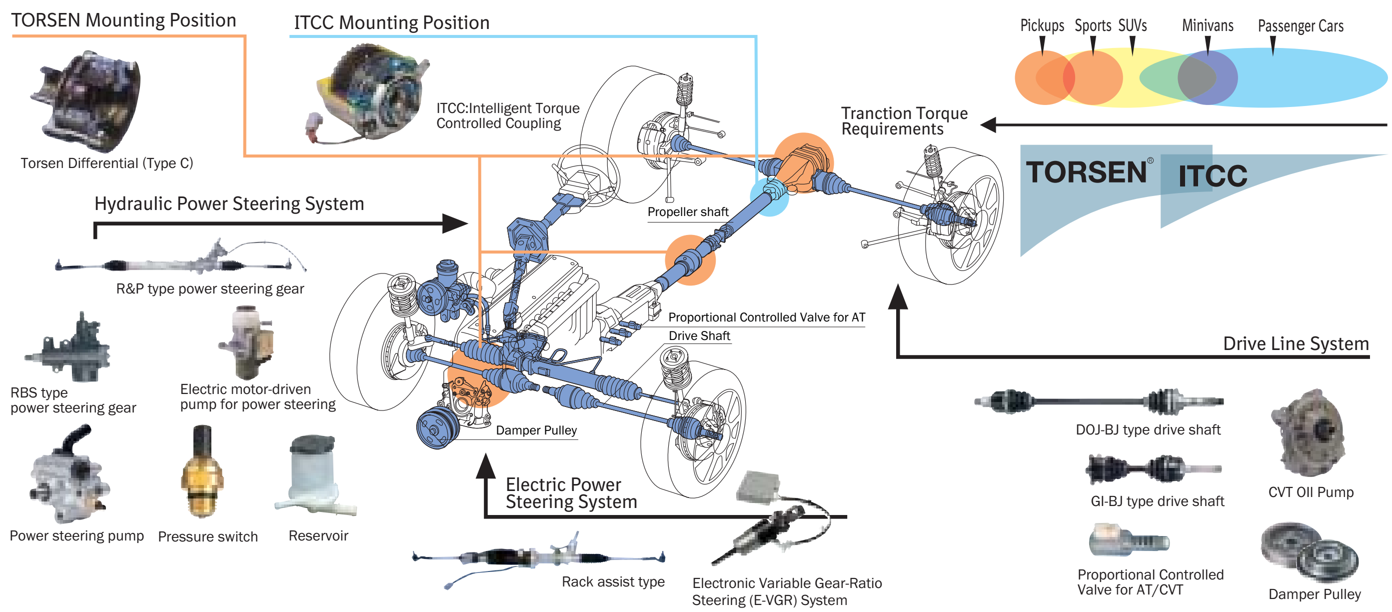
Toyoda developed IFS as the new core component of its active safety steering system, and we are using this product to challenge the world's leading firms in this sector.

In EPS, we are concentrating our efforts on rack assist EPS targeting models such as luxury passenger cars and large-scale vehicles. This product has already been adopted for use in Toyota Motor Corporation's Crown, Majesta and Mark X model lines, and our goal is to become Number One in the world in systems centered on rack assist EPS. Moreover, in the drive line business, in addition to Torsen domestic production breaking through the two million unit mark in October 2004 we are maintaining our solid hold on the top position in the 4WD drive line sector by means such as the startup of our increased production organization for electronically controlled 4WD couplings (ITCC: Intelligent Torque Controlled Coupling).

Trend in the number of automobiles manufactured worldwide



Source : Domestic and foreign automotive associations



Topics 2003-2005

March Established Toyoda-Koki Automotive Science and Technology Center (Dalian) Co., Ltd., a research and development center for automobile electronic parts, in Dalian, China. Began operating from May 2005. Will develop and evaluate products such as control computers to support increasing IT applications in automobiles.

05

December Established Toyoda-Koki Automotive (Foshan) Co., Ltd. to produce automotive parts such as hoses for PS in Guangdong Province in China. Scheduled to begin supplying parts in April 2006 to support growth in demand for automotive parts in southern China.

December Hanazono No. 2 Plant completed. The plant will support production increases of electronic system parts, such as EPS, ECU and sensors, and drive line parts (Operations began in January 2005).

October Domestic production of Torsen units at Toyoda-Koki Automotive Torsen Co. exceeded two million units (plan to achieve three million units in mid-2006).

July Established Toyoda-Koki Automotive Dalian Innovation Automotive Co., Ltd., a joint venture company to produce damper pulleys, in Dalian, China as Toyoda's second automotive parts production base in China.

June Developed the world's first practical processing method for use of DLC-Si (Diamond-Like Carbon-Silicon) coatings. Process adopted for ITCC electromagnetic clutch, and CNK Co., Ltd. began mass production.

June Began local production of ITCC 4WD couplings to respond to increase in orders received from the "Big Three" automobile manufacturers in the U.S.

April Received orders from a succession of the world's leading automobile manufacturers for IFS (Intelligent Front Steering), Toyoda's next-generation steering system.

04

December 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.

August 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. Began supplying constant velocity joints for new car models manufactured by the leading Japanese automobile companies in Thailand.

August 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.

July Established Toyoda-Koki Automotive (Tianjin) Co., Ltd., a new company to produce power steering pumps and other automotive parts in China.

03

TOYODA MACHINE WORKS

The Machine Tools and Mechatronics Division

Offering total solutions that can support customer production innovations.

Since declining to a bottom-out figure of ¥675 billion in 2002, the trend in orders received in the machine tool industry has been recovering, climbing to ¥1,236 billion in 2004, the highest level reached since the collapse of Japan's bubble economy. This growth in domestic and overseas capital investment demand is projected to continue in the immediate future, with orders received expected to reach a level in excess of ¥1,000 billion in both 2005 and 2006 (Japan Machine Tool Builders Association forecast).

Given these conditions, in the machine tool and mechatronics business we were able to increase net sales in fiscal 2004 to the fourth highest level ever achieved by this business division. By building on our earnings base, which has become even stronger, we have expanded our "standard machine" assembly plant and improved productivity by approximately 150% compared with past levels, in order to continue supporting our customers' vigorous capital investment needs in the future.

In particular, as our approach to enhancing Toyoda's product capabilities, we will pursue the following two strategies, offering total solutions for the production innovations that our customers demand.

1. Strengthen development and deployment of new products to respond to customer production innovations

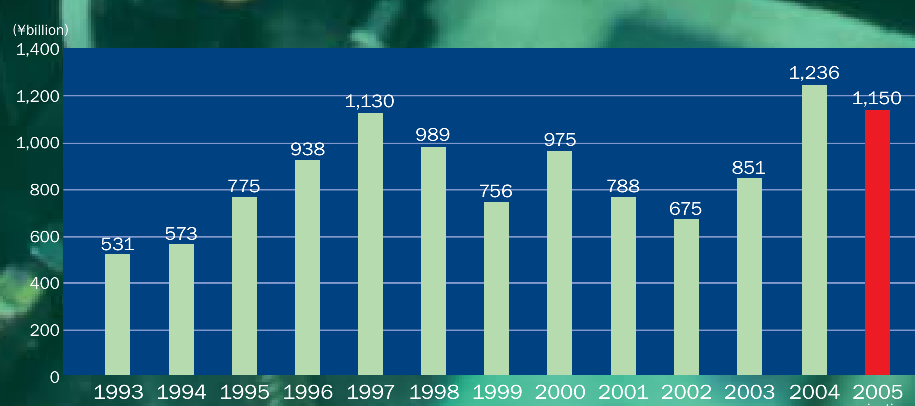
At Toyoda, we are undertaking product development with an emphasis on the four concepts of "high precision and high efficiency," "excellent reliability," "flexible, simple, slim" and "people and environment friendly." Specifically, we will support customers' production innovations by strengthening development and deployment of new products that package new technologies and concepts, including our line of camshaft and crank shaft grinders capable of supporting all large and small engines, our "EGProcessor" next-generation small cylindrical grinders, our "NanoProcessor" ultra-high precision finishing machine and our grinder control system utilizing VMS (Virtual Machine Simulator).

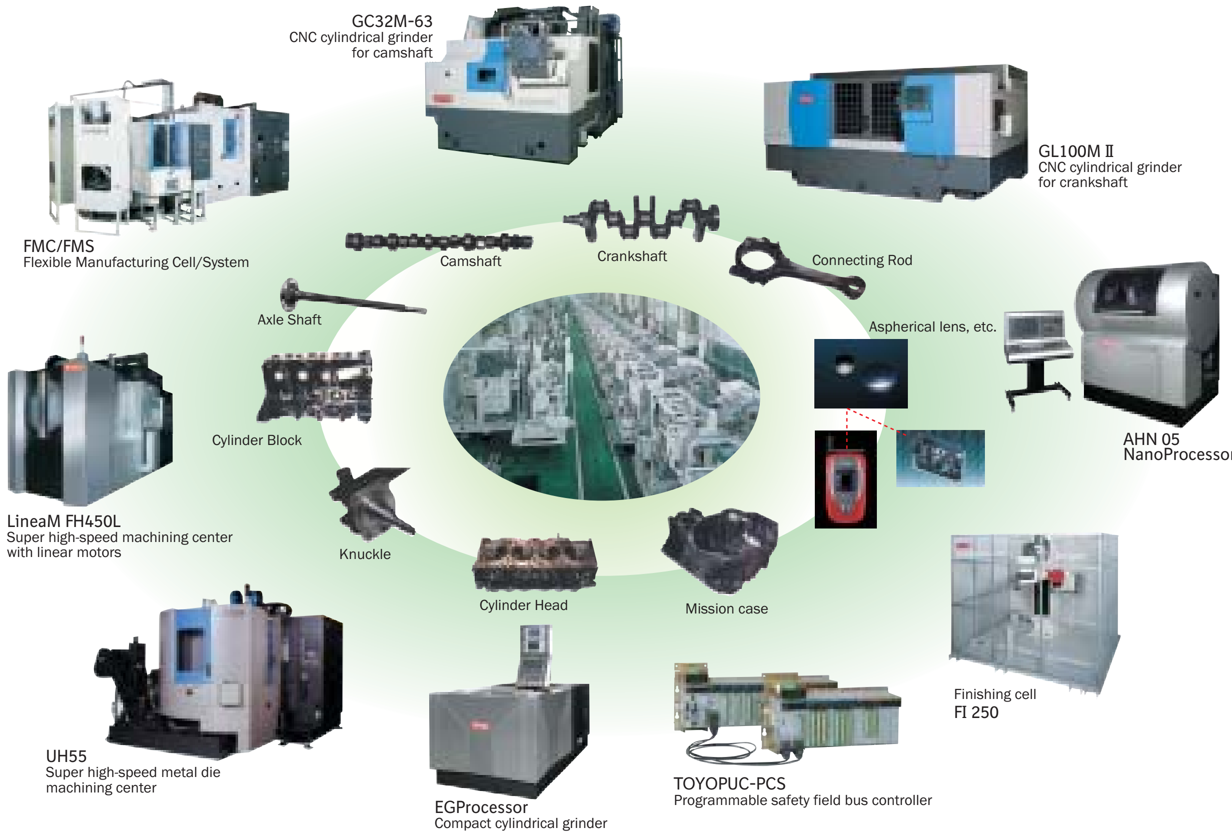
Moreover, as a new product especially emphasizing the environment and safety, Toyoda's EGProcessor, which has attracted attention as an environmentally-friendly product, received an award from Nikkan Kogyo Shimbun as one of the 10 Best New Products of 2004. In the mechatronics business we also developed the first domestic next-generation safety PLC (Programmable Logic Controller), which received certification for meeting the world's highest international safety standards.

2. Strengthen global deployment through expansion of our plant control systems support lines

The plant control systems being deployed by Toyoda have been adopted on every production line of Toyota Motor Corporation, mainly at domestic plants, including body welding lines, painting lines, assembly lines and press lines. Results from introductions at plants of other companies in the Toyota group have grown in recent years, and in the future we will focus on deployment at overseas plants as well.

Order trend in the machine tools industry





Topics 2003-2005

December Began expansion construction at the No. 5 Plant of the Head Office. Expanded production capacity 150% through enhancements such as expanded assembly floor space and logistics improvements, in response to production increases at the Machining Center and TOP center (construction completed in April 2005).

October-November Developed new products such as the CBN crank shaft grinder and EGProcessor next-generation small grinder. Exhibited for the first time at the Japan International Machine Tool Fair in Tokyo as a joint exhibitor with Mitsui Seiki Kogyo Co., Ltd.

August Developed the first domestic safety PLC. Received certification for meeting the world's highest international safety standards, a first for any firm as a Japanese manufacturer. Used this certification as a tool to begin sales to Japanese manufacturers including the Toyota group and further strengthen global market development.

March 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.

04

December Completed commercialization of nine Ågstandard machineÅh 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.

October 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.

May 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.

April 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.

03

GLOBAL NETWORK

- Manufacturing facility
- Sales office
- Service office
- Technical center


TOYODA MACHINERY(DALIAN) CO., LTD.

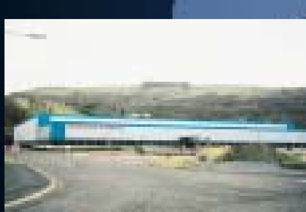

TOYODA-KOKI AUTOMOTIVE (TIANJIN) CO., LTD.


TOYODA MACHINE WORKS (THAILAND) CO., LTD.


TOYODA-KOKI DALIAN INNOVATION AUTOMOTIVE CO., LTD.


TOYODA-KOKI AUTOMOTIVE SCIENCE AND TECHNOLOGY CENTER CO., LTD.

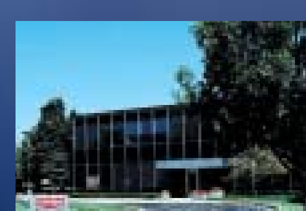

TOYODA-KOKI AUTOMOTIVE (FOSHAN) CO., LTD.

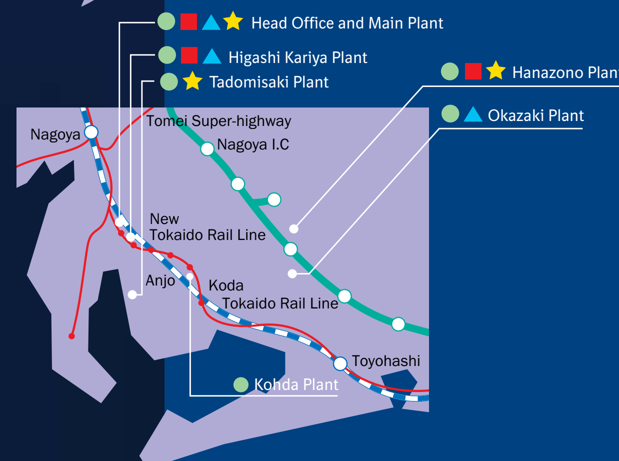

TOYODA-KOKI AUTOMOTIVE UK LTD. (WALES, UK)


TOYODA MITSUI EUROPE GmbH (KREFELD, GERMANY)

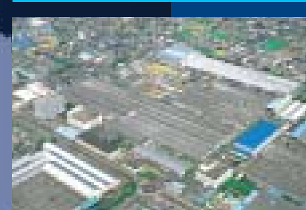

TOYODA MACHINERY AND ENGINEERING EUROPE SAS (PARIS, FRANCE)

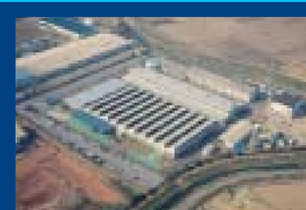

TOYODA-KOKI AUTOMOTIVE CZECH REPUBLIC,S.R.O.


TOYODA MACHINERY USA CORP. (ARLINGTON HEIGHTS, IL)

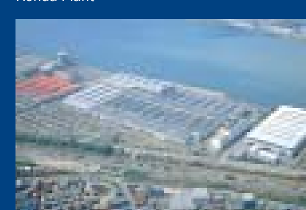


JAPAN


Head Office and Main Plant


Kohda Plant


Okazaki Plant


Tadomisaki Plant


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


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


Hanazono Plant


Higashi Kariya Plant

Sales by business segment

Automotive Parts

In the automobile industry, the leading customer of our automotive parts business, domestic sales fell slightly below the level of the prior fiscal year despite growth in the number of compact cars. Based on vehicle registrations, one factor was a drop in purchases of new model cars during the first half. Domestic production, which was supported by an increase in exports to Europe and other regions, was higher than in the prior fiscal year.

Under this market environment, we expanded consolidated net sales in the automotive parts business by 8.5% over the prior fiscal year, or ¥12,149 million, to ¥154,691 million. Operating income declined by 4.2%, or ¥302 million compared to the prior fiscal year, to ¥6,942 million. Operating income for the fiscal year based on the accounting standards applied before the change in accounting policy(*) decreased 2.3% from the prior fiscal year, to ¥7,080 million.

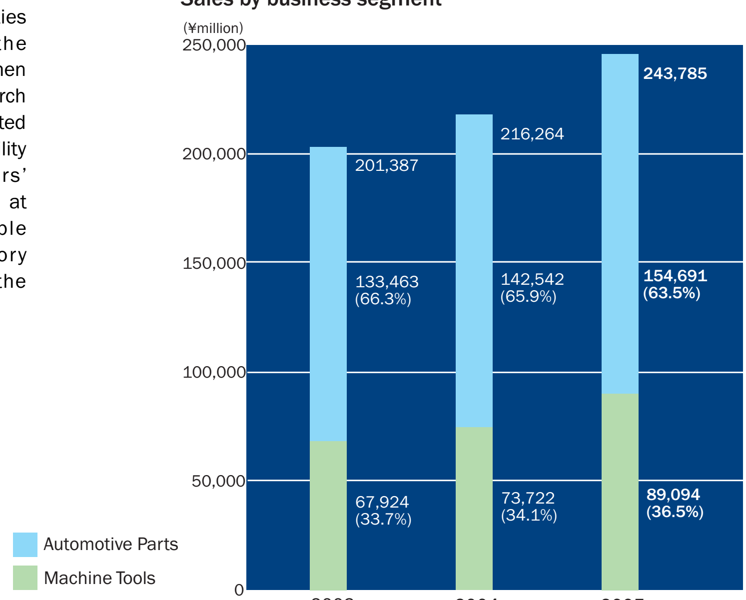
Machine Tools

In the machine tools industry, aggressive efforts to replace equipment or rationalize investment affected not only the domestic automobile industry but also spread to general machinery and digital-related demand in the electric machinery and precision machinery industries, penetrating large-scale enterprises as well as small and medium-sized firms. In addition, in overseas markets we experienced vigorous demand from Asian countries centered on China, and capital investment in North America and Europe also is recovering steadily. As a result, orders received by the Japan Machine Tool Builders' Association increased substantially compared with the prior fiscal year.

Given this market environment, consolidated net sales in the machine tools business and other businesses grew by ¥15,372 million, a 20.8% increase, to ¥89,094 million and operating income rose 1,188.0%, increasing ¥5,964 million compared to the prior fiscal year, to ¥6,467 million. Operating income for the fiscal year based on the accounting standards applied before the change in accounting policy(*) jumped 1,206.6% compared to the prior fiscal year, to ¥6,559 million.

* Until the year ended March 31, 2004, the payments of such severance indemnities subsequent to the approval of the shareholders were charged to income when paid. Effective from the year ended March 31, 2005, the Parent and its consolidated subsidiaries have provided for the liability for directors' and statutory auditors' severance indemnities, which is stated at the amount that would be payable assuming all directors and statutory auditors terminate their service at the balance sheet date.

Sales by business segment



Note : Numbers in parentheses are the percentage of sales.

Sales by geographical segment (customer location)

Domestic customers

In the automotive parts business, domestic automobile sales fell slightly below the prior fiscal year level. In the machine tools business, the volume of domestic orders received increased sharply, as vigorous capital efforts reached across nearly every industry sector and spread to small and medium-sized firms as well. As a result, consolidated net sales to domestic customers rose ¥12,156 million (a 7.9% increase) compared to the prior fiscal year, to ¥166,891 million.

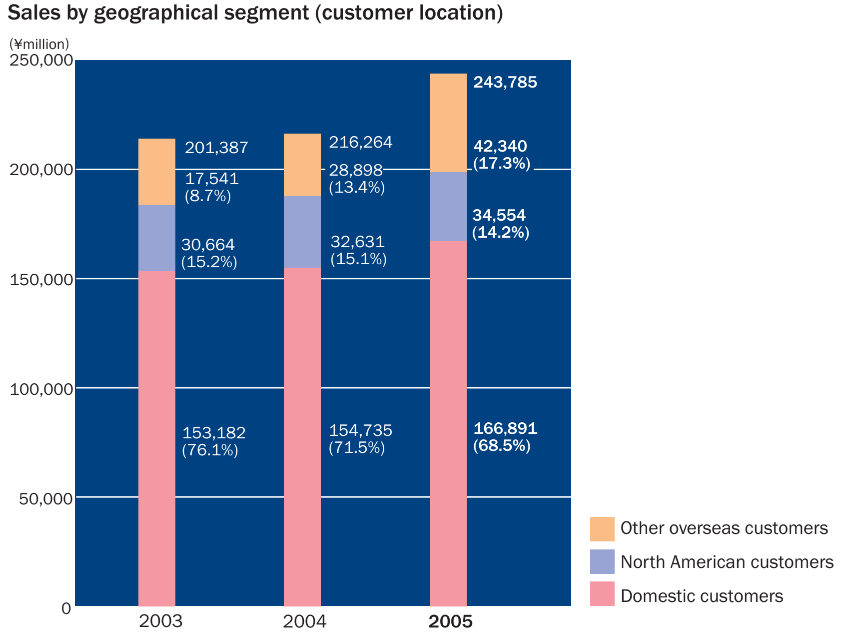
Sales to domestic customers accounted for 68.5% of total consolidated net sales.

North American and other overseas customers

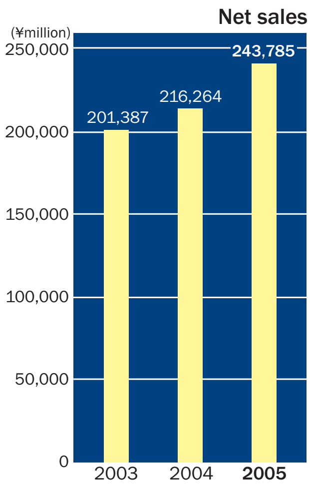
In the automotive parts business, the market share for Japanese automobiles increased globally in markets such as North America, Europe and Asia. Moreover, exports also rose, mainly to Europe. In the machine tools business, we enjoyed robust demand in Asian markets, including China, and capital investment in Europe and North America also recovered strongly. As a result, consolidated net sales to customers in North America and other overseas locations surged ¥15,365 million, a 25.0% increase compared to the prior fiscal year, to ¥76,894 million.

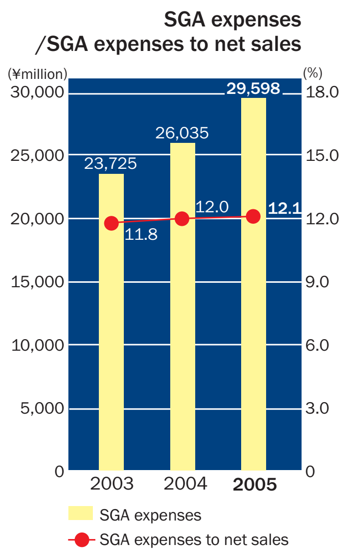
Sales in overseas regions as a percentage of total consolidated net sales rose by 3.0 points to 31.5%.

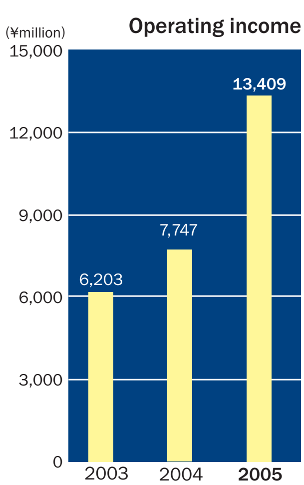
Sales by geographical segment (customer location)



Note : Numbers in parentheses are the percentage of sales.







Results of Operations

Net sales

During the fiscal year under review, Japan's economy moved along a steady course toward economic recovery in the first six months. During the second half, however, the economy slowed and marked time under the influence of the sudden surge in crude oil prices, deterioration in IT-related demand and other factors, and concerns about the future direction of the recovery lingered. On the other hand, the global economy continued to expand well in North America, Europe and Asia generally.

As the market environment surrounding the Toyoda Machine Works group, domestic production in the automobile industry surpassed the level of the prior fiscal year, supported by higher exports to Europe and other markets. In the machine tools industry, the demand for capital investment showed further strength within Japan and overseas, and both domestic orders received and overseas orders received increased strongly.

In light of these circumstances, the Toyoda Machine Works group took steps to further develop its production and sales activities on a global basis. In the automotive parts business, the Toyoda Machine Works group successively established Toyoda-Koki Dalian Innovation Automotive Co., Ltd. in July 2004, Toyoda-Koki Automotive (Foshan) Co., Ltd. in December 2004 and Toyoda-Koki Automotive Science & Technology Center (Dalian) Co., Ltd. in March 2005, with the goal of promoting automotive parts production and development in China. In the machine tool business and its other businesses, Toyoda Machine Works Ltd. and MITSUI SEIKI KOGYO Co., Ltd. integrated their sales companies in Europe in 2003. Based on a comprehensive business alliance, we followed this with measures to consolidate and strengthen the two firms' domestic business bases, and implemented other programs such as jointly exhibiting at machine tool trade fair in the U.S. and Japan. We also aggressively pursued the sale of machines jointly developed at our machining centers. As a result, the volume of orders received during the fiscal year in the machine tools business and other businesses for machine tools and mechatronics products combined increased 57.2% compared to the prior fiscal year, to ¥109,783 million.

In the automotive parts business, based on the growth in sales of products such as drive line parts, net sales increased 8.5% compared with the prior fiscal year to ¥154,691 million. Net sales in the machine tools business rose 20.8% compared to the prior fiscal year against the background of strong orders received, to ¥89,094 million. As a result, consolidated net sales for the fiscal year under review were ¥243,785 million, 12.7% higher than in the prior fiscal year.

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

Despite higher materials costs, the company reduced its cost of sales ratio to 82.4%, an improvement of 2.0 points compared with the prior fiscal year, thus demonstrating the results of production rationalization efforts. Moreover, despite upward pressures on expenses from measures such as Toyoda Machine Work's successive establishment of three subsidiary companies in China in the automotive parts business, the ratio of selling, general and administrative expenses to net sales rose only 0.1% compared with the prior fiscal year, to 12.1%, as a result of our efforts to control various activities aggressively and slash costs, which kept the increase in SG&A expenses to a minimum.

In addition to the above factors, the effect of higher sales helped boost operating income by 73.1% compared to the prior fiscal year, or ¥5,662 million, to ¥13,409 million.

Financial Position

Assets

Current assets increased by ¥15,906 million compared to the prior fiscal year to ¥109,552 million. Trade notes and accounts receivable grew by ¥13,283 million, and inventory assets expanded by ¥4,034 million.

In the automotive parts business, investments and other assets rose by ¥2,353 million compared to the prior fiscal year, to ¥42,018 million, as a result of establishing three subsidiary companies in China.

Tangible fixed assets (net property, plant and equipment) increased by ¥7,618 million compared to the prior fiscal year to ¥120,648 million. This was the result of capital investment of ¥21,491 million to enhance production capability for automotive parts in Japan and at overseas production sites in North America, Thailand and other countries.

As a result of the above changes, total assets at the end of the fiscal year under review were ¥272,218 million, an increase of ¥25,878 million compared to the prior fiscal year.

Liabilities and shareholders' equity

Current liabilities increased by ¥34,859 million compared to the prior fiscal year because the company will redeem ¥20,000 million of unsecured bonds due in the fiscal year ending December 2005 (*), and trade notes and accounts payable also increased. On the other hand, because the redemption of the unsecured bonds will be completed within one year, long-term liabilities decreased by ¥16,624 million compared to the prior fiscal year. As a result of these changes, total liabilities were ¥146,251 million, ¥18,235 million higher than in the prior fiscal year.

Total shareholders' equity grew, increasing by ¥7,312 million compared to the prior fiscal year, to ¥121,725 million. The principal factors were an increase in retained earnings of ¥6,095 million compared to the prior fiscal year, and a larger net unrealized gain on available-for-sale securities, which rose by ¥946 million compared to the prior fiscal year.

* Because of the merger with KOYO SEIKO CO., LTD., which is scheduled to be completed on January 1, 2006, in fiscal year 2005 Toyoda Machine Works Ltd. plans to utilize an irregular accounting period from April 2005 to December 2005.

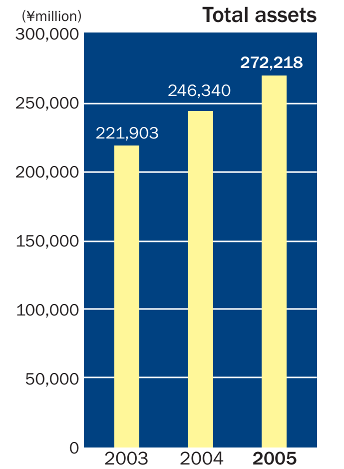
Cash Flows

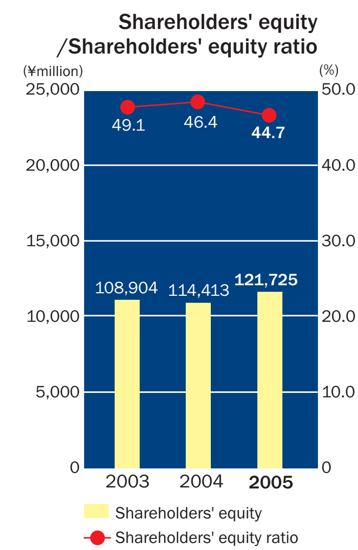
Cash and cash equivalents at the end of the fiscal year under review decreased by ¥1,960 million compared to the prior fiscal year, to ¥11,784 million. Cash flows from operating activities decreased because of higher trade notes and accounts payable, and although net cash used in investing activities decreased, net cash provided by financing activities also declined.

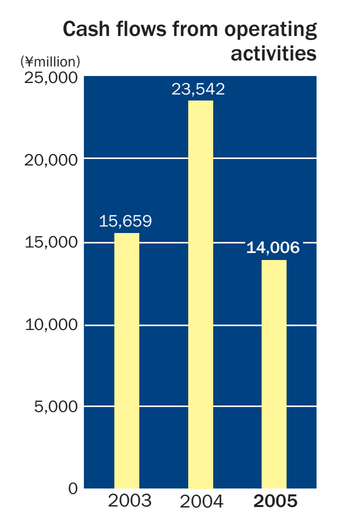
Net cash provided by operating activities for the fiscal year under review decreased by ¥9,536 million from the prior fiscal year to ¥14,006 million. This mainly reflected an increase of ¥4,677 in income before income taxes and minority interests compared to the prior fiscal year, a ¥12,746 million increase in trade notes and accounts payable, and a ¥6,264 million increase in inventories.

Net cash used in investing activities for the fiscal year under review was ¥18,126 million. This was ¥11,046 million lower than in the prior fiscal year, and mainly reflected the fact investments in subsidiaries and affiliates in the prior fiscal year increased by ¥14,026 million from the acquisition of stock in subsidiaries and affiliated companies, including the acquisition of the Torsen business. The company did not make any similar acquisitions in the fiscal year under review. Purchases of property, plant and equipment decreased ¥2,055 compared to the prior fiscal year.

Net cash provided by financing activities for the fiscal year was ¥1,779 million, a decrease of ¥6,851 million compared to the prior fiscal year. This primarily reflected a decrease of ¥19,830 million for payments of long-term debt, and the fact the company did not increase long-term debt, which rose ¥28,441 million in the prior fiscal year.







EXECUTIVE MANAGEMENT

As of June 22, 2005

Chairman
Takaya Yamada

President and CEO
Motohiko Yokoyama

Board of Directors

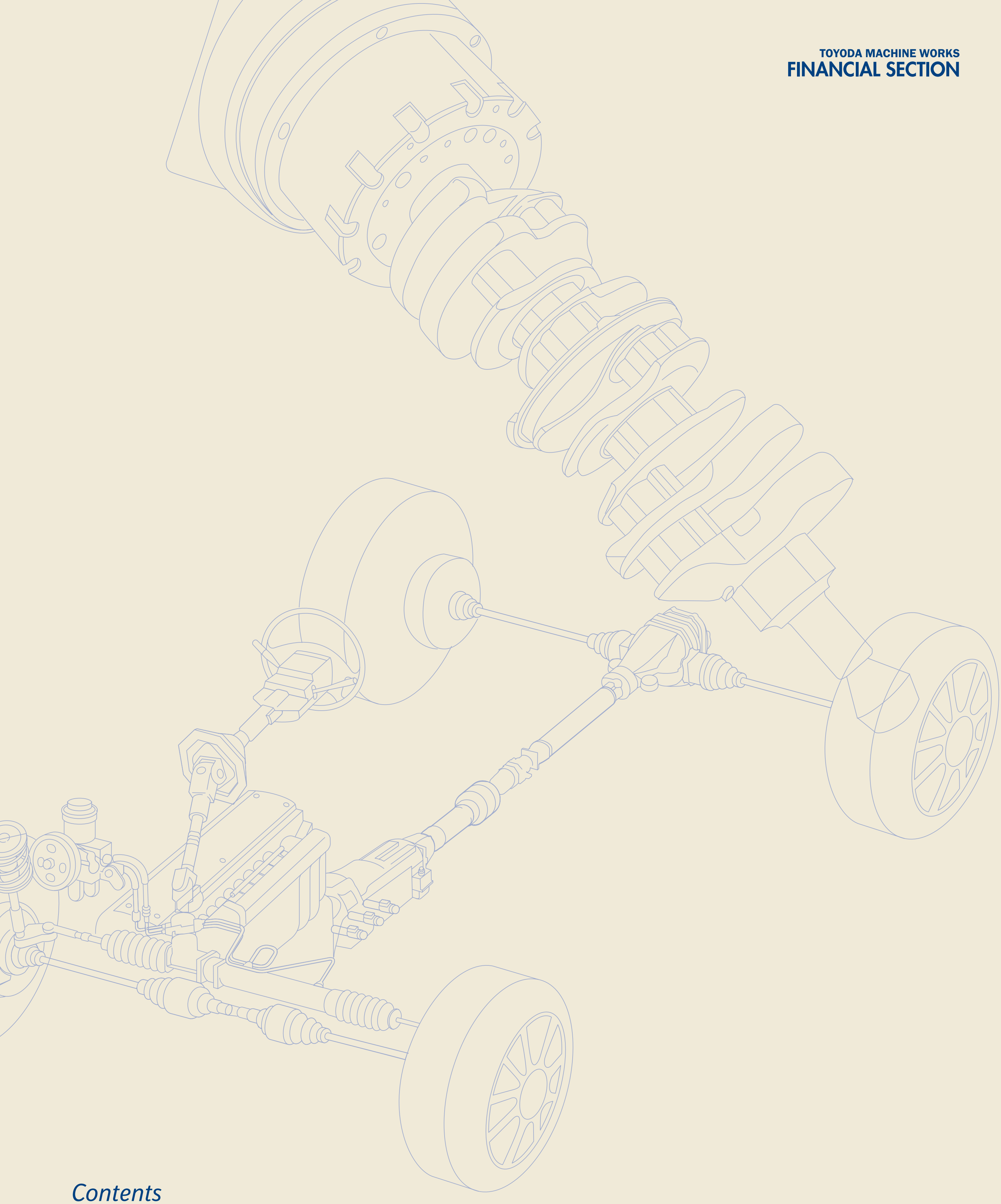
Chairman	Takaya Yamada
President and CEO	Motohiko Yokoyama
Executive Vice Presidents	Shoukichi Yasukawa Seitoku Kubo
Senior Managing Director	Tadayuki Abe
Managing Director	Takaaki Suzuki

Corporate Auditors

Corporate Auditors	Takeo Shibuki Takuo Sugiyama Hiroshi Okuda

Managing Officers

Senior Managing Officers	Hitoshi Akahane Kazumi Nakamura Hiroshi Ito Takao Yoneda Katsuyuki Nishizuka Ryutaro Abe
Managing Officers	Jiro Nakano Minoru Hirata Masaji Yamamoto Takuo Shibata Toshio Hirokawa Hiroyuki Kaijima Tadanobu Kumagai Tetsuro Shibukawa



Contents

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of yen		*Thousands of U.S. dollars (Note1)*
ASSETS	**2005**	2004	**2005**
Current Assets:			
Cash and cash equivalents (Note 2)	**¥ 11,784**	¥ 13,744	**$ 110,131**
Short-term investments	**280**	295	**2,617**
Trade notes and accounts receivable (Note 14)	**64,001**	50,718	**598,140**
Inventories (Note 3)	**24,470**	20,436	**228,689**
Deferred tax assets (Note 11)	**4,934**	4,422	**46,113**
Other	**4,254**	4,254	**39,759**
Less: allowance for doubtful receivables	**(171)**	(223)	**(1,603)**
Total current assets	**109,552**	93,646	**1,023,846**
Investments and Other Assets:			
Investments in securities (Note 9)	**27,586**	25,910	**257,825**
Investments in unconsolidated subsidiaries and affiliates	**2,124**	2,310	**19,846**
Long-term loans	**196**	255	**1,829**
Deferred tax assets (Note 11)	**1,534**	1,135	**14,334**
Consolidating adjustment account	**6,974**	7,823	**65,179**
Other	**3,635**	2,355	**33,973**
Less: allowance for doubtful receivables	**(31)**	(123)	**(290)**
Total investments and other assets	**42,018**	39,665	**392,697**
Property, Plant and Equipment,at cost (Note 6):			
Land	**34,418**	34,424	**321,663**
Buildings and structures	**58,538**	53,518	**547,079**
Machinery and equipment	**183,549**	172,231	**1,715,414**
Construction in progress	**5,008**	9,577	**46,805**
Less: accumulated depreciation	**(160,865)**	(156,721)	**(1,503,407)**
Net property, plant and equipment	**120,648**	113,029	**1,127,554**
Total Assets	**¥ 272,218**	¥ 246,340	**$ 2,544,097**

"See accompanying notes to consolidated financial statements"

LIABILITIES , MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2005	2004	Thousands of U.S. dollars (Note1) 2005
Current Liabilities:			
Short-term debt	**¥ 9,012**	¥ 6,999	**$ 84,222**
Current portion of long-term debt (Note 4)	**20,534**	—	**191,906**
Trade notes and accounts payable	**35,316**	27,624	**330,053**
Accrued expenses	**13,862**	13,932	**129,557**
Accrued income taxes	**3,991**	1,690	**37,297**
Deposits received from employees	**659**	612	**6,165**
Other	**10,511**	8,169	**98,231**
Total current liabilities	**93,885**	59,026	**877,431**
Long-term Liabilities:			
Long-term debt (Note 4)	**39,136**	58,542	**365,755**
Deferred tax liabilities (Note 11)	**1,284**	1,125	**12,003**
Employee retirement and severance benefit liability (Note 12)	**10,847**	9,323	**101,374**
Accrued directors' and corporate auditors' severance indemnities	**1,099**	—	**10,271**
Total long-term liabilities	**52,366**	68,990	**489,403**
Total liabilities	**146,251**	128,016	**1,366,834**
Commitments and Contingent Liabilities (Notes 5 and 8)			
Minority Interests in Consolidated Subsidiaries	**4,242**	3,911	**39,643**
Shareholders' Equity (Notes 7 and 15):			
Common stock, no par value:			
Authorized-198,550,000 shares;			
Issued-132,939,520 shares in 2005 and 2004	**24,805**	24,805	**231,827**
Capital surplus	**30,120**	30,115	**281,501**
Retained earnings	**61,819**	55,724	**577,749**
Net unrealized gain on available-for-sale securities	**8,203**	7,257	**76,664**
Foreign currency translation adjustment	**(1,455)**	(1,707)	**(13,604)**
Less: treasury stock, at cost - 3,261,496 shares in 2005			
and 3,349,900 shares in 2004	**(1,767)**	(1,781)	**(16,517)**
Total shareholders' equity	**121,725**	114,413	**1,137,620**
Total Liabilities, Minority Interests and Shareholders' Equity	**¥ 272,218**	¥ 246,340	**$ 2,544,097**

CONSOLIDATED STATEMENTS OF INCOME

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries
Fiscal years ended March 31, 2005 and 2004

	Millions of yen		*Thousands of U.S. dollars (Note1)*
	2005	2004	**2005**
Net Sales (Notes 13 and 14)	**¥ 243,785**	¥ 216,264	**$ 2,278,361**
Cost of Sales	**200,777**	182,482	**1,876,421**
Gross profit	**43,008**	33,782	**401,940**
Selling, General and Administrative Expenses	**29,599**	26,035	**276,621**
Operating income (Note 13)	**13,409**	7,747	**125,319**
Other Income (Expenses):			
Interest and dividend income	**456**	385	**4,261**
Interest expense	**(923)**	(820)	**(8,628)**
Loss on impairment of fixed assets	**(36)**	—	**(341)**
Provision for diretors' and corporate auditors' severance indemnities for prior periods	**(869)**	—	**(8,117)**
Other, net	**(470)**	(422)	**(4,395)**
Income before income taxes and minority interests	**11,567**	6,890	**108,099**
Income Taxes:			
Current	**5,249**	2,570	**49,065**
Deferred	**(1,403)**	(10)	**(13,121)**
	3,846	2,560	**35,944**
Less, Minority Interests in Income of Consolidated Subsidiaries	**(278)**	(42)	**(2,598)**
Net Income	**¥ 7,443**	¥ 4,288	**$ 69,557**

	Yen		*U.S. dollars (Note1)*
Amounts per Share:			
Net income:			
Basic	**¥ 55.61**	¥ 31.40	**$ 0.52**
Diluted	**55.57**	29.49	**0.52**
Dividends	**11.00**	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, 2005 and 2004

		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, 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)
Reissuance of treasury stock upon exercise of stock option			5				87
Net income				7,443			
Dividends paid				(1,296)			
Bonuses to directors and corporate auditors				(219)			
Increase due to change of consolidation scope				127			
Increase due to change of equity method scope				40			
Net change in unrealized gain on available-for-sale securities, net of taxes					946		
Foreign currency translation adjustment						252	
Fractional shares acquired and other							(73)
Balance, March 31, 2005	**132,939,520**	**¥ 24,805**	**¥ 30,120**	**¥ 61,819**	**¥ 8,203**	**¥ (1,455)**	**¥ (1,767)**

	Thousands of U.S. dollars (Note1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
Balance, March 31, 2004	$ 231,827	$ 281,445	$ 520,786	$ 67,820	$ (15,955)	$ (16,648)
Reissuance of treasury stock upon exercise of stock option		56				810
Net income			69,557			
Dividends paid			(12,113)			
Bonuses to directors and corporate auditors			(2,051)			
Increase due to change of consolidation scope			1,194			
Increase due to change of equity method scope			376			
Net change in unrealized gain on available-for-sale securities, net of taxes				8,844		
Foreign currency translation adjustment					2,351	
Fractional shares acquired and other						(679)
Balance, March 31, 2005	**$ 231,827**	**$ 281,501**	**$ 577,749**	**$ 76,664**	**$ (13,604)**	**$ (16,517)**

"See accompanying notes to consolidated financial statements"

CONSOLIDATED STATEMENTS OF CASH FLOWS

TOYODA MACHINE WORKS, LTD. and Consolidated Subsidiaries
Fiscal years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note1)
	2005	2004	**2005**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥ 11,567**	¥ 6,890	**$ 108,099**
Adjustment for:			
Depreciation and amortization	**12,674**	11,067	**118,445**
Amortization of consolidating adjustment account	**849**	562	**7,933**
Loss on sales or disposals of property, plant and equipment, net	**210**	185	**1,958**
Gain on marketable securities and investments, net	**(186)**	(133)	**(1,741)**
Increase in employee retirement and severance benefit liability	**1,524**	1,837	**14,245**
Increase in directors' and corporate auditors' severance indemnities	**1,099**	–	**10,271**
Interest and dividend income	**(456)**	(385)	**(4,261)**
Interest expenses	**923**	820	**8,628**
Changes in current assets and current liabilities:			
Increase in trade notes and accounts receivable	**(13,381)**	(635)	**(125,057)**
(Increase)decrease in inventories	**(4,069)**	2,196	**(38,024)**
Increase in trade notes and accounts payable	**6,075**	3,767	**56,778**
Other, net	**648**	(170)	**6,058**
Sub-Total	**17,477**	26,001	**163,332**
Interest and dividend received	**456**	385	**4,261**
Interest paid	**(924)**	(784)	**(8,638)**
Income taxes paid	**(3,003)**	(2,060)	**(28,061)**
Net cash provided by operating activities	**14,006**	23,542	**130,894**
Cash Flows from Investing Activities:			
Net decrease in securities	**229**	5,366	**2,141**
Increase in investments in subsidiaries and affiliates	**–**	(14,026)	**–**
Net decrease in loans receivable	**98**	155	**913**
Purchases of property, plant and equipment	**(18,381)**	(20,436)	**(171,784)**
Proceed from sales of property, plant and equipment	**1,243**	722	**11,620**
Other, net	**(1,315)**	(953)	**(12,296)**
Net cash used in investing activities	**(18,126)**	(29,172)	**(169,406)**
Cash Flows from Financing Activities:			
Net increase in short-term debt	**1,883**	1,213	**17,603**
Repayments of long-term debt	**–**	(19,830)	**–**
Increase in long-term debt	**1,026**	28,441	**9,589**
Proceeds from sales of common stock to minority shareholders	**225**	204	**2,100**
Disposal(purchase) of treasury stock, net	**20**	(18)	**186**
Dividends paid to shareholders	**(1,296)**	(1,296)	**(12,113)**
Dividends paid to minority shareholders	**(79)**	(84)	**(742)**
Net cash provided by financing activities	**1,779**	8,630	**16,623**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**147**	(19)	**1,385**
Net (decrease)increase in Cash and Cash Equivalents	**(2,194)**	2,981	**(20,504)**
Cash and Cash Equivalents at Beginning of Year	**13,744**	9,740	**128,450**
Increase in Cash and Cash Equivalents due to the change of consolidation scope	**234**	1,023	**2,185**
Cash and Cash Equivalents at End of Year	**¥ 11,784**	¥ 13,744	**$ 110,131**

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 ¥107=US$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2005. 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-eight and thirty subsidiaries for the years ended March 31, 2005 and 2004, respectively). 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.

Investment in significant affiliates (seven and four affiliates for the years ended March 31, 2005 and 2004, respectively) is accounted for by the equity method.

Since the year ended March 31, 2005, the Parent has consolidated all subsidiaries and its investments in all affiliates have been accounted for by the equity method in order to report the financial position and operations of the Parent's group more properly. For the year ended March 31, 2004, subsidiaries not included in the consolidated accounts were excluded from these accounts because they were not material in terms of total assets, net sales, net income, and retained earnings taken as whole. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method in the year ended March 31, 2004 were stated at cost and the equity method was not applied for the valuation of such investments because they were not material in terms of net income and retained earnings.

Consolidated subsidiaries and affiliates as of March 31, 2005 were as follows:

Consolidated subsidiaries (38 companies):

Domestic consolidated subsidiaries (15 companies):

- TOYOOKI KOGYO Co., Ltd.
- HOUEN Co., Ltd.
- TOYOOKI Engineering Co., Ltd.
- CNK Co., Ltd.
- CNK Engineering Co., Ltd.
- Yutaka Hightech, Ltd.
- HOUSAN Engineering Co., Ltd.
- HOUKO Co., Ltd.
- TOYODA VAN MOPPES, Ltd.
- FORMICS Inc.
- GKN Toyoda Driveshafts Ltd.
- TK Engineering Corp.
- TK Human Corp.
- Toya seisakusyo Co., Ltd.
- Toyoda-Koki Automotive TORSEN Co.

Overseas consolidated subsidiaries (23 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-Koki Automotive South Carolina Inc.
- Toyoda Machine Works(THAILAND) Co., Ltd.
- Toyoda-Koki Automotive UK Ltd.
- 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.
- Toyoda-Koki Dalian Innovation Automotive Co., Ltd.
- TOYOOKI(TAIWAN) INDUSTRIAL Co., Ltd.
- CNK Manufacturing (Thailand) Co,. Ltd.
- Toyoda-Koki Automotive (Foshan) Co., Ltd
- Toyoda-Koki Automotive Science & Technology Center (Dalian) Co. Ltd

Affiliates accounted for by the equity method (7 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 (5 companies):

- T & K AUTOPARTS SDN BHD
- GKN Driveline TOYODA Manufacturing Ltd.
- TPA Engineering Corp.
- Yamasei Thai Co., Ltd.
- Yong Feng International Industry Co., Ltd.

24 consolidated subsidiaries, including overseas consolidated subsidiaries close their books at December 31 every year, three months earlier than the Parent and other 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) Derivatives and hedge accounting

The Parent and its consolidated subsidiaries use 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.

(d) 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.

(e) 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 for the Parent and its domestic consolidated subsidiaries. Depreciation of property, plant and equipment of oversea consolidated subsidiaries is computed principally by the straight-line method.

(f) Adoption of New Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets", which is effective for the fiscal years beginning April 1, 2005, with earlier adoption permitted. The Accounting Standards Board of Japan issued related practical guidance on October 31, 2003. The Parent and its domestic consolidated subsidiaries have adopted this new accounting standard and related practical guidance from the year ended March 31, 2005. 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. Fixed assets include land, buildings and other forms of property, and equipment as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets.

For the year ended March 31, 2005, the Parent and its domestic consolidated subsidiaries recognized ¥36 million ($341 thousand) impairment loss on fixed assets such as land, buildings and other property, which were classified as idle or unused status. As a result of adoption of this new accounting standard, income before income taxes and minority interests for the year ended March 31, 2005 decreased by ¥36 million ($341 thousand), as compared with the previous accounting method.

(g) 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.

(h) 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.

(i) 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.

(j) 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 the average remaining service lives of employees from the next year in which they arise.

(k) Accrued directors' and corporate auditors' severance indemnities

The Parent and its consolidated subsidiaries may pay severance indemnities to directors and corporate auditors, which are subject to an approval of the shareholders. Until the year ended March 31, 2004, the payments of such severance indemnities subsequent to the approval of the shareholders were charged to income when paid. Effective from the year ended March 31, 2005, the Parent and its consolidated subsidiaries have provided for the liability for directors' and statutory auditors' severance indemnities, which is stated at the amount that would be payable assuming all directors and statutory auditors terminate their service at the balance sheet date. This accounting change was made in order to present a periodic operational result more properly and strengthen the financial position. The Parent and its consolidated subsidiaries recorded a cumulative effect for prior years of ¥869 million ($8,117 thousand) as other expenses and a current portion of ¥230 million ($2,154 thousand) as selling, general and administrative expenses in the accompanying consolidated statements of income for the year ended March 31, 2005. As a result of this accounting change, operating income decreased by ¥230 million ($2,154 thousand) and income before income taxes and minority interests decreased by ¥1,099 million ($10,271 thousand) for the year ended March 31, 2005, as compared with the previous method.

(l) Research and development expenses

Expenses relating to research and development activities are charged to income as incurred. Such research and development expenses were included in cost of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income and amounted to ¥5,639 million ($52,705 thousand) and ¥5,693 million for the years ended March 31, 2005 and 2004, respectively.

(m) Bond issue expenses

Bond issue expenses are charged to income as incurred.

(n) Enterprise taxes

With the implementation of the "Revision of the Local Tax Law" (Legislation No.9, 2003) on March 31, 2003, size-based corporate taxes for local government enterprise taxes have been newly levied from the fiscal year beginning April 1, 2004. As a result, the Parent and its consolidated subsidiaries have recorded enterprise taxes calculated based on the "added value" and "capital" amounts in the amount of ¥314 million ($2,936 thousand) as selling, general and administrative expenses for the year ended March 31, 2005 in accordance with the practical solution report issued by Accounting Standards Board of Japan.

(o) 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.

(p) 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.

(q) 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, 2005 and 2004, cash and cash equivalents consisted of the following:

Cash and cash equivalents:

	Millions of yen		*Thousands of U.S. dollars (Note1)*
	2005	2004	**2005**
Cash and Time deposits with a maturity of three months or less	**¥ 11,784**	¥ 11,743	**$ 110,131**
Money Management Fund	**–**	2,001	**–**
Cash and cash equivalents	**¥ 11,784**	¥ 13,744	**$ 110,131**

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

3. Inventories

Inventories as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2005	2004	**2005**
Finished goods	**¥ 4,945**	¥ 5,093	**$ 46,215**
Raw materials	**3,771**	3,139	**35,239**
Work in process	**13,306**	9,845	**124,359**
Supplies	**2,448**	2,359	**22,876**
	¥ 24,470	¥ 20,436	**$ 228,689**

4. Long-term Debt

Long-term debt as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2005	2004	**2005**
2.10% unsecured bonds due 2005	**¥ 20,000**	¥ 20,000	**$ 186,916**
0.99% unsecured bonds due 2009	**10,000**	10,000	**93,458**
0.57% unsecured bonds due 2010	**20,000**	20,000	**186,916**
Loans from banks and other due through 2010 with an average interest rate of 1.2% per annum at March 31, 2005	**9,670**	8,542	**90,371**
Less-current portion of long-term debt	**(20,534)**	–	**(191,906)**
	¥ 39,136	¥ 58,542	**$ 365,755**

The annual maturities of long-term dept at March 31,2005 was follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note1)
2006	¥ 20,534	$ 191,906
2007	–	–
2008	–	–
2009	8,000	74,766
2010	10,000	93,458
Thereafter	21,136	197,531
	¥ 59,670	$ 557,661

5. Contingent Liabilities

At March 31, 2005 and 2004, contingent liabilities in respect of guarantees principally for affiliates including substantial guarantees amounted ¥731 million ($6,828 thousand) and ¥820 million respectively.

6. Property, Plant and Equipment

At March 31,2005 and 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 ($2,694 thousand), respectively.

7. Shareholders' Equity

At March 31, 2005 and 2004, capital surplus principally consisted of additional paid-in capital. At March 31, 2005 and 2004, retained earnings included the Parent's legal reserve of ¥6,201 million ($57,957 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 85,000 shares of common stock of the Parent would be issuable for exercise of this option at March 31, 2005.

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 53,000 shares of common stock of the Parent would be issuable for exercise of this option at March 31, 2005.

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 49,000 shares of common stock of the Parent would be issuable for exercise of this option at March 31, 2005.

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 200,000 shares of common stock of the Parent would be issuable for exercise of this option at March 31, 2005.

On June 22, 2004, 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 21 members of the Board of Directors and 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 Ä859 for the period from July 1, 2006 to June 30, 2009 and up to 242,000 shares of common stock of the Parent would be issuable for exercise of this option at March 31, 2005.

8. Lease Transactions

Finance lease is not capitalized as disclosed in Note 2(g) 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)
	2005	2004	**2005**
Buildings and structures	**¥ 924**	¥ 910	**$ 8,632**
Machinery and Equipment	**897**	1,057	**8,385**
Other	**62**	66	**577**
Total	**¥ 1,883**	¥ 2,033	**$ 17,594**

Pro forma accumulated depreciation at fiscal year-end

	Millions of yen		Thousands of U.S. dollars (Note1)
	2005	2004	**2005**
Buildings and structures	**¥ 531**	¥ 451	**$ 4,965**
Machinery and Equipment	**487**	587	**4,552**
Other	**36**	30	**337**
Total	**¥ 1,054**	¥ 1,068	**$ 9,854**

Balance at fiscal year-end

	Millions of yen		Thousands of U.S. dollars (Note1)
	2005	2004	**2005**
Buildings and structures	**¥ 392**	¥ 458	**$ 3,667**
Machinery and Equipment	**410**	470	**3,833**
Other	**26**	38	**240**
Total	**¥ 828**	¥ 966	**$ 7,740**

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

	Millions of yen		Thousands of U.S. dollars (Note1)
	2005	2004	**2005**
One year or less	**¥ 209**	¥ 226	**$ 1,950**
More than one year	**619**	740	**5,790**
Total	**¥ 828**	¥ 966	**$ 7,740**

Lease payments during the fiscal year

Millions of yen		Thousands of U.S. dollars (Note1)
2005	2004	**2005**
¥ 238	¥ 257	**$ 2,222**

Pro forma depreciation expenses during the fiscal year

Millions of yen		Thousands of U.S. dollars (Note1)
2005	2004	**2005**
¥ 238	¥ 257	**$ 2,222**

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

Future minimum lease obligations for noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2005	2004	**2005**
Due within one year	**¥ 6**	¥ 2	**$ 55**
Due after one year	**12**	2	**118**
	¥ 18	¥ 4	**$ 173**

9. Marketable and Investment Securities

At March 31, 2005 and 2004, 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, 2005:				
Equity securities	**¥ 9,861**	**¥ 13,251**	**¥ (48)**	**¥ 23,064**
Bonds	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
	¥ 9,861	**¥ 13,251**	**¥ (48)**	**¥ 23,064**
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
	Thousands of U.S. dollars (Note1)			
Available-for-sale securities with fair value:				
At March 31, 2005:				
Equity securities	**$ 92,160**	**$ 123,842**	**$ (448)**	**$ 215,554**
Bonds	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
	$ 92,160	**$ 123,842**	**$ (448)**	**$ 215,554**

During the years ended March 31, 2005 and 2004, 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 2005:			
Equity securities	**¥ 286**	**¥ 202**	**¥ –**
Bonds	**–**	**–**	**–**
Others	**–**	**–**	**–**
	¥ 286	**¥ 202**	**¥ –**
Available-for-sale securities			
For the year 2004:			
Equity securities	¥ 245	¥ 170	¥ 1
Bonds	968	16	10
Others	4,009	–	–
	¥ 5,222	¥ 186	¥ 11
	Thousands of U.S. dollars (Note1)		
Available-for-sale securities			
For the year 2005:			
Equity securities	**$ 2,674**	**$ 1,886**	**$ –**
Bonds	**–**	**–**	**–**
Others	**–**	**–**	**–**
	$ 2,674	**$ 1,886**	**$ –**

Expected maturities of debt securities held-to-maturity and available-for-sale at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note1)
Due after one year through five years	¥ 1,000	$ 9,346

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 of respective group companies.

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)*
	2005	2004	**2005**
<Deferred Tax Assets>			
Retirement and severance benefit	**¥ 3,408**	¥ 3,235	**$ 31,846**
Depreciation and amortization	**3,168**	2,817	**29,605**
Accrued employee bonus	**2,249**	2,100	**21,022**
Other	**4,018**	3,176	**37,547**
	12,843	11,328	**120,020**
Less, valuation allowance	**(942)**	(946)	**(8,807)**
Total	**11,901**	10,382	**111,213**
<Deferred Tax Liabilities>			
Unrealized gain on available-for-sale securities	**(5,549)**	(4,936)	**(51,857)**
Depreciation and amortization	**(1,080)**	(918)	**(10,098)**
Reserve for advanced depreciation	**(83)**	(85)	**(771)**
Reserve for special depreciation	**(5)**	(11)	**(43)**
Total	**(6,717)**	(5,950)	**(62,769)**
Net Deferred Tax Assets	**¥ 5,184**	¥ 4,432	**$ 48,444**

2. Tax rate differences are due to the followings:

	2005	2004
Japanese statutory effective tax rate	**39.88%**	41.24%
<Adjustment>		
Change in valuation allowance	**0.28**	–
Reduced tax rate adopted for tax beneficiaries	**(1.67%)**	–
Tax credit for research and development expenses	**(3.46%)**	(3.65%)
Other	**(1.78%)**	(0.43%)
Actual effective income tax rate reflected in the consolidated statements of income	**33.25%**	37.16%

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.

Employee retirement and severance benefit liabilities as of March 31, 2005 and 2004 are analyzed as follows:

	Millions of yen		*Thousands of U.S. dollars (Note1)*
	2005	2004	**2005**
Projected benefit obligations	**¥ 37,061**	¥ 35,938	**$ 346,369**
Fair value of pension plan assets	**(20,784)**	(19,654)	**(194,247)**
	16,277	16,284	**152,122**
Unrecognized past service cost	**(7,896)**	(8,401)	**(73,796)**
Unrecognized actuarial differences	**348**	637	**3,254**
	8,729	8,520	**81,580**
Prepaid pension cost	**2,118**	803	**19,794**
Balance of employee retirement and severance benefit liabilities	**¥ 10,847**	¥ 9,323	**$ 101,374**

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 expenses related to the retirement benefits for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		*Thousands of U.S. dollars (Note1)*
	2005	2004	**2005**
Service cost	**¥ 1,665**	¥ 1,650	**$ 15,557**
Interest cost	**826**	829	**7,718**
Expected return on pension plan assets	**(446)**	(354)	**(4,166)**
Amortization of past service cost	**(289)**	(289)	**(2,702)**
Amortization of actuarial differences	**645**	839	**6,033**
Net pension expenses	**¥ 2,401**	¥ 2,675	**$ 22,440**

Assumptions used in the calculation of the above information for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
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%	2.5%
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)
	2005	2004	**2005**
Sales:			
Machine tools	**¥ 89,094**	¥ 73,722	**$ 832,651**
Automotive parts	**154,691**	142,542	**1,445,710**
Consolidated	**243,785**	216,264	**2,278,361**
Operating income:			
Machine tools	**6,467**	503	**60,436**
Automotive parts	**6,942**	7,244	**64,883**
Total	**13,409**	7,747	**125,319**
Adjustment: intersegment accounts and unallocated operating expenses	**–**	–	**–**
Consolidated	**13,409**	7,747	**125,319**
Assets:			
Machine tools	**105,577**	87,374	**986,705**
Automotive parts	**132,995**	125,035	**1,242,940**
Total	**238,572**	212,409	**2,229,645**
Adjustment: intersegment accounts and unallocated assets	**33,646**	33,931	**314,452**
Consolidated	**272,218**	246,340	**2,544,097**
Depreciation expenses:			
Machine tools	**1,724**	1,920	**16,115**
Automotive parts	**10,950**	9,147	**102,330**
Total	**12,674**	11,067	**118,445**
Adjustment: intersegment accounts	**–**	–	**–**
Consolidated	**12,674**	11,067	**118,445**
Capital expenditure:			
Machine tools	**3,071**	1,625	**28,701**
Automotive parts	**18,521**	20,869	**173,090**
Total	**21,592**	22,494	**201,791**
Adjustment: intersegment accounts	**–**	–	**–**
Consolidated	**21,592**	22,494	**201,791**

Note: As disclosed in Note 2(k), effective from the year ended March 31, 2005,accrued directors' and corporate auditors' severance indemnities have been provided for. As a result of this accounting change, operating income for machine tools segment and automotive parts segment decreased by ¥92 million ($862 thousand) and ¥138 million ($1,292 thousand), respectively, for the year ended March 31, 2005, as compared with the previous accounting method.

(b) Geographical Segments

	Millions of yen		Thousands of U.S. dollars (Note1)
	2005	2004	**2005**
Sales by Company Location:			
Domestic companies	**¥ 209,257**	¥ 188,289	**$ 1,955,669**
North American companies	**32,906**	29,898	**307,533**
Other overseas companies	**20,233**	12,233	**189,096**
Total	**262,396**	230,420	**2,452,298**
Adjustment: intercompany accounts	**(18,611)**	(14,156)	**(173,937)**
Consolidated	**243,785**	216,264	**2,278,361**
Sales by Customer Location:			
Domestic customers	**166,891**	154,735	**1,559,728**
North American customers	**34,554**	32,631	**322,936**
Other overseas customers	**42,340**	28,898	**395,697**
Net sales	**243,785**	216,264	**2,278,361**
Operating income:			
Domestic companies	**9,559**	5,136	**89,336**
North American companies	**1,899**	1,816	**17,746**
Other overseas companies	**1,849**	785	**17,286**
Total	**13,307**	7,737	**124,368**
Adjustment: intercompany accounts and unallocated operating expenses	**102**	10	**951**
Consolidated	**13,409**	7,747	**125,319**
Assets:			
Domestic companies	**220,469**	198,722	**2,060,460**
North American companies	**25,189**	25,651	**235,413**
Other overseas companies	**28,223**	24,302	**263,764**
Total	**273,881**	248,675	**2,559,637**
Adjustment: intersegment accounts and unallocated assets	**(1,663)**	(2,335)	**(15,540)**
Consolidated	**272,218**	246,340	**2,544,097**

Note: As disclosed in Note 2(k), effective from the year ended March 31, 2005, accrued directors' and corporate auditors' severance indemnities have been provided for. As a result of this accounting change, operating income for domestic companies segment decreased by ¥230 million ($2,154 thousand) , for the year ended March 31, 2005, as compared with the previous accounting method.

14. Related Party Transactions

During the years ended March 31, 2005 and 2004, 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, 2005 and 2004 is as follows:

	Millions of yen		*Thousands of U.S. dollars (Note1)*
	2005	2004	**2005**
For the year:			
Sales of finished goods	**¥ 102,804**	¥ 106,170	**$ 960,789**
At the year-end:			
Trade accounts receivable	**16,198**	15,804	**151,385**

15.Subsequent Events

(a) On June 22, 2005, the shareholders of the Parent approved the payment of a year-end cash dividends to shareholders of record as of March 31, 2005, of ¥6 ($0.06) per share, including a special dividend of ¥1($0.01), or a total of ¥778 million ($7,273 thousand), and bonuses to directors and corporate auditors of ¥146 million ($1,361 thousand). Cash dividends for the year thus totaled ¥11 ($0.11) per share, including a semiannual dividend of ¥5 ($0.05)

(b) On May 13, 2005, the Parent entered into the merger agreement with KOYO SEIKO CO., LTD. ("KOYO"), which was approved by the shareholders at the annual general meeting held on June 22, 2005. The Parent will be merged into KOYO effective January 1, 2006, subject to the approval of the shareholders of KOYO at the general meeting held on June 29, 2005. The merged company will be named as "JTEKT Corporation ("JTEKT")" and will issue 0.76 new shares of JTEKT's common stock in exchange for one share of common stock of the Parent.

The Parent was established and began the manufacture of machine tools in 1941, and since that time it has grown into one of the world's leading machine tool makers. Moreover, based on its strength in this field, it embarked on the manufacture of steering products, drive train products and other automotive products and has achieved significant production levels. In particular, the Parent in recent years has developed such new automotive products containing advanced technology as electronically controlled couplings and active-control variable gear ratio steering, putting it a step ahead of competitors. Currently it is expanding the market for these products.

KOYO began the commercial production of bearings in 1921 and until today has supplied not only bearings but also steering products and other automotive products developed based on its core bearing technology. In addition, KOYO was the world's first company to develop electric power steering and currently possesses a worldwide top-level share of this rapidly expanding market.

Because globally based competition within the automotive industry has intensified in recent years, both KOYO and the Parent have been faced with the urgent task of strengthening operations through such means as increasing development resources and improving technology development capability in order to possess the worldwide networks and ability to develop future complex systems for large-scale projects necessary to compete effectively with the world's leading system suppliers.

The two companies in November 2002 jointly established Favess Co., Ltd. ("Favess"), through which they are carrying out the development and sale of electric power steering and providing products with advanced technology. Currently the demand for electric power steering is increasing rapidly because of its environmental friendliness.

Based particularly on the experience of working together successfully at Favess, the two companies have judged that through an overall merger of their wide range of management resources, even greater steering business results can be obtained and at the same time a synergistic effect realized in bearing, machine tool and drive train operations. In addition, because the company to be created through this overall merger will be primarily an automotive parts maker while possessing tremendous manufacturing strength as a result of its machine tool operations, the two companies have concluded that it will be able to win the trust and high expectations of customers, compete effectively in today's harsh business environment, gain the trust of society, and capitalize on new business opportunities.

Outlines of KOYO, the merging company, are summarized as follows:

a. Main business activities	Manufacture and sales of all bearing types, steering products, machine tools, industrial furnaces, other machine parts, etc.
b. Head office	No.5-8, Minamisemba 3-chome, Chuo-ku, Osaka
c. Capital stock as of March 31, 2005	¥33,464 million ($312,744 thousand)
d. Financial data for the year ended March 31, 2005:	
1) Consolidated sales	¥570,243 million ($5,329,374 thousand)
2) Consolidated net income	¥16,451 million ($153,749 thousand)
e. Financial data as of March 31, 2005:	
3) Consolidated total assets	¥510,549 million ($4,771,483 thousand)
4) Consolidated total liabilities	¥356,182 million ($3,328,807 thousand)
5) Consolidated shareholders' equity	¥144,530 million ($1,350,751 thousand)
f. Number of employees	21,237 (on a consolidated basis) 5,902 (on a non-consolidated basis)

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of TOYODA MACHINE WORKS, LTD. and its consolidated subsidiaries as of March 31, 2005 and 2004, 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, 2005 and 2004, 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 2(k), effective for the year ended March 31, 2005, TOYODA MACHINE WORKS, LTD. and its consolidated subsidiaries changed their accounting method for directors' and corporate auditors' severance indemnities. As disclosed in Note 15(b), TOYODA MACHINE WORKS, LTD. entered into the merger agreement with KOYO SEIKO CO., LTD. on May 13, 2005, which was approved by the shareholders at the annual general meeting held on June 22, 2005.

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, 2005

MAIN SUBSIDIARIES AND AFFILIATES

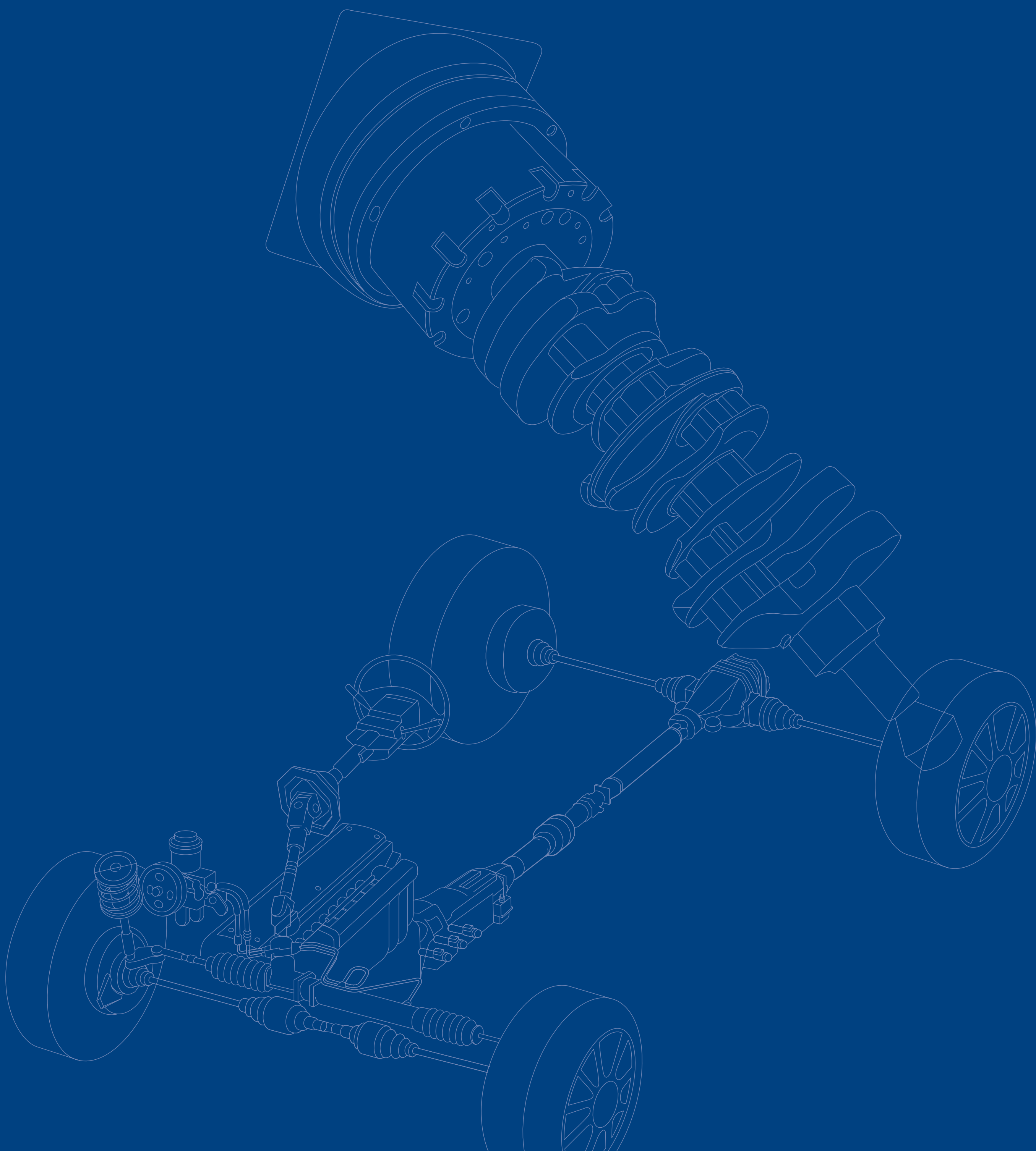
Name	*Year of Incorporation or Acquisition*	*Equity Ownership (%)*	*Address*
Domestic Subsidiaries and Affiliates			
Toyooki Kogyo Co., Ltd.	1958	62.86	45 Aza-Kaizan, Hatchi-cho, Okazaki, Aichi, JAPAN Phone: 81-564-48-2211 Fax: 81-564-48-7850
CNK Co., Ltd.	1958	66.67	28 Bawari, Noda-cho, Kariya, Aichi, JAPAN Phone: 81-566-21-1833 Fax: 81-566-21-6861
Yutaka Hightech, Ltd.	1960	100.0	1-11-11 Yanagibashi, Taito-ku, Tokyo, JAPAN Phone: 81-3-3861-7491 Fax: 81-3-3861-7495
Houko Co., Ltd.	1971	100.0	1-3 Aza-Ejiri, Oaza-Hishiike, Kohda-cho, Nukata-gun, Aichi, JAPAN Phone: 81-564-62-1211 Fax: 81-564-62-5401
Toyoda Van Moppes, Ltd.	1975	66.0	1-54 Aza-Shiroyama, Maiki-cho, Okazaki, Aichi, JAPAN Phone: 81-564-48-5311 Fax: 81-564-48-6156
Formics Inc.	1987	100.0	1-15 Kitajizoyama, Noda-cho, Kariya, Aichi, JAPAN Phone: 81-566-21-8375 Fax: 81-566-21-7827
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
Toyoda-koki Automotive TORSEN CO.	2003	100.0	1-5-14, Shinsayama, Sayamashi, Aichi, JAPAN Phone: 81-42-968-2063 Fax: 81-42-953-9275
Overseas Subsidiaries and Affiliates			
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	2004	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.	2000	65.0	Bischofstr. 118-47809 Krefeld, GERMANY Phone: 49-2151-5188-300 Fax: 49-2151-5188-333
Toyoda-Koki Automotive North America, Inc.	1989	91.18	5932 Commerce Boulevard, Morristown, Tennessee, 37814, U.S.A. Phone: 1-423-585-2500 Fax: 1-423-585-2502
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
Toyoda-Koki Automotive Czech Republic, s.r.o.	2003	100.0	U PANASONICU 273, 530 06 PARDUBICE-STARE CIVICE Czech Republic Phone: 420-466-741-306 Fax: 420-466-741-350
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 Torsen Europe S.A.	2003	100.0	Rue du Grand Peuplier,11 7110 Str_py-Bracquegnies,Belgium Phone: 32-64-67-22-43 Fax: 32-64-67-71-42
Toyoda Machine Works(THAILAND) Co., Ltd.	1996	86.935	107 Moo 4 T.Pluakdaeg, A.Rayong, 21140, THAILAND Phone: 66-38-954-320 Fax: 66-38-954-321
Toyoda-Koki Automotive (Tianjin) Co., Ltd.	2003	95.0	2nd XINGHUA BRANCH ROAD, TIANJIN XIQING ECONOMIC DEVELOPMENT AREA, TIANJIN 300385 CHINA Phone: 86-22-8398-9580 Fax: 86-22-8396-3686
GKN Driveline TOYODA Manufacturing Ltd.	2003	49.0	64/9 Moo 4 T.Pluakdaeng A.Pluakdaeng Rayong 21140,Thailand Phone: 66-38-954-965 Fax: 66-38-954-973

TOYODA MACHINE WORKS

CORPORATE DATA

As of March 31, 2005

Head Office	1-1 Asahimachi, Kariya, Aichi, JAPAN
Established	May 1, 1941
Number of Employees	3,878 persons
Capital	US$ 232 million
Common Shares	Issued and Outstanding 132,939,520 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 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

R100 PRINTED WITH SOY INK Printed with soy ink on recycled paper.